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### Original Citation

San-Jose, Leire, Retolaza, Jose Luis and Gutierrez, Jorge (2009) Ethical banks: an Alternative in the Financial Crisis. In: 22nd EBEN Annual Conference, 10-12 September 2009, Athens, Greece. (Unpublished)

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# **Ethical banks: an Alternative in the Financial Crisis**

*Full Paper to be presented at the*

*22nd EBEN Annual Conference Athens, Greece, September 10-12, 2009*

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# Ethical banks: an Alternative in the Financial Crisis

**JBE**

**ABSTRACT.** This paper studies the differences between traditional financial intermediaries (commercial banks, saving banks and credit cooperatives) and ethical banks that focus on positive social and ethical values. The credit crisis calls into question the functionality and good performance of traditional banks. The full incorporation of ethical values and principles by traditional financial intermediaries might be a form to solve their misleading financial situation. We have analyzed four factors that theoretically mean ethical differences: information transparency, placement of assets, guarantees and participation. These four factors are grouped in an index called *Radical Affinity Index* (RAI). The paper is focused on the study of RAI using a sample of 119 European banks. The evidence shows, that transparency of information and placement of assets are factors that differentiate ethical banks and the rest of financial intermediaries. The guarantees and participation, which seemed to be useful factors to differentiate ethical aspects of banks, do not support clear evidence to the analysis. In sum, RAI is a functional and useful index to show the ethical policy of financial intermediaries.

**KEY WORDS:** Assets placement, ethical bank, guarantee, participation, radical affinity index, ranking, transparency.

## 1. Introduction

In spite of its importance, a little consideration is given to ethics in finance in general (cf. Boatright, 2008) and to ethics in banks in particular (c.f. Cowton and Thompson, 1999; Cowton, 2002; Edery, 2006), so the ethics in economics area is a research subject to develop nowadays. Few papers analyze ethical banks and show the relevant role of the ethical banking as an independent and different financing activity (Alsina, 2002; Barbu and Vintilă, 2007; Buttle, 2008; Lynch, 1991; Kendric, 2004; Thompson and Cowton, 2001).

The aim of ethical banking goes beyond the economic benefits, and includes the social ones, assuming that both of them are relevant in a socio-economic model. In some cases, traditional banks incorporate ethical and social aspects through the Corporate Social Responsibility (CSR). However, these activities, rather than to moral duty, seem to be oriented to get a higher economic profitability, or at least to maintain the profitability using the CSR as a source of competitive advantage (Vogel, 2005, p. 16). Our aim in this paper is to show not only theoretically, but quantitatively too, if there is a difference between ethical banks and traditional banks. We define ethical banks from a positive point of view to make the theoretical comparison between different types of banks. We do not deeply analyze the definition of ethical banking, because it is not the matter of this paper.

The differentiation between ethical banks and traditional banks is important for stakeholders, in order to be informed not only about the investments in positive projects (which is the focus of social or ethical investment funds), but also about the ethical management of the financial entities globally. Furthermore, ethical banks could be very different between them too. If there are such differences between banks, they will be important for investors and other stakeholders as well.

The paper gets three contributions. Firstly, we analyze ethical banking from the view of different theories, we show especially the foundation and differentiation reasons that explain the existence of the ethical banks. Secondly, we develop an index, called Radical Affinity Index (RAI), which is useful to explain differences not only between ethical banks and traditional banks, but also between ethical banks themselves. Thirdly, by using a sample of 119 European banks (ethical banks, commercial banks, saving banks and credit cooperatives) we show a ranking of institutions in 2007, analysing especially the differences between the ethical banks, due to their transparency and better information about the placement of assets. In sum, we show a useful tool (the index) to reflect the differences between credit institutions from an ethical point of view.

The remainder of this paper is organised as follows: the first section explains the importance of the ethical banking in the credit crisis. The next section provides an overview of theories around ethical

banking; particularly, foundation and differentiation problems. Then, the factors to differentiate banks and the developed index are shown. The fifth section describes the data and method that has been used. This is followed by the empirical results; a ranking between different types of banks is explained, and a detailed ranking of ethical banks too. The paper concludes with a discussion of the key findings.

## **2. The ethical banks in credit crisis.**

In 2008, after a period of economic growth, the credit crisis started to affect almost any country in the world. Unfortunately, the growth was based on corrupted politics and speculative investments, and on greed of the management of the most important financial institutions and firms, as well. There was a big amount of interrelated movements to obtain easily money from banks and dedicate it to speculative investments. Banks, in a complex money market system, lent money as mortgages to individuals and firms (sub-prime mortgages) through complex financial instruments of high credit risks, which were hidden by packaging these credits with others and reselling them as 'secure investments'. The easy credits led to an increasing demand, production and consume of products, and finally to a sort of Consumer boom. Logically, the main problem was not the very use of the credit, but the way it was used, under interests of speculation and out of control.

The crack of some of the most important and large credit institutions started on September 2008, because many of them, with high volumes of risky mortgage, could no longer afford to extend new credit. The management of the assets in banks was out of control too, and there was little information about the assets. Clients and the rest of stakeholders had of course transparency problems and little information about where their money was invested, but also the shareholders and chief executives of banks had many doubts about where the money was really invested. So, the speculation grew as much that the control on the assets in which banks invested disappeared.

Currently, we are starting to know that big amounts of those funds were invested in the so called 'toxic assets'.

Ethical banking has not been developed as a response to the crisis, but it could be an alternative to a global financial system where economic benefits are prior to social ones. At the beginning of 2007, the main idea about ethical banking was that this type of banks transforms part of the economic benefit in social welfare. In any case, ethical banks have to maintain a residual profit to ensure sustainability over time. The quantity of this residual profit depends on the exigencies of shareholders, depositors, investors and savers. Nonetheless, the residual profit of ethical banks is always lower than the residual profit of traditional banks. Ethical banking was developed so as an alternative banking system with no chance of getting a high market share.

However, the current credit crunch, which principal cause is the speculative way to invest, calls into question the ethical perspective of banks. In particular, the ethical banks represent, at least in a conceptual point of view, an alternative to solve some of the problems of traditional banks, especially regarding the ethical investment of the money of clients. For example, ethical banks could be affected by late payments, but not because they have toxic assets, one of the hugest problems of traditional banks. According to this, investors could choose, as the more sustainable banks in credit crisis, the ethical ones. Moreover, the biggest scandals of credit crisis have seriously affected the confidence of investors, and now they are more worried than ever about the transparency of the bank information, especially regarding their invested money (and this is one of the most important differences between ethical banks and the rest of banks). Finally, the interest rate paid to deposits is reducing so much that, in fact, the gap between the profit offered by ethical banks and the one offered by traditional banks in deposits and investments is minimum, which affects to the main reason of a capitalist investor to choose a traditional or an ethical banks to place the funds.

In this context of crisis, so, ethical banking could be a financial alternative to traditional banks. The value of ethical banks is based on the social performance, but not exclusively, as ethical banks have a great information transparency too, great expectations of sustainability and the same (or similar) profitability than traditional banks in risk-free deposits. In sum, the ethical banking has not yet been developed as an alternative to traditional financial system, but as a complementary system. However, the principles, values and theories about ethical banking suggest that it could be a possible and good alternative especially during hard times of crisis.

### **3. Ethical Banks: theoretical approach.**

#### *3.1. Differentiation problems on ethical banking*

It is not the aim of this paper to develop a definition about ethical banking but, in order to study the differences between credit institutions from an ethical point of view, it is necessary to explain the definition of ethical banking from which we are going to support our analysis. In this sense, there are two accepted characteristics to define the ethical banking (Green, 1989; Lynch, 1991; Cowton and Thompson, 1999; Alsina, 2002; Kendric, 2004):

- 1) the obtaining of *social profitability*, understood as funding (placement of the assets) economic activities with social added value<sup>1</sup> and as the absence in any case of investments in speculative projects or in those that fulfil negative criteria.
- 2) the obtaining of *economic profitability*, which means benefits<sup>2</sup>. The dimension of obtaining benefit refers to the good management of the bank, because ethical banks do not distribute benefits between stockholders or, if they do so, the distribution is very limited, so it is a residual profit in this sense.

