Journal of Business Ethics (2011) 100:151–173
DOI 10.1007/s10551-011-0774-4

Are Ethical Banks Different? A Comparative Analysis Using the Radical Affinity Index

Leire San-Jose
Jose Luis Retolaza
Jorge Gutierrez-Goiria

ABSTRACT. This article studies the differences between traditional financial intermediaries (commercial banks, savings banks and cooperative banks) and ethical banks based on property rights, in which the owner decides the ideology, principles, standards and objectives of the organisation. In ethical banking, affinity centres on positive social and ethical values. The article consequently focuses on an index proposed both to differentiate ethical banks from other types of banks, and also to pinpoint the differences between the various ethical banks themselves. This is the Radical Affinity Index (RAI), which groups banks together in terms of their stance on ethical commitment, concentrating on ethical ideology and principles (information transparency, placement of assets, guarantees and participation) and using a sample of 114 European banks. The evidence shows that transparency of information and placement of assets are factors that differentiate ethical banks from other financial intermediaries. Guarantees and participation are characteristics specific to ethical banks; these variables, however, do not offer clear evidence to our analysis.

KEY WORDS: assets placement, ethical banking, guarantees, participation, Radical Affinity Index, ranking, transparency

Introduction

In spite of its importance, before the financial crisis only little consideration was given to ethics in finance (cf. Boatright, 2008) and to ethics in banks (cf. Cowton, 2002; Cowton and Thompson, 1999; Edery, 2006). With the onset of the financial crisis, more attention is being given to ethics in finance, at least on a theoretical level (cf. Dembinski, 2009; Palazzo and Rethel, 2008; San-Jose, 2009), but few articles analyse ethical banks and show the relevant role ethical banking plays as an independent and differentiated financing activity (Alsina, 2002; Baranes, 2009; Barbu and Vintilã, 2007; Buttle, 2008; Cowton, 2010; Kendric, 2004; Lynch, 1991; Thompson and Cowton, 2001).

The aims of ethical banking go beyond economic benefits to include social objectives, assuming that both are relevant in a socio-economic model. In some cases, traditional banks incorporate ethical and social aspects through Corporate Social Responsibility (CSR), which can be another way to add value. 'CSR contributes to value, and thus to a competitive advantage to the company' (Perrini et al., 2006, p. 72). This is a self-regulating mechanism whereby financial entities monitor and ensure their adherence to law and international norms, specifically in terms of the triple-bottom line comprising people, planet and profit, but it does not involve directly ethical commitments around financial decision-making.

The differentiation between ethical banks and traditional banks is important for stakeholders, as they need to acquire information not only about investments in positive projects (which is the focus of social or ethical investment funds), but also about the ethical management of financial entities globally. There are also great differences between one ethical bank and another. If there are such differences between banks, it is important that investors and other stakeholders be aware of the fact. Unfortunately, the ethical or social terminology that banks use can prove confusing, and so, in this regard, the aim of this article is to explain not only theoretically, but also in a quantitative way (using an index), whether there are differences between ethical banks[1] and traditional banks, and also to show differentiations between ethical banks themselves, using a quantitative scale.

The article makes three main contributions. Firstly, we used different theories to analyse ethical banking to identify the underpinning of its founding principles and its differentiation, and thus explain the existence of ethical banks. Secondly, we developed the Radical Affinity Index (RAI), which is useful for explaining not only the differences between ethical banks and traditional banks, but also those that exist between the different ethical banks. Thirdly, using a sample of 114 European banks (ethical banks, commercial banks, savings banks and cooperative banks), we provide a ranking of financial institutions,[2] which highlights the differences between ethical banks, in terms of their transparency and the quality of the information they offer concerning the placement of assets. Consequently, the authors have developed a tool (the index) that will be helpful for reflecting and pinpointing differences between credit institutions where the ethical management of banks is concerned (transparency, placement of assets, guarantees and participation).

The remainder of this article is organised as follows: The next immediate section provides an overview of theories about ethical banking, which explain the question of founding principles and the question of differentiation. The section following the above section shows the factors for differentiating banks and the index that was developed. The article then describes the data and method employed. This is followed by the empirical results, with an explanation of the ranking of different types of banks, as well as a detailed ranking of ethical banks. This article concludes with a discussion of the key findings.

Ethical banks: theoretical approach

The basic constraints of 'ethical' management commitments in banks: social profitability, economic profitability and the formal consideration of a financial institution

In this section, the basic constraints used in this study, which govern the commitments that banks make in the area of ethical management, are established. There are two accepted characteristics that define ethical banking (Alsina, 2002; Cowton and Thompson, 1999; Green, 1989; Kendric, 2004; Lynch, 1991):

1. The obtaining of *social profitability*, understood as the funding (placement of assets) of economic activities with social added value[3] and as the unconditional absence of investments in speculative projects or in undertakings that fulfil negative criteria.[4]
2. The obtaining of *economic profitability*, which means benefits.[5] 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.

Both aspects are necessary because the social dimension makes the bank ethical, while the benefit dimension makes the bank economically sustainable. Nevertheless, a third characteristic, which is not analysed by previous studies, is needed to test the differences between credit institutions (it is used as a constraint in our empirical analysis), so as to create the same conditions between the institutions (formal financial institutions), which will make a comparative study possible:

3. *Recognition of the institution as a bank or as a credit institution by national authorities.* This dimension is important for distinguishing between ethical banks and other financial experiences, such as solidarity programs or foundations that depend on banks but do not work as real financial institutions. Sometimes traditional banks have foundations that might in themselves fulfil ethical criteria, but are not, properly speaking, credit institutions, because they depend on the bank's activities (which will probably have another kind of social impact). Assuming that this legal recognition is necessary, the ethical bank will need economic and social profitability and have a separate existence, and it will, therefore, be possible to study it under the same conditions that apply to other traditional entities. Ethical commitments, then, should affect all aspects of the bank and not just part of the bank and its activities, as foundations do. Furthermore, ethical banks must meet ethical commitments, not only in their actions, but also in the actions of their subsidiaries and significant partners.

Moreover, the definition of ethical bank, which will be employed in this article to support our analysis, is based on Cowton and Thompson (1999) and Cowton (2010), who describe how ethical banks provide an unusually high level of transparency and more detailed information to their depositors with regard to where money has been lent – information transparency and placement of assets –, and how ethical banking policy is based on the assumption of risk conditions associated with improvements in terms of asset allocation – alternative guarantee systems. Harvey (1995) places a special emphasis on the banking relationship that is established between financial entities and stakeholders, whereby the interests of the latter are taken into consideration (he uses the Co-operative Bank as an example). These variables that define the ethical banks are analysed theoretically in the next section.

Two questions to address: the question of the underpinning of founding principles and the question of differentiation

Apart from the three characteristics explained in the previous section, there are two more interesting issues to address: the question of founding principles and the question of differentiation. Both areas are explained in this study, but the empirical analysis focuses on the second, with the development of an index:

1. *The question of founding principles*: This refers to the arguments for the existence of the ethical bank itself, because ethical banking might just be a one-off experience, a residual exception without possibilities of generalisation, in opposition to the fundamentals of Economic Theory.
2. *The question of differentiation*: This refers to the possibility that ethical banking performance might obtain higher added social value than traditional banks do. Ethical banking might be a different way of explaining or giving a name to Ethical Corporate Responsibility, which traditional banks are incorporating within their approach.

