Banking as a Vehicle for Socio-economic Development and Change:

Case Studies of Socially Responsible and Green Banks

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January 2010

In January 2009, a research group from the Presencing Institute and the MIT Green Hub launched an initiative[2] to investigate the leverage points for moving the economic system toward a *regenerative economy*.[3]

Two guiding questions are:

1. Is it possible to rethink some of the taken-for-granted assumptions of conventional economic thought in light of the challenges presented by the 21st-century society and economy?
2. How can we shape a more sustainable and just economic system in a more intentional way?

In order to explore these questions, the group initiated five activities:

1. Interviews with thought leaders and pioneers on issues related to achieving profound social and economic change;[4]
2. Roundtable conversations with a larger circle of thought leaders and pioneers about how to develop a new intellectual, spiritual, and practical platform for advancing the shift from the current form of capitalism ("2.0") to a regenerative economy ("3.0");
3. Case studies of innovative financial institutions worldwide that seek positive social and economic change;

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[2] We thank the Nathan Cummings Foundation for supporting this research initiative.
[3] C. Otto Scharmer (2009), "Seven Acupuncture Points for Shifting Capitalism to Create a Regenerative Ecosystem Economy," available at http://www.ottoscharmer.com/publications/articles.php.
[4] http://www.tc.presencing.com/interviews.

4. Green Innovation Laboratories that link companies and institutions that are pursuing a green, conscious, and regenerative economy;[5]
5. Launch of a Web-based global platform and a community of practice that use the practical outcomes of the above four activities as input in online conversations.[6]

Socially Responsible and Green Banks as a Vehicle for Socio-economic Transformation

As intermediaries between borrowers and lenders, financial institutions hold a unique position in an economic system, and with that in society. This became apparent when the government intervened to save banks that were deemed "too big to fail" during the financial crisis of 2008–09.

As a result of the crisis, new regulations for the banking sector are being discussed and (in small part) implemented in order to prevent a similar event in the future. These regulations are focused on limiting the potential negative impact that the financial sector can have on the real economy.

Socially responsible and green banks turn this perspective around with the idea that they can use their unique position in the economic system as leverage for addressing some of the most pressing issues of our time.

Phases of Western Economic Evolution and Thought

Underlying this research is a discussion of the core assumptions about how the economic system operates. In the following table, Scharmer presents a historic review of the economic system in the Western economic system.

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[5] Currently being explored with Seventh Generation, U.S.; Natura, Brazil; and Eileen Fisher, U.S.

[6] http://www.tc.presencing.com/.

Table 1: Western Economic Evolution, Its Institutions, and Its Sources of Power (source: Scharmer 2009)

Stages of Economic Evolution	**Challenge**	**Response:** Primary coordination mechanism	**Dominant Sector/Player**	**New Primary Source of Power**
17th–18th Centuries: ***Pre-capitalist.*** Mercantilist/state-driven	Stability	Regulation/ hierarchy	<u>State/government</u>	Sticks
18th–19th Centuries: ***Capitalism 1.0.*** Capital/Shareholder-driven	Growth	Market/ competition	State/government; <u>Capital/business</u>	Carrots
19th–20th Centuries: ***Capitalism 2.0.*** Stakeholder interest-driven	Externalities	Negotiation/ dialogue	State/government; Capital/business; <u>Civil society/NGO</u>	Norms
21st Century: ***Capitalism 3.0.*** Shared ecosystem-awareness-driven	Global externalities	Collective action arising from shared awareness and common will	State/government; Capital/business; Civil society/NGOs; <u>Cross-sector communities of creation</u>	Actions that arise from presencing the emerging whole

Scharmer argues that the economic system in Western societies evolved in stages. The introduction of market capitalism in the late 18th and early 19th century allowed individuals to free themselves from feudalistic structures. What was liberating for some became a system of exploitation for others. With its focus on optimizing profitability, social and environmental factors were ignored. Economic theory describes these unintended negative side effects as *negative externalities*.

Interest groups formed and helped to develop a regulatory framework that reduced the negative externalities of an extreme market system by institutionalizing the federal reserve system (regulating currencies and money), and legislation around labor standards and environmental standards.

The limitation of this “capitalism 2.0” system are (1) that it does not work when applied to the global challenges of the 21st century, and (2) that future generations are structurally underrepresented (or not represented at all) in a political process that is driven primarily by special interest groups.

To deal with the challenges of our century we need to upgrade the economic operating system from a 2.0 to a 3.0 approach—that is, from a system that is driven by special interest groups to a system that has the capacity to innovate on the scale of the whole. Scharmer calls this new economic coordination mechanism “seeing and acting from the whole ecosystem.” It requires the players to evolve from an initial ego-system awareness to an eco-system awareness that includes the health and well-being of the whole.

