Effects of corporate ethical practices on financial performance in the Italian banking services listed companies

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Abstract

Purpose. In the banking services industry social responsibility and welfare of stakeholders represent key factors able to influence wealth maximization and long-term survival. Unfortunately, even though numerous studies affirm a link between corporate ethical practices and financial performance, it is not so evident the direction and effectiveness of their connection. In this perspective, this study aims to better explain the relationship between corporate ethical practices and corporate financial performance, verifying that it is impacted by a number of key variables.

Methodology. The empirical research is based on a longitudinal analysis on Italian listed companies operating in the banking services industry, covering the period 2001-2015. The adoption of the Code of Ethics is considered to measure their ethical practices, while as regards financial performance several accounting indicators are taken into consideration, including some control variables. To process the dataset a panel regression with fixed effect is applied.

Findings. In controlling the potential effects of the circular relation has been tested a reverse causality between the application of corporate ethical practices, thanks to the adoption of the code of ethics, and financial performance.

Practical implications. The research hypotheses have verified an order of priority of company stakeholders fulfillment, with many consequences in terms of ethical firms orientation positioning toward the market.

Originality/value. The paper aims at strengthening recent studies that consider bi-directional causality in the theory that "corporate social responsibility is both a predictor and consequence of firm financial performance". Thus, the interest of the study lies in the identification of a reverse causality between positive financial performance and ethical orientation of Italian banking services industry companies.

Keywords

ethics; code; bank; services; performance

1. Introduction

The key role of trust in the banking services industry has been known for a long time, even before it attracted the interest of academic research. Indeed, it is not coincidence that the word credit, that expresses one the most basic financial relationship, derives from the Latin verb 'credere', which means to trust, to have faith in.

Several studies show as trust represents the variable with the greatest impact on customer emotional responses in the banking industry (Marinkovic and Obradovic, 2015; McNeish, 2015; Yu, et al., 2015; Ivanauskiene and Vilte, 2015), since in financial services companies it is driven far more by emotional than by functional considerations, among investors as well (Ipsos Public Affairs, 2013). Even ethics appears inextricably connected to financial and banking activities as it forms the basis for trust (Boatright, 2011), without which the banking system could become either dysfunctional or unstable (Cullen, 2016; Monferrer-Tirado et al., 2016). Both trust and corporate social responsibility initiatives affect relationships with stakeholders that need to be correctly managed, especially in conditions of information asymmetry (Cui et al., 2016). Actually they constitute two pillars of the corporate reputation construct (Cuomo et al., 2013; Shanahan and Seele, 2015; Mobin et al., 2016), that is very crucial for the banking industry because financial services deal with people's money and eventual problems, i.e. during crises, trigger serious external collectivized costs (Walter, 2013). Despite the different definitions of corporate reputation proposed over time (Walsh et al. 2009; Walker, 2010) nowadays the literature converge in analyzing it as a time based, multidimensional and multi-stakeholder construct (Fombrun and Shanley, 1990; Fombrun et al., 2000; Carreras et al., 2013). Thus, its main components can be identified and grouped into six basic pillars (Fombrun and Gardberg, 2000): emotional appeal in terms of trust/confidence, pleasure; products and services in terms of quality, innovation, convenience reliability; income performance in terms of high profitability, good prospects of growth, better performance than competitors, low investment risks; vision and leadership in terms of excellence in leadership, clear vision for the future, capacity for exploiting market opportunities; working environment in terms of quality and well-being, staff professionalism, good remunerative policy; social responsibility in terms of commitment towards social causes, responsibility towards the environment (Fombrun et al, 2000). Indeed reputation can be included quite legitimately among the tools of corporate governance, with reference to the mechanisms of management and coordination of interaction with stakeholders, in the context of decision-making processes and control of key resources (Cuomo et al., 2014).

In the banking services industry, as in others, having a good reputation helps to resolve the problem of lack of direct and complete knowledge, especially when a financial transaction has long-term implications (Dell'Atti and Trotta, 2016). Enhancing corporate reputation is both an intangible asset and a source of strategic advantage in incrementing a corporation's long term ability to create value (Gupta et al., 2008). Furthermore, a good corporate perception implies a reputational advantage that can result in (i) pricing concessions, (ii) improved morale, (iii) reduced risk, (iv) increased strategic flexibility and (v) enhanced financial performance (Fombrun and Shanley, 1990). From a theoretical point of view, a general construct can be asserted: the reputation of a company and the welfare of distinct stakeholders are fundamental to stockholders' wealth maximization and long-term survival (Becchetti et al., 2012; Gorondutse et al., 2014). In order to sustain and improve profitability, managers now have to consider how to allocate resources to enhance a company's reputation among the cited six pillars, focusing especially on social responsibility toward stakeholders (Mobin et al., 2015), that horizontally crosses and influences all the other pillars (financial performance in particular).

