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THE IMPACT OF CSR POLICIES ON BANKS' FIRM RISK PERCEPTION

L'IMPACT DE L'IMPLÉMENTATION DES POLITIQUES RSE SUR LA PERCEPTION BANCAIRE DU RISQUE D'ENTREPRISE

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ABSTRACT

CSR firms have triggered, in the past decade, a strong interest among researchers and professionals alike. The awareness of their value to the social order has resulted in an increasing pressure on policymakers to establish legislative frameworks likely to ensure their sustainability.
Several authors emphasize the "social responsibility" of banks in providing financing to CSR firms. They lay it down in the form of an ethical obligation justified by their access to a large and exclusive pool of funds. However, the banking industry pinpoints difficulties related to the identification of firms' risks associated with the implementation of CSR policies and their impact on the fund allocation decision-making process. This constraint, combined with a lack of visibility regarding the impact of CSR practices on the firm as one of several components of idiosyncratic risk, prompted us to question the state of the literature's findings.
This article aims to articulate the tendencies within the literature related to the identification of the firm's risk that results from the implementation of CSR policies and their related impact on banks' financing. Precisely, we strive to identify the impact of firms' internal CSR policies on banks' perceptions of their idiosyncratic risk. In an attempt to approach the research question, we will go over the major positions, as laid out by the literature, before isolating the relationship between the implemented CSR policies and the perceived credit risk from the banking industry perspective. The findings converge towards a positive impact of firms' CSR policies on their risk level bank rating.

Keywords: banking risks, CSR firms, credit rating risk, idiosyncratic risk, ESG.

RESUMÉ

Les entreprises socialement responsables ont suscité au cours de la dernière décennie un vif intérêt de la part des chercheurs et des professionnels. La prise de conscience de leur valeur pour l'ordre social a entraîné une pression croissante sur les décideurs politiques pour établir des cadres législatifs susceptibles d'assurer leur pérennité.
Plusieurs auteurs adressent la "responsabilité sociale" des banques comme leur obligation éthique pour le financement des entreprises responsables. Cette obligation est justifiée par leur accès à une masse de fonds importante et exclusive. Cependant, le secteur bancaire met en évidence des difficultés liées à l'identification des risques des entreprises associés à la mise en œuvre de politiques de RSE et à leur impact sur le processus décisionnel de financement bancaire. Cette contrainte, ainsi que le manque de visibilité concernant l'impact des

pratiques de RSE sur l'entreprise, en tant que composante parmi d'autres du risque idiosyncratique, nous a conduit à nous interroger sur l'état des conclusions fournies par la littérature.
Cet article vise à articuler les tendances de la littérature relatives à l'identification du risque de l'entreprise qui résulte de la mise en œuvre de politiques de RSE et de son impact sur le financement. Précisément, il sera question de l'identification de l'impact des politiques RSE des entreprises sur la perception bancaire de leur risque idiosyncratique. Il serait opportun, sur le plan méthodologique, de faire un tour d'horizon des différentes positions énoncées dans la littérature, avant d'isoler le lien entre le positionnement RSE et la perception du risque crédit du point de vue bancaire. Les résultats convergent vers un impact positif des politiques RSE des entreprises sur leur niveau de risque bancaire.

Mots clés : risques bancaires, entreprises RSE, notation du risque de crédit, risque idiosyncrasique, ESG.

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1. INTRODUCTION

The operating model of banks has been subject to profound changes (Toumi, 2017). In fact, bank risk exposure has increased due to the business environment's liberalization, volatility, and the succession of multiple crises. The banking industry figured out the diversity of risks their clients develop as more companies have found themselves, more abruptly, unable to repay their bank loans. These new threats ended up challenging banks' traditional policies, prompting them to develop more creative and innovative methods to rate companies' total risk profile, such as the adoption of the Equator Principles (EPs). In Morocco, companies acknowledge the importance of implementing CSR policies as a way to satisfy their shareholders' need to prioritize sustainable development. A position in line with the stakeholder theory as demonstrated by Freeman (2010). The lack of local standardization was overcomed by the adoption of the ISO 26000 by the national professional association of companies (CGEM). The standard mimics to certain extend the four level pyramid of responsibilities laid out by Carroll CSR theory (Brin P., Nehme M., 2019). Besides, the creation of the CSR Label has been accompanied by a set of advantages economic, deployed by the CGEM through the CSR Charter, in particular the facilities and the reduction in the cost of certain bank loans. Still, Moroccan banks need to reconsider the nature of their statements' content in a way to convey more on their implemented CSR policies and their perception of responsible firms as well (Tahri W., El Khamlichi A., 2019).

