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Sustainable profitability of ethical and conventional banking

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ABSTRACT

In recent years, social movements have echoed calls for greater social and environmental responsibility. Although financial institutions promote development, consumers have lost confidence in banks. As we enter the Fintech era, banks have the opportunity to use new tools that enable greater transparency for customers. Corporate social responsibility (CSR) plays a key role in increasing social awareness of regulators, society, shareholders, and employees—in short, stakeholders. This study therefore focuses on banks that have designed their activities and investments to contribute to sustainability. The principal contribution of this paper is to show the existence of a range of business models that arise following different responses by different types of banks. These different responses occur because the primary objective of sustainable banks is to meet the needs of stakeholders and contribute to sustainable development, whereas conventional banks simply apply and execute CSR policies. It is possible to differentiate between ethical banks and commercial banks. To ensure economic progress and achieve sustainability, it is fundamental to balance economic profitability with people's social and environmental aspirations.

KEY WORDS: ethical banking; sustainable banking; corporate social responsibility; CSR; fintech

JEL Classification: G21, Q01, Q56

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1. Introduction

Economic development over the last century has led to prosperity on the one hand yet the abuse of society and the environment on the other. Accordingly, there is a major need to set society on a sustainable course. At a macro level, the involvement of banks is crucial because of their role as intermediaries around the world and their influence on economic development and progress (Barbu & Vintila, 2007; Caldarelli, Fiondella, Maffei, & Zagaria, 2016; Chang, Jang, Li, & Kim, 2017; De la Cuesta-González, Muñoz-Torres, & Fernández-Izquierdo, 2006).

The most recent financial crisis led to the failure of banks that provided irresponsible loans, operated with little transparency, and crossed numerous ethical boundaries (Božović, 2007; Phuong, Fisher, & Mujtaba, 2014; Safakli, 2007). The financial crisis of 2008 brought into question the entire banking model, showing how the crisis was more structural than cyclical and revealing critical defects with the existing financial and economic models (Karyotis & Onochie, 2016). Financial institutions are therefore becoming more aware of the risks they face. Financial, social, and environmental risks are present in operations with customers and in investments (Bing, Yan, & Jun, 2011; De la Cuesta-

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González et al., 2006; Nandy & Lodh, 2012; Shen, Shuai, Jiao, Tan & Song, 2016). However, non-financial risks are rarely estimated when calculating overall risk, even though doing so would help banks become more efficient and establish a more accurate price based partly on these social and environmental risks.

The banking sector has traditionally played a key function in regional financial development. To use finance to its advantage, a country needs a sound structural framework in terms of macroeconomic performance and solid economic institutions (Bittencourt, 2012; Santiso, 2006; Singh & Cerisola, 2006). Numerous cases prove that the banking sector has contributed massively to countries' economic development and growth. One such example is Bangladesh, despite the problems it faces as a result of its geography and environment (Masud, Bae, & Kim, 2017).

So although financial institutions promote development, consumers have lost confidence in banks (Pérez, Martínez, & Del Bosque, 2013; Pineiro-Chousa, Vizcaíno-González, López-Cabarcos, & Romero-Castro, 2017). Corporate social responsibility (CSR) plays a key role in increasing social awareness of regulators, society, shareholders, and employees—in short, stakeholders. Accordingly, policies are needed to contribute to sustainable development (Shen et al., 2016). Regulation must evolve to keep pace with growth in the financial sector. Otherwise, it contributes to environmentally unsustainable development, which has negative consequences because financial markets are globally interlinked and the way they function can affect the surroundings. As Richardson (2009) affirms, the long-term socially responsible investment (SRI) movement has set standards for the financial sector. But an orientation toward SRI in the financial sector is necessary because a greater number of firms that embrace social responsibility in their investments is needed to achieve sustainable development within the financial sector.