Both aspects are necessary: the social dimension makes the bank ethical and the benefit dimension makes the bank economically sustainable.

A third characteristic, which is not analyzed by previous studies in this subject, is necessary to consider a total and complete comparison between credit institutions (and it is used as a constraint in our empirical analysis):

3) the *recognition of the institution as a bank or as a credit institution* by national authorities.

This dimension is important to distinguish ethical banks from solidarity institutions and other experiences. This legal recognition as credit institution implies that ethical commitments affect all of the bank aspects and not only a part of the bank and its activities. Furthermore, ethical banks must fulfil ethical commitments, not only within their actions, but also within their subsidiaries and partnership actions in a significant way because only in this case they will be ethical banks at all.

These three characteristics could be enough to differentiate between banks from an ethical point of view and a results perspective; however, there are two more questions regarding the ethical banking differentiation. Firstly, it is raised a doubt questioning if ethical banking is only a punctual experience, a residual exception without possibilities of generalization, opposite to the fundamentals of the Economic Theory. This is the “Foundation Problem” and it refers to the justification of the existence of the ethical bank itself. Secondly, the ethical banking could be a different way to explain or to name the Ethical Corporate Responsibility that traditional banks are incorporating. It is the ‘Differentiation Problem’ and it refers to the possibility of the ethical banks’ performance to get a higher added social value than the rest of traditional banks.

### *3.2. Foundation Problem*

The “Foundation Problem” is focused on the premise that the relation of the bank with its clients is based on trust that demands a moral behaviour of the agents (Chami et al., 2002). In this sense, Cowton (2002) identifies three levels of responsibilities linked to the relation of trust established between depositors and bank managers:



- 1) *Integrity*, related to the concept of finance exclusion, is the responsibility of avoiding exclusion, which should be understood as the responsibility of the banking system and of each of the banks in particular to avoid the existence of any kind of organizations, micro companies, NGO, black economy or groups excluded from the financing system, either because of the lack of resources (poverty), due to their geographical situation or because they belong to a certain social or ethnic group.
- 2) *Responsibility*, linked to the concept of negative criteria for investments and to the Corporate Social Responsibility, it is the responsibility for the social and economical consequences of their behaviour.
- 3) *Affinity*, linked to the concept of positive criteria in investment, joints responsibility of the stockholders and the quality of the assets, is the responsibility of involving the receivers in the decision about the final use of the deposited funds.

Theoretically, ethical banking could be explained based on these three concepts, although different theories have opposite conclusions for the same reality. Firstly, we will link these three concepts with theories and then the ethical banking is described according to each of the previous theories regarding integrity, responsibility and affinity.

The *Integrity* is based on the collective and global responsibility of the banks with the society. It is close to Social Institution Theory formulated by Boatright (2008) and still hanging on developing.

The *Responsibility* connects with the approaches of Corporate Social Responsibility (Carroll, 1999; Joyner and Payne, 2002) and ethical leadership (Ciulla, 1995; Bass and Steidlmeier, 1999; Ciulla, 2003, 2004); as well as with the exposition of Citizenship Theory (Neron and Norman, 2008) which is between CSR and Social Institutional Theory.

The third aspect, *Affinity* is more complex because the meaning changes depending on the theoretical model that supports the concept:

From the Classic Agency Theory, linked to Property Rights Theory, the affinity is a fundamental value in the relation between agent and principal, because agents must operate according to the interests of the principals. Thus, affinity and confidence are the two main components of the reciprocal relation between stockholders and agents. From Stakeholder Theory perspective (Freeman, 1983, 1984; Freeman et al., 2008) affinity is transformed in a relation between the company and the group of stakeholders that compose the organization. In this case, the agent has the responsibility to look for the equity in the satisfaction of the interests of stakeholders, and therefore to increase the global affinity. Goodpaster's paradox (Goodpaster, 1991) shows the limitations of this approach when Property Theory and Agency Theory are linked. The Boatright's Multifiduciary Theory (Boatright, 2002) combines Agency Theory and Stakeholder Theory through the recognition of different stakeholders as principals, but this position raises doubts about the real possibility of governance (Jensen, 2002, 2008).

The theoretical foundation of ethical banking around integrity, responsibility and affinity could be explained using different theories. We are going to justify theoretically the existence of ethical banking based on the previous theories.

Based on Social Institutional Theory, ethical banking might be an instrument that the Administration promotes to mitigate the disruptions of the bank system, fundamentally in relation to financial exclusion and speculation. The Administration could use other resources, so maybe these actions are not strictly necessary. In fact, the Administrations of the different European countries have not taken specific actions to promote the growing of an ethical banking.

Based on CSR, ethical banking could be described as a type of differentiated bank. According to this point of view, based on self-regulation, the sector looks for the maximum ethical situation of the current bank reality, introducing ethical aspects that affect the whole of the organization or acting through parallel or linked structures when the first way is not possible.

Surprisingly, the different financial structures that actually exist are based on Property Right Theory. It is so because a group of organizations or persons have promoted privately the creation of a bank with the purpose of obtaining a social objective. At the same time, an agent is contracted to manage the organization, it is professionalized and if so, the bank is based on Agency Theory too.

In this sense it is important to clarify that managers (agents) try to optimize the interests of the majority of the stakeholders, following the postulates of the Stakeholder Theory. In this case it is not possible to apply Goodpaster's paradox because the principal (stockholder) has delegated to the agent, as its own prior interest, the satisfaction of the interests of other stakeholders, and specially borrowers.

Multifiduciary Theory in which stakeholder group is considered as principal is not a developed theory by the moment.

Definitively, ethical banking is justified not only from the view of a relationship of trust between parts common in all of type of banks (Davies, 2001), but also as an active commitment with the social development and the quality of life, entrusted to the agents by they principals. This commitment can be canalized through the concept of *affinity* proposed by Cowton (2002) that would reach to a major or minor extent depending on the underlying theory and the interests of the stockholders of the entity.

The Affinity can be developed in a complete or partial way, through the development of a new entity, the renewal of an existing one or through the creation of departments, foundations or organizations that are linked and develop a bigger ethical compromise. Following the idea developed by Brickley et al. (2002), we consider that an ethical behaviour requires a structure to make it possible, translating to the banking ethics the controversy between strategy and structure. In this sense, it could seem that the partial transformation of a traditional bank satisfy in a proper way its shareholders, but would not answer to the conception of ethical responsibility of the banking that seems to encourage the group of stakeholders of the ethical banking.

### *3.3. Differentiation Problem*

According to Cowton and Thompson (1999), the ethical banking is centred on double commitments, social and economical. However, the ethical banking could be a constant variable with a scale that goes from the philanthropic end based on an exclusively social or ethical approach, to another end based only on financial aspects. This seems to be the approach of Rodriguez and Cabaleiro (2007) when they develop two axes (to represent social and financial commitment) where different kind and activities of financial intermediation can be represented. But “the initiatives of ethical banking have the desire to differ from the conventional banking” (Cowton and Thompson, 1999, p. 4). And even if it was possible to classify the banks in a continuous ethical behaviour, there would be a point in which ethical banks should be different to traditional banks. In this line Ederly (2006) introduces the “Demarcation Criterion”, centred on the quality of the placement of assets. This criterion determinates that it is possible to establish a qualitative difference, at least theoretical, which is referred to the general behaviour of banks, because most of them introduce the ethics linked to the way they use the benefits in different activities, and not in terms of utilization of the deposited funds. The commitment of the ethical bank should be referred to the totality of the placement of the assets, and not only to the assignment of benefits.

There are other three important criteria to complete the differentiation of ethical banking; transparency criteria, alternative management of the risk criteria (guarantees) and participation criteria. Ethical banking gives priority, at least theoretically, to the social performance. But this bet is limited by risk capacity, because it is difficult to make compatible the bet for social or solidarity projects with the exigency of patrimonial collaterals, which are requested by traditional banks. Then, the ethical banking proposes, at least theoretically, the development of alternative systems of guarantee (not based on the patrimonial collateral) in order to make possible the placement of the assets in social projects, which can not provide real or traditional guarantees (mortgages, personal and bank guarantees).