Banks have a monopoly, in the majority of the world's countries, preserved by the legal corpus. In fact, it is illegal for any other entity, when faced with a liquidity shortage, to raise short-term funds from the public or to have a central bank as a backup plan (lender of last resort). These advantages, along with their easy access to financial markets, increased pressure on banks to allocate funds in order to finance the implementation of CSR activities, at a time when the CSR subject is gaining traction among academics and practitioners alike.

Unlike common belief, some banks view the integration of CSR firms as a pillar in a global policy aimed at restoring confidence, particularly in the aftermath of the 2008 financial

crisis (Barbot, 2010), where the short-term profit vision adopted -by banks - is increasingly under scrutiny (Wu and Shen, 2013). Neitzert and Petras (2021) Highlight the importance of implementing CSR policies in order to reduce the bank's perceived risk of the firm. This position was confirmed, three years earlier, by the Bank of England in its study regarding the impact of climate change (Bank of England , 2018). Others view such investment as a mechanism that triggers the development of new risk management tools along with profiting from these new green opportunities, both for CSR companies and banks funding their investment. (Thompson P. and Cowton C., 2004).

Despite a plethora of research focusing on the impact of CSR on corporate financial performance[1], the impact of CSR on risk did not receive the same treatment. Besides, to the best of the authors' knowledge, no other recent review of literature was conducted in this research field. Through this article, we aim to draw the main trends of the literature about: *how can companies' CSR commitment influence their level of idiosyncratic risk [2]? Consequently, the perception of their level of credit risk by banks.* We will first provide a brief overview of banking risks (2), then lay out the various studies that have addressed the impact of CSR on idiosyncratic risk. In addition, we will highlight the extent to which it affects credit risk rating and bank interest rates. Finally, we will expose the impact of social commitment on banking risks (3).

2. A LARGE PANEL OF RISKS FACING THE BANKING INDUSTRY

The conceptual framework with regard to the different risks faced by banks will be discussed (2.1), before introducing the tendency within the literature that backs the neutral effect of CSR policies on the firm's internal risk (2.2).

2.1 banking risks classes

Banks have to deal with a wide range of risks in the course of their operations (Elliot, M., et al., 2021). For Orlitzky and Benjamin (2001), the term "risk" refers in general to "uncertainty about outcomes or events, especially with respect to the future. Academics defined and classified those risks in a variety of ways. A review of literature can help yield a long list of the potential threats facing the banking sector (Gorton, G., and Winton, A., 2003). In this article, we will consider three main categories of banks' risks (*view table below*) as introduced by Hennie van Greuning and Sonja Brajovic Bratanovic (2009).

Financial Risks	**Operational Risks**	**Environmental Risks**
Balance sheet structure	**Internal fraud**	**Country and political risks**
Earnings and income statement structure	**External fraud**	**Macroeconomic policy**

[1] See Aupperle et al. (1985), McGuire et al. (1988), Waddock and Graves (1997), Griffin and Mahon(1997), McWilliams and Siegel (2000), Allouche and Laroche (2006), Kempf and Osthoff (2007), Surroca et al. (2010), Quazi and Richardson (2012) and Melo (2012) for studies of the relationship between corporate social responsibility and financial performance.