However, despite the evident interest, reputation analysis has been omitted by scholars in

the banking sector, as long as fraud cases and scandals have underlined its relevance, in particular its linkages with ethics (Skowron and Kristensen, 2012; Leiva et al., 2014). In this construct, the paper aims at strengthening some studies that consider corporate social responsibility both a predictor and consequence of firm financial performance.

Starting from these considerations, the paper is structured as follows: in the 'Theoretical background' section the role of Corporate Social Responsibility (CSR) in the Italian banking industry is discussed and the objectives of research are highlighted. Subsequently, the main tools to apply CSR, with reference to the adoption of codes of ethics in the banking services industry companies are presented. Thereafter in the 'Methodology' section the design research adopted is illustrated, in terms of a longitudinal analysis on Italian listed companies operating in the banking services industry, covering the period 2001-2015. Following, the main findings are illustrated and discussed. Managerial implications referred to the reverse causality in the relationship between corporate ethical practices and corporate financial performance conclude the paper, suggesting a different perspective in terms of priority of company stakeholders fulfillment and ethical firms orientation positioning in the market.

2. Theoretical background

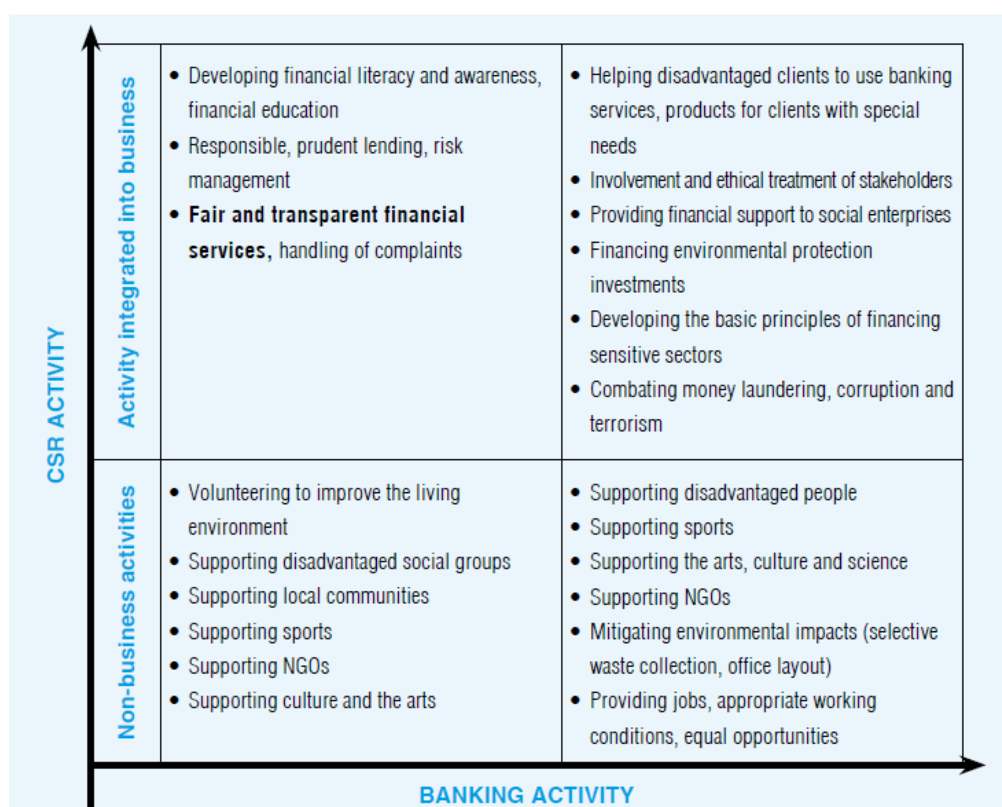
Many studies define CSR as a key driver of corporate reputation (Logsdon and Wood 2002; Van der Laan et al. 2008). Thus, CSR becomes the perspective chosen by companies to take advantage of the benefits commonly associated with a good reputation, i.e. fostering employee satisfaction, enforcing contracts and commitments, increasing intangible but not imitable capital, and improving financial performance (Leiva et al., 2014).

In the last decade, initiatives related to CSR in the banking services industry have come under greater scrutiny and debate by the academic community (McDonald and Rundle-Thiele, 2008; Goss and Roberts, 2011; Weshah et al., 2012; Basah and Yusuf, 2013; Kilic, 2016; Bae et al., 2016; Francis et al., 2016). Since the banking services industry functioning – in terms of vision, rules and operations – strongly affects the economic development of countries, economic players and people, socially responsible banking is becoming a well-established notion (Scholtens, 2009; Ferreira et al., 20016). Starting from the major theories that support the practice of CSR, as the Social contract theory (Garriga and Melé, 2004), the Agency theory (Foote et al., 2010), the Stakeholder theory (Simmons, 2008; Russo and Perrini, 2010) and the Resource-based view of the firm (Bhattacharyya, 2010), generally speaking CSR consists of the requests for corporations to make additional efforts to the well-being of society (Carroll and Shabana, 2010). However numerous and diverse declinations of its meaning can be traced in the literature with respect to the social, stakeholders, economic, voluntariness and environmental dimension (Dahlsrud, 2008; Lin-Hi and Muller, 2013).