This study therefore focuses on banks that have designed their activities and investments to contribute to sustainability. In recent years, social movements have called for greater social and environmental responsibility. This has alerted banks to the value that consumers place on these issues as well as the traditional functions of the banking sector because banks are able to lay the foundations for sustainable development through their lending policies (Harvey, 1995; Masud et al., 2017).

Modern corporate governance in the form of sustainable management, and particularly corporate social responsibility (CSR) reporting, is relevant in bank management (Dienes & Velte, 2015). The reason is that banks can target price differentiation in the services they offer their clients depending on their CSR practices. By doing so, firms applying CSR can get attractive loans with lower interest rates than those that do not contribute to sustainable development. Another reason why banks apply sustainable management is that it allows them to offer their clients sustainable products that promote socially responsible investment (Jeucken, 2001).

Sustainable development can be achieved through stakeholder-oriented policies. Any investment that marries the financial efficiency pursued by investors with responsible behavior in terms of the environment, society, and governance is deemed sustainable and responsible investment by the European Sustainable Investment Forum (Barnett & Salomon, 2006; Renneboog, Ter Horst, & Zhang, 2008a; Salzmann, 2013). The cited studies report that the key areas of sustainable investment are social fairness, corporate governance, and the environment (Salzmann, 2013).

It is helpful to consider whether moral conscience affects the financial sector. Carrasco (2006) found that sustainably managed firms that consider ethical issues are judged by stakeholders in terms of social as well as economic performance.

Considering both economic and social aspects is generally viewed positively by some stakeholders. Thus, investors and financial intermediaries increasingly consider these issues in their practices, and capital markets reward socially and environmentally responsible policies, encouraging ethical action across the full range of policies.

The environment and the economy are more than just closely related; they are mutually dependent. The government plays a key role by using instruments to internalize environmental effects into market prices so that companies and consumers make more sustainable production and consumption decisions. More sustainable consumer purchasing behavior will encourage companies to make more sustainable production decisions. In addition to these push (government) and pull (consumer) factors, companies can also foster more sustainable development themselves because they may have their own ideological or business reasons for striving for sustainability. Crucially, these measures should not undermine the long-term continuity of these companies; consumers should actually buy the more sustainable products, and governments should support these companies with subsidies and tax concessions.

Interest in non-profit banks has grown among academics and legislators. This interest has been heightened since the recent global financial crisis. The characteristics of cooperative banks could help mitigate the effects of such a crisis in various countries (Becchetti, Garcia, & Trovato, 2011; Segura & Martínez, 2018). Aside from these cooperative banks, which represent a small minority and which, despite their market relevance, have been the subject of relatively little research, commercial and non-profit banks resemble one another in certain ways in terms of credit rationing and attitude toward risk (Becchetti et al., 2011).

2. The banking sector

The need for banks arises because of friction in capital markets (Freixas & Rochet, 1998; Hubbard, 1994; Saunders, 2000). This friction is due to the lack of information that enterprises and families have about the deficits and surpluses of money in the market. The role of banks as intermediaries consists of bringing together lenders and borrowers by channeling surpluses of money towards deficits of money.

There is also information asymmetry between lenders and borrowers of capital. In credit operations, banks have a larger amount of key information on regulations, market trends, development in the strongest sectors, and so on. Furthermore, this knowledge enables banks to establish acceptable economic and environmental risk thresholds, and they are able to reduce information asymmetries in the market. Being aware of these risks allows banks to establish different interest rates considering sustainability issues such as risk perspectives and thus contribute to sustainable financial development.

The role of banks is determined by the effect that the risks taken by banks have on economic growth and the fluctuations in the business and economic cycle in general (Laeven & Levine, 2009). Banks play a key role, and regulations exert pressure on banks because of their considerable impact. The nature of the impact of regulations on risk-taking depends on the bank's capital structure. The capital structure of banks is sometimes overlooked, and conclusions regarding the effect of capital regulations on banks' risk-taking are reached based on insufficient evidence (Laeven & Levine, 2009).