Credit	**Clients, products, and business services**	**Legal infrastructure**
Liquidity	**Damage to physical assets**	**Banking crisis and contagion**
Market	**Business disruption and system failures (technology risks)**	**Systemic risk**
Interest rate	**Execution, delivery, and process management**	
Currency		

Table 1. The Banking Risk Spectrum based on Greuning H. & Bratanovic S. (2009)

Financial risks are subdivided into two classes. (1) Traditional risks linked to the ‘balance sheet’ and the ‘income statement’ structure, such as insolvency and credit risks[2] (Caprio et al., 1998; Campbell, 2007), and (2) Treasury risks that are based on financial arbitrage. They can result either in a profit if the arbitrage is correct or in a loss if it is not (Chen S. et al., 2021). On the other hand, the most common treasury risks are liquidity[3], interest rate, currency, and market[4] (including counterparty) risks (Augustin P., Chernov M., Chmid L.S., and Song D., 2020). For Fidrmuc J. et al. (2013), financial risks are subject to complex interdependencies that may impact meaningfully the bank’s overall risk profile. For instance, when banks face a currency risk by engaging in a foreign currency, business will face an exchange rate risk triggered by the currency mismatches on their clients' ‘’balance sheets".

With regard to operational risks, they are defined by Morris R. et al. (1999) as "the direct or indirect loss resulting from inadequate or failed internal processes, people, and systems, or from external events". Initially, The Basel Committee adopted this definition in its entirety, but the reference to indirect losses was later removed for quantifying regulatory capital, as these losses are difficult to quantify. In the banking industry, operational risks include, i.a. strategic planning, organizational structure, staff management careers, internal resources, and governance issues. (Toumi, 2017).

However, the environmental risks are related to the bank’s business environment. In other words, it has to do mainly with macroeconomic and policy concerns, legal and regulatory factors, and the overall financial payment systems. In addition, it encompasses all

[2] According to Dubernet (1997), credit risk arises from the possibility of non-payment of loans by borrowers. Jiron (2001) suggested that banks also include the risk of delayed payments within this category

[3] Liquidity risk is the risk that the bank will not be able to settle obligations with immediacy, i.e. to meet its obligations if the depositors come in to withdraw their money (M. Drehmann, K. Nikolaou,2013).

[4] Refers to any loss caused by sudden price changes (rate or price) in the market.

types of exogenous risks that could jeopardize a bank’s ability to continue business if they were to materialize. (Chiriță N. and Nica I., 2020).

It is worth emphasizing that with firms' increasing commitment to CSR, banks' risk management strategies are facing new challenges. Securing funds and making loans profitable requires going beyond traditional tools and analyzing the impact of this responsible commitment on firms' risks.

2.2. Theoretical crossing between risk management and CSR

The term ‘risk management’ has to do with the identification, reduction, or, in some cases, complete transfer of a specific risk to a third party to manage it. The latter measure is done provided the payment of a fee.

On the other hand, there is no global consensus on the definition of CSR. It is generally viewed as a ‘’Triple-Bottom-Line’’ approach (Elkington, 1998) throughout which a company can achieve a balance between economic goals, environmental protection, and social imperatives. *(The United Nations Industrial Development Organization, 2020)*[5]. Multiple pointers back up the claim regarding the growing importance of corporate social responsibility in the financial circle. In addition to the increase in interest among investors in social issues, several investment vehicles have integrated CSR criteria into the list of selection indicators upon which they compose their portfolio[6].

Several methods help quantify social responsibility performance. Aupperle (1991) introduced an aggregate measure of values and principles. They include the corporate environment abided by its actions and business decisions. While Hansen and Wernerfelt (1989) quantified social responsibility through the gathering of multiple measures via surveys.

Multiple considerations drive Socially Responsible Companies (CSR) to adopt such policies. The first one has to do with the search for long-term competitiveness. They aim to be in phase with this new market tendency that considers sustainable development as a priority. In addition, it is crucial for them to fulfill the promises pledged to investors concerning conformity with the legal and regulatory frameworks. (Bansal P., Roth K., 2000).

With the exception of Treasury bills and low interest rates on bank saving accounts, all other investments are associated with some types and levels of risk. With that in mind, investing in CSR firms is associated with specific risks that come along with the traditional panel of risks to which conventional firms are exposed. In fact, CSR firms have to deal with ‘social’, ‘ecological’ and other ‘ethical aspects’ that influence their idiosyncratic risk *(Bouslah et al., 2013)*. Evaluating CSR policies’ impact on firm risk and performance is crucial not only from the perspective of the shareholders, but also with regards to bankers. Their limited role in financing CSR firms is subject to rising criticism.