Moreover, the concept of affinity would demand the permanent empathy between agents of the entities and their shareholders / stakeholders. If so, the entities should establish systems of co-partnership for the approval and the control of the criteria related to the placement of assets.

Finally, the transparency is used by shareholders or other stakeholders as a necessary condition for the monitoring of their ethical commitments. Therefore, it is necessary to verify the affinity and to consolidate the confidence between stakeholders and the bank.

In sum, ethical banks seek to separate from the rest of financial institutions focusing on social aim, the transparency of information, social value generated through the placement of the assets, an active participation of all the stakeholders in decision-making, and on the typology of the guarantees that are required.

#### **4. Radical Affinity Index**

Based on the theory explained in the previous section, we develop an index called Radical Affinity Index (RAI)<sup>3</sup>. This index considers the main differences between ethical banks and traditional banks. Differentiation variables are grouped in twofold. Variables related to assets; transparency of information and placement of assets, and variables related to liabilities; guarantees and participation in decision-making.

##### *4.1. Transparency of Information.*

The differentiation in credit institutions in terms of transparency of information is the most important variable to show the differences between ethical banks and the rest, but it is not sufficient, although necessary. So, the transparency variable (due to the weight it is given) is going to mark the first and most important difference between credit institutions. The transparency variable and the placement of assets variable are related as interaction, because if the bank is not transparent in the information that gives to stakeholder it will be impossible to classify the assets in which the banks invest the money. So, those firms without transparency in information are going to get null mark in

the interaction between transparency and placement of assets because of the lack of information about where the funds of the bank as a whole are. Consequently, if the credit institution does not give any information, not only the transparency score will be low, but also the possibility of scoring in relation to the placement of the assets will be impossible to develop.

Regarding to information transparency, we have used a score of 5 values to show the different levels of information in credit institutions:

Value 1: The credit institution does not give any information, or the information that appears in the website is only propaganda. It does not have any reflection on the Annual Report or the Memory.

Value 2: The information facilitated by the credit institution is not systematic; they emphasize exclusively those aspects that are communicatively interesting for the organization.

Value 3: The credit institution gives systematically structured information, following some standard norm of presentation like the GRI (Global Reporting Initiative).

Value 4: The credit institution shows sufficient but not detailed information about the placement of the assets. They give a generic description by categories.

Value 5: The information of credit institution about their operations is total, the information show the assets placement completely.

**Transparency = [from 1 to 5]**

*There is no information about placement of assets if transparency value is 1, 2 or 3.*

With this scale we are going to contrast the hypothesis based on differences between ethical banks and traditional banks (commercial banks, saving banks and credit cooperatives).

#### *4.2. Placement of Assets.*

The second variable of RAI, the *assets placement*, is focused on the main differences between ethical banks and the rest of banks (traditional banks such as commercial banks, saving banks and credit cooperatives). Firstly, banks to be ethical should place their assets in projects with positive social added value as we have explained before, and never in speculative projects or in projects that fulfil (directly or through other related entities) the conditions and criteria that make some investments ineligible. Secondly, the previous characteristic (the placement of assets) should be seen globally, so the projects in which the bank invests the money must be positive projects as a

whole, and so credit institutions with only a part of the money invested in positive projects would be penalised to show that the bank is not completely ethical according to these activities.

In order to get a classification, we have classified the assets of banks in two steps:

*1. Classification of assets in 4 groups, according to their aim:*

A1: Assets allocated for purposes linked with the main aim of banks: the distribution and intermediation of money. These assets are basically loans and credits to clients.

A2: Assets allocated for other purposes such as temporary investments, bonds, and credit to other financial institutions. These are funds available that have not been used for the purpose of giving credit to customers.

A3: Operative assets: infrastructure and necessary elements to develop the activity.

A4: Other assets: assets that can not be classified in any of the previous groups.

*2. Classification of the assets according to their social value: it is the classification needed to calculate the value of placement of assets in the index:*

FA – A category funds: applied to credits with an additional social value. They are destined for example to projects with ecological purposes, promotion of culture, labour insertion, international cooperation or solidarity. Good information provided about these projects is required to be included in this group. Its value (in percentage on the whole of assets) multiplies for 3\* to effects of placement of assets calculation on RAI.

FB – B category funds: applied to credits of doubtful social value. Providing mortgage of habitual housing to individuals, for instance, is included in this group. Without extra information about this kind of loan, it seems to add little value to the work covered by other entities. Its value (in percentage on the whole of assets) multiplies for 1\* to effects of placement of assets calculation on RAI.

FC – C category funds: Applied to commercial credits without any additional social value and to other assets that are not destined to credit (bonds, investments...). They are multiplied by 0. Its value is always 0\* and consequently it doesn't appear in the formula.

FD – D category funds: Applied to loans to entities which fulfil any of the negative criteria. They are multiplied by -5\*.

FE – E category funds: Applied to credits about which there is a lack of information about its social value. They are multiplied by -1\*.

\*Other numbers could be proposed. The objective of these numbers is to show a relationship between different types of funds giving a weight to each type of funds.

$$\text{Placement of Assets} = 3 * \% \text{ FA} + \% \text{ FB} - 5\% \text{ FD} - \% \text{ FE}$$

$$\text{Placement of Assets} = [\text{from } -5^* \text{ to } 3]$$

**\*If Placement of Assets <0: the score is 0, so Placement of Assets= [from 0 to 3]**

The equation used percentages to facilitate the comparison between banks. We obtain an index where the percentage of positive social investments score positively subtracted the percentage granted to negative or unknown investments.

#### *4.3. Guarantees.*

The third variable in RAI is guarantees and it is used to increase the confidence on the return of the money that the bank lend to its clients. There are traditional guarantees as mortgages, personal guarantees and bank guarantees. However, other forms to guarantee the return of the money are necessary in an ethical bank, because of the lack of the traditional guarantees of some clients or to reduce the risk in lending money. The guarantees could be innovative, some of them (but not the only ones<sup>4</sup>) are in the following list: guarantees based on negotiation and special situation with NGOs, guarantee systems for successful projects that can not get traditional guarantees and the development of guarantee systems to lend money to people in a financial exclusion situation. Theses guarantees have been valued from 0 to 3 (4 levels). The bank gets the minimum score (0) when guarantee schemes in the ethical bank are the same as those of traditional banks. This means that individual's and corporation's accessibility to a credit is the same in ethical and in traditional credit institutions. Ethical bank gets the maximum score (3) when guarantee policies and systems are innovative and when they open the accessibility to funds to most disfavoured people and entities, those that are financially excluded.

Value 0: traditional guarantees systems: mortgages, personal guarantees or bank guarantees.

Value 1: establishment of financial loans in convenient conditions to NGOs or specific interest groups and banks.

Value 2: guarantee systems which support risk in the loaning to projects or entities.

Value 3: scoring guarantee systems which provide guarantees in the loaning to people with financial exclusion problems.

**Guarantees = [from 0 to 3]**

#### *4.4. Participation.*



The last variable in RAI is the participation. There are different ways to participate in corporations, and there are different interest groups that could take decisions in the strategic and operative areas of the bank. We establish different punctuations to differentiate the implication and participation of shareholders in the governing body of banks, or the inclusion of other stakeholders such as employees, depositors or society. The value in participation is higher when more stakeholders are included in the governing body, and more groups of interest of the banks are so decision-makers. The score is from 0 to 3. The score 0 reflects that only shareholders are in the governing body, and the score 3 reflects the balanced participation of all stakeholders in executive bodies. There is an exceptional case of negative score (-1) to highlight negatively when the governing body is closed to shareholders; it is the usual situation of traditional banks. This value in the general punctuation will be 0, so the score of participation is from 0 to 3.

Value -1 (exception case): the participation in the governing body is closed to shareholders

Value 0: the participation in the governing body is exclusively for shareholders

Value 1: the participation includes depositors, taking into account their guidelines about the investment of the bank

Value 2: structured participation of stakeholders because of their formal participation in decision committee.

Value 3: the participation of stakeholders in the governing and executive body.