Because banks largely depend on both reputation and performance (Brickley, Smith, & Zimmerman, 2002; Phuong et al., 2014), some financial institutions have signed up to internationally recognized standards such as the Equator Principles, the Principles for Responsible Investment (Chew, Tan, & Hamid, 2016) and enterprise risk management (Caldarelli et al., 2016).

The Equator Principles are a set of principles that provide a risk management framework for financial institutions that finance industrial projects and macro-level infrastructures (Finger, Gavious, & Manos, 2018; Macve & Chen, 2010; Scholtens & Dam, 2007). The objective of the Equator Principles is to safeguard sound environmental management practices for projects financed by affiliated institutions to contribute to socially responsible investment (Finger et al., 2018). In contrast, enterprise risk management enables organizations to effectively manage risks and seize opportunities associated with good performance and the capacity to absorb losses (Committee of Sponsoring Organisations of the Treadway Commission [COSO], 2004; Caldarelli et al., 2016).

The banking sector has experienced a revolution as a result of globalization, disintermediation, financial innovation, deregulation, and technological change, while financial scandals and accounting manipulation through dubious practices have led consumers to distrust banks' financial products and services (Ferreira, Jalali, & Ferreira, 2018; Flavián, Guinaliu, & Torres, 2005; Pérez, Martínez, & Del Bosque, 2013).

The interaction of banks with the environment is noteworthy for several reasons. Banks are key stakeholders that influence governments and other companies. Moreover, banks are an integral part of investment for sustainable development. Thus, banks can offer innovative financial products and influence the environment through their internal processes and their use of resources (Jeucken, 2001).

Financial institutions are a prominent part of today's society, yet the banking sector's image has been tarnished by unethical practices and the influence of customer perception. Mandel, Lachman, and Orgler (1981) cite the importance of managing the image of the banking sector because of the intangible nature of its products, dwindling contact with consumers, and the need to build trust among stakeholders (Mandel et al., 1981; Pérez et al., 2013). The banking sector should thus maintain a balance between social and economic issues.

3. The evolution of banking due to fintech

As mentioned earlier, banks have been heavily influenced by technological progress Financial technology, or *fintech*, refers to the application of technology to tackle issues in finance and thereby obtain new forms of technological tools for finance (Arner, Barberis, & Buckley, 2015; Martínez-Climent, Zorio-Grima, & Ribeiro-Soriano, 2017; Zalan & Toufaily, 2017). Fintech affects private equity, crowdfunding, and numerous other kinds of financing that rely on technology (Arner et al., 2015). Technological institutions that are not banks can now offer financial services.

As reported by Martínez-Climent et al. (2017), fintech refers to the use of a range of technological tools to offer financial services that consumers find more accessible and more efficient (Ma & Liu 2017; Zalan & Toufaily, 2017). Fintech is associated with technological innovation and therefore entails process disruption. We offer the following reasons for this disruption:

1. Mainstream products will be digitalized and commercialized through technological platforms. This will lead to a new fintech approach in the industry.
2. Blockchain will expand beyond its cryptocurrency applications. Artificial intelligence (AI), robotics, and public cloud services will play a prominent role in the distribution of financial services. This will make services more localized. Cybersecurity will pose an even greater risk to financial services than fraud or money laundering.
3. Customer intelligence could be described as the most important incentive for a firm to perform financially. Regulators are expected to be highly active in response to fintech innovations (Gomber, Kauffman, Parker, & Weber, 2018).
4. Fintech reduces transaction costs as processes become optimized. Moreover, by incorporating technology, banks will potentially be more sustainable because they can reduce physical infrastructures with a large ecological footprint while granting users greater access to all information and thereby increasing transparency (Boskov & Drakulevski, 2017).
5. Banks can interact with feedback because users are easily connected with banks' investments. Thus, users can also contribute their point of view and participate in decisions.

