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Analysis of Social Performance in the Spanish Financial Industry Through Public Data. A Proposal

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ABSTRACT. Banking firms are becoming increasingly aware that their clients' management of environmental and social risks may in term threaten their own business as lenders and investors. In addition, stakeholders are requiring banks to improve their social performance. As a result, some banks are developing corporate social responsibility (CSR) policies and management systems to reduce potential risks and improve their performance. In the Spanish financial system, half of the banking firms are savings banks, most of which have always used some Corporate Social Responsibility (CSR) criteria in their management. Private Banks have only recently started to integrate social aspects in their performance. However, no formal analysis has been carried out on the impact of CSR strategies. Various initiatives have been launched nationally and internationally to include the social dimension in management systems. The purpose of this research is to analyse the social performance of the main Spanish financial companies through public data such as social or sustainability reports and media sources. In order to do this, we need to determine which CSR criteria most greatly affect banking firms and to choose the most accurate quantitative and qualitative indicators to measure social performance.

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KEY WORDS: corporate social responsibility, sustainability, banking firm, social performance

Introduction

More and more companies are beginning to understand that their social responsibility is not exclusively limited to their social involvement in the community. This implies that their operational and strategic policies should consider stakeholders' interests and expectations. Therefore, social responsibility includes interaction and fluent dialogue with employees, consumers and customers, stockholders, distributors, etc.

Corporate social responsibility can be defined as the legal and ethical obligations, both nationally and internationally, that an organisation has with stakeholder's.[1] These obligations derive from the impact of the organisation's activities and operations on society, the work force, the environment and human rights. Therefore, CSR affects an organisation's management, its production and commercial activities as well as its relationship with stakeholders.

The integration of Corporate Social Responsibility into a company's management requires the company to acknowledge the impact of its activities on the society and to generate policies and procedures to address negative impacts. As a result, CSR would be systematically incorporated into management as part of the planning system and business strategy.

The analysis of indicators of social impact can be a valuable tool in measuring and monitoring social responsibility in business management. The application of these indicators provides a company with knowledge of its social responsibility practices, which can be used for evaluating the impact of these practices on their development, reputation, and sustainability.

Traditionally, the banking sector has been considered to play a passive role as a financial intermediary limited to obtaining deposits and other liabilities, as well as granting loans, distributing the available lending funds and assigning them in a neutral way while trying to find the most efficient opportunities for these funds.

However, Chick and Dow (1986, 1988) more recently concluded that the functions of the banking system depend on their own degree of development. In the best-developed systems, their role evolves from passive liquidity distribution to active credit supply in order to dynamically contribute to the development of productive activity.

To be able to determine what is understood as a socially responsible bank, we have to start by analysing its four most important functions as a financial intermediary.

1. The bank intermediates between economic units with excess and deficient financial resources.
2. It also adapts terms, from borrowing on a short-term basis to lending on a long-term basis.
3. It manages money spatially, taking financial savings in the form of deposits and other liabilities in some regions in order to finance loans in other regions.
4. It acts as a risk evaluator, efficiently producing valuable information regarding the profitability and risk involved in many operations and investments

This last function is particularly important in terms of financial, social and environmental responsibility. Thanks to their knowledge and assessment of financial, social and environmental risks in their customers' operations, banking institutions reduce information asymmetry in the credit and financial markets. If they incorporated these non-financial risks in estimating global risks, management would be more efficient (even by rejecting loans or investments with a high CSR risk), and the bank would be able to establish appropriate prices according to risk. Therefore, customers with a high social and environmental (CSR) risk would pay higher interest rates on the funds obtained. By the same token, good risk management would result in banks obtaining other financial resources at lower prices and a bank that acknowledges good CSR practices could then transfer the benefits of lower costs to customers.

Until the beginning of the nineties (Elkington, 1994), the banking sector was considered neutral with little environmental and social impact compared to the industrial sector. However, new management strategies with sustainability criteria that companies currently encounter have forced banks to analyse their role in society and their contribution towards obtaining more sustainable development.

Nowadays, the integration of the CSR into the banking sector should take two dominant directions: (i) Social and environmental responsibility initiatives in internal bank operations and, (ii) Integration of CSR in banking intermediation (social and environmental considerations in product design, credit policy, etc.) and in stock market investments.

(1) *Social and environmental responsibility initiatives in internal bank operations*. It is important to identify the direct and indirect impact of bank activities on environmental management, energy/water use, materials, waste management, recycling and compliance with national/international standards (ISO, EMAS[2]).