**Participation= [from 0 to 3]**

#### 4.5. *The total Radical Affinity Index: the RAI.*

Once the score of the variables is obtained, we have transformed the scores in a decimal scale (from 0 to 10) because it would be useful for the analysis of the results and for the understanding of readers of the paper too. To make the transformation from a direct scale to a decimal scale each punctuation of each variable has been multiplied by 10 (the maximum level in the transformed scale) and divided by the maximum score of the direct scale (5 in transparency and 3 in the rest of variables). In participation we have sum 1 because of the exception of the score of -1.

Then, to obtain the RAI we are going to calculate the variables in assets (transparency and placement of assets) and the variables in liabilities separately. The calculation of the asset is with the interaction between transparency and placement of assets (see below) because of the necessary condition of the transparency to get the placement of assets, and in liabilities with the average of the scores of guarantees and participation. The final result of RAI is obtained using the average of assets and liabilities scores. In sum the RAI is shown as following:

<p><b>Radical Affinity Index: RAI</b></p> <p><b><u>RAI=Assets * Liabilities</u></b></p> <p><b>2</b></p> <p><b>RAI = <u>Transparency*Placement Assets + [Guarantees + Participation] /2</u></b></p> <p><b>2</b></p>
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## 5. Data and Research Method

### *Sample and Data Collection Method*

Secondary data is a valuable, and arguably under-exploited, source of empirical insights of relevance to business ethics (Cowton, 1998). In this case, the Annual Report information of different types of banks (ethical banks, commercial banks, saving banks and credit cooperatives) about their assets and liabilities has provided the opportunity to construct a relevant database to study the differentiation of ethical banks. Information is chosen by consolidated statements if banks have the obligation to present it, because the consolidate statements give a better view about the economical situation of the bank. The database groups information of a sample of 119 credit institutions from 10 countries (Denmark, France, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, Germany and United Kingdom) selected according to their relevance and randomly, using systematic statistic techniques with no replacement of individuals (see Appendix 1 for a complete list of banks in the sample):

- 10 ethical banks (population, including one bank of each of the countries of the sample)<sup>5,6</sup>

- 40 commercial banks (the two biggest banks of each country and two of the rest randomly selected in each case)
- 34 savings banks (the two biggest savings banks of each country and two of the rest randomly selected in each case. Note that saving banks work as a group in some countries, so less than 4 are studied in some countries).
- 25 credit cooperatives (the two biggest credit cooperatives of each country and two of the rest randomly selected in each case. Note that in some countries there are not banks defined as credit cooperatives. It is the case of Netherlands, Norway and UK).

Moreover, all of the banks of these 10 countries that are in Fortune have been analyzed to view the situation of most important banks in terms of ethical perspective. So, another 10 banks that had not been chosen in the previous selection have been included in the final sample (France [1], Germany [3], Netherlands [1], Norway [1] and United Kingdom [4]). Due to the dominant role of a few banks, the sample of 119 credit institutions represents more than the 70% of the assets of European banks.

#### *Research Method: measures*

BankScope database has been used to make the selection of the sample considering the population of the banks and to get information about banks (c.f. total assets). The database is updated monthly and latest issue of the BankScope used in this study was February 2009. The BankScope data will be supplemented with the data and information from Annual Reports of the banks, information from their web sites and questionnaires sent by mail to get more information about the placement of assets; guarantees and participation of ethical banks (see Appendix 2).

## **6. Results: classification of Banks using Radical Affinity Index**

### *Traditional Banks*

The transparency, as we explained in a previous section, is the main variable about positive ethical policy in credit institutions. In general, traditional banks do not get high punctuation (value in transparency is 3 or less) and so, the average value around information transparency is 2.03 for commercial banks, 3 for saving banks and 1.72 for credit cooperatives. None of the traditional bank gives enough information around their placement of assets, but neither generic information in categories around where is invested the funds of the banks in a total way.

Table 1: Transparency in Traditional Banks: descriptive results

<b>Transparency values</b>	<b>Commercial Banks</b>	<b>Saving Banks</b>	<b>Credit Cooperatives</b>
Value 1	22.6%	0%	36.4%
Value 2	51.6%	0%	54.5%
Value 3	25.8%	100%	9.1%
Value 4	0%	0%	0%
Value 5	0%	0%	0%
	Mean=2.03 (s.d. 0.70)	Mean=3.00 (s.d. 0.00)	Mean=1.72 (s.d. 0.64)

In terms of the placement of assets to calculate RAI index, all of the traditional banks included in the sample (commercial banks, savings banks and credit cooperatives) as we explained before do not give enough information about their total amount of assets. Therefore, the classification of the total assets of this type of credit institutions is not possible. Moreover, in most of traditional banks the information given by the financial intermediaries suggests a classification of the assets in C funds (FC), assets with no added value and other investments. So, traditional banks acquired a punctuation of 0 in placement of assets in RAI.

Besides the quantitative difference in terms of calculation of RAI, there is also a qualitative gap between ethical banks and the rest of banks in terms of classification of the assets and the information about social utility. The information offered by the traditional credit institution is centred on financial aspects related to profitability, risks, guarantees, growth and, ultimately, it gathers the evolution of the activity seen as a business. On the other hand, ethical banks insist on their reports on aspects related to the social utility of their action.

The rest of variables in RAI have been analyzed only in case of ethical banks because the aim of the guarantees and participation variables are specifically the comparison with the form that traditional

banks guarantee their loans and credits and the forms that traditional banks allow the participation in decision-making. The most important guarantees in traditional banks are mortgage, personal guarantees and bank guarantees, and the participation in traditional banks is based on a shareholders' governing body that provide a bank management based on the strict control of shareholders in which the interests of the rest of stakeholders is undervalued.

*Ethical Banks*

Most of the ethical banks give us a complete list of the companies or individuals funded by the bank. Ethical banks show what type of credit they give, the aim of the project, the amount, the period of time and other characteristics about where the funds of the bank are. So, ethical banks get an average of 4.30 in information transparency, which means that they disclose generally in an exhaustive way the information about their assets in a total way.

Table 2: Transparency in Traditional Banks: descriptive results

Transparency values	Ethical Banks	Ethical Banks
Value 1		0%
Value 2		0%
Value 3		0%
Value 4	Merkurbank GLS ASN Bank Cultura Sparebank Triodos Ekobanken BAS	70%
Value 5	Banca Popolare Etica LaNef Charity Bank	30%
		Mean=4.30 (s.d. 0.49)

Then, continuing with Authors (2008) the results evidence the differences between traditional banks and ethical banks in terms of transparency. We have used a non-parametric test of Kruskal-Wallis<sup>7</sup> to test the effect of transparency in the difference types of credit institutions in Europe. According to this procedure, the sample was ranked by the probability of an unequal distribution across categories (ethical banks, private banks, saving banks and credit cooperatives) and it was tested by the  $\chi^2$  statistic (Chi-Square=28.3933, sig.0.000). The result indicates that with an error less than 0.001, there are significant differences between credit institutions in terms of information

transparency. Therefore, we can refuse the null hypothesis of information transparency equality of the credit institutions with a significant level. Finally, in terms of transparency we could remark that there are statistically significant differences between ethical banks and traditional banks because ethical banks give a complete list of their credits and amounts granted to institutions (the information is not exhaustive in case of individuals because of their privacy).

Regarding placement of assets RAI has been calculated for the ethical banks because only this type of credit institutions give us complete information about their placement of assets through their Annual Reports (2007). Their value in information transparency is 4 or 5, but never 3 or less, what means that there is no ethical bank without information about placement assets (the case of traditional banks). This information is usually available in credit institution's Annual Reports or web pages. Particularly, we have considered important the information not only about the disclosure of their assets, but also about the use of these assets, the exhaustive information about the projects, reasons, quantities or terms, because the quality of the assets is the most important variable to differentiate the ethical banks and the rest of banks, and it is also useful to see differences between ethical banks themselves.

The websites of ethical banks are very complete and it is possible to collect a full (or disaggregated) list of firms and corporations that are benefited by funding with their respective amounts. If not, their Annual Reports give information about the placement of their assets. The funds of ethical banks have usually these destinations: environment, social cooperation, international cooperation, culture and civil society, and sometimes depositors are able to mark their preferences in terms of the investment sector.

