**Industry Recommendations**

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TO: Financial Services Industry Leaders

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SUBJECT: Corporate Social Responsibility

Social and environmental responsibility has become a critical business component for companies across all industries. Corporate Social Responsibility (CSR) has become not only a key success indicator for businesses but also an expectation from consumers and a majority of stakeholders. Hence, the way companies respond to CSR concerns has become increasingly important over the last few decades. It affects how they can keep up with ever-changing needs, demands, and expectations.

As CSR advocates, we continually examine industry performances and recommend strategies to maintain a high-performance level. In the same manner, to gain a better understanding of the CSR practices in the financial services industry, we examined the processes Visa, Master Card, and American Express. In this analysis, we evaluated each company's sustainability processes and performance. This examination provided us with great insights about what CSR plans look like in the industry, and how those strategies affected each business and the industry as a whole, with possible overarching external factors.

As shown below, our analysis is split into seven key components that provide a comprehensive look into each company's CSR plans and performance. Each organization's sustainability activities were then compared against the others to determine best practices and potential areas of improvement. The key components reviewed in our analysis include:

1. Sustainability Reporting

2. Sustainability's Role in the Company

3. Social or Environmental Emphasis

4. Stakeholder Criticisms

5. Stakeholder Endorsement and Recognition

6. Sustainability Leadership in the Company's Industry

7. Recommendations

Finally, through this memo, we provide an overview of some critical concerns observed and recommendations. These provide general guidance for potentially lacking areas and give suggestions on how the industry can improve its social and environmental performance.

As industry leaders, we believe that the insights gained from this review can help you make necessary organizational changes to continue enhancing CSR policies for a sustainable future.

# **1. Treating Customers Fairly**

The global trend for the past decade has shown a consistent rise in card payments. In the United States, over 60% of all consumer payments were made electronically, using payment cards. The following is an average for four major payment networks:

American Express – 2.5% to 3.5%

Discover – 1.5% to 2.3%

Mastercard – 1.55% to 2.6%

Visa – 1.4% to 2.4%

# **1.1 Recommendations**

We recommend an industry standard for donating a fraction of swipe fees to social and environmental issues. This can be accomplished by partnering with organizations that engage in climate action, promoting public education, or recycling efforts that will make a significant impact globally. That is, instead of passing the burden of high fees onto the shoulders of consumers (who deal with high product prices made by vendors to offset the transaction fees), the industry is engaging directly in sustainable efforts and creating an opportunity to benefit all parties involved, including our planet.

Additionally, QR (Quick Response) code payments are a sustainable method of exchanging money. This is a peer-to-peer method (i.e., direct payments from the consumer to the merchant) that doesn’t rely on payment networks, terminals, or infrastructure. As an industry, we can recommend this as a form of payment that can be made by only using a smartphone to scan a QR code. The technique will enable electronic fund transfers directly at the point of sale without a need for payment terminals. It is particularly useful in developing countries where products are highly price-sensitive to high transaction fees or in areas that rely on cash and coins due to the lack of infrastructure for sustainable payments.

# **2. Climate Change Risks**

Although most companies belonging to the financial services industry put efforts towards environmental sustainability activities, a closer look at their diverse business operations reveals that sustainability does not always correlate with being green. That is, they have been providing the mechanism for financial companies to finance carbon emissions. The criticality of the issue can be seen in reports that show that only in 2016, 37 banks invested more than $2.7 trillion to the fossil fuel sector that continues to emit dangerous greenhouse gases (Green, Gelzinis, and Thornton, 2020). The climate change consequence that results from such activities will be detrimental to life and the environment.

# **2.1 Recommendations**

As addressed by environmental regulators multiple times before, the impact of the financial service sector on climate change is severe. In alignment with their suggestions, we recommend that the industry devises incentives and requirements for financial companies. This technique will, in turn, presses firms such as manufacturing and fossil fuel companies to transition to a greener operation before receiving any financial support.

Additionally, we recommend that the financial services industry requires financial institutions that use its services to disclose their work behind financing firms regularly. This strategy creates a sense of transparency. It also allows the identification of any greenwashing by organizations. Furthermore, it enforces a uniform mechanism to check if such organizations adhere to regulation about climate change and environmental sustainability factors (Latham and Watkins, 2020).

# **3. Social and Governance Issues**

The commitment of the financial services industry to primarily reporting sustainability efforts such as clean water and energy distracts customers, stakeholders, employees, and society from being aware of issues that materially affect sustainability. Such concerns fall under the social and governance issues that the institutions continually face. That is, while the industry is so focused on environmental sustainability activities and becoming more green, other equivalently essential topics such as examining the sector's performance towards responsible products, customer loyalty, employee engagement and compensation, and attracting talent keep getting ignored. At the same time, issues related to governance such as managing partnerships, organizational risk management, and managing legal requirements needed to operate successfully get overlooked (Eccles and Serafeim, 2013). Reports relating to such performances are also prepared only due to government regulations and not as often as environmental sustainability reports.

Each of these elements can directly affect the organizations' business operations since it creates a lack of confidence for stakeholders. They would lose interest in associating with the institutions since their serious concerns are overlooked. Additionally, their lack of support for the institutions' social and governance strategies deters them from being motivated to provide valuable business insights, which is needed to excel worldwide. With the financial services sector playing a pivotal role in daily transactions, stakeholders' lack of support and trust poses a significant threat to the worldwide economy.

# **3.1 Recommendations**

Our first recommendation regarding this concern is: social and governance issues that institutions face and how it relates to financial performance should be addressed transparently to internal and external stakeholders. Such individuals need to clearly understand how an organization in the financial services industry delivers financial performance with the potential overlooking of their concerns. This will put pressure on the institution to better address their social and governance performance questions as well as innovate new processes, products, and business models by directly working with them to improve the collaboration gap.

Second, by no means are we saying that the financial services industry should pause its work in addressing environmental issues or sustainability efforts towards it. We actually think it should be continued as it is critical for environmental stewardship. However, we recommend that the work gets done with a simultaneous focus on responsible practices that can attract and engage talent, employees, investors, and customers. Some of these strategies include: considering the working style of millennials, integrating employee feedback to foster a pleasant work environment, partnership programs to acquire new stakeholders, and inspiring customers to buy environmentally-friendly products.

# **Conclusion**

In conclusion, the lack of dedication of the financial services industry towards noble causes such as fighting climate change weakens the industry's stance compared to other sectors. Additionally, the fact that the industry is accompanied by high fees that are somewhat purely for profit (without a fraction of it going towards the sustainability concerns mentioned above) makes it easier for critics to claim that the sole purpose and goal of the financial services industry is to make money. Hence the matter needs to be addressed to avoid opposers from discrediting the good that the industry has done.

Furthermore, we strongly recommend using transparent practices while dealing with social and governance issues to boost the faith of stakeholders, employees, and customers in the financial industry and its dedication towards a better tomorrow, on both the environmental and societal fronts. Finally, we strongly urge you as industry leaders to examine our recommendations thoroughly and consider them to resolve existing issues and prevent others that may arise in the future.

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