The question of founding principles
This concerns the premise that the relationship between banks and clients is based on trust that demands moral behaviour from the agents (Chami et al., 2002). In this sense, Cowton (2002) identifies three levels of responsibilities associated with the relation of trust established between depositors and bank managers:

1. *Integrity* – relating to the concept of financial exclusion – is the responsibility to prevent exclusion, which should be understood as the banking system's obligation to ensure that there are no organisations, micro companies, NGOs, black economy or groups excluded from the financing system, either because of a lack of resources (poverty), their geographical situation or because they belong to a certain social or ethnic group. In this sense, attention to marginalised groups is not exclusive to any one kind of banking. It occurs in different types of institutions, and constitutes a meeting point between traditional banking and banking ethics (Viganò, 2001).
2. *Responsibility* – linked to the concept of negative criteria for investments and to CSR – is about those involved being accountable for the social and economical consequences of their behaviour.
3. *Affinity* – associated with the concept of positive criteria in investment, joint shareholder responsibility and asset quality – concerns the responsibility of financial entities in decisions regarding the final use of deposited funds. Affinity[6] is based on asset placement that matches the interests of depositors and savers (Cowton, 2010).

The theoretical foundation of ethical banking around integrity, responsibility and affinity may be explained using different theories: Social Institutional Theory, CSR and Property Right Theory.

In terms of *Social Institutional Theory* (Boatright, 2002), ethical banking might be an instrument or mechanism that the Administration or Public Authorities could use to mitigate the disruptions of the banking system, fundamentally in relation to financial exclusion and speculation. However, in such scenarios, the Administration could use other resources, rendering the promotion of ethical banking unnecessary. In fact, the European Administrations do not generally develop specific actions to promote the growth of ethical banking.

In terms of *CSR*, ethical banking could be described as a type of differentiated bank. According to this perspective, based on self-regulation, the sector seeks to achieve an ethical maximum within current bank reality, introducing ethical aspects that affect the whole organisation.

Finally, *Property Right Theory* (Coase, 1937; Demsetz, 1967) explains ethical banking as decisions taken by bank owners, in this case, the owners of ethical banks. It is important to note that this theory supports not only the existence of ethical banking, but also the different financial structures that actually exist. This is because a group of organisations or persons (NGOs, public administrations, religious groups, etc.) have privately promoted the creation of a bank (particularly an ethical bank) with a purpose (social or ethical objective in the case of ethical bank). The owners, accordingly, decide to develop a bank with the ideology and principles that they establish and that they want. In ethical banking, the ideology and principles are based on social affinity.

Bank management, meanwhile, is professionalised (as it is in ethical banks), and so a manager is contracted to supervise the organisation. In this connection, it is important to clarify that managers in ethical banks try to optimise the interests of the majority of the stakeholders in accordance with the ideology and principles of the bank (around ethical commitments).

Ethical banking is justified not only from the perspective of a relationship of trust between depositors and bank managers (Davies, 2001), but also because of social returns on provided funds, as an alternative or complement to economic earnings (Ideals, Principles and Ideology of ethical banks). The participants (individuals or organisations) of the ethical bank share a mission, although the specific mission may be different but similar and take a social and ethical direction (ecology, social inclusion or assistance to developing countries, for example). This ideological link is a differential characteristic of ethical banks when compared with traditional banks, in which the ideology is more economic than social. This justification is grounded in the *affinity* concept proposed by Cowton (2002): the best alignment between the bank and the persons or stakeholders who make up the financial entity in relation with the 'common good' (that is to be achieved).

The question of differentiation

According to Cowton and Thompson (1999), ethical banking is based on dual commitments, of a social and economic nature (as explained above). Rodríguez and Cabaleiro (2007), in agreement with these commitments, use two axes (social and financial) to represent the different kinds of activities that constitute financial intermediation. Despite their contribution, we are of the opinion that it might be better to use a constant scale that exhaustively represents different types of financial entities.

Cowton and Thompson (1999) indicate that ethical banking initiatives are designed to be different from those of conventional banking. Basing ourselves on the affinity concept, semantic analysis of the ideology and principles of European ethical banks has identified the main variables that differentiate ethical banking. From their ideology, ideals and principles ethical banks decide the criteria that they will focus on. Therefore, it will be possible to show stakeholders the differentiation between banks, using a continuous scale. The scale that we developed is based on the 'Demarcation Criterion' explained by Edery (2006), which concentrates on the quality of the placement of assets and refers to the general behaviour of banks, that is to say, the whole placement of assets (not just the assignment of benefits). Other criteria are important too: information transparency (Neu Berger, 1998), alternative risk management (guarantees) and stakeholder participation in decision-making.

– Placement of assets [as opposed to asset opacity]: This supports social action in banking and contributes to building a society that matches shareholders' interests through the placement of the money they manage. In these terms, Harvey (1995) points to the importance of ethical banks in terms of their responsibility for funds and their distribution. Therefore, as ethical banks place their own assets to obtain social profit, what characterises the social mission in ethical banking may be considered to be the criterion of asset placing.
– Transparency [as against banking privacy]: Financial markets are characterised by information asymmetry and, in banking transactions, a

set of promises is exchanged between buyer and seller under conditions where it is often difficult for customers to evaluate these promises in the absence of full information (Neu Berger, 1998). Transparency is used by shareholders or other stakeholders as a necessary condition for the monitoring of their ethical commitments. Consequently, it is necessary to verify affinity and to consolidate trust between stakeholders and the bank.

– Participation [as against exclusive shareholder rights]: In general, ethical banks consider participation as a value and they propose, in theory at least, other alternative mechanisms of participation. Permanent empathy between agents from the entities and their shareholders/stakeholders is necessary to achieve affinity in financial institutions. If this is to be achieved, then the entities should establish systems of co-partnership for approval and control of the criteria relating to the placement of assets.
– Alternative guarantee systems [as against mortgages and collaterals]: This is a feature that does not always appear explicitly, but in fact most ethical banks try to put money into projects or persons not attended by traditional banks. This requires the development of new guarantee arrangements on their investments, in particular because traditional banks will not make high-risk investments using the normal guarantee mechanisms. The commitment to equal opportunities should, therefore, be extended within the financial market (Harvey, 1995). Ethical banking gives priority to social performance. Ethical banking proposes, at least theoretically, the development of alternative guarantee systems (not based on patrimonial collateral) to facilitate the placement of assets in social projects, which cannot provide real or traditional guarantees (mortgages, personal and bank guarantees).

The hypothesis is that ethical banks are themselves different from other banks: The ethical banks are different on information transparency, are different because of the social value generated through asset placement, are different on their active participation in decision-making from all stakeholders, and are different on their typology of the guarantees required. These four variables are included in the proposed continuous scale that is developed in the RAI, and are useful for explaining not only the differences between ethical banks and traditional banks, but also between the various ethical banks. The index allows us to establish a classification between ethical banks.

Radical Affinity Index

The RAI[7] was developed to provide a response to the problematic of founding principles in banking, but particularly to differentiate the different banking typologies. This index considers the main differences between ethical banks and traditional banks.