[5] https://www.unido.org/resources-publications-flagship-publications-industrial-development-report-series/idr2020 (Last viewed on 01/08/2021)

[6] Example : Dow Jones Sustainability Indexes, Domini 400 Social Index…etc

Prior studies conducted in the late seventies and early eighties on either the effect of investing in socially responsible stocks using the CPAM model (Alexander and Buchholz, 1978) or different methodologies (Cochran and Wood, 1984) did not show any significant relationship between social investment and performance. In the same context, some recent studies that focused on the impact of CSR positioning on performance, demonstrated that companies do not necessarily show better performance when they implement socially responsible policies compared to their conventional peers *(* Revelli C., Viviani JL. , April 2015). Still, other studies are not in line with the above argumentation. They vary between demonstrating the positive impact of CSR policies on firms' risk and those that take the opposite stand.

3 - THE EXTENT TO WHICH CRS POLICIES INFLUENCE THE FIRM'S RISK

An irreconcilable discrepancy persists between two major tendencies within the literature. While the first one backs the positive impact on firms' internal risk (3.1), the second views the implementation of CSR policies as having a negative influence (3.2). Still, a common consensus is rising about banks' credit risk rating of CSR firms (3.3) along with CSR financing impact on banks' risk (3.4).

3.1. CRS policies have a positive impact on a firm's idiosyncratic risk

CSR and corporate governance are inextricably linked (e.g. Harjoto and Jo, 2011; Liang and Renneboog, 2017). Therefore, there has been a long speculation that ESG/CSR factors could contribute to mitigating a firm's risk [7]Starks (Bouslah and al., 2013; Hsu and Chen, 2015). Within this framework, stakeholders' theory proponents argue that companies with a high CSR score can be considered less volatile and less risky because they are normally best placed to avoid negative financial consequences such as legal fees, damages, interest, and fines due to a better relationship with the various stakeholders.(Hong and Kacperczyk, 2009, Bouslah, 2018).

Numerous studies have examined the empirical evidence on the relationship between ESG/CSR and firm risk and concluded that there is a link between corporate ESG/CSR activities and risk measures. As an example, Albuquerque, Koskinen, and Zhang (2019) developed a theoretical model, backed up by empirical evidence, in which firms with a strong CSR profile face a relatively less price elastic demand due to product differentiation strategy. As a result, the firm's systematic risk is reduced as well as increased corporate value. Their results corroborate the findings of other empirical studies.[8]

[7] Firm risk" is defined by Jo and Na (2012) as "a risk inherent in a firm's operations that can result from external or internal factors and may affect its profitability". The firm's theory distinguishes two main risks for the company: systematic risk (market risk) and idiosyncratic risk (specific risk), which could include regulatory risk, supply chain risk, product and technology risk, litigation risk, reputational risk, and physical risk, etc.

[8] See El Ghoul, Guedhami, Kwok, and Mishra (2011); Oikonomou, Brooks, and Pavelin (2013).

Other researchers used reputation theory to explain the effect of CSR on firm risk based on public opinion. (Lins et al., 2016). According to Jiao (2009), implementing socially responsible activities within a firm is more like a ''Public Relation'' strategy that enhances the corporate reputation.[9] Moreover, social contract theory suggests that firms are held accountable to their stakeholders, who give higher ratings to companies that meet their obligations. For that, empirical evidence indicates that responsible companies benefit from good reputation in a variety of ways (Boyd et al., 2010). These companies are seen as very appealing to employees, which aids in the recruitment of high-quality employees and increases their productivity and retention. (Turban and Greening, 1997 ; 2003). Melto (2012) demonstrated the ability of CSR employees to maintain a positive attitude even when the company is experiencing financial difficulties. In fact, they are willing to work long hours, raise politicians and public support, which in turn strengthens the firm's ability to deal with negative events.