No ethical banks scores the maximum possible (3), but all of them get a positive score and higher than 0.89 (see Table 3), so all of the ethical banks make an effort to invest their money in positive social added projects, on of their principal aim and they show this information in a public way. However, the values in the placement of assets could be even higher by increasing the relatively

low percentage of funds used for credit to their customers (A1) and by decreasing the high percentage in commercial credits without any additional social value and to other assets that are not destined to credit (FC type). Ekobanken, Cultura Sparebank, Merkurbank and GLS are the ethical banks with a higher distribution of their assets in social added value projects.

Table 3: Placement of assets for RAI: ethical banks ranking (see Appendix 3 for more exhaustive information about the placement of assets of each bank)

Ethical Bank	Value in Placement of Assets
Merkurbank	1.67
GLS	1.66
Banca Popolare Etica	1.16
LaNef	0.89
ASN Bank	0.96
Cultura Sparebank	1.75
Triodos	1.41
Ekobanken	2.20
BAS	0.92
Charity Bank	1.25

Regarding the guarantees, the following table (Table 4) shows the position of ethical banks in terms of traditional guarantees, non-traditional guarantees and loans for financially excluded people and different facilities given to NGOs.

Table 4: The guarantees in ethical banks

ETHICAL BANK	MERKURBANK	GLS	BANCA POPOLARE ETICA*	LANEF	ASN Bank	CULTURA SPAREBANK	TRIODOS	EKOBANKEN	BAS	CHARITY BANK
<b>Traditional Guarantees</b>	Real properties, Personal quarantines	Real properties, Personal guarantees	No Info	Guarantee societies and real endorsement guarantees	Properties, Assets, Rights. Personal	Properties	Real properties, Personal guarantees	Real properties	Real properties, Personal guarantees	Real properties, Cash Flow
<b>Non-Traditional Guarantees</b>	-	Guarantees of small quantities	No Info	Guarantee Fund for Development, Personal social guarantee	-	Own foundation Guarantee own	-	Guarantee circles	-	-
<b>Loans for people with financial exclusion problems</b>	NO	Collective guarantee (guarantee small quantities)	No Info	NO	NO	NO	NO	NO	NO	NO
<b>Facilities to NGOs</b>		Guarantees of small quantities	No Info	Solidarity circles	NO	Bridging loans on subsidies	Bridging loans on subsidies	NO	NO	Cash Flow
<b>VALUE</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>1</b>

\*We have tried to get information about the guarantees of Banca Popolare Etica (electronic mail and post), but we do not have any answer by now.

The guarantees in ethical banks are similar to those of traditional banks, based on mortgages on real properties and personal securities. However, in 37.5% of cases ethical banks have developed innovative guarantee tools such as the creation of a Guarantee Foundation or the development of collective solidarity guarantees. None of the ethical banks use directly guarantees to lend money to those people excluded financially, so ethical banks are not using financial instruments to combat financial exclusion, at least directly. But ethical banks have a direct relationship giving preferential treatment to NGOs (for example financing their work capital and through the early finance of awarded subsidies).

In terms of participation the following table (Table 5) shows the different form to participate of groups of interest in ethical banks.

Table 5: The participation in ethical banks

ETHICAL BANK	MERKURBAN K	GLS	BANCA POPOLARE ETICA*	LANEF	ASN Bank	CULTURA SPAREBANK	TRIODOS	EKOBANKEN	BAS	CHARITY BANK
<b>Governing body</b>	NO AGM	NO Members meeting	No Info	YES Board members (Supervisory Board)	NO AGM	YES Board of Directors	NO	NO General meeting	NO General meeting	NO AGM
<b>Participants</b>	Share-holders	-	No Info	Clients, Shareholders, Depositors, Administration, NGO, Employees, Society 1 Person = 1 vote	Share-holders	Clients: 25% Employees: 25% Shareholders: 25% Municipality elects: 25%	-	Share-holders	Share-holders	Share-holders
<b>Participation of groups in Placement of Assets</b>	NO Possible target deposits	NO Sectorial preferences	No Info	Ethics Committee Decision on own contributions	Council Advisory	NO	NO Experts Consultative Group of	Selected activities / projects	Selecting areas for investment funds	NO
<b>Participation of NGOs</b>	Depositors	Depositors	No Info	Administration Depositors	Share-holders NGOs		Professionals selected by the bank itself	Depositors	Depositors	
<b>VALUE</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>-1</b>	<b>1</b>	<b>1</b>	<b>0</b>

\*We have tried to get information about the participation of Banca Popolare Etica (electronic mail and post), but we do not have any answer by now.

Although the majority of banks (75%) incorporate different ways of participation to consult before the decision-making and to help the decision-making, only 37.5% of the banks have structured ways



based on the participation of stakeholders to decide about placement of the assets. In general, the stakeholders are not included in the governing body of the bank (only in a 25% of the banks the stakeholders or some of them are included).

In terms of participation, the ethical banking is less developed than other financial entities (savings banks and credit cooperatives). This means that ethical bank could progress and develop the ways to participate to get a difference in these terms too with the rest of credit institutions.

In the following table (Table 6), we have transformed of all the direct punctuations (calculated in the previous tables [2, 3, 4 and 5]) of the four variables; transparency, placement of assets, guarantees and participation, and then the RAI has been obtained continuing with the method explain in a previous section.

Table 6: Radical Affinity Index. A ranking of ethical banks using RAI

ETHICAL BANKS	Transparency	Placement of Assets	ASSETS	Guarantees	Participation	LIABILITIES	RAI	DIFERENCE BETWEEN ASSETS AND LIABILITIES
Merkubank	8	5.6	4.5	0.0	2.5	1.3	<b>2.9</b>	3.2
GLS	8	5.5	4.4	6.7	5.0	5.8	<b>5.1</b>	-1.4
Banca Popolare Etica	10	3.9	3.9	0.0	2.5	1.3	<b>2.6</b>	2.6
LaNef	10	3.0	3.0	6.7	7.5	7.1	<b>5.0</b>	-4.1
ASN Bank	8	3.2	2.6	0.0	5.0	2.5	<b>2.5</b>	0.1
Cultura Sparebank	8	5.8	4.7	6.7	7.5	7.1	<b>5.9</b>	-2.4
Triodos	8	4.7	3.8	3.3	0.0	1.7	<b>2.7</b>	2.1
Ekobanken	8	7.3	5.9	6.7	5.0	5.8	<b>5.9</b>	0.0
BAS	8	3.1	2.5	0.0	5.0	2.5	<b>2.5</b>	0.0
Charity Bank	10	4.2	4.2	3.3	2.5	2.9	<b>3.5</b>	1.3
minimum	0	0	0	0	0	0	<b>0</b>	
maximun	10	10	10	10	10	10	<b>10</b>	

Regarding information transparency all of ethical banks scored high in this variable, so there are, as we test statistically before, differences between ethical banks and traditional banks. The score in ethical banks in terms of transparency is high in general; however, there are significant differences in terms of placement of assets, for example the differences between LaNef (3) and Ekobanken (7.3). The calculation of the assets reduces the differences in placement of assets, because the most transparent ethical banks are not getting the highest scores in placement of assets, and vice versa. Regarding guarantees the gap between ethical banks is also high. Ethical banks use the same

guarantees than those used in traditional banks, but in some cases the ethical banks include internal guarantee systems (funds) or external guarantee systems (guarantee circles) providing credit to social entities or projects that have difficulties to get funds from traditional banks. The point here is that there are traditional banks, especially saving banks, which spend part of their profits for this purpose, so the analysis between the assumed risks in different types of credit institutions could be interesting, but it is not the objective of this paper. The last variable is the participation. The traditional banks punctuation would be 2.5, but those credit institutions with a legal differentiation as saving banks or credit cooperatives would get 7.5. In this term, seems that ethical banks do not develop new participation mechanisms apart of the consideration for guidance only, the opinion of their savers about the utilisation of their funds. It is necessary to develop participation systems in which all of the stakeholders are included in ethical bank governance.