To effectively manage social responsibility, a company must identify key stakeholders, maintain ongoing dialogue with these stakeholders, and periodically report back to them. The most important bank stakeholders are employees, clients, local community business partners and public authorities. Each of them have different issues that could be relevant for banking institutions. Satisfying employees' demands implies integrating aspects like equal opportunities, training and development, health and safety, human rights or work environment in management strategies. Customer CSR management means managing product quality (for example offering competitive conditions, avoiding phenomena such as financial exclusion), or striving for customer satisfaction and retention. Community involvement (relations) could be managed through different actions such as the sponsorship of cultural and educational activities, charity donations, encouraging employee involvement, etc.).

(2) *Integration of CSR in banking intermediation (social and environmental considerations in product design, credit policy, etc.) and in stock market investments*. We can find both savings products and socially responsible investment funds or even ethical deposits, such as credit or investment products, which take into account the social or environmental impact of the activity subject to being financed. By integrating the concept of sustainability into a bank's business strategy and decision-making procedures, institutions can support socially or environmentally responsible projects, innovative technologies and sustainable companies. Thus, their influence is felt on an even greater scale.

Banking institutions have begun to acknowledge the importance of considering their clients' social and environmental standards and the risks associated with their investments. They have realised that they will be held accountable for their lending, investment and project finance decisions. Therefore, to reduce their risk exposure and improve management, they have started to check their customers' social and environmental performance more closely, especially that of corporations (multinational companies) and projects in underdeveloped countries. Banks have begun to develop mechanisms to determine risk exposure, in order to protect themselves from potential losses. This new focus on risk management will probably result in improved solvency rates and more accurate pricing and resource allocations if their clients assume the social, reputational and environmental risks.

The purpose of this research is to analyse the social performance of the main Spanish financial companies through public data, such as social or sustainability reports and media sources. In order to do this, we need to determine what is understood as a socially responsible bank and which CSR criteria most greatly affect banking firms. Using available information, we will quantitatively evaluate the internal dimension of each bank under study. We will then carry out a qualitative evaluation of each bank depending on the social performance of its external dimension.

Research on CSR and the banking industry

Although there are different approaches to CSR and the measurement of corporate social performance (CSP) throughout economic literature, these approaches can be grouped into three categories: (i) theoretical frameworks linking ethical and economic assumptions, (ii) empirical research into the positive link between social and financial performance as a measure of the value added to a firm by good social and environmental behaviour, and (iii) research into the generation and implementation of accountability or reporting systems allowing researchers and practitioners to generate a complete and homogeneous system for measuring corporate social performance.

Friedman argued that the only responsibility of a business is to its shareholders. Since then there has been a debate between those who agree with Friedman's arguments and those, like Carroll (1979) and Freeman (1984), who theorise about the existence of groups other than shareholders interested in a firm's activities. Friedman and his followers argue that the main objective of business is to maximise profits for shareholders within the legal framework. In this context, a company has no obligation to carry out any type of action in society as this role is assigned to the state, and if society wishes, to organisations created to directly respond to social demands.

Freeman's stakeholder theory (1984) affirms that if the claims made by different stakeholders are considered in a balanced way, managers can increase their organisations' efficiency in responding to external demands. Better results are achieved not only by satisfying the bilateral relationship with these groups, but also by coordinating and prioritising the interests of multilateral stakeholders.

Brickley et al. (2002) argues that the stock market is able to value intangible assets such as a firm's reputation which is produced by its ethical behaviour as a collective. They also argued that the market must have the ability to transmit ethical demands to firms, and that to do so, two conditions must be met: individuals who have an ethical concern must take part in the market and have sufficient resources to transmit a clear and strong message to the firm. For us, the banking system is able to fulfil these two conditions and can generate ethical engagements, not only for its customers, but also for society through the marketing of ethical financial products.

Another line of research focuses on the relationship between corporate social performance (CSP) and financial performance (FP). Simpson and Kohers (2002) analysed this relationship in the banking industry and found a positive link between CSP and FP.

According to Griffin and Mahon (1997), the research process is not well supported theoretically or methodologically. However, there is a growing amount of work indicating a positive relationship between social and financial performance.