Differentiation variables adopt a twofold grouping: RAI alpha which groups information on transparency and placement of assets, and RAI beta which groups guarantees and participation in decision-making.

To define the rating scale for each variable, given the newness of the proposal, group research was developed relying on the experience of the authors and of banking professionals – taking into consideration the current situation of the sector and its means – to finally agree on a logical and coherent classification. The variables of transparency, guarantees and participation are categorical, but they have a logical and growing order. Five possible situations were considered with regard to transparency (value from 1 to 5), and four in the cases of guarantees and participation (values from 0 to 3). The experts agreed on the characterisation of transparency within five categories, but this was not the case for the remaining variables, where they decided to group the scenarios within four different categories. In the case of the asset placement variable, five types of funds are distinguished and weighted, to finally produce a continuous variable that takes values from 0 to 3.

The different ranges for each variable do not directly affect the RAI score because, at a second step, the ranges were standardised to take values from 0 to 10 to make the operation between variables possible.

Information transparency

Differentiation in credit institutions in terms of information transparency is an insufficient but necessary variable to show the differences between ethical banks and all the rest. The transparency variable (due to the weight it is given) marks the first and the foremost important difference between credit institutions. We used a score of five values to show the different levels of information in credit institutions:

Value 1: The credit institution does not give any information, or the information that appears in the website is only in advertising form. The Annual Report does not reflect it at all
Value 2: The information facilitated by the credit institution is not systematic; they exclusively emphasise aspects that are communicatively beneficial for the organisation
Value 3: The credit institution gives systematically structured information, following a standard norm of presentation such as the Global Reporting Initiative (GRI), European SGE21, United Nations Global Compact or others
Value 4: The credit institution shows sufficient but not detailed information about the placement of assets. They provide a generic description broken down into categories
Value 5: The credit institution provides total information about their operations, providing complete information about asset placement
Transparency = [from 1 to 5]
There is no information about asset placement if the transparency value is 1, 2 or 3

Placement of assets

The second RAI variable, the *placement of assets*, is focused on the main differences between ethical banks and the remaining banks. In order for banks to be ethical, they should first place their assets in projects with positive social added value, as explained above, and never in speculative projects or in projects that (directly or through other related entities) meet the conditions and criteria that make some investments ineligible. Secondly, the previous characteristic (the placement of assets) should be seen globally, and so the projects in which the bank invests the money must be positive projects as a whole. Credit institutions with only part of their money invested in positive projects will, therefore, be penalised, but far too less than in the case of funds invested in negative criteria projects, as it is thereby possible to demonstrate the doubts thrown up by the ethical projects of traditional banking.

In order to obtain a classification, we classified the assets of banks:

Classification of assets according to their social value: It is the classification needed to calculate the value of the placement of assets in the index:
FA – A category funds: applied to credits with an additional social value. They are destined, for example, to projects with ecological purposes, promotion of culture, job market integration, international cooperation or solidarity. Good information provided about these projects is required to be included in this group. Their value (in percentage on the whole of assets) multiplies by 3★ for the purposes of calculating the placement of assets on the RAI
FB – B category funds: applied to credits of doubtful social value. Providing normal housing mortgages to individuals, for instance, is included in this group. Without extra information about this kind of loan, it seems to add little value to the work covered by other entities. Their value (as a percentage of the entire assets) multiplies by 1★ for the purposes of calculating the placement of assets on the RAI
FC – C category funds: applied to commercial credits without any additional social value and to other assets that are not destined to credit (bonds, investments, deposits, etc.). They are multiplied by 0. Their value is always 0★ and consequently does not appear in the formula
FD – D category funds: Applied to loans to entities which meet any of the negative criteria (See note 4). They are multiplied by −5★
FE – E category funds: applied to credits about which there is a lack of information concerning their social value. They are multiplied by −1★
★In the index, logical weighting scores were used for each type of fund, but other weightings might also be logical and useful. The objective of the adjustments is to show a relationship between the different types of funds: a positive weighting for credits with additional social value (FA), a positive weighting, though less than the latter, for credits that create uncertainty concerning their social aim (FB), a null weighting for funds without any additional social value (FC), a negative weighting of greater value to penalise funds invested in negative criteria (FD), and negative weightings, though of less value, for lack of information about funds. The weighting for the funds that provide no information is due to the fact that these funds create great uncertainty amongst investors with regard to their social value and increase the risks of investing in negative or speculative funds (the argument for penalisation is based on the criterion of prudency)

Placement of Assets = $3 \times \%FA + 1 \times \%FB$
$-5 \times \%FD - 1\% \times FE$
Placement of Assets = [from $-5^{\star}$ to 3]
*If Placement of Assets < 0: the score is 0, and so
Placement of Assets = [from 0 to 3]

Guarantees

The third variable in RAI relates to guarantees, which is used as an element that defines the increase in trust concerning the return of the money that the bank lends its clients. There are traditional guarantees such as mortgages, personal guarantees and bank guarantees. However, other ways of guaranteeing the return of money are necessary in an ethical bank, because there is an absence of traditional guarantees for some clients and risk must be reduced when lending money. The guarantees can be innovative; some of them are in the following list: guarantees based on negotiation and special situations with NGOs, guarantee systems for successful projects that cannot secure traditional guarantees and the development of guarantee systems to lend money to people in situations of financial exclusion. These guarantees were valued from 0 to 3 (4 levels). The bank obtains the minimum score (0) when guarantee schemes in the ethical bank are the same as those of traditional banks. This means that credit access for individuals and corporations is the same in ethical and in traditional credit institutions. The ethical bank gets the maximum score (3) when guarantee policies and systems are innovative and when they open up access to funds to the most disadvantaged people and entities, that is, those who suffer from financial exclusion.

Value 0: traditional guarantees systems: mortgages, personal guarantees or bank guarantees
Value 1: establishment of financial loans in convenient conditions to NGOs or specific interest groups and banks
Value 2: guarantee systems which support risk in loans to projects or entities
Value 3: scoring guarantee systems which provide loan guarantees to people with financial exclusion problems
Guarantees = [from 0 to 3]

Participation

The last variable in RAI is participation. There are different ways of participating in corporations, and there are different interest groups that may take decisions in a bank's strategic and operative areas. We establish different scores to differentiate the involvement and participation of shareholders in the governing bodies of banks, or the inclusion of other stakeholders such as employees, depositors or society. Participation through property is not the focus of our study; we concentrate on alternative forms in which stakeholders might participate. The value in participation is higher when more stakeholders are included in the 'decision committee', and more bank interest groups are decision-makers. The score is from 0 to 3. 0 indicates that only shareholders are in the governing body and 3 reflects balanced participation from all stakeholders in executive bodies.

Value 0: participation in the governing body is exclusively for shareholders
Value 1: participation includes depositors, taking into account their guidelines for the bank's investment
Value 2: structured participation by stakeholders because of their formal participation in the decision committee
Value 3: participation of stakeholders in the governing and executive body
Participation = [from 0 to 3]

The total Radical Affinity Index: the RAI

Once the score for the variables was obtained, the scores were transformed into a decimal scale (from 0 to 10) because this would assist us in analysing the results.

