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Social Reporting in European Ethical Banks: A Comparative Study

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Abstract: *In the last decade, interest on ethical banks has grown rapidly and considerably in the academic and corporate communities. For this kind of entities, social accountability and reporting tools represent a strategic factor to establish a relationship of trust with customers, to project a desirable reputation and to promote sustainable development. Although the growing attention to this topic, there is a paucity of evidence, particularly in Europe, of social reporting practices of ethical banks. Therefore, this paper sets out to investigate sustainability disclosure practices of European banks adhering to the principles of ethical finance. To this end, through a content analysis, this paper examines, over a 15-year period, from 2000 to 2014, the annual reports of 13 institutions.*

Keywords: *ethical banks, corporate social responsibility, social reporting, comparative analysis.*

1. Introduction

The financial crisis which has been affecting the international markets for several years now, in addition to often negligent and irresponsible behavior by the main banks, has heightened a sense of mistrust towards the whole financial system on the one hand, while on the other it has increased interest in so called "ethical banks" from both investors and savers in general (Ijeoma, 2014; Rodríguez Gutiérrez, 2013; Borgia, 2013).

These banks pursue the primary aim of promoting sustainable development and social inclusion, principally by financing not for profit businesses or micro-enterprises and by investing resources in enterprises engaged, for example, in organic farming, renewable energy or fairtrade. Moreover, these banks attempt to respond to the requirements of investors and savers who pay particular attention to social and environmental issues and demonstrate a high degree of awareness about the way in which their savings are invested (Edery, 2006; Lynch, 2001). These brings about the need to implement a transparent and participatory system of governance and to prioritize investment choices which can guarantee positive performance from a social, cultural and environmental viewpoint, as well as an economic one (Barresi and Marisca, 2011). The pursuit of the above mentioned aims, accompanied by the desire to establish a relationship of trust with customers, has contributed to the growing use of social accountability tools in the information practices of ethical banks. These documents have been recognized by doctrine, for several years now, as tools capable of accounting for the undertakings made and overall impacts of the activities carried out with reference to the community (Viganò and Nicolai, 2009; Coupland, 2006).

Therefore, the aim of this paper is to attempt to find evidence on social information reported by European banks adhering to the principles of ethical finance, and to examine how this banks treat social reporting. For this reason it was considered appropriate to analyze the content of social reports, annual reports and other social accountability documents implemented by a sample of 13 banks, over a 15-year period, from 2000 to 2014.

2. Theoretical Framework

As has already been mentioned, this paper concerns sustainability disclosure with reference to specific banks which have characteristic elements distinguishing them from "traditional" banks. This is a

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reference to so called "ethical banks", in other words banks which "*have the objective of achieving a positive impact in the collection and in the use of money. They invest in new activities such as organic farming, renewable energies, the Third sector (or not-for-profit sector), Fair Trade. They respond more and more to the needs of those who are excluded from the banking system, and to the needs of savers and investors who are increasingly interested in the way their savings are used*" (FEBEA, 2010).

In this paper, however, the "idea" of ethical bank adopted is that proposed by Cowton and Thompson (1999), who identified a set of aspects characterizing the activity carried out by this banks. Specifically, these aspects are: a) the social value generated by the financing of activities with a strong socio-environmental impact on the collectivity; b) the higher degree of stakeholder involvement and active participation in the decision making process; c) the different types of security (not only in the form of assets) required for granting loans.

Moreover, Cowton and Thompson focus their attention on the fact that these banks provide an "unusually" information transparency to its members and customers, with particular regard for the way in which the resources loaned by the bank are used. Doctrine has adopted a uniform approach to the complementariness and interdependence of the economic and social functions of such banks (Kendric, 2004; Ballesteros, 2003; Cowton and Thompson 2001; Green, 1989). In particular, some authors distinguish between social and economic profitability, considering the first as the exclusive funding of economic activities with an high social added value, and the second as good bank management practices (San-Jose et al., 2010).

It is also necessary not to fall into the trap of equating or even confusing an ethical bank with a "traditional bank" which demonstrates awareness of CSR activities. Indeed, there is no doubt that the implementation of socially responsible policies and consolidation of social reporting practice by a traditional commercial bank contributes to enlarging and highlighting its image of ethical correctness (Carnevale et al., 2011; Scholtens, 2009). However, this does not mean that these aspects are not sufficient to demonstrate the effective sharing of socially responsible values that may bring about a change in management philosophy (Khan, 2009; Vermiglio, 2005; Pulejo, 1996). Indeed, it has been underlined that socially responsible behavior by traditional banks, in most cases, is a mere marketing tool aimed only at improving economic-financial performance (Reinig and Tilt, 2009; Ogrizek, 2002) rather than a "raison d'être", the result of sharing values inspired by ethical finance principles.

