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SUSTAINABILITY DISCLOSURE AND INFORMATION TRANSPARENCY IN EUROPEAN ETHICAL BANKS*

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Introduction

The economic-financial crisis which has been affecting the international markets for several years now, in addition to often negligent and irresponsible behaviour 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 the so called "ethical banks" from both investors and savers in general.

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 fair trade. 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. This 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.

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

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and overall impacts of the activities carried out with reference to the entire sector (Viganň and Nicolai, 2009; Coupland, 2006).

The aim of this paper is to highlight the growing importance attributed to sustainability disclosure for the purposes of achieving information transparency in ethical banks. For this reason it was considered appropriate to analyze the information content of social reports, annual reports and other social accountability documents used by the main European banks adhering to principles of ethical finance for providing information on the overall impacts of their activity and their approach towards issues of sustainable development.

Definition of ethical bank and elements of differentiation from "traditional banks"

As has already been mentioned, this survey concerns sustainability disclosure with reference to a specific company operating in the credit sector and which has characteristic elements distinguishing them from "traditional" banks. This is a reference to the so called "ethical banks", in other words banks which, according to the Fédération Européenne de Finance et Banques Ethiques et Alternatives (Febea), "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"[1].

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 particular type of bank. Specifically, these aspects are:

– the social value generated by the financing of activities with a strong socio-environmental impact on the entire sector;
– the higher degree of stakeholder involvement and active participation in the decision making process;
– 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 this type of bank provides an "unusual level" of information transparency to its members and customers, with particular regard for the way in which the resources loaned by the bank are used. It would also seem appropriate to point out that doctrine has adopted a uniform approach to the complementariness and interdependence of the economic and social functions of such banks (Cowton 2010; Kendric 2004; Ballesteros, 2003; Alsina, 2002; Cowton and Thompson 1999). Indeed, it has recently been specified that ethical banks are principally characterized by:

[1] Cf. www.ethicalbankingeurope.com Definition Ethical Bank.pdf.

1. "The obtaining of social profitability, understood as the funding (placement of assets) of economic activities with social added value and as the unconditional absence of investments in speculative projects or in undertakings that fulfil negative criteria.
2. The obtaining of economic profitability, which means benefits. The dimension of obtaining benefit refers to good bank management, because ethical banks do not generally distribute benefits between shareholders and, if at all they do so, the distribution is very limited, and profit is, therefore, only residual" (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. 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. Indeed, it has been underlined that socially responsible behaviour 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'ętre", 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).

Active participation and awareness of stakeholders in decision making processes and above all the activation of a circuit of communication with the entire sector are, thus, some of the conditions that banks must respect in order to be defined as "ethical banks". The attention paid to information transparency in recent years has forced the so called ethical banks in Europe to resort to various tools. In most cases the corporate website has been used 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 by the bank. In addition, 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. Thus, for ethical banks, Social Report and Annual Reports are "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. As mentioned previously, the latter do not only concern the economic-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.

Sample and data source

With the aim of better understanding the importance attributed to sustainability disclosure in terms of information transparency in ethical banks, it was considered appropriate to carry out a survey of the social accountability tools made available to the public by the main European ethical banks on their websites, analyzing the information content in terms of depth and range of the information and data provided.

In order to choose the survey sample the methodology of sampling by objectives[2] was used. The sample includes both ethical banks belonging to the Fédération Européenne de Finance et Banques Ethiques et Alternatives (Febea) and some banks adhering to principles of ethical finance included on the "BankScope database", which has already been used for previous empirical studies (San-Jose *et al*., 2011).

Thus, the sample is composed of 11 banks (see table 1).

Table 1

Sample

	Ethical banks observed	Country
1.	Banca Popolare Etica	Italy
2.	Charity Bank	United Kingdom
3.	Credal	Belgium
4.	Cultura Bank	Norway
5.	Ekobanken	Sweden
6.	Eticredito	Italy
7.	GLS Bank	Germany
8.	La Nef	France
9.	Merkur	Denmark
10.	Simetica	Italy
11.	Triodos	Netherlands

Source: prepared by the authors

It is also important to specify that the choice to concentrate attention on just a few of the banks that adhere to principles of ethical finance is to be viewed from a positivist viewpoint, thus being justified by the need to limit and simplify the subject of the survey.

[2] This sampling methodology allows the researcher 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.

Results

For the purposes of this survey, the websites of the ethical banks making up the sample were checked over a period running from October 2012 to January 2013. A total of 47 social accountability documents were found (see Table 2).

Table 2

Social accountability documents analyzed

	Social accountability	Publication years	N. Report observed
Banca Pop. Etica	Social Report	From 2003 to 2011	9
Charity Bank	Annual Review	From 2005 to 2011	7
Credal	Rapport d'Activité	From 2010 to 2011	2
Cultura Bank	Annual Report	2011	1
Ekobanken	Annual Report	From 2010 to 2011	2
Eticredito	Social Report	From 2006 to 2011	6
GLS Bank	Annual Report	2011	1
La Nef	Annual Report	From 2010 to 2011	2
Merkur	Annual Report	From 2004 to 2011	8
Simetica	Social Report	From 2004 to 2011	8
Triodos	Annual Report	2011	1
Total			**47**

Source: prepared by the authors.

The first consideration to make from the analysis of the documentation concerns the «heterogeneous» nature of the documents collected. 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 that produced them.

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 2).

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 the documents are produced and published online. With the exception of the Norwegian *Cultura Bank*, the German *GLS Bank* and the Dutch *Triodos*, which only published their 2011 Annual Report online, in all the other cases social reporting is not an occasional occurrence but a well established annual practice over a number of years. For the purposes of this survey, this made it possible to make a comparison of the reports produced by each bank over time.