In relation to the typical CSR areas of the banking sector, the principal banking activities are shown in Figure 1 in terms of balance sheet total and number of branches, and the integration of CSR initiatives into its business activities (Lentner et al., 2015).

Notwithstanding, the banking services industry engagement in CSR activities is quite controversial (Chung-Hua et al., 2016).

Figure 1. The CSR map of banks



Source: Lentner et al., 2015, p. 100.

As some mechanisms pertaining to the relationship of CSR and financial performance are identified, such as slack resources mechanism, good management mechanism, penance mechanism and insurance mechanism (Kang et al., 2016), in particular the link between responsibility and economic reward or financial performance appears very contradictory in the managerial literature (Weshah et al., 2012). By the way, three major theoretical approaches can be considered.

A "negative association" refers that firms with a responsible behaviour incur competitive disadvantage due to the higher costs required for upgrading performance, or that they could transfer to other agents, i.e. customers or government. In this respect, the interest of the firm must be in the maximization of profit (Friedman, 1970) rather than social well-being; this perspective can cause conflict between the management and shareholders because of the reductive effects on the financial performance of the firm (Bauer et al., 2005; Brammer et al., 2006; Jensen, 2010).

A "positive association" assumes that improved CSR performance (voluntaries or induced also by regulations) is a potential source of competitive advantage, as it can lead to more efficient processes, improvements in productivity, lower costs of compliance and new market opportunities. The impact of CSR activities on financial performance is focused on the tension between the explicit costs of the company (i.e. payments to bondholders) and the implicit costs of other agents (i.e. product quality costs or environmental costs). Hence, if firm tries to reduce its implicit costs by means of socially irresponsible actions can incur greater explicit costs, provoking a competitive disadvantage (Weshah et al., 2012). Other analyses suggest that brand value is positively related to CSR (Bouvain et al., 2013), others consider an

increased profitability and reduced losses (Simpson and Kohers, 2002), or an improving of the revenue function (Wu and Shen, 2013).

Finally, a “neutral association” suggests that there is no causal linkage between corporate social performance and financial performance (Soana, 2011) or there is insufficient empirical evidence to show that CSR strictly affects bankers or stakeholders value creation, because of so many factors or variables intervening that may have masked this relationship (Ullman, 1985).

In sum, theoretical analyses argue that there is no automatic economic (positive or negative) effect of ethical activities on competitive performance (Cuomo et al., 2015). CSR strengths and concerns are expected at the same time to have both positive and negative impact on financial performance in the banking services industry. Some studies have started to consider a bi-directional causality in their empirical analyses in order to account for the theory that corporate social performance affects and predicts firm financial performance, and at the same time can be considered as a consequence of it (Waddock and Graves, 1997).

Within this theoretical scenario the present study aims to analyze a reverse causality between the application of corporate ethical practices and financial performance.

3. Applying corporate ethics practices in the banking services industry: the role of the Code of Ethics

Despite the lack of consensus on the direction of the impact of CSR on firm performance, the issue is increasingly important in the international banking services industry. However, ethical norms of behaviour are too amorphous to be precisely defined in the context of banking. The complexity of financial commitments and transactions such as innovative products, long chains of intermediation, additional information and so on, can make “ethical conduct” a highly ambiguous concept to apply (Oates and Dias, 2016). An attempt of management of the ethical conduct is the restriction by means of formal mechanisms. Precisely, banking services industry is one of the most heavily regulated segment with numerous instruments of control and supervising of the conduct of the players.

In Italy five financial regulators are defined: The Bank of Italy (Banca d’Italia) – the central bank; the Italian Securities and Exchange Commission (Commissione Nazionale per le Società e la Borsa - CONSOB); The Antitrust Authority; the Comitato Interministeriale per il Credito ed il Risparmio (CICR); and The Commissione di vigilanza sui fondi pensione (Covip). Banking regulation and supervision in Italy have always been the function of the central bank (www.bancaditalia.it), while on a European level, the Basel Committee develops and supervises processes within the banking sector coordinating on a global scale (Opromolla and Maccarini, 2010; Siclari, 2015).

Nevertheless, from the ethical perspective the extensive body of law and regulation in the banking services industry leads to a misconception, considering that if a practice is legal consequently it is morally okay (Boatright, 2013, p. 16). Even though some authors support an integration, with ethical principles included into law (Blodgett, 2011), it should be considered that firstly regulation does not cover all the extended aspects of moral behaviour in business. Secondly, law is often developed as a reaction to amoral or unethical activities. Thirdly, law is a relatively low standard of a minimal level of acceptable conduct (Boatright, 2013).