Further elements of differentiation between traditional commercial banks and ethical banks can be identified as the strong preference the latter demonstrate for companies giving priority to ethical investments, or investments based on projects leading to social and/or environmental improvements, regardless of the fact that this preference may lead to lower profits (Kendric, 2004).

3. Hypotheses Development

The attention paid to information transparency in recent years has forced banks in Europe to resort to various tools. There has been widespread use of social accountability tools in order to account for the economic, social and environmental elements of the activities carried out and of the results achieved. For ethical banks, social and sustainability reports, prepared on the basis of general accepted standards and guidelines, must be considered "compulsory and necessary" documents for the purpose of externally reporting overall levels of performance and for demonstrating coherence between corporate action and the aims pursued (Rappazzo, 2013). As mentioned previously, the latter do not only concern the financial sphere, but also include the promotion of sustainable development and support for activities orientated towards respect for ethical principles and those of social equality. Hence, it is hypothesized that:

H1: Ethical banks prepare and disseminate complete and exhaustive social and sustainability reports, according to general accepted standards and guidelines.

Moreover, active participation and awareness of stakeholders in decision making processes and above all the activation of a circuit of communication with the collectivity are some of the conditions that banks must respect in order to be defined as "ethical banks". Therefore, it is also hypothesized that:

H2: Ethical banks establish a dialogue and promote an active participation of stakeholders in social accountability processes.

4. RESEARCH DESIGN

With the aim of better understanding the importance attributed to sustainability disclosure, it was considered appropriate to conduct a content analysis on annual reports of a sample of European ethical banks. Content analysis is a widely used qualitative research technique that enables a more objective evaluation than comparing content based on the personal impressions of the researcher (Morgan, 1993; Rosengren, 1981). It is also an unobtrusive and nonreactive way to study a phenomenon (Babbie, 1992).

In order to choose the research sample, the methodology of "sampling by objectives" was used. This sampling methodology allows the researchers to use his/her own judgement as regards the choice of sample to be studied and to use only a sample that corresponds to the predetermined aims. In particular, the sample is composed by all the ethical banks belonging to the "*Fédération Européenne de Finance et Banques Ethiques et Alternatives*" (FEBEA). Created in 2001, FEBEA is the most relevant European association incorporated by ethical banks, saving and loan cooperatives, investment companies and foundations adhering to the principles of ethical finance, which account, all together, for a balance sheet of 21 billion Euros and have some 528.000 customers and shareholders.

The attention was focused on ethical banks, members of FEBEA, which have made available their annual reports (from 2000 to 2014) to the public on their websites. Corporate website are generally used by banks as the preferred "place" for providing information on the various types of project and financial investments. This makes it possible to publicize the ways in which the financial resources provided by members and investors are used and the guiding values applied in corporate choices and in the actions undertaken.

The corporate website of FEBEA members were checked over a period running from September 2014 to March 2015. A total of 95 annual reports were found. Thus, the sample is composed by 95 annual reports of 13 ethical banks (see Table 1).

Table1. *Sample size and composition*

S.N.	Ethical banks observed	Country	Report title	Years	N. of Reports analysed
1	Banca Popolare Etica	Italy	Social Report	from 2003 to 2014	12
2	Banque Alternative Suisse	Switzerland	Rapport d'Activitè / Gestion	from 2000 to 2014	15
3	Charity Bank	United Kingdom	Annual Review	from 2005 to 2013	9
4	Credal	Belgium	Rapport d'Activitè	from 2010 to 2014	5
5	Cultura Bank	Norway	Annual Report	from 2011 to 2013	3
6	Ekobanken	Sweden	Annual Report	from 2010 to 2011	2
7	Banca Carim	Italy	Social Report	from 2006 to 2014	9
8	GLS Bank	Germany	Annual Report	from 2011 to 2013	3
9	Hefboom	Belgium	Annual Report	from 2008 to 2013	6
10	La Nef	France	Annual Report	from 2010 to 2014	5
11	Merkur	Denmark	Annual Report	from 2004 to 2014	11
12	Simetica	Italy	Social Report	from 2004 to 2014	11
13	Triodos	Netherlands	Annual Report	from 2011 to 2014	4
	Reports analysed				**95**