4. Corporate social responsibility (CSR)

Three reasons lead companies to adopt CSR practices: strategy, altruism, and greenwashing (Baron, 2009; Finger et al., 2018; McWilliams, Siegel, & Wright, 2006; Wu & Shen, 2013). CSR is seen as strategic because it leads to a competitive advantage by linking the strategic management of a firm to activities that benefit stakeholders, generating value, and improving the image of the business (Pérez & Del Bosque, 2012). Companies engaged in greenwashing portray themselves, their products, and their strategy as being based on a concern for the environment without actually committing to the cause (Finger et al., 2018).

The definition of CSR has changed numerous times since the 1950s. Caroll (1979) proposed a theoretical framework for CSR based on four pillars: economic, legal, ethical, and philanthropic (Pérez et al., 2013). The current approach is the triple bottom line, which consists of the economic, environmental, and social dimensions (Elkington, 1997). The key assumption of the triple bottom line is discretionary adoption, which leads to competitive advantage for sustainable firms (Hussain, Rigoni, & Orij, 2018; Porter, 1991).

Another argument for the ability of CSR to yield a competitive advantage is that CSR contributes to reducing transaction costs and improves access to resources. The resource-based view posits that each firm is a combination of unique resources (Penrose, 1995). According to the resource-based view, firms use key resources to develop a competitive advantage over other firms. Firms with high transactions costs are unable to acquire key resources. Therefore, reducing transaction costs with CSR helps firms achieve a competitive advantage (El Ghoul, Guedhami, & Kim, 2017).

Banks face different kinds of risk because they interact with the environment. The financial, environmental, and reputation risk that banks tend to minimize is huge (De la Cuesta-González et al., 2006). To reduce these risks and boost performance, banks increasingly include CSR in their practices (Viganò & Nicolai, 2009). CSR and social investing have become popular practices in recent years (Finger et al., 2018; Jo & Kim, 2008; Renneboog et al., 2008a). Firms that implement CSR in their practices report that they perform their tasks in a sustainable way, taking into account the social, ethical, and environmental dimensions of society (McWilliams & Siegel, 2001; Porter & Kramer, 2011; Sen & Bhattacharya, 2001). Examples of CSR practices implemented by firms include developing products of a social nature, going beyond legal requirements in human resources programs, reducing pollution, and supporting the local community (El Ghoul et al., 2017; McWilliams & Siegel, 2001). Attention from the business community has risen as CSR has helped firms manage conflicts (Heal, 2005) and increase their capacity to compete effectively in the market (Aupperle, Carroll, & Hatfield, 1985; Finger et al., 2018) by considering all stakeholders' interests rather than just those of shareholders.

Banks that apply CSR are aware of the moral and legal responsibility that firms have to their stakeholders (Margolis & Walsh, 2003) and SRI (Renneboog et al., 2008b). This reflects a shift from banks' traditional passive role when conducting transactions and pursuing opportunities to obtain efficiency (De la Cuesta-González et al., 2006).

One goal of financial institutions is to reduce information asymmetries. To do so, banks evaluate different risks. Sustainability reports such as the report proposed by the Global Reporting Initiative should reduce information asymmetries and transaction costs between stakeholders and organizations (Botosan, 1997; De la Cuesta-González et al., 2006; Dienes & Velte, 2015; Shankman, 1999). From a sustainability approach, banks should consider non-financial risks to estimate overall risk. To do so, banks require more efficient management to correctly set prices. From a bank management perspective, the use of sustainability reports represents an opportunity because it helps alleviate the undervaluation of capital markets and thereby benefits shareholders and stakeholders (Dienes & Velte, 2015). For example, from a CSR perspective, customers that represent a greater social and environmental risk should pay more. A positive correlation between environmental performance and financial performance has been reported (Dasgupta, Laplante, Wang, & Wheeler, 2002; Dowell, Hart, & Yeung, 2000). Weber, Scholz, and Michalik (2010) concluded that sustainability criteria such as CSR can predict traditional financial performance only if complementary assets drive the financial performance relationship.