Table 3

Attention to information transparency

	Guidelines and standards	Corporate Identity	Wealth created and distributed	Dialogue with stakeholders						Financial Analysis and Balance Sheet	Activities undertaken/ projects financed
				Shareholders	Custumers	Suppliers	Employees	Other Banks	Collectivity		
Banca Popolare Etica	GBS - SA 1000	X	X	X	X	X	X	X	X	X	X
Charity Bank				X	X				X	X	X
Credal					X		X			X	X
Cultura Bank				X	X		X	X	X	X	X
Ekobanken					X						X
Eticredito	GRI*	X	X	X	X		X	X	X		X
GLS Bank				X	X		X		X		X
La Nef							X			X	X
Merkur				X			X	X		X	X
Simetica	GBS	X	X	X	X	X	X	X	X	X	X
Triodos					X	X	X		X		X

* The guidelines indicated for Eticredito refer to the 2010 and 2011 Social Reports; they are not mentioned for previous years.

Source: prepared by the authors.

Since the information content of the documentation collected is extremely varied, both in terms of quantity and quality, it was decided to draw a table in which the presence or absence in the reports of certain specific items considered to be important in terms of information transparency was indicated. These elements were identified by taking into consideration the doctrinal debate on this topic and the indications provided by certain internationally recognized standard setters on the minimum required content of social accountability documents (see Table 3).

The table thus provides a synthetic overview that reveals, on the one hand, the standards or guidelines that the banks made reference to and, on the other hand, the layout of the documents. In particular, the table shows that the reports contain information regarding «corporate identity», «wealth created and distributed», relationships with the various categories of stakeholders or sections specifically dedicated to Financial Analysis and the Balance Sheet or for the purpose of describing, even partially, the activities carried out and the projects financed. It was thus possible to make a spatial comparison of the documentation and measure the attention given by the banks to information transparency.

The first consideration to make concerns the model adopted by the banks in the sample for writing their reports. From the analysis undertaken, it appears that only a few of them used drafting standards. In particular the *Banca popolare Etica* and the *Banca Simetica* used the standard adopted by the GBS – Gruppo di Studio per il Bilancio Sociale – which contains a set of principles for drafting the Social Report.[3] *Eticredito*, on the other hand, as is indicated by the drafters themselves, followed the guidelines laid down by the GRI (Global Reporting Initiative) only for the part of the document concerning the reclassification of the profit and loss statement in the 2010 and 2011 Social Reports. The remaining reports make no explicit reference to any standards and the information content varies in quantity and presentation.

In reference to the layout of the documents, it was observed that:

1. The information on «corporate identity» and on «wealth created and distributed» is included only in the reports produced by Italian banks. As concerns corporate identity, in particular, the information supplied by Banca popolare Etica, Eticredito and Banca Simetica is practically the same. It regards the birth and historical development of the banks, their corporate mission, and 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 generated 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 procedures) in social reports is fundamental for reducing the risk of producing a self-referential document in which "the information provided appears to

[3] See. GBS, Gruppo di studio per il Bilancio Sociale (2007), *Il Bilancio Sociale, Standard, Principi di redazione del bilancio sociale*, Giuffré, Milano.

be merely a declaration of intent and, thus, is not subject to any form of spatial or temporal control."[4]

2. All the reports give ample space to information concerning relationships with the various categories of stakeholders. Along with the Italian banks, which once again show particular interest in establishing a dialogue with their principal stakeholders, the reports produced by the Norwegian Cultura Bank and the German 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 – depositors and loan customers; Equity Certificate owners; Co-workers; Entities within civil society (i.e. NGOs – Non Governmental Organizations); Foreign banks with similar values to Cultura Bank; International professional organizations; the authorities and professional liaisons).[5]

3. The majority (64%) of the reports analyzed contain a section specifically dedicated to Financial Analysis and the Balance Sheet. It is worth singling out the example of Charity Bank, which has included a Financial Analysis, Financial Picture and Balance Sheet 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 of accountancy;

4. All the reports observed dedicate ample space and particular attention to the activities carried out by each bank and detailed information is provided on the projects financed. 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, albeit synthetic, of the economic-social function and the activities undertaken by the enterprises receiving the loans.

Conclusions

The results of the survey undertaken showed that, for several years now, European "ethical banks" have been widely using sustainability disclosure tools capable of satisfying

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[4] GBS (2007), p. 10.
[5] See Cultura Bank – Annual Report 2011, p. 8. Available at www.cultura.no/en/.

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 make 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. 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, of the documentation made available online by ethical banks included in the sample that the reports produced are, above all, of a «heterogeneous» nature. This could be the result of the current lack of single, universally accepted reference 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 economic-financial information in the sections dedicated to financial analysis, the balance sheet and, in certain cases, also by including information on the economic 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.

The above reflections are to be considered, in any case, as early synthetic indications of a survey 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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Summary

This paper sets out to highlight the growing importance attributed to sustainability disclosure in terms of information transparency in European banks adhering to the principles of ethical finance. To this end it was considered appropriate to examine the information content of the main social accountability tools produced by European ethical banks, using a survey sample of 11 financial institutions.

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Streszczenie

Niniejszy artykułpodkreśla rosnącą wagę przypisywaną jawności zrównoważonego rozwoju pod względem transparentności informacji w europejskich bankach, które stosują się do zasad etyki finansowej. W tym celu zbadano informacje zawarte w głównych narzędziach odpowiedzialności społecznej, stosowanych przez etyczne banki, na próbie 11 instytucji finansowych.