Beyond the impact on employees' performance, investors also prefer companies with a good reputation as well (Arya & Zhang, 2009; Vishwanathan et al., 2019)). Indeed, CSR reporting reduces information asymmetries, which can result in lower perceived specific risk and more appealing financing options and conditions (Dhaliwal et al., 2011; Cui et al., 2018), as well as a low cost of capital and the cost of equity. (Sharfman & Fernando, 2008). Another related study (Attig et al., 2013) suggests that respectable CSR strategies are associated with high credit rating. These findings imply that the higher the engagement in firms' CSR policies, the lower the risk.

Furthermore, responsible behavior and a good corporate reputation can have a positive impact on customer attitudes, leading to increased purchase intentions, willingness to pay higher prices, and enhanced loyalty (e.g., Creyer and Ross, 1996; Mohr et al., 2001; Homburg et al., 2005 ; Sen and Bhattacharya, 2006). Most commonly, researchers have explained these behaviors as a halo effect of the "warm glow" that comes from customers' desire to reward companies for doing good by purchasing their products or services regardless of other relevant attributes, such as quality or product performance.(Kim and Choi, 2018; Jin and Lee, 2019). In addition, consumers are less likely to reject a company's products in a downturn conjuncture (Godfrey, 2005). I.e., CSR can help create a "security belt" capable of absorbing external shocks and give the firm enough time to adjust its operations to market changes.

Other studies have concluded that social involvement reduces company systemic and systematic risk, particularly during times of crisis (Goss & Roberts, 2011). Regarding this argument, some authors consider that CSR builds moral capital and goodwill reserves which can insulate companies against negative feedback effects from external events (Godfrey et al., 2009) and maintain a positive relationship with stakeholders. (Sen et al., 2006). By doing so, CSR minimizes the risk of financial, operational, and strategic loss. Benabou and Tirole

[9] Fombrun (2002, p. 9 as cited in Fombrun 2007, p. 63) defined "corporate reputation as a collective representation of a company's past actions and future prospects that describes how key resource providers interpret a company's initiatives and assess its ability to deliver valued outcomes.

(2010) established a similar hypothesis, demonstrating that enterprises with better CSR profiles may have distinct systematic risk exposures due to their resilience during crisis periods. Furthermore, responsible activism such as the reduction of emissions or environmental pollution (Ilhan, Sautner, and Vilkov, 2020), the (voluntary) adaptation of guidelines (e.g. Fair Trade, EP), and compliance with human rights or health and safety regulations directly reduce the risk of lawsuits, damages, or compensation payments (Strategic risk management) (Bouslah et al., 2018). As a result, cash flow shocks such as penalties, boycotts, or product recalls can be avoided as well as specific risks mitigated. (Hong and Kacpercyk, 2009; El Ghoul et al., 2011; Albuquerque et al., 2019).

In line with this argument, Hong and Liskovich (2015) observed that CSR commitment may provide insurance against firm-specific legal risk. They also showed that firms with higher CSR ratings (as measured by KLD scores) receive more lenient prosecutors' settlements and have higher market valuations. According to Schiller (2018), when customers have better environmental policies, suppliers' legal risk is reduced. These findings are consistent with the practitioners' view that lowering ESG risks is a primary driver of shareholder engagement (e.g., Blackrock and Ceres, 2015; Blackrock, 2017; Fortado, 2017; Jagannathan, Ravikumar, and Sammon, 2017). For that, it is not surprising that a growing number of institutions are actively engaging with their member companies to mitigate the risks of ESG exposure.

3.2. CRS policies have a negative impact on a firm’s idiosyncratic risk

The literature reveals the existence of other studies that have demonstrated a negative correlation between the implementation of CSR policies and firms' idiosyncratic risk. In fact, Barnea and Rubin (2010) shed light on this opposite standing, which considers implementing CSR policies to divert firm resources away from other projects aimed at developing the firm's new capabilities. Furthermore, other costs may rise as a result of the firm's disproportionate attention to environmental issues, which may harm its competitiveness and increase its idiosyncratic risk.