The main issue in this line of research is the problem of how to measure performance. Different analyses use different performance measurements and there is no consensus on the best way to measure results. If this is a problem for financial performance, the problem grows when researchers try to generate or use indicators for social performance. Early studies use single dimension CSP measurements (Griffin and Mahon, 1997) but more recent studies use multidimensional measurements like the Fortune survey of corporate reputation or the KLD index. The Simpson and Kohers (2002) banking industry research uses the Community Reinvestment Act Ratings,[3] which covers a broader spectrum of bank functions, as a measurement of CSP. They argue that, although this system is not complete, it is multidimensional and specifically for the banking industry.

The third line of research rests on many economic disciplines: finance, applied economics, accounting, organisation, etc., and, of course, on shareholder theories and their latest developments. Traditionally, issues concerning the relationship between firms and their shareholders have been addressed through the compulsory annual report, but the rigid structure of this document has not helped to enhance the quality of CSR information. Since the mid-nineties, this situation has changed and companies use various instruments to report on their social success. Some examples are the Social Report in France (ASSC, 1975), community involvement reports in Anglo-Saxon countries, the Sustainability Report or the Triple Bottom Line Reports (Newson, 2002). During the seventies and eighties, the Banco de Vizcaya in Spain offered the Social Balance following the structure of the French Social Report (Moneva and Llena, 1996).

The generation and implementation of accountability or reporting systems allows researchers and practitioners to generate a complete and homogeneous system for measuring corporate social performance.

Various initiatives have been launched to include social and environmental dimensions in management systems and to allow internal and external stakeholders to measure social corporate performance. The SA 8000 SAI (1997) standard, promoted by Social Accountability International, helps company managers identify the key issues relating to social responsibility within the company and of interest to some of its stakeholders. The Accountability AA

1000 standard provides a framework for measuring and reporting ethical behaviour in business.

The Global Reporting Initiative, one of the most accepted initiatives nowadays, promotes the Sustainability Reporting Guidelines as a voluntary framework for companies to report on the economic, environmental and social dimensions of their activities. This initiative is a multi-stakeholder process and different sectorial adaptations have been developed, including adaptations for the financial industry with specific social performance indicators. Engaging with Stakeholders is the leading report benchmarking *program*. It was launched by Sustainability-UNEP to enhance corporate sustainability reporting.

Evaluation of the social performance of spanish banking institutions

Our intention in this study was to focus on CSR's social dimension because it is the most complex aspect to quantify. We mainly wanted to analyse the ethical and social aspect of the comprehensive definition of CSR, which is starting to be accepted by banks. There are several indicators and standardised rules, which are useful tools for measuring (ISO 14001, 1996) or even auditing an organisation's management (EMAS, 1993) of environmental issues. However, it is much more difficult to draw up guidelines to evaluate the impact of the company's activity on society. Social issues are less standardised, especially in the banking sector.

The social dimension of CSR has often been confused with a company's community involvement programs. Nevertheless, the integrated concept of CSR not only includes a company's philanthropic activities but also the quality of working conditions, the integration of social concerns and respect for human rights. In the specific case of a bank, this social responsibility goes farther than the internal dimension, affecting our society in an indirect way through its loaning and investment function (external dimension). The CSR strategy of banking institutions is currently centred on promoting the internal dimension, which is why they only offer information on this aspect.

As regards the external dimension of social performance, European banking institutions (with the exception of the Co-operative Bank in the United Kingdom, the Triodos Bank in Holland or Banca Popolare in Italy, etc.) have just started working in this direction. As a result, available information is very scarce.

The incorporation of CSR criteria in the value chain requires a greater commitment on the part of institutions. Only ''proactive'' institutions try to measure the present and future impact of their investment and financial decisions on society.

Information sources

The main information source we used is the database that EIRIS (the Ethical Investment Research Service) has kept of more than 3,000 companies, among which we find the four Spanish banks analysed: BBVA, SCH, Banco Popular and Bankinter. A total of 22 areas of analysis and 50 CSR ethical, social and environmental sub-criteria were analysed for each company including governance and ethics, social and stakeholder relations, human rights for specified companies operating in specified countries and sourcing for companies with global supply chains in some industries. We have chosen 16 criteria related to corporate governance issues, the implementation of a policy for managing human rights issues, transparency and disclosure, the bank business in some of the Third World countries with a high risk in terms of human rights, and the human resources policy and community involvement, among others (see first column of Table I).

We used the Ethical Portfolio Manager (EPM) programme distributed by EIRIS to filter the database to obtain a list of companies, which follow the ethical criteria selected. We then compared the filtered banking institutions to obtain a social rating to determine the position of Spanish institutions in comparison to banking institutions in other countries. This also allowed us to analyse the rating of each of the Spanish institutions and their weak points in terms of CSR. The information obtained when applying the filter to the EIRIS database was complemented by that obtained from other sources such as the entities' own memorandums, their management and CSR reports (when available) and their web pages.