To obtain the RAI, the RAI alpha variables (transparency and placement of assets) and the RAI beta variables (guarantees and participation) were calculated separately. Calculation of the RAI alpha includes the interaction between transparency and the placement of assets (see later) because transparency is needed to secure the placement of assets. The interaction between these two variables represents their relationship and importance. In the case of traditional entities, due to the lack of public information, we tried to obtain a response by mail or by post, concerning the types of project they invest their money in. No replies were received. The authors, therefore, decided that the score for the placement of assets when there is no information about where the funds are invested is null.

The RAI beta is the average of the scores for guarantees and participation. The final RAI result is obtained using the average of the RAI alpha and beta scores. This is how the RAI is shown:

Radical Affinity Index: RAI

RAI alpha $= \frac{\text{Transparency} * \text{Placement Assets}}{10}$ [from 0 to 10]

RAI beta $= \frac{\text{Guarantees} + \text{Participation}}{2}$ [from 0 to 10]

RAI $= \frac{\text{RAI alpha} + \text{RAI beta}}{2}$

Therefore,

RAI $= \frac{[\text{Transparency} * \text{Placement Assets}]/10 + [\text{Guarantees} + \text{Participation}]/2}{2}$

Data and research method

Source of data

The BankScope database was used both to make the sample selection, taking the bank population into account, and to collect information about banks (e.g. total assets). The database is updated monthly and the latest edition of BankScope used in this study was for February 2009. Bankscope distinguishes only three types of institutions: Commercial Banks, Savings Banks and Cooperative Banks (see Appendix 1). The BankScope data were supplemented with data and information from annual bank reports, information from bank's web sites and questionnaires sent by mail, seeking more information about the placement of assets, guarantees and participation in ethical banks (see Appendix 2).

Sample and data collection method

Secondary data is a valuable and arguably under-exploited source of empirical insights of relevance to business ethics (Cowton, 1998). In this case, Annual Report information from different types of banks provided the opportunity to construct a relevant database for studying the differentiation of ethical banks. Information is chosen from consolidated statements where banks are obliged to present them, because consolidated statements offer a better picture of a bank's economical situation. The database groups' information from a sample of 114 credit institutions from 10 countries (Denmark, France, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, Germany and the United Kingdom) selected according to their relevance and randomly, using systematic statistical techniques with no replacement of individuals (see Appendix 1 for a complete list of banks in the sample):

- 11 ethical banks (population, including one bank from each of the countries in the sample, except for the UK, where two are included).[8]
- 40 commercial banks (the two biggest banks from each country and two from the rest, randomly selected in each case).
- 34 savings banks (the two biggest savings banks from each country, and two from the rest, randomly selected in each case. Note that savings banks work as a group in some countries, and so less than four are studied in some cases).
- 25 cooperative banks (the two biggest cooperative banks from each country, and two from the rest, randomly selected in each case. Note that, in some countries, there are no banks defined as cooperative banks. It is the case of Netherlands, Norway and the UK).

In addition, all the banks from these 10 countries listed in Fortune were analysed to view the situation of the most important banks in terms of ethical perspective. Accordingly, another four banks that had not been chosen in the previous selection were included in the final sample (France [1], Netherlands [1], and the UK[2]). Owing to the dominant role of a few banks, the sample of 114 credit institutions represents more than half the assets of the Europe-based banks analysed.

Results: classification of banks using the RAI

Traditional banks

Transparency, as we explained in the third section, is an important variable reflecting positive ethical

TABLE I

Transparency in traditional banks: descriptive results

Transparency values	Commercial banks	Savings banks	Cooperative banks
Value 1	20.45%	0%	36.4%
Value 2	47.72%	0%	54.5%
Value 3	31.81%	100%	9.1%
Value 4	0%	0%	0%
Value 5	0%	0%	0%
	Mean = 2.11 (SD 0.72)	Mean = 3.00 (SD 0.00)	Mean = 1.72 (SD 0.64)

policy in credit institutions. In general, traditional banks do not obtain a high score (value in transparency is 3 or less). Thus, the average value for information transparency is 2.11 for commercial banks, 3 for savings banks and 1.72 for cooperative banks. None of the traditional banks provide enough information about their placement of assets, or generic information for the categories that explain where bank funds are invested in their entirety (Table I).

Turning to the placement of assets to calculate the RAI index, none of the traditional banks included in the sample, as was explained above, gives enough information concerning the placement of the total amount of assets. Classification of the total assets of this type of credit institution is not therefore possible. The information given in the most traditional banks by financial intermediaries suggests a classification of assets in C funds (FC), assets with no added value and other investments or assets in E funds (FE), and assets where there is an absence of information regarding their social value. Traditional banks obtain a RAI score of 0 for placement of assets, essentially due to their information opacity.

Apart from the quantitative difference in the RAI calculation, there is also a qualitative gap between ethical banks and the rest of the banks in terms of asset classification and information about social utility. The information offered by the traditional credit institutions concentrates on financial aspects relating to profitability, risks, guarantees, growth and, ultimately, registers the evolution of the activity seen as a business. On the other hand, in their reports, ethical banks insist on aspects concerning the social utility of their action.

The remaining RAI variables were analysed only in the case of the ethical banks because the guarantee and participation variables are specifically aimed at comparing the way in which traditional banks guarantee their loans and credits with their approach to participation in decision-making. The most important guarantees in traditional banks are mortgages, personal guarantees and bank guarantees, while the participation variable in traditional banking is based on a shareholders' governing body that provides bank management rooted in severe shareholder control, where the interests of the remaining stakeholders are underestimated.

Ethical banks

Most of the ethical banks give us a complete list of the companies or individuals funded by them. Ethical banks show what type of credit they give, the aim of the project, the amount, the period of time and other characteristics about where the bank funds are invested. They obtain an average of 4.18 (out of 5) in information transparency, which means that they generally exhaustively disclose complete information about their assets (Table II).

Based on the hypothesis of San-Jose and Retolaza (2008), the results are clear about the differences between traditional banks and ethical banks where transparency is concerned. We used a non-parametric Kruskal–Wallis test[9] to check out the effect of transparency on the difference types of credit institutions in Europe. According to this procedure, the sample was ranked according to the probability of an unequal distribution across categories (ethical banks, private banks, savings banks and cooperative banks) and it was tested by the χ^2 statistic ($\chi^2 = 66.784$, sig. 0.000). The result indicates that, with an error of less than 0.001,

TABLE II

Transparency in ethical banks: descriptive results

Transparency values	Ethical banks	Percentage of ethical banks
Value 1		0%
Value 2		0%
Value 3	Cooperative Bank	9%
Value 4	Merkurbank	64%
	GLS	
	ASN Bank	
	Cultura Sparebank	
	Triodos	
	Ekobanken	
	BAS	
Value 5	Banca Popolare Etica	27%
	LaNef	
	Charity Bank	
Mean = 4.18 (SD 0.59)		

TABLE III

Placement of assets for RAI: ranking for ethical banks

Ethical bank	Value in placement of assets
Merkurbank	1.67
GLS	1.66
Banca Popolare Etica	1.16
LaNef	0.89
ASN Bank	0.96
Cultura Sparebank	1.75
Triodos	1.41
Ekobanken	2.20
BAS	0.92
Cooperative Bank	0.00
Charity Bank	1.25

See Appendix 3 for more exhaustive information about each bank's placement of assets.

there are significant differences between credit institutions in terms of information transparency. Therefore, we can reject the null hypothesis of information transparency being equal for credit institutions with a significant level. Finally, where transparency is concerned, one may say that there are statistically significant differences between ethical banks and traditional banks because ethical banks provide a complete list of their credits and the amounts granted to institutions (the information is not exhaustive in the case of individuals due to privacy policy).