Finally, in the last column we have compared the score in asset with the score in liabilities of each ethical bank. The results show us, that only 3 of the studied ethical banks (ASN Bank, Ekobanken and BAS) have an equilibrium between the efforts in assets (transparency and placement of assets) and in liabilities (guarantees and participation). In 4 of the ethical banks (Merkubank, Banca Popolare Etica, Triodos, Charity Bank) the asset score is higher than liability score (more than 1 decimal point). In the remaining of banks (GLS, LaNef, Cultura Sparebank) the liabilities score is higher than assets score. LaNef case is exceptional because the differences between assets and liabilities are more than 4; the effort around liabilities is high when the effort in assets variables is low.

## **Conclusions**

Ethics in banks are growing up in recent decades. In this context, the ethical banking is an emergent sector. Even if there are few studies that analyze ethical banks, the most important ones deal with two important problems. The first one, the “Foundation Problem” refers to the theoretical base of

ethical banking and includes specifically social orientated theories (cf. social institution theory and social contractual theory) and theories based on property rights (cf. agency theory, property right theory). The second one, the “Differentiation Problem” refers to the differences between ethical banks and traditional banks, and also between the ethical banks themselves.

Our study contributes to the debate about the “Differentiation Problem”. There are not specific studies to develop a way to differentiate ethical banking. The main characteristic to differentiate ethical banks and the rest of credit institutions is based on the “demarcation criterion”, which determinate that this differentiation is based on the placement of assets and not on the distribution of the benefits. There are other three important criteria to complete the differentiation of ethical banking: information transparency, guarantees to borrow money and participation on decision-making. Using these four concepts we develop an index, called Radical Affinity Index (RAI) that makes possible the differentiation analysis between different banks.

The results indicate that there are significant differences between ethical banks and traditional banks. Our statistical test (Kruskal-Wallis) indicates that there is a clear differentiation between ethical banks and the rest of credit institutions in terms of information transparency: ethical banks are more transparent, most of them totally. Moreover, the transparency is a necessary condition to the analysis of the second variable, the placement of the assets, because without information about assets it is impossible to make any analysis. So, we have analyzed only the placement of assets of ethical banks, because the rest of banks do not give us complete information about the social added value of their assets. Traditional banks (commercial banks, savings banks and credit cooperatives) obtain a zero in the punctuation of placement of assets in RAI, and ethical banks get a positive punctuation. According to our study, so, there is an important difference between placement of assets of ethical banks and the rest of banks. Although guarantees and participation were supposed to be a good way to differentiate ethical banks from the rest, we find little evidence of these differences in our analysis. Guarantees in ethical banks are very similar to those used in traditional

banks: mortgages, personal and bank guarantees. Ethical banks use Guarantees Foundations, but they do not develop any guarantee tool to combat financial exclusion. Regarding participation in decision-making, no ethical bank includes the stakeholders in their decision-making. The ethical banks should make a bigger effort to get a differentiation, in particular in terms of innovative guarantees and participation of stakeholders, to be really different from capitalist financial institutions, although it is not easy because of their residual financial activity.

In sum, several implications for researchers arise from this study: theoretical foundation of ethical bank, methodological process using an index (RAI) for the analysis of the differentiation of banks, and a classification of the ethical banks based on information transparency, placement of assets, guarantees and participation.

Finally, we suggest that even if the ethical banking is not still a mature alternative to overcome the problems of credit crisis (especially because the market share is mostly in traditional banks), the incorporation of principles and values of ethical banking by the traditional bank system should be a good way to solve the misleading financial situation of traditional banks in the financial crisis.

## Appendixes

Appendix 1: The sample

COUNTRY	Ethical Banks	Commercial Banks	Saving Banks	Credit Cooperatives
<b>Denmark</b>	Merkur	Danske Bank A/S, Nordea Bank Danmark A/S-Nordea Bank Danmark Group, Djurslands Bank A/S, Fionia Bank A/S	DIP-Danske Civil- og Akademiingeniorers Pensionskasse, Eik Bank, Sparekassen Balling, Suduroyar Sparikassi	Froerup Andelskasse, Merkur - Den Almennyttige Andelskasse
<b>France</b>	LaNEF	BNP Paribas, Société Générale, Banque Fédérative du Crédit Mutuel, Newedge Group, Crédit Industriel & Commercial.	Groupe caisse d'épargne.	Crédit Agricole, Crédit Mutuel Centre Est Europe, Banque populaire Valle de France, Crédit Agricole de Lorraine-caisse régionale de crédit agricole mutuel de Lorraine.
<b>Germany</b>	GLS	Deutsche Bank AG, Commerzbank AG, Sparda-Bank Südwest eG, Stadtparkasse Düsseldorf, Landesbank Baden-Württemberg, KfW Bankengruppe, Bayerische Landesbank.	Sparkassen-Finanzgruppe Hessen-Thuringen, Hamburger Sparkasse AG (HASPA), Sparkasse Jerichower Land, Stadtparkasse Schmallebenberg.	Deutsche Zentral-Genossenschaftsbank-DZ Bank AG, WGZ-Bank AG Westdeutsche Genossenschafts-Zentralbank, Volksbank Wilferdingen-Keltern eG, Raiffeisenbank im Oberland eG (Old).
<b>Italy</b>	Banca Popolare Etica	Unicredito italiano SPA, Intesa Sanpaolo, Capitalia SPA, Unibanca SPA-Gruppo bancario Unibanca.	Banca CR Firenze SpA-Cassa di Risparmio di Firenze SpA, Cassa di Risparmio di Parma e Piacenza SpA, Cassa di Risparmio di Padova e Rovigo SpA, Cassa di risparmio di Spoleto SpA – CARISPO.	Banco Popolare, UBI Banca - Proforma-Unione di Banche Italiane Sepa – Proforma, Banca Cooperativa Cattolica Scrl, Banca di Credito Cooperativo Genovese.
<b>Netherlands</b>	ASN Bank	ABN Amro Holding NV, ING Bank NV, Staalbankiers NV, Indonesische overzeese bank NV - Indover Bank, Fortis.	Rabobank.	-
<b>Norway</b>	Cultura Sparebank	DnB NOR Bank ASA, Nordea Bank Norge ASA, Privatbanken ASA, Bank 1 Oslo AS, Skandinaviska Enskilda Banken	SpareBank 1 SR-Bank, Sparebanken Vest, Tingvoll Sparebank, Opdals Sparebank	
<b>Spain</b>	Triodos Bank	Banco Santander SA, Banco Bilbao Vizcaya Argentaria SA, Banco de Valencia SA, Banco Cooperativo Español.	Caja de Ahorros y Pensiones de Barcelona, LA CAIXA, Caja Madrid-Caja de Ahorros y Monte de Piedad de Madrid, Caja de Ahorros y Monte de Piedad de Zaragoza, Aragon y Rioja – IberCaja, Caja de Ahorros y Monte de Piedad de Ontinyent - Caixa Ontinyent	Euskadiko Kutxa-Caja Laboral Popular Coop. de Crédito - Lan Kide Aurrezkia, CAJAMAR Caja Rural, Sociedad Cooperativa de Crédito, Caja Rural del Duero Sdad Coop Cto Ltda., Caja Campo, Caja Rural S.C.C.

<b>Sweden</b>	Ekobanken	Skandinaviska Enskilda Banken AB, Svenska Handelsbanken, Sparbanken Gripen, Bank2 Bankaktiebolag	Alems Sparbank, Ålmeboda Sparbank, Tjörns Sparbank, Vallby Sparbank	Kommuninvest Cooperative Society - Kommuninvest Group
<b>Switzerland</b>	Banque Alternative Suisse	UBS AG, HSBC Private Bank (Suisse) SA, Clientis Bank Leerau Genossenschaft, BankMed (Suisse) SA	Crédit Agricole (Suisse) SA, Sparkasse Zuercher Oberland SZO, Banque Raiffeisen Basse Broye Vully, Raiffeisenbank Naters	Raiffeisen Suisse société coopérative- Raiffeisen Schweiz Genossenschaft, Centrale de Lettres de Gage des Banques Cantonales Suisses- Pfandbriefzentrale der Schweizerischen Kantonalbanken, EB Entlebucher Bank, Banque Raiffeisen de la Glâne société coopérative
<b>United Kingdom</b>	Charity Bank	Royal Bank of Scotland Plc (The), HSBC Bank plc, Bank of Scotland Plc – Proforma, British Arab Commercial Bank Limited, HBOS, Barclays, Standard Chartered Bank, Nationwide Building Society	Lloyds TSB Scotland plc, Lloyds TSB Offshore Limited, Alliance Trust Savings Ltd, Airdrie Savings Bank,	-

## Appendix 2: The questionnaire. Guarantees and Participation

Dear Director,

I am XXX, assistant professor at University of....