In the banking services industry CSR practices are first of all concentrated in the areas of bank lending, investment and asset management operations, where struggling corruption and money laundering are relevant issues. Rather, these are the key elements of anti-corruption efforts, which are very important in the banks’ CSR activities.

In any case, also other situations need to be taken into consideration, when they have impact, in terms of benefits or damage on other stakeholders, even though they do not influence the banking profit in the short-term (e.g. faulty product development that could cause system-level failures that might destroy the savings of certain household groups). Therefore, the basic principles of CSR could be fixed in voluntary codes of ethics that go beyond the rules, in order to keep the right directions (Lentner et al., 2015).

In response to this and pursuant to Italian Legislative Decree no. 231 of June 8, 2001 – enacted in compliance with the principles set forth in EU legislation on the prevention of corporate crimes and the assessment of companies' liability – many Italian banking services companies adopted a code of ethics or reviewed their one.

Among other disclosure practices (Rossignoli, 2013; Salvioni et al., 2014), the code of ethics contains the rules to ensure that the firms' conduct is always guided by criteria of fairness, collaboration, loyalty, transparency and mutual respect, as well as to avoid conducts that could constitute the offences and crimes set forth in Italian Legislative indicated (Kaptein and Schwartz, 2008; Lugli et al., 2009; Opromolla and Maccarini, 2010).

A code of ethics contains a set of internal guidelines that should make a commitment to operate legally and it should promote honesty, accountability and ethical conduct (Stevens et al., 2005). It is one of the fundamental protocols for the establishment of a valid model of organization, management and control for the purpose of ensuring the highest possible ethical standards in pursuance of the banking activity. Approximately it highlights the general ethical principles positively valued by a company to protect and further the interests of all stakeholders because of their experience and their sense of moral and legal obligations. The specific rules of conduct are applicable to parties subject to the code, and with which such parties must comply; it is also explicated the mechanism of communication, training and monitoring of the code, and constitutes a guide to the company policies and to the legal requirements that govern its conduct (Schwartz, 2002).

In the present study, the adoption of the code of ethics, as a voluntary statement, is considered to measure the ethical practices of banking services industry companies.

4. Methodology, sample and measurement

The empirical research is based on a longitudinal analysis on Italian Stock Exchange listed companies operating in the banking services industry, covering the period 2001-2015. The focus on the banking services industry is due to the fact that financial institutions show several specific reporting requirements (Simionescu and Gherghina, 2014) and are more likely to extensively disclose information on their CSR practices (Andrikopoulos et al., 2014). Furthermore, banking stocks have a considerable weight in the Italian Stock Exchange. At the end of 2012, the market capitalization of banks and financial institutions represented 20% of the total listed companies (Bank of Italy, 2013).

In this context, the research hypotheses are the following:

HP1: The adoption of code of ethics affects financial performance;

HP2: Banking services industry companies with higher financial performance have more proclivity for the early adoption of code of ethics.

To verify the research hypotheses, it was decided to employ the accounting variables presented in Table 1.

Table 1. Descriptions of the selected variables

Variables	Description and formula
CSR variable	
Code of Ethics	Dummy variable: 1, if the company has adopted the code of ethics for each year (2001-2015); 0, if the company does not have adopted the code of ethics for each year (2001-2015)
Accounting-based performance indicators	
1. Loan loss reserves/gross loans ratio	Reserve for losses expressed as percentage of total loans, computed by dividing loan loss reserves by gross loans (loans plus loan loss reserves)
2. Tier 1 ratio	Shareholder funds plus perpetual non cumulative preference shares as a percentage of risk weighted assets and off balance sheet risks measured under the Basle rules
3. Equity/liabilities ratio	Leverage ratio, computed by dividing equity by total liabilities and equity minus equity minus hybrid capital minus subordinated debt
4. Net interest margin	Net interest income expressed as a percentage of earning assets, computed by dividing net interest revenue by average total earning assets
5. Return on average assets (ROAA)	Returns generated from the assets financed by the bank, computed by dividing net income by average total assets
6. Return on average equity (ROAE)	Return on shareholder funds, computed by dividing net income by average equity
7. Net loans/total assets	Percentage of the assets of the bank tied up in loans, computed by dividing loans by total assets
8. Liquid assets/total deposits and borrowing	Amount of liquid assets available to borrower as well as depositors, computed by dividing liquid assets by customer & s.t funding plus other funding minus hybrid capital minus subordinated debt
Control variables	
Loans	Total amount of loans
Total customer deposits	Total amount of customer deposits

As concerns CSR variable, ethical practices have been proxied through a dummy variable depending on the adoption of the code of ethics. In actual fact, at a first glance it has been noted that in compliance with the Italian Legislative Decree no. 231 of June 8, 2001 all the banking services industry companies listed in Italian Stock Exchange have adopted the code of ethics as the main instrument to measure their propensity in applying CSR activities. Hence, this dummy variable takes on the value 1 if the company *i* in the year *t* holds a code of ethics, 0 otherwise.