The RAI was calculated for the placement of assets in ethical banks because only these kinds of credit institutions give us complete information about the placement of assets through their Annual Reports (2007). Their value in information transparency is 4 or 5, but never 3 or less (except the Cooperative bank), which means that in general there is no ethical bank that offers no information about asset placement (the case of traditional banks). The authors considered as particularly important the information not only about the disclosure of assets, but also about the use of these assets, and exhaustive information regarding projects undertaken, the quantities of money involved and their specific content. Asset quality is the most important variable for differentiating ethical banks from other banks, and is also useful for identifying differences between one ethical bank and another.

Ethical banking websites are completely informative, and it is possible to collect a full (or disaggregated) list of firms and corporations that are benefited by funding, with their respective amounts. When this is not the case, their Annual Reports give information about the placement of their assets. Ethical banking funds usually have these destinations: environment, social cooperation, international cooperation, culture and civil society, and depositors are sometimes able to mark their investment sector preferences.

There is no ethical bank with the maximum score (3), but they generally produce a score that is positive and higher than 0.89 (see Table III). Most ethical banks make an effort to invest their money in positive projects with added social value (the principal aim of ethical banks) and they make this information public. Nevertheless, the values for asset placement could be even higher, where there is an increase in the relatively low percentage of funds used for credit to their customers and a decrease in the high percentage of commercial credits without any additional social value and in other assets that are not assigned to credit (FC type). The ethical banks Ekobanken, Cultura Sparebank, GLS and Merkubank have the highest asset distribution in projects with social added value.

Table IV shows the position of ethical banks in terms of traditional guarantees, non-traditional

TABLE IV

Guarantees in ethical banks

Ethical bank	Merkurbank	GLS	Banca Popolare Etica	LaNef	ASN Bank	Cultura Sparebank	Triodos	Ekobanken	BAS	Co-operative Bank	Charity Bank
Traditional guarantees	Real estate, personal guarantees	Real estate, personal guarantees	Real estate, personal guarantees	Guarantee societies and real endorsement guarantees	Properties, assets, rights, personal	Properties	Real estate, personal guarantees	Real estate	Real estate, personal guarantees	No info.	Real estate, cash flow
Non-traditional guarantees	–	Guarantees of small quantities	–	Guarantee fund for development, personal social guarantees	–	Own foundation guarantee own	–	Guarantee circles	–	No info.	–
Loans for people with financial exclusion problems	No	Collective guarantee (guarantee small quantities)	No	No	No	No	No	No	No	No info.	No
Facilities to NGOs	–	Guarantees of small quantities	Preferred market	Solidarity circles	No	Bridging loans on subsidies	Bridging loans on subsidies	No	No	No info.	Cash flow
Value	0	2	1	2	0	2	1	2	0	0	1

guarantees, loans to financially excluded people and different facilities given to NGOs.

Guarantees in ethical banks are similar to those of traditional banks, based on mortgages on real estate and personal securities. However, in 36.6% of cases, ethical banks have developed innovative guarantee tools such as the creation of a Guarantee Foundation or the development of collective solidarity guarantees. None of the ethical banks directly uses guarantees to lend money to financially excluded people, and so ethical banks are not using financial instruments to combat financial exclusion, or not, at least, directly. However, ethical banks have a direct relationship giving preferential treatment to NGOs (financing their working capital, for instance, and through the early financing of awarded subsidies).

Table V shows the different ways in which interest groups participate in ethical banks.

Although the majority of banks (73%) incorporate different forms of participation to carry out consultation before decision-making and to assist in the process, only 18.18% of the banks have structured ways of deciding about asset placement based on stakeholder participation. In general, stakeholders are not included in the bank's governing body.

In the area of participation, ethical banking is less developed than other financial entities (savings banks and cooperative banks). This means that ethical banking might be able to progress and develop forms of participation to make a difference in this field too vis-à-vis the other credit institutions.

In Table VI, all the direct scores have been transformed . The RAI was then obtained according to the method explained in the third section.

All the ethical banks (except the Cooperative bank) scored highly for the information transparency variable, showing that there are, as had already been tested statistically, differences between ethical banks and traditional banks. The transparency variable score for ethical banks is high, in general; however, there are significant differences where, for example, placement of assets is concerned, as demonstrated by the differences between LaNef (3) and Ekobanken (7.3). The RAI alpha is low for ethical banks because they do not invest big percentages of their money in projects of social added value. Surprisingly, ethical banks do not achieve maximum scores for the placement of assets, showing an average of 4.20, because the ethical banks with the highest scores for transparency do not invest their entire funds in projects of social added value, and vice versa. The gap between ethical banks is also high for guarantees. Ethical banks use the same guarantees as those used in traditional banks, but in some cases, the former include internal guarantee systems (funds) or external guarantee systems (guarantee circles), providing credit to social entities or projects that encounter difficulties in receiving funding from traditional banks. The last variable is participation. Here, it seems that ethical banks do not develop new mechanisms for participation beyond taking into consideration, for guidance only, the opinion of their savers regarding the utilisation of their funds.

Finally, in the last column, the RAI alpha score was compared with that for RAI beta, in each ethical bank. The results show us that some of the ethical banks studied (quite clearly GLS and Banca Popolare Etica, but ASN, Ekobanken and BAS as well) demonstrate an equilibrium between effort in RAI alpha (transparency and placement of assets) and in RAI beta (guarantees and participation). In three of the ethical banks (Merkubank, Triodos and Charity Bank), the RAI alpha score is clearly higher than the RAI beta score (more than 1 point). In the remaining banks (LaNef, Cultura Sparebank and Cooperative Bank), the RAI beta scores higher than the RAI alpha does. The Merkubank case is exceptional because the differences between RAI alpha and RAI beta stand at more than 4; effort in transparency and the placement of assets is high when input into the guarantee and participation variables is low according to our classification.

Conclusions

The importance of ethical commitments in banking was brought into sharp relief by the recent credit crisis. This article develops a constant scale to objectively measure differences in ethical banking, departing from theories that support the existence of ethical banks. The article proposes an index (RAI) that contributes to clarifying the degree of a bank's ethical commitment.