I am taking part in a project of research that analyzes the differences between traditional banks and ethical banks. We have already presented a part of our work in the European Business Ethics Network Conferences and we are trying to complete our study analyzing some other differences and specific characteristics of ethical banks.

Currently, we would like to differentiate ethical banks and traditional banks in terms of guaranties and participation, and we would like to include some information about your institution, based on the brief survey that we attach. Your answer is very important for us, because, as you know, there are not many ethical banks in Europe, so we would like to have the information of all of them if possible. If you are interested in this research, we would be pleased to send you the final paper with the results. By now, our first results show big differences between ethical banks and the rest of banks in terms of transparency and quality of their assets.

### REQUIRED GUARANTEES

1. Which are the guarantees that your ethical bank require to minimize the risk of non-payment? Could you quantify the percentage of cases in which you ask for them? What kind of guarantees are used more and less frequently?
2. In cases of Personal Loans (eg. electric micro generation for domestic purposes), which are the necessary guarantees that your bank require?
3. In case of an NGO that need cash, which are the guarantees that your bank require?

### PARTICIPATION

1. Is there in your bank any procedure to allow the following stakeholders to participate in the governance of the Bank? (Please answer yes or not, and which is the way to participate if the answer is positive)

Clients:  
Shareholders:  
Depositors:  
Administration:  
NGO:  
Society/Community:  
Employees:

2. Is there in your bank any procedure to allow the following stakeholders to participate in decisions about the placement of the assets (participation oriented to choose the destination of funds or to include or exclude some kind of clients/activities). ? (Please answer yes or not, and which is the way to participate if the answer is positive)

Clients:  
Shareholders:  
Depositors:  
Administration:  
NGO:  
Society/Community:  
Employees:

Thank you very much for your patience and your answer be sure that it will be well considered. If possible, send it by e-mail to [xxx.xxx@](mailto:xxx.xxx@), if you prefer any other way to send us your answers, the complete address and contact information is given below. For any question or information required do not hesitate to contact us.

Sincerely,

## Appendix 3: Ethical banks: The placement of assets

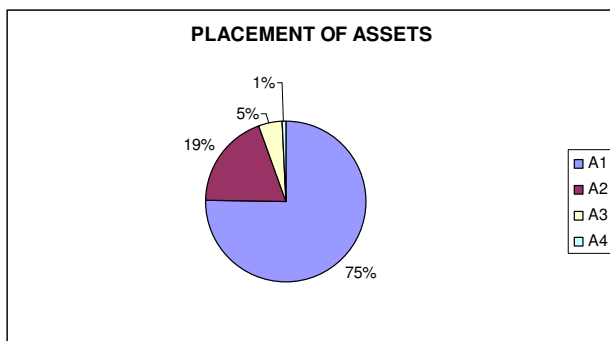
### Nomenclature of Figures in Appendix 3

A1: Assets allocated for what for this study supposes the relevant aim of the entity: they are basically loans and credits to clients. A2: Assets allocated for other purposes such as temporary investments, bonds, and credit to other financial institutions. These are funds available that have not been used for the purpose of giving credit to customers. A3: Operative assets: infrastructure and necessary elements to develop the activity. A4: Other assets: assets that can not be classified in any of the previous groups.

FA –funds applied to credits with an additional social value. FB –funds applied to credits of doubtful social value. FC –funds applied to commercial credits without any additional social value and to other assets that are not destined to credit (bonds, investments...). FD –funds applied to loans to entities which fulfil any of the negative criteria. FE –funds applied to credits about which there is a lack of information about its social value.

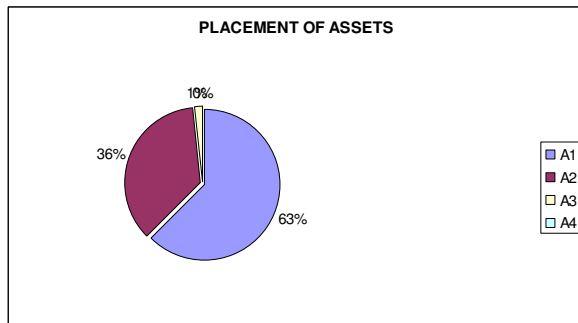
RAI (Placement of Assets) =  $3 * \% FA + \% FB - 5\% FD - \% FE$  (the multiplication number could be others, but the meaning of them correspond to a valuation of each fund comparing with the rest and they do not correspond in their own to concrete meaning).

### Classification of Placement of Assets and RAI: Mercurbank.



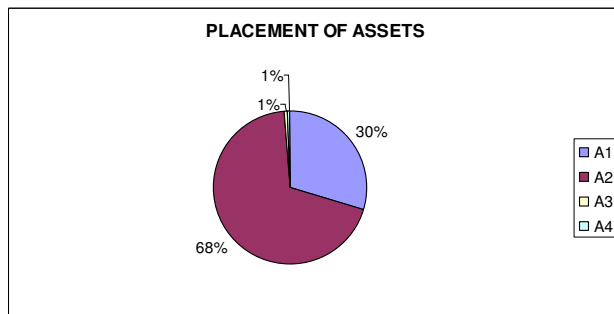
ASSETS	dkk	%	RAI
FA	453,927,335	45.82%	1.37
FB	291,187,835	29.40%	0.29
FC	245,456,446	24.78%	0.00
FD		0.00%	0.00
FE		0.00%	0.00
<b>TOTAL ASSETS</b>	<b>990,571,616</b>	<b>100.00%</b>	<b>1.67</b>

### Classification of Placement of Assets and RAI: GLS.



ASSETS	€ (thousands)	%	RAI
FA	412.531	51.85%	1.56
FB	84.494	10.62%	0.11
FC	298.554	37.53%	0.00
FD		0.00%	0.00
FE		0.00%	0.00
<b>TOTAL ASSETS</b>	<b>795.579</b>	<b>100.00%</b>	<b>1.66</b>

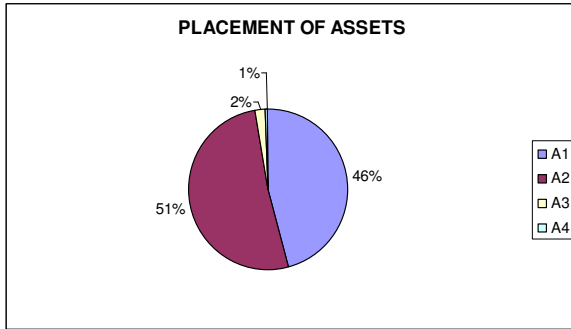
### Classification of Placement of Assets and RAI: LaNEF.



ASSETS	€ (thousands)	%	RAI
FA	47.379	29.71%	0.89
FB	0	0.00%	0.00
FC	112.068	70.29%	0.00
FD		0.00%	0.00
FE		0.00%	0.00
<b>TOTAL ASSETS</b>	<b>159.447</b>	<b>100.00%</b>	<b>0.89</b>

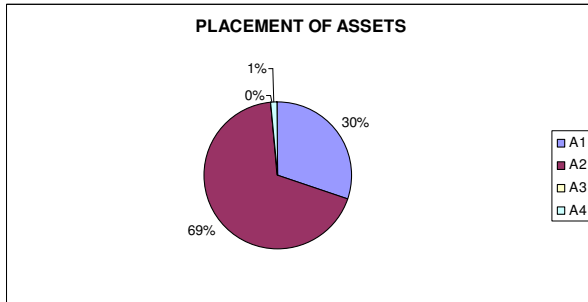


Classification of Placement of Assets and RAI: Banca Popolare Etica.