In order to assess the companies' performance 8 accounting-based performance measures have been considered: 1 asset quality indicator (Loan loss reserves/gross loans ratio); 2 capital indicators (Tier 1 and Equity/liabilities ratios); 3 operations indicators (Net interest margin, ROAA and ROAE); and 2 liquidity indicators (Net loans to assets ratio and Liquid assets/total deposits and borrowing ratio).

It has been decided to use the abovementioned accounting-based measures because they capture historical performance (Simionescu and Gherghina, 2014; Moody's, 2011) and appear more highly correlated with CSR than market-based ratios (Orlitzky et al., 2003), despite their susceptibility to differential accounting procedures and managerial manipulation (Branch and Gale, 1983; McGuire et al., 1988; Venanzi, 2012). Furthermore, in order to make sure that the results are not driven by bank heterogeneity, two control variables have been included, and

namely loans and total customer deposits, that cover the bank's characteristics such as size, liquidity, as well as indebtedness level and risk.

The 8 accounting-based performance ratios and the 2 control variables have been extracted from the financial statements of each company available from Bankscope database (a Bureau Van Dijk database containing information on over 32,000 banks) for each selected year (2001-2015). The year of starting for the analysis has been chosen considering the year of introduction of Italian Legislative Decree no. 231 about corruption.

To define the sample, the dataset of all the companies listed in the Italian Stock Exchange in 2016 has been used. Initially the dataset included 34 listed companies operating in the banking service industry according to the Italian Stock Exchange and Italian Bureau of Statistics classification of economic activities. Subsequently, the companies without financial statements - with regards to Italy - available on Bankscope have been removed. Hence, the final sample is composed of 27 companies, directly interviewed in order to ask the year of adoption of the code of ethics.

From data collection a panel dataset of 290 observations related to 27 companies of the sample has been obtained. To process the dataset a panel (cross-sectional time-series data) regression with time fixed effect has been applied because of the number of years taken into consideration for each firm and the analysis of the variation of the variables through the years.

The purpose of this study is to better investigate both the direction and the effectiveness of the existing relationship between corporate ethical practices and corporate financial performance in the Italian banking services industry. In this context, it should be clarified that improving corporate ethical practices by means of the code of ethics could have a significant impact on companies' financial performance variability (HP1). At the same time, higher financial performance may increase the probability in improving corporate ethical practices, as testified by a more rapid adoption of the code of ethics (HP2).

Thus, to test the HP1, it is necessary to estimate a panel regression model with time fixed effect.

The model explains the corporate financial performance as a function of the adoption of the code of ethics and of a vector of covariates and time dummies. In this model it is also considered the variable code of ethics lagged of both one year and two years.

$$Performance_{i,t} = \beta_i + \beta_1 Code\ of\ Ethics_{i,t} + \beta_y Control\ Variables_{i,t} + \beta_j years$$

Conversely, in order to verify the HP2 companies have been divided into two clusters based on the year of adoption of the code of ethics. The demarcation year has been the year 2006 (average year of adoption of the code of ethics). Then, descriptive statistics based on univariate analysis have been used in order to analyse the financial performance differences registered before the demarcation year between the two clusters. For this reason, the central tendency of the 8 accounting-based ratios has been examined thanks to the computation of the mean of each indicator. In addition, the mean values have been compared with the optimal thresholds of the selected performance indicators (Zani and Cerioli, 2007).

5. Results and findings

The sample is composed of 27 listed companies belonging to the banking services industry in Italy. All of them adopted the code of ethics during the period examined, even though in different years, the most after the year 2006. Table 2 provides descriptive statistics aiming to point out the main values of the accounting-based performance measures, in terms of central

tendency (mean), dispersion covering variance and standard deviation, and minimum and maximum values.

Table 2. Main values of the accounting-based performance measures

Variables	Obs	Mean	Variance	Std. Dev	Min	Max
Loan Loss Res/Gross Loans	263	0.0459	0.0013	0.0362	0.0012	0.3060
Tier1 Ratio	281	0.1108	0.0044	0.0661	0.0416	0.5490
Equity/Liabilities	290	0.0946	0.0072	0.0850	0.0111	0.8968
Net Interest Margin	289	0.0213	0.0000	0.0065	0.0060	0.0382
ROAA	289	0.0047	0.0002	0.0156	-0.0694	0.2025
ROAE	289	0.0551	0.0251	0.1584	-0.8801	0.6200
Net Loans/Tot Assets	290	0.5752	0.0476	0.2183	0.0303	0.9492
Liquid Assets/Tot Dep & Bor	288	0.2318	0.0458	0.2139	0.0132	1.0181
Loans (ln)	290	16.1510	4.3701	2.0905	10.9349	20.2170
Customer Deposits (ln)	290	15.9308	3.5238	1.8772	10.9647	19.8022

In addition, Table 3 shows the correlation matrix, that provides the levels of correlations between all pair of the main variables analysed. It can be noted a strong correlation between Equity/Liabilities ratio and Tier 1 ratio, as well as between ROAE and ROAA. Moreover, a strong correlation between the total amount of loans and the total amount of customer deposits has been observed.