To assess the external dimension of the entity, we applied negative criteria to the EIRIS database

TABLE I

Internal dimension: Comparison of the four Spanish institutions based on the four CSR criteria used to filter the EIRIS database

	Popular	Bankinter	SCH	BBVA
(1) Corporate Governance				
Codes of ethics	No evidence	Intermediate system	Advanced/intermediate system	Basic system
Bribery and Corruption	No policy disclosure	Yes (policy)	Clear policy	Clear policy
Responsibility for stakeholders	No indication of stk. Issues allocated at the board level	No indication	No indication	No indication
No women on the board	No information	One female director of 10 ($1/10 < 20\%$)	One female director of 25 ($1/25 < 20\%$)	One female director of 16 ($1/16 < 20\%$)
(2) Stakeholder issues				
Stakeholder Policy	Basic policy towards stk. Overall	Basic level	Moderate level	Moderate level
Stakeholder. System	Basic policy towards stk. Overall	Basic level	Good level	Moderate level
Engagement with stakeholders	No evidence disclosure	Good level	No adequate	Basic level
Reporting on stakeholders relations	No evidence quantitative disclosure	Good level	Moderate level	Some evidence
(2.1) Employee issues				
Policy on equal opportunities and diversity	No evidence of policy	Some evidence	Basic commitment	Clear evidence
Job creation and security system	Some evidence	Some evidence	Clear evidence	Some evidence
Trade unions and employee participation system	Clear evidence	Some evidence	Some evidence	Some evidence
Training system	No evidence	Some evidence	Clear evidence	Some evidence
(2.2) Customers and suppliers	No evidence	Clear evidence	Some evidence	Clear evidence
(2.3) Involvement in the community and commitment to charitable work	Clear evidence	No evidence	Very clear evidence	Some evidence
(4) Human Rights Policy[a]	No subsidiary Or associate in A or B countries	No subsidiary Or associate in A or B countries	Small presence in A countries	2 subsidiary in A and 6 in B countries
(5) Third World: subsidiaries in poor countries with Human Development Index (HDI) score less	No evidence	No evidence	Has interest in a country which a HDI less than 0.5 but more than 0.25	Has interest in a country which a HDI less than 0.5 but more than 0.25

Source: EIRIS database and own work.

[a]It is analysed the company interest in countries of A or B category given by EIRIS Freedom House/observer.

to try to establish which of the group's investments are not ethical (shares in tobacco companies, alcohol...).

For the rest of the information we used the memorandums and public information provided by the companies.

Sample

BBVA, SCH, Bankinter and B. Popular are also the listed Spanish bank firms traded in international stock markets, and they represent more than 30% of Ibex 35 (Spanish Stock Exchange Index).

Bankinter: This is a private corporation mainly devoted to providing banking services and other financial products to individuals, small businesses, medium-and large-sized firms and the public sector. This bank specialises in telephone and electronic banking. The group has 276 branches in Spain.

Banco Popular Español: This is a multi-bank holding company and financial group. The group's banking division consists of the bank itself, five regional banks in Spain (Bancos de Andalucía, Castilla, Crédito Balear, Galicia, and Vasconia), a bank in France (Banco Popular Comercial), a bank specialising in mortgage financing (Banco Popular Hipotecaria), and a bank servicing the agribusiness market (Popula Rabobank). The group also operates several finance, portfolio and financial services companies. The company currently operates 2,144 branches.

Santander Central Hispano: This Company principally operates as a bank with branches throughout Spain, and its main areas of international activities are Europe and Latin America. The company's main business areas are commercial banking, investment and pension funds, investment banking, corporate banking, Internet and telephone banking and the treasury and capital markets.

BBVA: The main activities of this company are retail and corporate banking and other financial services in Spain, Europe and North, Central and South America. The company is involved in retail banking, Spanish asset management, investment services and insurance activities, and wholesale and investment banking including property and private equity areas. In Latin America, its business includes all banking, pension and insurance activities in the region, including BBVA Bancomer.

The first two institutions also have a very important international profile, which makes them the subject of special attention from international investors. The Banco Popular is an example of a small bank on the international scale. However, it has won awards for its financial management and was listed as the best bank in the world for return on investment for some time. Bankinter, a very young bank, has adopted a new way of banking with the support of new technologies and a commitment to quality in customer service. SCH and BBVA are the two Spanish banks with the greatest international profile, especially in Latin America.