Other relevant arguments relate to the real costs involved in adopting the Equator Principles because economic investment is required to make periodic reports and reject feasible projects if they fail to meet the required ethical standards (Finger et al., 2018). Preston and O'Bannon (1997) argue that the lack of knowledge regarding the implementation of CSR projects could damage the firm's financial performance.

International institutions such as the OECD promote corporate governance to create an environment of trust, transparency, long-term investment, financial stability, and integrity in business (OECD, 2015).

5. Ethical and sustainable banking

The banking sector can be divided into the social banking and conventional banking sectors. Social banking refers to cooperative banks and ethical banks, which are also sustainable banks (Segura & Martínez, 2018). The main difference between social banking and conventional banking is that social banking has social and economic objectives, although these economic objectives are essential to meet these social objectives. Conventional banking only pursues economic ends. Thus, commercial banks seek profit maximization, whereas ethical banks seek to maximize the volume of performing loans that have the specific characteristics they seek. The main similarity is that social and commercial banks have the same capital constraints to increase reserves when parties default (Becchetti et al., 2011; Segura & Martínez, 2018).

In this context, commercial banks can ration credit and set a non-compensating loan rate that creates excessive credit demand because a higher interest rate might create a moral hazard or adverse selection, thereby increasing risk and generating profits that are not maximized because bank profits do not increase directly with risk (Becchetti, et al., 2011).

Scholars have described the optimal policy for ethical banking as equality between the number of loans and deposits, taking into account the market rate, risks, and costs borne by business. There are therefore some analogies with commercial banks (Canning, Spencer, & Jefferson, 2003).

Ethical banks avoid getting involved in financial practices with dishonest intentions and foster the idea of creating value for the community. The social and economic aim of ethical banking (San-Jose, Retolaza, & Gutierrez-Goiria, 2011) is reflected by the preference for distributing lower returns in favor of investing the money in social projects.

Sustainable banks therefore voluntarily go a step further. The environmental perspective, the firm's purpose, and the role played in the community are crucial for the development of sustainable banking. Sustainable banks are prepared to accept lower margins and/or higher risks to encourage certain activities—they apply non-risk-related premium differentiation—that would have no chance of survival in the current system because the risk is considered too great, the margins too small, and the period of payment too long.

According to Ayadi, Llewellyn, Schmidt, Arbak, and De Groen (2010), the first credit cooperative was conceived in 1865 in Madrid. It was the predecessor of the rural credit cooperatives that were created in the 20th century. These new institutions were promoted by Catholic unions and numbered 1,000 in 1936. Most vanished in the Spanish Civil War. In the 1960s, credit cooperatives once again flourished, and in 1977, there were 200 registered rural and popular credit cooperatives (Ayadi et al., 2010).

A sustainable bank promotes sustainability among stakeholders in the internal and external activities performed by the bank (Bouma, Jeucken & Klinkers, 2017). This modus operandi includes environmental, social, or cultural concerns in selecting ethical investments and supports activities to improve the community.

The first step toward bank sustainability is its view of the environment, the purpose of the firm, and the desired social role. Another key characteristic is that sustainable banks prefer lower margins and take more risk if the activities performed are rewarding.

Comparatively, by definition, ethical investment funds could be described as funds that base their principles on social, cultural, and environmental issues. This means that this type of fund seeks the involvement and support of corporate activities such as cooperation between groups and encouragement of equality. They are therefore reluctant to invest in alcohol, tobacco, gambling, and the like (Bouma et al., 2017).

The philosophy behind sustainable banking is based on not compromising the chances of future generations. This philosophy covers a range of angles: economic interests, the aspirations of society, and environmental impacts. This ensures economic progress for today's society.

This paper focuses on sustainable banking, so it is important to clarify what this term actually means. Sustainable banking institutionalizes socially responsible investments. Socially responsible investments fulfill ethical and economic criteria so that investments meet certain financial conditions as well as conditions regarding the use of funds (Barbu & Vintila, 2007; Caldarelli et al., 2016; Cowton & Thompson, 2001; San Emeterio & Retolaza, 2003; San-Jose et al., 2011). Environmental and ecological problems are a fact of modern life. The financial industry should therefore take responsibility for this issue and channel economic and financial activity toward environmentally friendly pursuits. Although these investments may be less profitable than traditional investments, the aim of achieving sustainable development should be a priority (Richardson, 2009).