Table 3. Correlation matrix

Variables	1	2	3	4	5	6	7	8	9	10	11
Code of Ethics	1										
Loan Loss Res/Gross Loans	.321**	1									
Tier1 Ratio	.168**	0.077	1								
Equity/Liabilities	0.092	0.101	.728**	1							
Net Interest Margin	-.184**	0.035	-.163**	0.086	1						
ROAA	-0.082	-.364**	.357**	.477**	0.101	1					
ROAE	-.165**	-.469**	.142*	0.078	0.093	.638**	1				
Net Loans/Tot Assets	-0.099	.135*	-.527**	-.156**	.408**	-.199**	-.253**	1			
Liquid Assets/Tot Dep & Bor	-0.096	-.278**	.407**	.242**	-.262**	.320**	.243**	-.737**	1		
Loans (ln)	-0.038	.183**	-.538**	-.308**	0.006	-.248**	-.259**	.551**	-.481**	1	
Customer Deposits (ln)	-0.024	.152*	-.443**	-.320**	-.119*	-.200**	-.142*	.228**	-.194**	.891**	1

Thus, in order to exclude multicollinearity problems, the variance inflation factor - VIF - has been inspected (Table 4).

Table 4. Variance inflation factor analysis

Variables	Loan Loss Res/Gross Loans	Tier1 Ratio	Equity/ Liabilities	Net Interest Margin	ROAA	ROAE	Net Loans/ Tot Assets	Liquid Assets/ Tot Dep & Bor
Code of Ethics	1.280	1.250	1.296	1.307	1.307	1.307	1.296	1.297
Loans (ln)	4.984	4.919	4.866	4.867	4.867	4.867	4.866	4.806
Customer Deposits (ln)	4.989	4.938	4.889	4.889	4.889	4.889	4.889	4.829
Years	1.286	1.270	1.309	1.320	1.320	1.320	1.309	1.309

Values of VIF above the value 5 imply that variables within the model are greatly correlated (Caramanis and Spathis, 2006; Judge et al., 1987; Studenmund, 2006). Thus, VIF presented in Table 4 enables to rule out undesirable situations that could emerge when the explanatory variables in the regression equation are highly correlated.

Subsequently, the results of the panel regression with fixed effects are presented (Table 5), with reference to the influence of code of ethics on accounting-based financial bank performance (as dependent variables). Hereby, it is clear that the code of ethics significantly and positively affects Equity/Liabilities ratio and Net Loans/Tot Assets ratio. On the contrary, as regards ROAE, a significant but negative relationship between the adoption of the code of ethics and this operations indicator has been found.

Table 5. Panel regression results

Variables	Loan Loss Res/Gross Loans	Tier1 Ratio	Equity/ Liabilities	Net Interest Margin	ROAA	ROAE	Net Loans/ Tot Assets	Liquid Assets/ Tot Dep & Bor
Code of Ethics	0.00367	0.00266	0.0191*	-0.00120	4.18e-06	-0.0600**	0.0262*	0.0326
	(0.00602)	(0.00699)	(0.00984)	(0.000989)	(0.00265)	(0.0261)	(0.0141)	(0.0223)
Loans (ln)	-0.00221	-0.0196***	-0.00594	0.000210	-0.00257**	-0.0473***	0.184***	-0.196***
	(0.00310)	(0.00463)	(0.00674)	(0.000573)	(0.00108)	(0.0134)	(0.0101)	(0.0140)
Customer Deposits (ln)	0.00377	-0.00238	-0.0125*	-0.000239	0.00108	0.0398***	-0.149***	0.143***
	(0.00342)	(0.00473)	(0.00689)	(0.000615)	(0.00120)	(0.0147)	(0.0101)	(0.0148)
Years	0.00501***	0.00432***	-0.00347***	-0.00052***	-0.00108***	-0.00743**	-0.00610***	-0.0200***
	(0.000663)	(0.000762)	(0.00111)	(0.000110)	(0.000315)	(0.00293)	(0.00160)	(0.00247)
Constant	-10.05***	-8.232***	7.337***	1.084***	2.191***	15.16***	12.23***	41.30***
	(1.326)	(1.507)	(2.187)	(0.219)	(0.631)	(5.845)	(3.165)	(4.916)
Obs	263	281	290	289	289	289	290	288
Number	27	27	27	27	27	27	27	27
F-stat	33.99	14.92	7.67	12.67	4.77	10.68	81.10	102.37
Prob >F	0.0000	0.0000	0.0000	0.0000	0.0010	0.0000	0.0000	0.0000
R-sq.	0.3695	0.1928	0.1059	0.1642	0.0689	0.1421	0.5561	0.6144

Notes: Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 6 and table 7 show the panel regression with fixed effects results regarding the influence of code of ethics on accounting-based financial bank performance as dependent variables with the variable code of ethics lagged respectively of one year and two years.