Evaluation methodology

In order to begin filtering or social screening, we first established the policy, criteria and indicators for measuring internal social performance.

In this first approach, we did not intend to be excessively demanding or strict, given the starting point at which such Spanish banking institutions are in relation to CSR. Consequently, the criteria and aspects for evaluating it have more to do with policy and procedures implemented in order to study each of the social elements which need to be managed, than with quantitative results relating to that management.

The four aspects evaluated in the internal dimension are shown in the first column of Table I.

Once the screening policy was defined, we introduced it into the Ethical Portfolio Manager programme (EPM). This software classifies companies and ranks them depending on the CSR policy and ethical/social/environmental filter applied. Once the classification was obtained, we could compare the Spanish banking institutions with each other and with the rest of the 129 banking institutions classified according to the policy selected.

The ethical framework chosen was ''Scoring all Companies'', a framework whereby no company is ruled out or considered unacceptable. Each company receives a score based on the points assigned to any number of positive and negative factors. This way, the best companies in the sector can also be identified.

Scoring (Table III) ranges from high positive (3) to medium positive (2), low positive (1) low negative (−1) medium negative (−2) and high negative (−3)

For the external dimension, we selected a series of social performance indicators best suited to the particular nature of financial institutions by taking into account the Draft final report of the Social Performance indicators for the Financial Industry, (SPI-Finance 2002[4]). The appendix A.I shows the main indicators grouped according to: retail banking, investment banking and asset management.

The external dimension was mainly assessed qualitatively using information available regarding:

(1) Non-ethical or socially responsible investments of the group (shares and subsidiaries linked to tobacco production, arms trade, pornography, nuclear energy, genetic manipulation or any other activity which has negative effects on people's health or the environment...). For this evaluation we used the EIRIS database and EMP screening.
(2) Assessment of specific CSR policies and procedures in policies for granting credit, investment or management of assets (incorporation of these values in the assessment of risks, employee training, etc.)
(3) Assessment of the integration of CSR criteria in customer selection and the granting of loans. Examples include: environmental loans, ethical savings products, ethical and solidarity investment funds, advice services, which have an impact on customers' environmental well-being, risk capital for companies and projects with a high environmental content, micro-credits for people in danger of total exclusion, debt exchange transactions for development in Development Countries (DCs), credit cards and savings products with a solidarity and environmental component. Another example of the fight against financial exclusion is the creation of specific products for Small and Medium Enterprises (SMEs) or for low-income customers, such as local investment funds for local SMEs, venture capital and reciprocal guarantee formulas, micro-credits in order to create one's own workplace or achieve social integration, bringing low-income towns and villages in closer contact via the internet, etc.

Results

Table I compares the four Spanish institutions based on the four CSR criteria used to filter the EIRIS database. With regard to Corporate Governance, the questions analysed included the companies' policies and procedures for dealing with bribery and corruption, and their codes of ethics or business principles, promoted by the company and communicated to all employees. With regard to Stakeholder issues, we evaluated the companies' policies related to their stakeholders, using their annual reports, websites or the most recent EIRIS survey. We examined the companies' policies on community involvement, employee training and development, equal opportunities and diversity, and job creation and security, etc., as well as evidence of commitment and systems for monitoring these policies. We also assessed the companies' management systems towards stakeholders overall, quantitative reporting (indicators) on stakeholder relationship, and the level of engagement with stakeholders.

Additionally, evidence of policies and systems to maintain a good relationship with customers and/or suppliers, and the clearness of the company's commitment to the community or charitable work are analysed.

With regard to Human Rights issues, EIRIS provides information on the number of countries listed in EIRIS Observer/Freedom House Category A and B in which a company has operations. It also gives data on a company's presence and interest in these countries. We also considered if the companies had subsidiaries or associated companies in any poor countries with a Human Development Index (HDI) score of less than 0.5 (but more than 0.25).