Case Studies of Socially Responsible and Green Banks

This framework defines the starting point and guiding question for this research effort:

What potential for addressing the challenges of our time do for-profit organizations have, especially financial institutions, when they combine profitability with the intention to address core challenges in the environment they are operating in?

There are numerous examples of financial institutions that were founded with the intention to address a societal challenge. The purpose of this research is to better understand what can be learned from these experiences.

What do socially responsible and green banks have in common? What is their impact? What are their limitations?

The research includes semi-structured interviews, a review of the history of the banks, and a focus on current projects and products.

Here are examples of focus areas for the ongoing research:

1. What is <u>the impact</u> of the banks on social change and transformation?

2. What <u>internal capacities</u> are needed to reach this impact? How do socially responsible and green banks deliver this value?

3. How is the integration of purpose and profitability reflected at the <u>different levels of organizational action</u>
    a. people and places;
    b. processes and procedures;
    c. principles and strategies
    d. purpose: mission and ownership.

4. What is the importance of the <u>ownership model</u> for establishing intention and purpose in the organization?

5. What is the relevance of the founding process for the organizational culture and for bringing intention and profitability together?

What Differentiates Socially Responsible and Green Banking from Conventional Financial Institutions?

Over the past several years, we have seen more and more conventional banks adopting more "socially responsible" or "green" language for their products or policies. Examples are Deutsche Bank with its "Banking on Green" product line, and Bank of America's "Brighter Planet Visa" debit and credit card. Increasing criticism of the business practices of large banks has accelerated these apparently green innovations.

But how do these newly named business activities differ from real green and socially responsible banking? What are the hard criteria that differentiate various banking activities?

Five Levels of Socially Responsible and Green Banking

Level 1: **Unfocused corporate activities**.
At this level, banks sponsor "green" events and undertake public relations activities that are not related to the core business of the company ("greenwashing"). Most mainstream banks have been at this level of green for a long time.

Level 2: **Isolated business projects** or **business practices**.
Banks develop isolated products or activities that they add to their conventional banking portfolio. These account for only a small percentage of total business activities. Such token products and activities may be a reaction to changes in public opinion, and they are enacted in isolated areas of the bank, not as part of a company-wide application of socially responsible and green business principles and practices. Examples here are added "green products" to a conventional portfolio.

Level 3: **Systemic business practices.**
At this level, social and green principles and practices underlie most of the banks' products and processes. The focus on positive social and green impact is a core dimension of every business activity. The organization is designed to support this impact on four levels: people/place, processes, principles, and purpose.

Level 4: **Strategic ecosystem innovation.**
Social, environmental, and financial sustainability does not end at the boundaries of the individual transaction. The success of social and green transformation requires participation from the larger system a bank and its clients operate in. Strategic eco-

system innovation broadens the focus of the bank's activities from its own direct client interaction to include the larger system or eco-system. Examples of this engagement are networks, alliances, and public conversations that broaden the movement of conscious investors and regulatory changes that redefine the banking industry.

Level 5: **Intentional (purpose-driven) eco-system innovation.**
The difference between strategic (level 4) and intentional (level 5) eco-system innovation is that level 4 is driven by a strategic response to external challenges, while level 5 is driven by the primacy of purpose (social and green impact). At level 5, a socially responsible and green bank is a "hybrid" company whose purpose is not "avoiding a negative scenario" but addressing the core challenges of our time by innovating at the level of the whole eco-system.

Moving from Ego-system Awareness to Eco-system Awareness

To move successfully toward eco-system awareness, socially responsible and green banks have developed business practices and capacities that allow them to integrate profitability with social and green objectives. These capacities run through different levels of the organization.

People and places: In order to attract people who share their commitment of social transformation and change, the bank needs to develop capacities and practices that translate the social and green objectives into the work environment. Place: how is the bank integrated into its local environment? The bank is required to develop the capacities connect to the place and environment in which the bank operates.

Processes and procedures: This level points at the capacities and innovations on the process level that allow the social and green purpose to be translated into tangible action.

Principles and strategy: What are the mental models the organization is operating from? For example, how do employees think about current challenges and potential future areas of innovation? How is their thinking reflected in their day-to-day decisions and actions?

Purpose: mission and ownership: Where does the commitment come from? This includes the commitment of the organization as a whole as well as commitment on each organizational level. What inspires people? How are the purpose and mission reflected in the ownership model?

This ongoing research aims at better understanding how socially responsible and green banks operate, and how they can deepen their positive societal impact.