In table 6, a significant and positive relationship between the adoption of the code of ethics and Tier1, Equity/Liabilities and Liquid Assets/Tot Dep & Bor ratios have been found. It is worth to notice that with the variable code of ethics lagged one year, the corporate ethical practices seem to affect positively the corporate financial performance. As shown in Table 6, it has been found a positive relationship between the loans and Net Loans/Tot Assets, as well as between the customer deposits and ROAE, and Liquid Assets/Tot Dep & Bor.

Table 6. Panel regression results with the variable Code of Ethics lagged of one year

Variables	Loan Loss Res/Gross Loans	Tier1 Ratio	Equity/ Liabilities	Net Interest Margin	ROAA	ROAE	Net Loans/ Tot Assets	Liquid Assets/ Tot Dep & Bor
Code of Ethics lagged 1Y	0.00448	0.0121*	0.0220**	0.000368	0.00151	-0.0197	0.00157	0.0503**
	(0.00562)	(0.00645)	(0.00928)	(0.000937)	(0.00246)	(0.0248)	(0.0134)	(0.0209)
Loans (ln)	-0.00201	-0.0193***	-0.00586	0.000237	-0.00255**	-0.0472***	0.183***	-0.196***
	(0.00309)	(0.00460)	(0.00671)	(0.000573)	(0.00107)	(0.0135)	(0.0101)	(0.0139)
Customer deposits (ln)	0.00356	-0.00236	-0.0129*	-0.000213	0.00107	0.0408***	-0.151***	0.142***
	(0.00340)	(0.00470)	(0.00686)	(0.000616)	(0.00119)	(0.0148)	(0.0102)	(0.0148)
Years	0.00492***	0.00362***	-0.00388***	-0.00063***	-0.00118***	-0.00971***	-0.00451***	-0.0216***
	(0.000679)	(0.000784)	(0.00114)	(0.000114)	(0.000323)	(0.00305)	(0.00166)	(0.00254)
Constant	-9.871***	-6.832***	8.172***	1.289***	2.407***	19.69***	9.090***	44.56***
	(1.358)	(1.554)	(2.255)	(0.228)	(0.648)	(6.104)	(3.287)	(5.061)
Obs	263	281	290	289	289	289	290	288
Number	27	27	27	27	27	27	27	27
F-stat	33.82	15.68	8.15	12.32	4.69	9.70	78.75	105.22
Prob >F	0.0000	0.0000	0.0000	0.0000	0.0011	0.0000	0.0000	0.0000
R-sq.	0.3683	0.2006	0.1118	0.1604	0.0678	0.1308	0.5488	0.6209

Notes: Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Analyzing the variable code of ethics lagged two years (Table 7) emerges that the ethical practices significantly and positively affect Equity/Liabilities and Liquid Assets/Tot Dep & Bor ratios. As for code of ethics lagged one year, it seems that the corporate ethical practices impact positively on the corporate financial performance, even if with a slighter effect (Tier 1 is not affected).

Table 7. Panel regression results with the variable Code of Ethics lagged of two years

Variables	Loan Loss Res/Gross Loans	Tier1 Ratio	Equity/ Liabilities	Net Interest Margin	ROAA	ROAE	Net Loans/ Tot Assets	Liquid Assets/ Tot Dep & Bor
Code of Ethics lagged 2Y	0.00513	0.00318	0.0248***	0.00140	0.00218	-0.00345	-0.00274	0.0473**
	(0.00538)	(0.00625)	(0.00900)	(0.000908)	(0.00236)	(0.0241)	(0.0131)	(0.0204)
Loans (ln)	-0.00218	-0.0197***	-0.00688	0.000218	-0.00255**	-0.0469***	0.183***	-0.198***
	(0.00309)	(0.00461)	(0.00669)	(0.000572)	(0.00107)	(0.0135)	(0.0101)	(0.0139)
Customer deposits (ln)	0.00372	-0.00233	-0.0128*	-0.000190	0.00107	0.0408***	-0.151***	0.143***
	(0.00341)	(0.00472)	(0.00684)	(0.000614)	(0.00119)	(0.0148)	(0.0102)	(0.0148)
Years	0.00481***	0.00420***	-0.00442***	-0.00072***	-0.00126***	-0.0108***	-0.00415**	-0.0221***
	(0.000708)	(0.000839)	(0.00120)	(0.000120)	(0.000337)	(0.00322)	(0.00176)	(0.00271)
Constant	-9.657***	-7.983***	9.283***	1.479***	2.562***	21.98***	8.369**	45.48***
	(1.416)	(1.667)	(2.389)	(0.240)	(0.675)	(6.445)	(3.486)	(5.402)
Obs	263	281	290	289	289	289	290	288
Number	27	27	27	27	27	27	27	27
F-stat	33.72	14.95	8.80	13.05	4.73	9.66	78.71	107.44
Prob >F	0.0000	0.0000	0.0000	0.0000	0.0011	0.0000	0.0000	0.0000
R-sq.	0.3677	0.1931	0.1196	0.1683	0.0684	0.1303	0.5487	0.6258