This viewpoint is conducive to the emergence of responsible investment funds and the development of the concept of CSR. The term embraces the concept of ethics applied to banking, funds, investments, and social responsibility in banking (Salzmann, 2013; San Emeterio & Retolaza, 2003).

Three principles that govern ethical banking can be extrapolated to sustainable banking. These are affinity, responsibility, and integrity (Caldarelli et al., 2016; Cowton, 2010; San-Jose et al., 2011; Viganò & Nicolai, 2009). The principle of affinity is based on the premise that actions taken by banks meet the requirements of shareholders and depositors in terms of the purpose of the funds. The second principle of responsibility refers to ethical banks' reporting on the consequences of their actions. Integrity relates to avoiding the financial exclusion of segments in risk such as the young, the elderly, immigrants, or women (Caldarelli et al., 2016; Cowton, 2010).

The first ethical bank was created in 1976. The Bangladeshi *Grameen Bank* offered micro-credits to poor people to fight inequality. This bank and its creator, Muhammad Yunus, are global pioneers in ethical banking, and from this project, other similar experiences have sprung up throughout the world. Women are one of the target groups of customers because they are generally poorer and face greater credit restrictions that men do. The bank thereby makes a long-term contribution to women's role in society (Coleman, 2004; Yunus, Moingeon, & Lehmann-Ortega, 2010).

The Global Alliance for Banking on Values (GABV) is an international network that creates a broad, transparent global banking environment. At the beginning of 2017, the GABV comprised 7 strategic partners and 43 sustainable independent banks, 10 of which were European: Alternativa Bank Switzerland and Freie Gemeinschaftsbank Genossenschaft (Switzerland), Banca Popolare Ética (Italy), Credit Coopératif (France), Culture Bank (Norway), Ekobanken (Sweden), GLS Bank (Germany), Magnet Bank (Hungary), Merkur Resource Bank (Denmark), and Triodos Bank (Netherlands) (Segura & Martínez, 2018).

We chose Banco Santander as the conventional bank to examine in this study because it is the biggest bank in Spain in terms of assets. Banco Santander is much larger than Banca Popolare Ética or any of the ethical banks mentioned earlier.

From a theoretical perspective, we differentiate between the two contrasting concepts of conventional banking and ethical banking. In reality, a spectrum of practices prevails in financial institutions and all sectors. It is therefore difficult to label banks because growing attention is paid to social issues in both types of banking.

Banco Santander won the Best Bank in the World 2008 award thanks to its sustainable competitive advantage for its diversified investment and robust balance sheet. Moreover, Banco Santander has been able to create value as a group even in challenging markets (Grupo Santander, 2009). As Xifra and Ordeix (2009) report, in 2008, Santander invested 126 million Euros in CSR "to be in the vanguard in CSR, through … creating wealth and jobs, and fostering the development of society and the environment … and promoting sustainable growth" (Grupo Santander, 2009, p. 8; Xifra & Ordeix, 2009). Banco Santander's CSR policy is based on identifying relevant stakeholders and addressing their needs. This suggests that Santander is not a purely commercial bank because it shows concern for customers, shareholders, employees, suppliers, and society.

In 2008, Banco Santander purchased Abbey National and Alliance and Leicester in the United Kingdom. These transactions were notable in that both companies were building societies. Despite not being considered cooperative banks because they did not offer a complete range of banking services, there was some overlap in their features. A UK law passed in 1986 enabled the conversion of building societies to banks with public limited company form (Ayadi et al., 2010). In short, Banco Santander is a conventional bank that has nonetheless shown an interest in banks with some ethical banking characteristics.