Our analysis has highlighted two particular contributions within the debate concerning the founding principles of ethical banks – as against the residual bank market or as against 'angel' banking

TABLE V

Participation in ethical banks

Ethical bank	Merkurbank	GLS	Banca Popolare Etica	LaNef	ASN Bank	Cultura Sparebank	Triodos	Ekobanken	BAS	Cooperative Bank	Charity Bank
Governing body	No General meeting	No General meeting	No General meeting	Yes Board members (supervisory board)	No General meeting	Yes Board of directors	No	No General meeting	No General meeting	No General meeting	No General meeting
Participants	Share-holders	–	Membership	Clients, shareholders, depositors, administration, NGO, employees, society 1 person = 1 vote	Share-holders	Clients: 25% Employees: 25% Shareholders: 25% Municipality elects: 25%	–	Share-holders	Share-holders	Memberships	Share-holders
Participation of groups in placement of assets	No Possible target deposits	No Sectoral preferences	No Informal meetings	Ethics committee decision on own contributions	Advisory council	No	No Experts consultative group	Selected activities/ projects	Selecting areas for investment funds	No Client questionnaires	No
Participation of NGOs	Depositors	Depositors	Memberships NGOs	Administration depositors	Shareholders NGOs	–	Professionals selected by the bank itself	Depositors	Depositors	–	–
Value	0	1	1	3	1	3	0	1	1	1	0

TABLE VI
Radical Affinity Index: a ranking of ethical banks using RAI

Ethical banks	Transparency	Placement of assets	RAI alpha	Guarantees	Participation	RAI beta	RAI	Difference between RAI alpha and RAI beta
Co-operative Bank	6.0	0.0	0.0	0.0	3.3	1.7	0.8	−1.7
BAS	8.0	3.1	2.5	0.0	3.3	1.7	2.1	0.8
ASN Bank	8.0	3.2	2.6	0.0	3.3	1.7	2.1	0.8
Merkubank	8.0	5.6	4.5	0.0	0.0	0.0	2.2	4.5
Triodos	8.0	4.7	3.8	3.3	0.0	1.7	2.7	2.1
Charity Bank	10.0	4.2	4.2	3.3	0.0	1.7	2.9	2.5
Banca Popolare Etica	10.0	3.9	3.9	3.3	3.3	3.3	3.6	0.5
GLS	8.0	5.5	4.4	6.7	3.3	5.0	4.7	−0.6
LaNef	10.0	3.0	3.0	6.7	6.7	6.7	4.8	−3.7
Ekobanken	8.0	7.3	5.9	6.7	3.3	5.0	5.4	0.9
Cultura Sparebank	8.0	5.8	4.7	6.7	6.7	6.7	5.7	−2.0
Minimum	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Maximum	10.0	10.0	10.0	10.0	10.0	10.0	10.0	

– and concerning the explanation for their differentiation from other banks. First, it is important to provide theoretical support for the existence of the ethical bank because, if this is not done, one might be led to believe that the ethical bank system will not manage to survive. Whilst there are many theories that can be employed to explain its existence, property right theories are the supporting base not only for the existence of ethical banking but also for its differentiation grounded in the concept of affinity, which provides the name for the index. Second, and possibly more important, ethical commitment factors based on the mission statements of ethical banks (information transparency, placement of assets, guarantees and participation) are grouped within the RAI to distinguish between ethical banks and traditional banks, as well as between the different behaviours of ethical banks themselves.

We analysed and compared traditional banks – commercial banks, cooperative banks and savings banks – and ethical banks. Although the index is applicable to all banks, only ethical banks support complete application of the RAI, because traditional banks do not give us, either publicly or privately, information about their total assets, and they usually only draw attention to a small part of this activity (the ‘demarcation criterion’). Their information transparency is low and, as a first conclusion that is statistically significant, it is found that ethical banks are more transparent than traditional banks. However, even if there are some efforts to develop new alternatives, there is currently little evidence of differences in the area of guarantees and participation, which are similar in the different types of banks.

Application of the RAI quantitatively highlights the different ethical commitments of ethical banks in European countries, and the ethical banks of Sweden and Norway obtain the highest RAI score. On the whole, the European ethical banks are characterised by their high information level and, in this sense, ethical banks provide information about all their investments and all their funds. Their specific projects are directed towards social, cultural, ethical or environmental areas, but there are considerable funds that, without having a negative classification, do not play a relevant social and alternative role (bonds, deposits, etc.). For information transparency and the placement of assets, all of the ethical banks in the European countries score highly (except for the Cooperative Bank in the UK). In Italy, Germany, France, Sweden and Norway the ethical banks are trying to develop alternative guarantees and participation mechanisms that differ from those offered by traditional banks. However, ethical banks should apply more effort to achieve a clearer differentiation and to be consistent with their ideology and principles in these matters. Ethical banks ought to develop innovative guarantees and new ways of offering participation to stakeholders in decision-making (other than using the shares method). The lack of alternative systems of guarantees, in particular, is a block to the inclusion of certain sectors of the population in the financial sector, and ethical banks should, therefore, work hard on this question, to become a real alternative against financial exclusion.

Even if ethical banking did not develop as a response to the financial crisis, some of its principles are frequently quoted in this context as an imperative for all the financial system (transparency, negative criteria to exclude speculative or negative investments, etc.). In fact, ethical banks might be affected by late payments, but they will not have any problems with toxic assets, a positive aspect when compared with other banks. The biggest credit crisis scandals have, moreover, seriously affected investor confidence, and investors are now more worried than ever about bank information transparency. This study shows that the banking business could successfully be developed based on two premises: information transparency and commitment in relation to the placement of bank assets. It would be desirable for the whole banking system to incorporate these premises within their own business, rather than these premises being precisely the characteristics that clearly differentiate ethical banking from traditional banking.

The article has highlighted the differences in ethical banking in Europe. There are, however, some interesting future research lines:

- A wide geographical analysis of ethical banks would be interesting, involving, for example, a comparison of ethical banks that would take into consideration the peculiarities of Islamic Banks or Microcredit banks in developing countries.
- A longitudinal study of the impact that the financial and economic crisis might be having on ethical banks, with a view to analysing their sensitivity to risk.
- Analysis of the role that transparency and commitment to asset placement, incorporated within traditional banking, might play in terms of preventing future financial crises.
- It is still unclear how to reduce the financial exclusion in developed countries. Therefore, empirical research is indispensable to examine the possible lines of action of ethical banks or other financial actions, as well as the effectiveness of such interaction.

Notes

[1] We define ethical banks from a positive point of view to make the theoretical comparison between different types of banks. We do not deeply analyse the definition of ethical banking, because it is not the remit of this article.

[2] We finally made a ranking with ethical banks only, because traditional banks do not show information about placement of assets, necessary for the index developed (RAI).

[3] By this concept, we refer to projects that, through their objectives (ecology, social inclusion, renewable energies, etc.) or the people they target (those who cannot obtain a loan from the traditional bank), create positive value for the social environment in which they take place. In short, this concerns incremental benefit of an activity as perceived by society, and expressed as marginal external benefit that is added to marginal private benefit.

[4] The use of the negative criterion leads to blocking investment in companies which develop products or services related to any of the following areas: arms, cigarettes, alcohol, pornography, gambling, the army, work exploitation, pollution, genetic manipulation, animal testing, nuclear energy, deforestation, mining pollution, consumer manipulation, salary differences, support for political parties or dictatorships, financial speculation, tax evasion, drugs and mafia (cf. Alsina, 2002).

[5] The actions of the Triodos Bank, for instance, one of the most important European references, are inspired by the three Ps: Planet, People and Profit.

[6] Close affinity concerns transparency with regard to where money has been lent, as well as 'a sense of relationship between depositors and borrowers' (Cowton, 2002, p. 398).

[7] It would be possible to rank or classify all the banks depending on their ethical commitments, but this aspect should be continuous and not discrete, because there is evidence of gradual ethical behaviour in banks (Cowton and Thompson, 1999). An ethical bank might define itself as ethical, but other types of banks might use this

term too, so it is important to identify the sense in which a bank is ethical. This point of rupture depends on ethical commitment. The bank's ethical commitment might refer to the use of company profits (CSR) or to the use of deposited funds (Edery, 2006). The former gives rise to ethics in banks, while the latter brings about the concept of ethical banking. We are going to focus on the second.