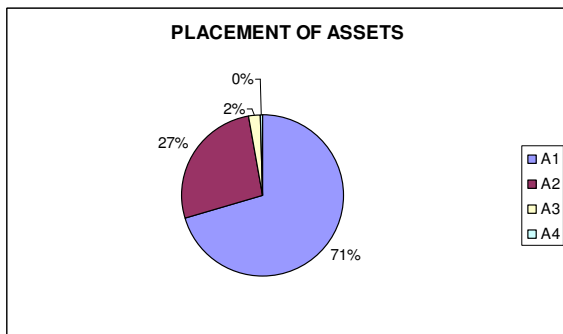
ASSETS	€ (thousands)	%	RAI
FA	185.057	35,20%	1,06
FB	56.137	10,68%	0,11
FC	284.499	54,12%	0,00
FD		0,00%	0,00
FE	0	0,00%	0,00
<b>TOTAL ASSETS</b>	<b>525.693</b>	<b>100,00%</b>	<b>1,16</b>

Classification of Placement of Assets and RAI: ASN Bank.



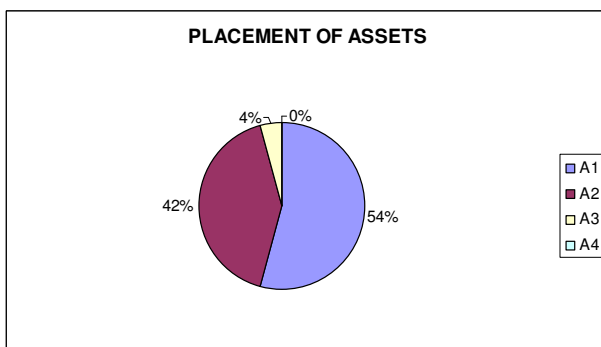
ASSETS	€ (thousands)	%	RAI
FA	1.001.647	26,55%	0,80
FB	657.169	17,42%	0,17
FC	2.066.476	54,77%	0,00
FD		0,00%	0,00
FE	47.996	1,27%	-0,01
<b>TOTAL ASSETS</b>	<b>3.773.288</b>	<b>100,00%</b>	<b>0,96</b>

Classification of Placement of Assets and RAI: Cultura Sparebank.



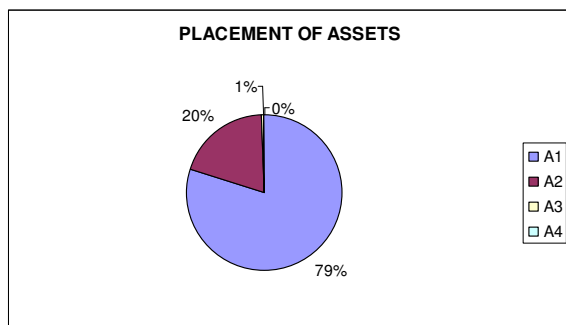
ASSETS	nok	%	RAI
FA	157,861	52,14%	1,56
FB	55,677	18,39%	0,18
FC	89,211	29,47%	0,00
FD		0,00%	0,00
FE		0,00%	0,00
<b>TOTAL ASSETS</b>	<b>302,749</b>	<b>100,00%</b>	<b>1,75</b>

Classification of Placement of Assets and RAI: Triodos.



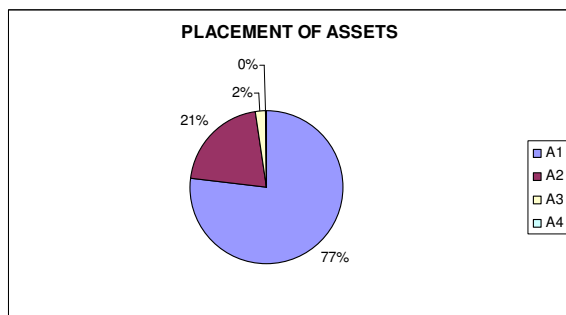
ASSETS	€ (thousands)	%	RAI
FA	844.016	44,77%	1,34
FB	152.388	8,08%	0,08
FC	865.569	45,92%	0,00
FD		0,00%	0,00
FE	23.086	1,22%	-0,01
<b>TOTAL ASSETS</b>	<b>1.885.059</b>	<b>100,00%</b>	<b>1,41</b>

### Classification of Placement of Assets and RAI: Ekobanken.



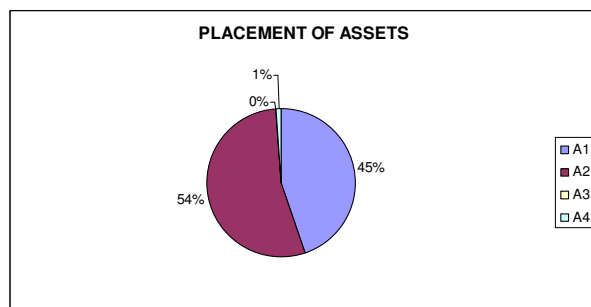
ASSETS	Kr (thousands)	%	RAI
FA	195,037	70.21%	2.11
FB	26,175	9.42%	0.09
FC	56,590	20.37%	0.00
FD		0.00%	0.00
FE		0.00%	0.00
<b>TOTAL ASSETS</b>	<b>277,802</b>	<b>100.00%</b>	<b>2.20</b>

### Classification of Placement of Assets and RAI: BAS.



ASSETS	CHF (thousands)	%	RAI
FA	59,830	7.74%	0.23
FB	533,636	69.07%	0.69
FC	179,090	23.18%	0.00
FD		0.00%	0.00
FE		0.00%	0.00
<b>TOTAL ASSETS</b>	<b>772,556</b>	<b>100.00%</b>	<b>0.92</b>

### Classification of Placement of Assets and RAI: Charity Bank.



ASSETS	Pounds (thousands)	%	RAI
FA	17.022	40.29%	1.21
FB	1.891	4.48%	0.04
FC	23.339	55.24%	0.00
FD		0.00%	0.00
FE		0.00%	0.00
<b>TOTAL ASSETS</b>	<b>42.252</b>	<b>100.00%</b>	<b>1.25</b>

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## Notes

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1 We understand by this concept those projects that according to their objectives (ecology, social inclusion, renewable energies...) or the people they are addressed to (people who can not get a credit from the traditional banking) create a positive value for the social environment in which they take place.

2 In terms of the Triodos Bank, one of the most important European references, its performances are inspired in the three Ps: Planet, People and Profit.

3 It would be possible to rank or classify all the banks depending on their ethical commitments, but this aspect should be continuous and not discrete, because there is a gradual ethical behaviour in banks (Cowton and Thompson, 1999). An ethical bank could define itself as ethical, but other type of banks could use this term too, so it is important to know the point from which a bank is ethical. This point of rupture depends on the ethical commitment, the bank's ethical commitment could be referred to the use of the benefits (CSR) or it could be referred to the use of deposited funds (Edery, 2006). First brings about or ethics in banks, and second brings about ethical banking concept. We are going to focus on the second one.

<sup>4</sup> The questionnaire is non-structured and open, so we give to banks the possibility to explain us all of the types of guarantee systems that they have developed. However, the banks' guarantee systems are grouped in the 4 forms established in RAI.

5 We have used INAISE (International Association of Investors in the Social Economy) and FEBEA (European Federation of Ethical and Alternative Banks and financiers) to create the database of ethical banks for the 10 countries of the sample. Although we checked their websites, and wrote to ask for more information, we didn't get any useful information about the assets placement of Bank für Sozialwirtschaft, Caisse Solidaire du Nord Pas-de-Calais and Unit Trust, so they are not included in the ethical bank's population.

6 The Cooperative Bank (UK) is not included in our sample, because we have selected only the ethical banks with in INAISE and FEBEA. See Harvey (1995) or Kitson (1996) for more information about Co-operative Bank.

7. The reason for using Kruskal-Wallis test is that we have studied the shape of each group's distribution, but the groups are not normally distributed. This approach is similar to that of one-way ANOVA, but Kruskal-Wallis test does not assume normality or equal variances. As a result it is an appropriated test for this case.