Notes: Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 8 shows the descriptive statistics results regarding the financial performance comparison between the two clusters of companies selected. Cluster 1 includes 12 companies, so called early adopters of the code of ethics, encompassing corporations that have adopted the code of ethics before 2006. On the contrary, Cluster 2 is made up of 15 banking services industry firms, so called late adopters, that have introduced the code of ethics after the demarcation year. The mean values of the accounting indicators have been estimated and compared within the two clusters taking into consideration two years before 2001 (the starting year of the analysis).

Table 8. Mean values of the accounting-based performance measures between clusters

Variables	Cluster 1 Early Adopters Mean 1999/2000	Cluster 2 Late Adopters Mean 1999/2000	Threshold
Loan Loss Res/Gross Loans	3,58%	1,73%	*The higher the ratio the poorer the quality of the loan portfolio will be*
Tier1 Ratio	12,79%	8,60%	*The higher this figure the better; at least 4%*
Equity/Liabilities	13,65%	8,07%	*The higher this figure the better*
Net Interest Margin	2,33%	2,40%	*Higher margins and profitability are desirable*
ROAA	1,24%	0,88%	*The higher this figure the better*
ROAE	10,89%	12,90%	*The higher this figure the better*
Net Loans/Tot Assets	54,66%	61,04%	*The higher this ratio the less liquid the bank will be*
Liquid Assets/Tot Dep & Bor	37,60%	29,34%	*The higher this figure the better*
Number of banks	12	15	
Obs	72	90	

As can be displayed in Table 8, the early adopters (cluster 1) had more brilliant performance before 2001 than the late adopters companies (cluster 2). In fact, cluster 1 presents 5 financial ratios out of 8 with more positive performance than cluster 2. This outcome seems to confirm a more propensity toward ethical behaviours of higher performing companies.

6. Discussion and conclusions

The adoption of the code of ethics has been considered to measure banking services industry companies' ethical practices, supposing a relation between CSR activity and corporate financial performance, in terms of bi-directional or even reverse causality. The findings clearly indicate that CSR practices, in terms of adoption of code of ethics, influence economic and financial results achieved by the companies of the sample. In actual fact, the presence of the code of ethics increases company financial structure (Equity/Liabilities) and corporate capability to employ their assets (Net Loans/Total Assets). Furthermore, this finding can be confirmed by analyzing the financial performance of the companies after the first and second year of adoption. In particular soon after the introduction (first year), the adoption of the code of ethics seems to have an amplifying and positive effect over the economic results (Tier1 Ratio, in particular), that are stabilized, kept and reinforced during the time (since the second year on) generating an increase of the level of financial performance of the banking services industry companies. The reason can be explained with improved relations of the firm with its external stakeholders, in terms of both perception and communication, in addition with a better regulation of the internal stakeholders' behaviour, creating evident advantages of cost and resource implementation (Leiva et al., 2014).

Hence, HP1 is verified.

Besides, the results of the accounting indicators suggest that the higher performing companies accomplish these better ratios because they take much care of the stakeholders' expectations, demonstrating in this way a higher propensity toward honesty, sincerity and trust. The stakeholders reward this fair conduct choosing these companies in place of other ones less responsible (see Table 8). This virtuous circuit leads the companies of the sample to transform the inclination towards the consideration of stakeholders values into ethical practices via the earlier adoption of the code of ethics.

HP2 is confirmed as well.

After all, the literature on CSR remarks as ethical and philanthropic responsibilities which are based on voluntary activities become common practices among firms after that economic and legal responsibility are completely fulfilled (Decker and Sale, 2009). The main findings of this paper seem also to suggest an order of priority of company stakeholders. In other words, only once that the expectations of stockholders have been properly met, does the company address its resources to implementing ethical practices, in order to carry out further market needs. However, a hierarchical order of steps to reach an overall responsible approach may be respected (Carroll, 1991).

The paper presents a limit given to the specific industry involved, where the topic of CSR constitutes a very remarkable variable, also demonstrated by the strong participation of all the companies of the sample to the survey. Banking services industry is one of the most heavily regulated market with many institutions (regulators), instruments of control and supervising of the conduct of the players. This managerial effort toward ethical practices could also provoke the restriction by means of formal mechanisms.

Hence, it can be necessary to take into consideration the concrete use of the code ethics that differs from its formal adoption. Thus, the future research agenda could be based on the analysis of the substantial implementation of the code of ethics overcoming its mere formal compliance. In sum, the present paper strongly suggests to pay serious attention on the consideration of the importance of CSR issues not only in terms of communication tool but as an authentic business conduct code to increase financial performance.

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