Although EIRIS obtained most of its information through questionnaires and interviews, it is more qualitative than quantitative and is often referred to as evidence of a policy or basic system in a firm. Thus, we can conclude that the most important of the four main issues analysed for the internal dimension of CSR of the 4 Spanish banks are Corporate Governance and Stakeholder Management. This seems reasonable because the issues regarding human rights and impact in the third

TABLE II

Evaluation of the external dimension (qualitative analysis)

	Popular	Bankinter	SCH	BBVA
Areas of involvement with negative impact	None	None	None	Up to 5% of portfolio turnover from alcohol sale or production
Codes of conduct, agreements or principles taken on: Declarated	None	Declares that it complies with principles concerning good governance at national and international level.	It has a Code of Conduct, which established attitude related with stock market, information and control.	In 2002, it has adopted a Code of Conduct in the area of share markets, which establishes procedures to ensure the controlled and responsible flow of privileged information within the group. Specifically, there restriction to deal trades on BBVA shares or on any security which can directly or indirectly give rise to its underwriting or acquisition by those persons subject to the Code who know the economic results before they are made known to the rest of the market.
Codes of conduct, agreements or principles taken on: Published	Has published a Corporate Governance Report taken on the Aldama Commission Recommendations	Has taken on Cadbury, Vienot, Hampelt; Winter, Olivencia and Aldama	Has published a Corporate Governance Report in which it is indicated the recommendations undertaken	Has adopted the principles contained in Regulation 2711 of the National Association of Securities Dealers (SEC- USA. May 2002) establishing internal procedures to ensure compliance with it, concerning the objectivity and independence required of expert opinions on shareholdings given to the market by financial institutions that offer these services to their customers. Has published a Corporate Governance Report

Socially relevant elements				
Retail Banking Policy (lending)	None	None	The bank declares the use of sustainability criteria into risk lending analysis.	Has announced its commitment to incorporating sustainability criteria into customer risk analysis.
Investment Policy	None	None	None	None
Private banking and pension funds	None	None	None	Gips certification in 2001 guaranteeing good transparency relating to portfolio management customers
Asset management Policy	None	None	Ethical mutual fund	None
Products and service with great social benefit				
Immigrants	None	None	International Express office to integrate extra-community citizens in the European banking system	Dinero Expres. Created in 2002 and specialising in sending transfers for immigrants to families and friends in their country of origin. Immigrant employees. Bancomer Transfer Service (more than 7 years in the business of remittances from the USA to Mexico, Guatemala and El Salvador
Micro-credits and support for micro-businesses	Micro-credit line or from the ICO for self-employment, without guarantees	None	Micro-credit line or from the ICO for self-employment, without guarantees. SCH participates in a finance programme to lend funds and give advise to the microenterprise sector in Chile	Mexico: 415 offices specialising in micro-businesses Spain: Micro-credit line from the ICO for self-employment, without guarantees Agreement with a body responsible to the Galician government for supporting unemployed people

TABLE II

Continued

	Popular	Bankinter	SCH	BBVA
Elderly people and Disabled people	Not available	Not available	Not available	Multi-benefit free services for pensioners (including no commission on maintaining or administering an account). Adaptation of the website and online services
Young people	Not available	Not available	93.5% of social invest goes to education projects. i.e. UNIVERSIA	BBVA lends to university students at 3.5% and some at 0%
Poor people	Not available	Not available	In Puerto Rico, SCH finance poor people trough small mortgage loans linked to the savings of the client (lens 3 dollars for each dollar saved)	Not available
Financial products with element of solidarity	None	None	It has 4 ethical and solidarity funds ''Fondo Etico y Solidario''. In Brazil, clients using Visa and Mastercard can donate part of their purchases to NGOs	Solidarity Fund, Biogen Fund and Red Cross Visa Card (0.75) and chance to manage donations to NGOs through the ''Colabora'' service

Source: CSR management reports and memoranda and own work.

TABLE III

Position of Spanish banking institutions in EIRIS ranking (Using own criteria for a specific selected policy)

Position	Company name	Total score	Positive score	Negative score	Country
1	HSBC Holdings	13	15	−2	UK
2	Barclays	13	15	−2	UK
3	Northern Rock	12	12	0	UK
4	The Royal Bank of Scotland Group	12	12	0	UK
5	Lloyds TSB Group	12	12	0	UK
…					
39	*Bankinter*	*2*	*2*	*0*	*Spain*
…					
55	*Banco Popular Español*	*0*	*0*	*0*	*Spain*
…					
127	*Banco Bilbao Vizcaya Argentaria*	*−2*	*0*	*−2*	*Spain*
128	San Paolo-IMI	−2	0	−2	Italy
129	*Banco Santander Central Hispano*	*−2*	*0*	*−2*	*Spain*
130	Alliance & Leicester	−3	0	−3	UK

Source: EIRIS.

world are, at the internal level, less important in bank and finance than in other sectors. Moreover, EIRIS classifies BBVA y BSCH as having a small presence in A list countries, and the other two banks have no presence in A or B countries.