6. Conclusions

This article explores the essential characteristics of commercial banks and ethical, sustainable, and social banks. Traditionally, these have been considered opposing concepts, and scholars have examined the similarities and differences between these models. In reality, however, the range of possibilities is much broader. The principal contribution of this paper is to show the existence of a range of business models that arise following different responses by different types of banks. These different responses occur because the primary objective of sustainable banks is to meet the needs of stakeholders and contribute to sustainable development, whereas conventional banks simply apply and execute CSR policies. Nevertheless, it is possible to differentiate between ethical banks and commercial banks. Whereas ethical banks are driven by an awareness of the destination of their funding activities and a willingness to forgo profit in favor of social causes, conventional or commercial banks' primary interest is to maximize profits.

Some key facts have affected the expansion of ethical banks. First, the financial crisis led to the expansion of ethical banks because of a worsening in customers' perceptions of the image of banks. The financial crisis also revealed the unethical practices of financial institutions, which led to greater social unrest. As a result of the crisis, the needs of different stakeholders must be met. This influences banks' decisions regarding how to rebuild consumer trust (Segura & Martínez, 2018)

Another key observation is that the effects of fintech are positive for ethical banks. Fintech provides banks with tools, enabling greater transparency for customers.

Moreover, technology tends to reduce transaction costs, which has increased the volume of transactions involving new financial securities (Karyotis & Onochie, 2016).

The third observation is that ethical banking is also sustainable banking because the concern for social projects is also a characteristic of sustainability in terms of the sustainable development of society.

After the global financial crisis, CSR strategies had to play a complementary role associated with modern business reporting in conventional banking. To measure the performance of traditional firms, some financial indicators were used. Today, however, environmental, social, and corporate governance are also considered relevant measures (Dienes & Velte, 2015). The implementation of relevant well-known standards such as the Equator Principles, the Principles for Responsible Investment, and enterprise risk management, together with the implementation of CSR in companies, is proof that the banking sector is moving toward a more sustainable model. Conventional banking will become ethical banking in the near future. The reasons for this transformation are society's demands for transparency and guarantees for consumers. The financial sector will be affected by the need to meet certain requirements, which will ultimately lead to ethical banking models.

This study echoes previous studies in showing that private firms and banks have a strong motivation to include CSR practices in their business strategies because of the potential benefits for both macro and micro performance. Whereas macro performance refers to the improvement of environmental practices and promotion of social equality, micro performance refers to the enhancement of the firm's reputation, the ability to recruit and retain high quality workers, and the ability to charge a premium for services. If companies include CSR practices in their strategies, the financial benefits may outweigh the costs, which can result in considerable improvement in long-term firm performance. Consequently, CSR practices have the potential to benefit both corporate shareholders and stakeholders, creating a win-win situation for all (Wu & Shen, 2013). Furthermore, CSR and sustainability reports promote the reduction of asymmetries in transactions and information between stakeholders and companies (Botosan, 1997; De la Cuesta-González et al., 2006; Dienes & Velte, 2015; Shankman, 1999).

Finally, it is worth mentioning that conventional banks embrace fintech solutions and technology in their strategies. This implies a reduction in the number of branches. Thus, traditional banks must consider CSR practices to meet the demands of customers to fully satisfy their needs. The business model of cooperative banks is based on lean governance, employing a small number of workers to minimize costs (Tarantola, 2009). Furthermore, cooperative banks do not offer several senior management positions and do not select a specific person to manage risk issues. Nevertheless, these banks implement efficient enterprise risk management practices. They achieve this success by involving all employees working in the area of risk management at every level of the organization (Caldarelli et al., 2016).

To make the financial system more sustainable, it is necessary to apply CSR practices, invest in social projects, and deal with enterprise risk management. Current social and environmental issues can thus be effectively addressed. The existence of sustainable banks does not restrict the choices facing future generations. However, balancing economic profitability with people's social and environmental aspirations is fundamental to ensure economic progress.

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