This study uncovered additional issues related to the trade-off between different shareholder and employee positions that the company must make in order to implement CSR policies. In fact, by favoring pro-CSR policies over anti-CSR policies, the company opens the door to major internal conflicts. For example, by being hesitant to fire less productive employees, the company faces supplement costs, which tends to put the burden on the more skilled workers by deferring wage increases. This has led, within the firms that were taken apart in this study, to a massive leave by the skilled workers and directly affected the competitiveness of the firm.

Moreover, several papers have criticized CSR as a marketing instrument that is used for image promotion (Greenwashing) or for personal benefits by the management itself “managerial opportunism theory”. (Marquis and Qian, 2014; Wickert et al., 2016). In other means, some managers tend to reduce CSR-investments in good times to enhance financial performance and raise CSR-expenses in weak times to ensure shareholders’ support or as a justification for a lower bottom line (Bouslah et al., 2013)). Counter to the ideas stated above,

the managerial opportunism theory motivates a negative link between CSR and idiosyncratic firm risk in this way. (Becchetti et al., 2015). Within this framework, "CSR reduces flexibility in responding to negative productivity shocks with a reduction of stakeholders' well-being making returns on CSR stocks less predictable and less likely to follow stock market dynamics.

The table below summarizes the various types of risks proposed in the main academic literature to link ESG/CSR to corporate finance. We report the variable of interest and its status in terms of whether it is an independent or dependent variable. In addition, the sign of the relationship with ESG/CSR for each paper is cited. *(0 indicates that no significant link was found)*

Primary Variable	Dependent/ Independent variable	Direct of signification	Citation
Systemic risk	Dependent	-	El Ghoul & al. (2016)
	Dependent	-	Oikonomou & al. (2013)
	Dependent	-	Albuquerque &al. (2019)
Idiosyncratic risk	Dependent	+	Becchetti & al. (2015) Humphrey & al. (2012)
	Dependent	0	Humphrey & al. (2012)
Credit risk	Dependent	-	Jiraporn & al. (2014)
	Dependent	-	Seltzer & al. (2018)
	Dependent	0/-	Stellner & al. (2015)
Legal risk	Dependent	-	Schiller (2018)
	Dependent	-	Hong & Liskovich (2015)
Downside risk	Dependent	-	Hoepner & al. (2019)
Debt cost of capital	Dependent	-	Hsu & al. (2018)
	Dependent	-	Boubakri & al. (2019)
	Dependent	-	McGuinness & al. (2017)
Equity cost of capital	Dependent	-	El Ghoul & al. (2011)
	Dependent	+/-	Breuer & al. (2018)
	Dependent	-	Chava (2014)
	Dependent	0/-	Rezaee (2015)

Source: review of literature based on the work of Gillan and al. (2020).

3.3. Banks'credit risk rating of CSR firms

Concerning Banks' credit risk rating appreciation of CSR firms, previous studies have investigated the link between CSR and firm's financing access from both a theoretical and empirical standpoint. For instance, research rooted in stakeholders' theory argues that, besides mitigating firms' total risk, ESG engagement can help companies access banks and other investors' financing at a preferential cost (El Ghoul et al., 2011; Xu et al.,2021). For Foukal and Radi (2020), the most recurring determinants of indebtedness in literature, such as the cost of indebtedness, bank interest rate, the level of credit risk, etc., can be influenced by a company's CSR commitment. I.e. By being socially responsible, companies can increase their

access to external financing resources and reduce their funding constraints (Cheng, Ioannou and Serafeim, 2014 cited in Tazi and Ibenrissoul, 2020).

Many theoretical models have been developed to justify the impact of a company's CSR commitment on the financing conditions. As follows:

The social impact approach, which is based on stakeholders' theory (Preston a O'Bannon, 1997), states that if a company's extra-financial performance is insufficient, it will fail to achieve a positive social impact. This will instill concern among its stakeholders (in this case banks) about the company's reputation, raising costs as well as the returns expected by banks (Merton, 1987; Cornell and Shapiro, 1987). While conversely, CSR performance is linked to upgraded stakeholder engagement, which reduces the likelihood of short-term opportunistic behavior and, as a result, overall funding costs (Benabou and Tirole, 2010; Eccles, Ioannou, and Serafeim, 2012).