As companies usually give priority to shareholders, all aspects related to guaranteeing good governance began to be addressed in 2002 (after the big corporate governance scandals) and have continued being managed since then due to the new financial regulation introduced in 2003 to increase transparency in financial markets (Transparency law, July 2003 Ley de Transparencia). All of the banks except Popular Bank had a code of ethics and a bribery and corruption policy. Nevertheless, none of the four banks placed stakeholders' interest at a high level within the company and participation of women on the board was still less than 20%.

Regarding stakeholder issues, we observed that all banks had designed a stakeholder policy and system (still graded as basic or moderate) with some evidence of stakeholder engagement practices in two of them and CSR reporting in three of them. Once again, Popular Bank was in last place of the 4 banks analysed. With respect to the employee issues, there is some evidence that these banks are concerned about their employees' demands and are trying to satisfy some of them through policies orientated to increasing their security and stability in the workplace, improving training and participation, and guaranteeing equal opportunities.

Table II, which deals with the external dimension of CSR performance, compares the degree of transparency and commitment of these four institutions based on information obtained from their annual reports for 2003, amount and type of information (number of indicators, more qualitative or quantitative information), and importance given to each dimension. Although there is a lack of standardised, homogenous data, we have evaluated the financial investments of the four banks (investments with a negative impact such as alcohol, tobacco, gambling or weapons production), their transparency policies, their ethical and social policies in banking business (retail banking, investment and private banking, pension funds and asset management), and evidence of special products or services for people at risk of social and financial exclusion. Our results were not as good as we had expected perhaps due to lack of public information or to the limited knowledge among these banks of the external implications of their CSR strategies. Nevertheless, the new mandatory reports on corporate governance announced in the transparency law of July 2003 has motivated these banks to issue their CG reports before the law came into effect and three banks have introduced codes of conduct in their financial market operations.

Regarding the adoption of sustainability criteria into financing, lending, investment and asset management policy, we found that only the two biggest banks (BBVA and SCH) have announced their intentions to incorporate these issues in their risk lending analysis. Ethical or social policies have not yet been considered in the other business areas.

However, sporadic actions have been taken by the two biggest banks to increase the social impact of their activities. These two banks have designed products for those social groups at a high risk of social exclusion. They include ethical mutual funds, micro-credits for self-employment without guarantees in Spain or for micro-enterprises in developing countries, transfer services for immigrants, special credit lines for students, multi-benefit free services for pensioners or solidarity products or services, which give donations to NGOs or charities.

The ranking of these Spanish institutions are included in Table III. This table is a summary of the scores obtained by some of the banks included in the EIRIS database, as a result of the difference between the positive and negative score given to the 16 criteria defined in the ethical policy, graded from high positive (3) to high negative (−3). Bankinter is the best-positioned Spanish bank (number 38) followed by the Popular Bank in position 54.[5] The two big Spanish banks, BBVA and SCH, are at the bottom of the table (126 and 128, respectively). Their rankings are precisely inverse to the size of the institution. Bankinter, positioned within the top 30% of banks, forms part of the FTSE4Good ethical index and is one of the Spanish institutions with the longest record in CSR management. In contrast, the two largest Spanish banks (BBVA and SCH) are positioned at the bottom of all the institutions analysed by EIRIS. This ranking only takes into account the internal dimension of CSR, which is why it is not totally in accordance with the conclusions obtained in the analysis of the external dimension shown in Table II where BBVA and SCH are in the best positions. It should be noted that the efforts made by these two bodies and their chairmen towards CSR are very recent. In 2002, they created specific CSR-related departments, which report directly to the chairman's office. The information on CSR provided by these institutions in 2003 in their social reports and memoranda demonstrates the challenge they have taken on, not only in terms of transparency, but also CSR policies and procedures. (See the summary of the information provided by each institution in 2003 on aspects related to CSR).

Conclusions

In this study, we have attempted to define what we understand by CSR and its implications in the banking sector, both for its internal management and through its intermediary function for finance and investment. In order to do so, we have tried to define the features of a socially responsible institution and the business and banking activity areas with the greatest social impact.

Within the broad concept of CSR, we have focused on both its internal and external social dimension that is to say on the business, products and services of a banking institution.

Finally, we have tried to evaluate the social performance of some representative Spanish institutions. In this study, we have focused on PLC banks because they are the subject of attention from large institutional investors and, given the lack of public information on CSR, we have chosen four banking institutions in the EIRIS database as a sample. Starting from this database and analysing each of these institutions' reports, we have applied the filter to find out their position with respect to 5 criteria (good governance, stakeholder issues, involvement in the community, human rights policy, and presence in countries with a small HDI) and compare them with other European, North American or Asia Pacific institutions.