[8] We have used the INAISE (International Association of Investors in the Social Economy) and the FEBEA (European Federation of Ethical and Alternative Banks) to create the database of ethical banks for the 10 countries in the sample. Although we checked their websites, and wrote to ask for more information, we did not receive any useful information about assets placement from the Bank für Sozialwirtschaft, Caisse Solidaire du Nord Pas-de-Calais or the Unit Trust, and so they are not included in the ethical bank's population. Although the Cooperative Bank (UK) is not included in those databases, we considered it in our sample, because of its importance in ethical banking literature. See Harvey (1995) or Kitson (1996) for more information about the Co-operative Bank.

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

Acknowledgements

This article has benefited from the helpful comments of reviewers, and participants at the Annual Conference of the European Business Ethics Network in Athens (2009).

Appendices

Appendix 1: The sample

Country	Ethical banks	Commercial banks	Savings banks	Cooperative banks
Denmark	Merkur	Danske Bank A/S, Nordea Bank Danmark A/S-Nordea Bank Danmark Group, Djurslands Bank A/S, Fionia Bank A/S	DIP-Danske Civil- og Akademiingeniorers Pensionskasse, Eik Bank, Sparekassen Balling, Suduroyar Sparikassi	Froerup Andelskasse, Merkur – Den Almennyttige Andelskasse
France	LaNEF	BNP Paribas, Société Générale, Banque Fédérative du Crédit Mutuel, Newedge Group, Crédit Industriel & Commercial	Grouppe caisse d'épargne	Crédit Agricole, Crédit Mutuel Centre Est Europe, Banque populaire Valle de France, Crédit Agricole de Lorraine-caisse régionale de crédit agricole mutuel de Lorraine
Germany	GLS	Deutsche Bank AG, Commerzbank AG, Sparda-Bank Südwest eG, Stadtsparkasse Düsseldorf	Sparkassen-Finanzgruppe Hessen-Thuringen, Hamburger Sparkasse AG (HASPA), Sparkasse Jerichower Land, Stadtsparkasse Schmallenberg	Deutsche Zentral-Genossenschaftsbank-DZ Bank AG, WGZ-Bank AG Westdeutsche Genossenschafts-Zentralbank, Volksbank Wilferdingen-Keltern eG, Raiffeisenbank im Oberland eG (Old)
Italy	Banca Popolare Etica	Unicredito italiano SPA, Intesa Sanpaolo, Capitalia SPA, Unibanca SPA-Gruppo bancario Unibanca	Banca CR Firenze SpA-Cassa di Risparmio di Firenze SpA, Cassa di Risparmio di Parma e Piacenza SpA, Cassa di Risparmio di Padova e Rovigo SpA, Cassa di risparmio di Spoleto SpA – CARISPO	Banco Popolare, UBI Banca – Proforma-Unione di Banche Italiane Scpa – Proforma, Banca Cooperativa Cattolica Scrl, Banca di Credito Cooperativo Genovese
Netherlands	ASN Bank	ABN Amro Holding NV, ING Bank NV, Staalbankiers NV, Indonesische overzeese bank NV – Indover Bank, Fortis	Rabobank	–

APPENDIX 1
continued

Country	Ethical banks	Commercial banks	Savings banks	Cooperative banks
Norway	Cultura Sparebank	DnB NOR Bank ASA, Nordea Bank Norge ASA, Privatbanken ASA, Bank 1 Oslo AS	SpareBank 1 SR-Bank, Sparebanken Vest, Tingvoll Sparebank, Opdals Sparebank	
Spain	Triodos Bank	Banco Santander SA, Banco Bilbao Vizcaya Argentaria SA, Banco de Valencia SA, Banco Cooperativo Español	Caja de Ahorros y Pensiones de Barcelona, LA CAIXA, Caja Madrid-Caja de Ahorros y Monte de Piedad de Madrid, Caja de Ahorros y Monte de Piedad de Zaragoza, Aragon y Rioja – Iber-Caja, Caja de Ahorros y Monte de Piedad de Ontinyent – Caixa Ontinyent	Euskadiko Kutxa-Caja Laboral Popular Coop. de Crédito – Lan Kide Aurrezkia, CAJAMAR Caja Rural, Sociedad Cooperativa de Crédito, Caja Rural del Duero Sdad Coop Cto Ltda., Caja Campo, Caja Rural S.C.C.
Sweden	Ekobanken	Skandinaviska Enskilda Banken AB, Svenska Handelsbanken, Sparbanken Gripen, Bank2 Bankaktiebolag	Alems Sparbank, Älmeboda Sparbank, Tjörns Sparbank, Vallby Sparbank	Kommuninvest Cooperative Society – Kommuninvest Group
Switzerland	Banque Alternative Suisse	UBS AG, HSBC Private Bank (Suisse) SA, Clientis Bank Leerau Genossenschaft, BankMed (Suisse) SA	Crédit Agricole (Suisse) SA, Sparkasse Zuercher Oberland SZO, Banque Raiffeisen Basse Broye Vully, Raiffeisenbank Naters	Raiffeisen Suisse société coopérative-Raiffeisen Schweiz Genossenschaft, Centrale de Lettres de Gage des Banques Cantonales Suisses-Pfandbriefzentrale der Schweizerischen Kantonalbanken, EB Entlebucher Bank, Banque Raiffeisen de la Glâne société coopérative
United Kingdom	Charity Bank, Cooperative Bank	Royal Bank of Scotland Plc (The), HSBC Bank plc, Bank of Scotland Plc – Proforma, British Arab Commercial Bank Limited. HBOS, Standard Chartered Bank	Lloyds TSB Scotland plc, Lloyds TSB Offshore Limited, Alliance Trust Savings Ltd, Airdrie Savings Bank	–

Appendix 2: The questionnaire: guarantees and participation

Dear Director,

I am XXX, professor at the University of the Basque Country (Bilbao-Spain).

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

We are presently studying the differences between ethical banks and traditional banks in the areas of guarantees and participation, and we would like to include some information about your institution, based on the brief survey that we attach. Your answer is very important for us, because, as you know, there are not many ethical banks in Europe, so, if possible, we are seeking to obtain information from them all. If you are interested in this research, we would be pleased to send you the final paper with the results. So far, our first results reveal a significant differentiation between ethical banks and the rest of the banks in terms of transparency and quality of assets.

REQUIRED GUARANTEES

1. What are the guarantees that your ethical bank requires to minimise risk of non-payment? Could you quantify the percentage of cases in which you ask for them? What kind of guarantees are used more and less frequently?

2. In cases of Personal Loans, what are the necessary guarantees that your bank requires?

3. In case of an NGO that requires funding, what are the guarantees that your bank requires?

PARTICIPATION

1. Is there any procedure in your bank that allows the following stakeholders to participate in the governance of the Bank? (Please answer yes or no, and specify the form of participation if the answer is positive)

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

2. Is there any procedure in your bank that allows the following stakeholders to participate in decisions about the placement of assets (participation geared towards choosing the destination of funds or to include or exclude certain kinds of clients/activities). ? (Please answer yes or no, and specify the form of participation if the answer is positive)

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

Thank you very much for your patience and be sure that your answer will be carefully taken into account. If possible, reply by e-mail to xxx.xxx@, but, should you prefer to send us your answers by another route, the complete address and contact information is given below. If you require more information or have any other queries, do not hesitate to contact us.