The risk management approach – aforementione*d*- states that companies with poor CSR/ESG performance might face higher expected returns to compensate for a non-sustainability risk premium linked to environmental, reputational, legal risks, etc. (El Ghoul et al., 2011; Dhaliwal et al., 2011; Menz, 2010). Goss and Roberts (2011) argue that firms with stronger social and environmental involvement will face lower idiosyncratic risk, which further leads to lower loan terms provided by creditors. Bouslah et al. (2013).

The information disclosure approach, which is based on agency, stakeholders and signal theories, states that disclosing information about various groups of stakeholders, particularly through extra-financial reports, increases transparency about a company's social and environmental impact. It also reduces information asymmetry between firms and banks as other stakeholders. This can help reduce agency issues by strengthening relationships with banks and borrowers, as well as help build positive moral capital (Friedman & Miles, 2006; Roberts, 1992; Godfrey, 2009).

Likewise, empirical studies have yielded nearly similar conclusions. Arabesque and Oxford University conducted a review[10] of over 200 studies and concluded that 90% of them found a positive link between ESG and funding cost. Thereby, Zerbib (2019) provides evidence that green bonds are issued at a negative premium, suggesting that issuing bonds to fund projects with environmental benefits lowers their cost of capital. Goss and Roberts (2011) find that firms with the worst CSR scores pay 7 to 18 basis points more on their bank debt compared to firms with higher scores This goes hand in hand with Jiraporn and al. (2014) concluding that companies with stronger CSR issues pay higher interest rates on bank loans. However, Ye and Zhang (2011) suggest that it is important to investigate this relationship by considering the effect of other companies' characteristics, such as size or governance.

[10] Clark G., Feiner A. and Viehs M., "From the stockholder to the stakeholder: How sustainability can drive financial outperformance,"March 2015, www.arabesque.com/ oxford, accessed on July 2021.

On the other hand, Goss and Roberts (2011) suggest that superior CSR performance may relax firm's credit risk ratings. Their findings put forward the so-called ‘‘incentives’’, provided by banks, to companies with shady records of social responsibility practices and policies by demanding higher spread than those with better records of social responsibility. In fact, banks charge 5 to 11 basis points to firms with environmental and governance records below the average. Still, the maximum penalty, in the case of a poor performance by the firm, can reach 23 basis points. These conclusions are consistent with Oikonomou et al. (2013) study in which they argue that firms with better employee treatment, superior management practices, and higher marketed product safety and quality characteristics are perceived as more creditworthy. Thus, it seems that higher levels of CSR practice appear to result in a better credit quality and lower perceived credit risk (Truong and Kim ,2019).

Stellner et al. (2015) find that superior CSR performance may be regarded as risk-reducing through higher credit ratings and lower z-spreads if its relative environmental, social, and governance (ESG) performance matches that of the corresponding country recognized by the broader environment. Lins et al. (2017) pointed out that the effect of CSR commitment on credit risk is more noticeable after a trust shock during the financial crisis.

Additionally, due to political requirements, technological progress, and changes in customer preferences, along with other stakeholders ‘demands and expectations, firms are increasingly challenged, by the internal and external environments, to adopt responsible and innovative business models. The objective is to gain acceptance and reinforcement from society (NGFS, 2019). An increased number of bank financing opportunities with preferential interest rates are directed toward companies investing in environmentally friendly technologies and seeking green products and services (Thompson P. , Cowton C. , 2004; Tarna K., 1999). In contrast, social irresponsibility threatens the financial health (e.g. access to the market, investors withdrawing, environmental and social fines) of firms exercising in brown sectors (e.g. replacement of the combustion engine) or controversial (tobacco) sectors (Ktat, 2017). As a result, their ability to repay loans becomes more than questionable, posing a credit risk and market price risk to the bank.

Jagannathan, Ravikumar, and Sammon (2017) pointed out that investors should consider ESG characteristics when screening companies and rating their credit risk level. Weber O. et al. (2008a, 2008b) attempted to explain how banks incorporate ESG risks incurred by funded companies into their procedures and the various stages of the credit risk management process (rating, cost, pricing, and control).