After this approach we reached the conclusion that:

- Interest in these subjects is relatively recent in Spain. As a result, public information on CSR is very scarce. Of the 4 institutions analysed, only the two largest banks offer some public information on CSR and then only from 2003.
- The application of the filter for the internal dimension of the CSR to the EIRIS database found that the two large institutions (BBVA and SCH) were at the bottom of the table of all the banks compared. Only Bankinter had a positive evaluation (it has no presence in countries with

high risk in term of human rights). Nevertheless, since 2002 the two large banks have created new departments to manage CSR and reputation issues. They have also adopted different public commitments such as the Global Compact principles, the GRI Guidelines, or in the case of BBVA the World Bank Equator Principles.

– The CSR results of the external dimension showed that the four Spanish banks are only beginning to address issues such as the selection of customers and investments with ethical and social criteria. Nevertheless, there have been signs of further development in the last couple of years due to the increasing demands of stakeholders. In an external dimension, the adoption and implementation of Global Compact Principles or the World Bank Equator Principles implies integrating human rights and environmental issues in the banks' decisions and project finance evaluation.

In future studies, we will try to analyse the social performance of a wider sample of Spanish banks, including savings banks, as these institutions have only recently started to disclose CSR information.

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Appendix

TABLE A.I

Indicators related to the external dimension social criteria applied to banking system

Retail Banking
Development of the local economy
Number of offices and cash dispensers in towns with few inhabitants
Number of offices and cash dispensers in rural areas.
Percentage of employees from the bank in relation to the total population
Credit share in the region
Number of employees working in deprived or less populated areas.
Breakdown of credit information
Delivery of the credit by payee: domestic economies and companies by size and sector to which each belongs, making special reference to loans to small and medium businesses
Loans with high social impact
Financing communities or deprived regions
Financial support to educational, cultural and social projects
Support to businesses promoted by immigrants, women and disabled people
Support to micro-companies and creation of new companies
Finance to purchase houses or other basic needs
Financial inclusion
Number of accounts of customers or families with low income
Number of small business accounts
Policies and acts initiated to make it easier for people with low income to access new technologies and new distribution channels
Number of inhabitants per office and number of offices in the towns with less than 6,000 inhabitants

TABLE A.I

Continued

Investment Banking
Banking investment policy
Social aspects relevant to banking investment
Reference to the standards or directives taken on by the institution
Transactions (business and financial transactions) with high social benefit
Quantitative indicator, which informs of the products and services that apply ethical and sustainability criteria. Total and percentage of the transactions.
Regional and rural development Water conservation projects
Hydroelectric and sustainable energy projects
Medical and health initiatives
Recycling and management of waste materials
Some infrastructure projects
Asset Management
Assets managed with high social benefits
Quantitative indicator, which informs of the offer of products and investment services that apply ethical criteria and of special sustainability (ethical or ecologic investment funds, for example). Information in absolute value and for the whole institution.
Activism of the bank as a shareholder
Qualitative indicator that gives information about the action the institution takes to inform the boards of the companies in which they set down their concerns regarding CSR. They also exercise their political power in the shareholders' meetings.
Management of conflicting interests between commercial and investment banking
Qualitative indicator that informs of the internal control procedures implemented in order to avoid situations in which information collected by the risk analysis areas of commercial banking could used to mislead investors to the bank benefits.

Source: SPI-Finance 2002 and own work.

Notes

[1] Any group or individual who can affect or who is affected by any action taken by an organization or by achievement of organization's objectives.

[2] These are Indicators and standardised rules, which are useful tools for measuring or even auditing an organisation's management.

[3] CRA performances are evaluated under one of four possible scenarios: Streamlined procedures for small institutions, Three-tiered test for large retail institutions, Limited-scope test for ''special-purpose'' institutions and Strategic CRA plans. Regardless of the evaluation system used, emphasis is placed on the institution's record of making loans to low- or moderate-income persons, in low- or moderate-income areas, and to small businesses and farms.

[4] This is a voluntary initiative launched by 10 financial institutions, Global Reporting Initiative and E2 Management Consulting to develop social performance indicators for the financial sector.

[5] It should be noted that this two banks have no presence in any A or B EIRIS category countries. They also have not subsidiaries in poor countries with a bad HDI score.

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