5. RESULTS

The first consideration to make from analyzing the documentation concerns the «heterogeneous» nature of reports collected, both in terms of quantity and quality. This refers to the titles, the layout, the nature of the data included, the range of information provided and the aims pursued by the banks. As concerns the titles of the documents collected, for example, as has been highlighted by doctrine, social accountability tools have a variety of names: Social Report, Annual Report, Annual Review and Rapport d'activité (see table 1). With reference to the aims pursued, on the other hand, in some cases there is a clear desire demonstrated by the banks to undertake a process of socio-environmental reporting with the principal aim of achieving a high degree of information transparency, also for the purposes of stakeholder involvement. In other cases, the attention paid to information transparency is less clearly distinguishable, with a tendency to simply give information on the loans granted to enterprises that show particularly awareness of socio-environmental issues. A further aspect worth mentioning concerns the «periodicity» and «recurrence» with which reports are prepared and published online. For quite all the banks, social reporting is not an occasional occurrence but a well established annual practice over a number of years. For the purposes of this study, this made it possible to make a comparison of the reports produced by each bank over time.

Given the above considerations, the analysis was conducted, firstly, categorizing "specific information contents" to be considered relevant with respects to the purpose of the paper. These information elements were identified by taking into consideration the characteristics individuated by Cowton and Thompson (1999) and the indications provided by certain internationally recognized standard setters on the minimum required content of social and sustainability reports. In particular, the reference is to the Standards and/or Guidelines compliance of reports, to specific information concerning the bank "corporate identity", the "wealth created and distributed", the relationships with the various categories of stakeholders, the analysis of financial data, and the description of the activities carried out and the projects/investments financed.

It was thus possible to make a spatial comparison of reports and measure the attention given by the banks to social accountability, according to the hypotheses formulated, verifying if the reports comprehend the specific information contents individuated. Results are summarized in Table 2.

Table2. *Results*

S.N.	Specific information contents / Ethical banks observed	Standards and/or guidelines compliance	Corporate Identity	Wealth created and distributed	Dialogue with the stakeholders						Financial data analysis	Activities undertaken / project financed
					Shareholders	Customers	Suppliers	Employeess	Other Banks	Collectivity		
1	Banca Popolare Etica	■	■	■	■	■	■	■	■	■	■	■
2	Banque Alternative Suisse				■	■	■		■	■	■	■
3	Charity Bank				■	■				■	■	■
4	Credal					■		■			■	■
5	Cultura Bank				■	■		■	■		■	■
6	Ekobanken					■						■
7	Banca Carim	■	■	■	■	■		■	■	■		■
8	GLS Bank				■	■		■		■		■
9	Hefboom				■	■		■		■	■	■
10	La Nef							■			■	■
11	Merkur				■			■	■		■	■
12	Simetica	■	■	■	■	■	■	■	■	■	■	■
13	Triodos					■	■	■		■		■
	Sample percentage	**0,23**	**0,23**	**0,23**	**0,69**	**0,85**	**0,31**	**0,77**	**0,46**	**0,62**	**0,69**	**1,00**

5.1. Standards And/or Guidelines Compliance

The first consideration to make concerns the adoption of general accepted standards or guidelines for the preparation of reports. From the analysis undertaken, it appears that only few of the ethical banks observed are Standards and/or Guidelines compliant. In particular the Banca Popolare Etica and the Banca Simetica used the GBS Standards (GBS, 2007), which contains a set of principles for drafting Social Report. Banca Carim, on the other hand, as is indicated by the drafters themselves, followed the GRI (Global Reporting Initiative) guidelines only for the part of 2010-2014 social reports concerning the reclassification of the profit and loss statement. The remaining reports make no explicit reference to any standards and the information content varies in presentation, quality and quantity.

5.2. Corporate Identity and Wealth Created and Distributed

The information on "corporate identity" and on "wealth created and distributed" are included only in the reports produced by Italian banks. As concerns corporate identity, in particular, the information given by Banca popolare Etica, Banca Carim and Banca Simetica is practically the same. It regards the birth and historical development of the banks, their corporate mission, the values which distinguish them from "traditional" banks, their institutional and organizational structure. It is worth mentioning the absence, in most of the reports analyzed, of information on the wealth produced by the bank over the operating period and distributed to the various stakeholders involved; indeed, it is considered that the presence of this accounting information, which comes from certain and verifiable sources and is the result of established information processes, is fundamental for reducing the risk of producing a self-referential document in which "the information provided appears to be merely a declaration of intent and, thus, is not subject to any form of spatial or temporal control" (GBS, 2007).