While there is a considerable amount of research on the benefits of social performance on credit risk rating, some other studies based on neoclassical theory argue that CSR engagement is a waste of scarce resources and unnecessarily raises a firm's costs, putting the firm in a weak position towards its investors. e.g. (Hong, Kubik and Scheinkman, 2012; Krüger, 2015; Masulis and Reza 2014). Others found that not all CSR dimensions are linked to a firm's risk. For example, Bouslah et al. (2013) found that only employee, diversity and governance affect positively firm risk.

3.4. Can CSR firms' financing affect banks' risk?

CSR policies carry benefits that surpass firms' boundaries. Banks can also enhance their risk management capabilities through social responsibility. Central Banks, the European Commission, and supervisory authorities call for better integration of ESG-risks into banks' risk management process (European Commission, 2018; Bank of England, 2018; NGFS, 2019; EBA, 2019). As highlighted by some academic studies (e.g. Oikonomou et al. (2013), Albuquerque et al. (2019), Wu and Shen (2013)), CSR reduces idiosyncratic bank risk (Wu and Shen, 2013). Other studies point out that banks with a high reputation are characterized by a more rigorous credit assessment than banks with a low reputation (Chemmanur and Fulghieri, 1994). Subsequently, these banks are more profitable, have higher-quality assets, and are less risky than their competitors' (Bushman and Wittenberg-Moerman, 2012). Other scientific studies back up this claim. For example, Billett et al. (1995) and Ross (2010) show that stock returns of borrowers from banks with a good reputation show a positive reaction when a credit announcement is made. However, due to the large number of stakeholders involved in banks' operations, such as owners, borrowers, depositors, managers, and employees, information asymmetry could easily harm their reputation. Therefore, good communication with stakeholders via extra-financial reports, accountability and transparency imposes itself as a critical component to achieving a healthy reputation. Besides, the guarantee of data protection, anti-corruption programs and tax compliance (e.g cum-ex) contributes to the reduction of risks specific to governance in banks. Apart from reputational and governance risk factors, social and environmental aspects of banks are important. Banks' are indirectly responsible for funding companies that pollute the environment, manufacture dangerous products, or violate human rights (Idowu – Filho, 2009). Banks act as sort of intermediaries in this manner and can help causing significant damage. Thompson and Cowton (2004). This indirect impact may affect not only the users of banking service but different actors in society such as suppliers (Lentner et al., 2015) and end up in damaging the legitimacy of the bank.

4. CONCLUSIONS

As per the analysis and discussion in this article, a link does indeed exist between CSR commitment and a firm's risk. However, researchers are still unsure about the sign of this relationship. On the one hand, evidence from the stakeholders' theory suggests that socially responsible activities within a firm may help improve a company's reputation, resulting in a variety of benefits. They include, but not limited to, increased employee productivity, retention along with increased customer satisfaction and loyalty. In addition, the studies show evidence of better insurance against firm-specific legal risk, improved information transparency and disclosure as a direct consequence of CSR policies implementation. These benefits allow companies to access capital with a low cost whether from institutional investors or private capital market actors as they help lower their idiosyncratic risk and improve their rating.

On the other hand, other scholars demonstrated a negative correlation between the implementation of CSR policies and firms' idiosyncratic risk. They base their analysis and conclusions on the high cost of CSR policies' implementation. They advocate that such policies can lead to a lower bottom line. In addition, they argue their triggering effect in leading to major conflicts of interest with shareholders. Finally, they conclude by alerting on the counter effects of such policies that may lead to a negative impact of CSR policies on Banks' Credit risk rating appreciation.

In summary, the findings suggest that CSR policies may be regarded as risk-reducing mechanisms as they help enhance credit ratings and lower z-spreads. In fact, the benefits derived impact several ESG indicators such as environmental and social ones resulting in a better risk appreciation from the banking perspective.

However, our review highlights some limitations. mainly, there is a scarcity of empirical studies supporting the positive impact of CSR policies with regard to accessing lower interest rate loans. In addition, the existing studies do not determine precisely the degree to which the underlying conditions of the so-called corporate social responsibility reduce a firm's credit risk.

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