5.3. Dialogue with the Stakeholders

All the reports analysed give ample space to information concerning relationships with the various categories of stakeholders. Along with the Italian ethical banks, which show particular interest in establishing a dialogue with their principal stakeholders, the reports of Cultura Bank and GLS Bank are worthy of note. In the 2011 Annual Report produced by Cultura Bank, for example, a specific section is dedicated to highlighting the relationship between the bank and its employees and shareholders, as well as relationships with "other stakeholders and partners". Cultura Bank, therefore, places particular importance on the legitimate interests and expectations expressed by all stakeholders, whose satisfaction is a fundamental condition for achieving sustainable development. Indeed, the report states that "To strengthen and develop the bank's total sustainability, the bank's social environment is included in the bank's long-term plans" and reference is made to particular groups of subjects with interest in the bank's activities (the Bank's customers; Equity Certificate owners; Co-workers; Entities within civil society; Foreign banks with similar values to Cultura Bank; International professional organizations; The authorities and professional liaisons).

5.4. Financial Data Analysis

The majority of the reports analyzed contain a section specifically dedicated to the analysis of financial data. It is worth singling out the example of Charity Bank, which has included a Financial Picture and Analysis in its Annual Review ever since the first edition (2005). The information is presented very clearly and simply, making the report easy to understand, even for readers without specific knowledge.

5.5. Activities Undertaken and Projects Financed

All the reports observed, finally, dedicate ample space and particular attention to the activities carried out by each bank. Detailed information on the projects financed is also provided. GLS Bank, in particular, dedicates almost half of its 2011 Annual Report to a description of the projects that were considered worthy of being financed. In a section entitled "What is GLS Bank actively involved in?", the bank clarifies that the projects financed mainly concern "basic human needs, such as education, food, health, accommodation and energy". In the section entitled "GLS banking operations", moreover, ample space is given to "loan examples", with descriptions of the economic and social function and the activities undertaken by the enterprises receiving the loans.

6. CONCLUSIONS

The results of the study undertaken showed that, for several years now, European "ethical banks" have been widely using sustainability disclosure tools capable of satisfying the growing information requirements of the various stakeholders involved in their activities. The reporting of information on actions undertaken, on the way in which financial resources invested or loaned are used and on overall performance all contributed to increasing information transparency and makes it possible to control and monitor the ethical, social and environmental aims pursued by each particular bank.

Attention to information transparency, moreover, is of considerable importance considering that the financial markets have always been characterized by strong information asymmetry and that the limited availability of complete and exhaustive information inevitably reflects on the relationship between banks and other economic operators (Wan Suk Ko and Su Sung Kim, 2015). For the latter reasons ethical banks have made information transparency one of the founding values of their activity, so as to effectively satisfy the requirements of the people with whom they work and the environment in which they operate.

It can be seen, from a preliminary and explorative analysis, that the reports made available online by ethical banks are, above all, of a «heterogeneous» nature. This could be the result of the current lack of single, universally accepted Standard and the "voluntary" nature of the reporting methods adopted. The existence of a shared and widely used standard would undoubtedly make it easier to compare the reports produced and make the information contained in them more reliable.

Despite this, in line with the aim of this research, the survey highlighted the significant contribution made by sustainability disclosure in terms of information transparency. Indeed, in almost all the reports analyzed, strong awareness is demonstrated by ethical banks towards dialogue with the main categories of stakeholders. Importance is given to financial information in the sections dedicated to financial analysis and, in certain cases, also by including information on the added value created and distributed. Finally, considerable effort is made by all the ethical banks to provide information on how financial resources are used and to communicate to their stakeholders the social and economic value generated by loans granted to enterprises with activities that have a strong socio-environmental impact.

7. LIMITS

The above reflections are to be considered, in any case, as early synthetic indications of an analysis that could be a starting point for more detailed future studies. Indeed, the analysis undertaken could be more detailed and more extensive. The sample could be widened to ethical banks from other parts of the world, thus permitting a much more detailed study of the topic.

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