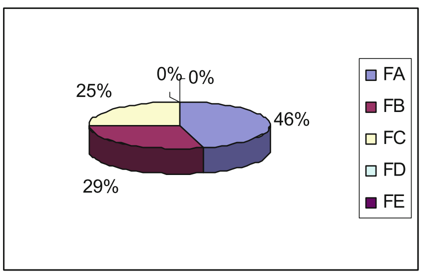
Sincerely,

Appendix 3: Ethical banks: the placement of assets

Nomenclature of figures in Appendix 3
FA – funds applied to credits with an additional social value. FB – funds applied to credits of doubtful social value. FC – funds applied to commercial credits without any additional social value and to other assets that are not destined to credit (bonds, investments…). FD – funds applied to loans to entities which fulfil any of the negative criteria. FE – funds applied to credits about which there is a lack of information concerning their social value.

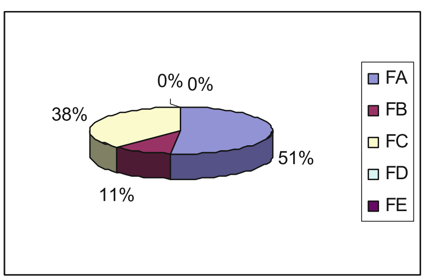
RAI (Placement of Assets) = 3 × %FA + 1 × % FB + 0 × %FC – 5 × %FD – 1 × %FE (other multiplication numbers might be used, but their meaning corresponds to a valuation of each fund compared with the rest, and they do not in themselves correspond to one particular meaning).

Classification of Placement of Assets and RAI: Merkurbank (Denmark).



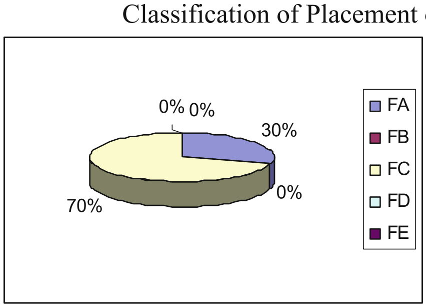
ASSETS	dkk	%	RAI
FA	453,927,335	45.82%	1,37
FB	291,187,835	29.40%	0,29
FC	245,456,446	24.78%	0,00
FD		0.00%	0,00
FE		0.00%	0,00
TOTAL ASSETS	**990,571,616**	**100.00%**	**1,67**

Classification of Placement of Assets and RAI: GLS (Germany).



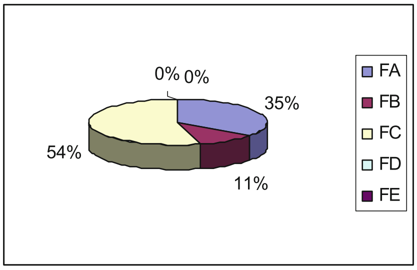
ASSETS	€ (thousands)	%	RAI
FA	412,531	51.85%	1,56
FB	84,494	10.62%	0,11
FC	298,554	37.53%	0,00
FD		0.00%	0,00
FE		0.00%	0,00
TOTAL ASSETS	**795,579**	**100.00%**	**1,.66**

Classification of Placement of Assets and RAI: LaNEF (France).



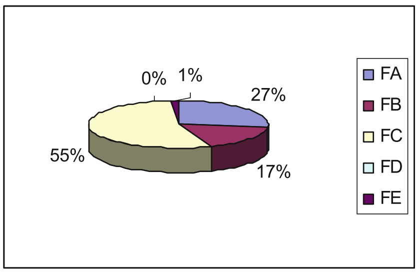
ASSETS	€ (thousands)	%	RAI
FA	47,379	29.71%	0,89
FB	0	0.00%	0,00
FC	112,068	70.29%	0,00
FD		0.00%	0,00
FE		0.00%	0,00
TOTAL ASSETS	**159,447**	**100.00%**	**0,89**

Classification of Placement of Assets and RAI: Banca Popolare Etica (Italy).



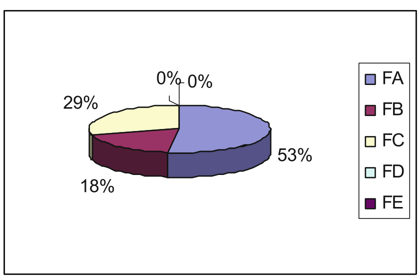
ASSETS	€ (thousands)	%	RAI
FA	185,057	35.20%	1,06
FB	56,137	10.68%	0,11
FC	284,499	54.12%	0,00
FD		0.00%	0,00
FE	0	0.00%	0,00
TOTAL ASSETS	**525,693**	**100.00%**	**1,16**

Classification of Placement of Assets and RAI: ASN Bank (Netherland).



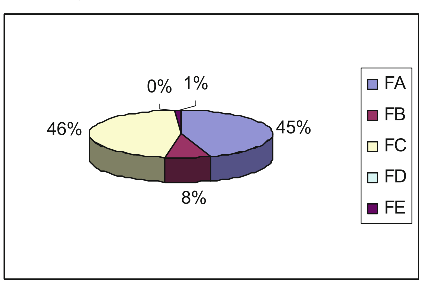
ASSETS	€ (thousands)	%	RAI
FA	1,001,647	26.55%	0,80
FB	657,169	17.42%	0,17
FC	2,066,476	54.77%	0,00
FD		0.00%	0,00
FE	47,996	1.27%	-0,01
TOTAL ASSETS	**3,773,288**	**100.00%**	**0,96**

Classification of Placement of Assets and RAI: Cultura Sparebank (Norway).



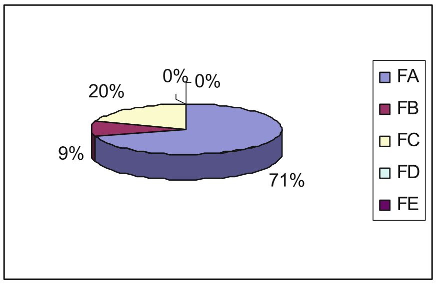
ASSETS	nok	%	RAI
FA	157,861	52.14%	1,56
FB	55,677	18.39%	0,18
FC	89,211	29.47%	0,00
FD		0.00%	0,00
FE		0.00%	0,00
TOTAL ASSETS	**302,749**	**100.00%**	**1,75**

Classification of Placement of Assets and RAI: Triodos (Spain-Netherland).



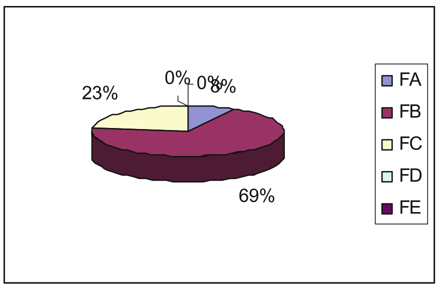
ASSETS	€ (thousands)	%	RAI
FA	844,016	44.77%	1,34
FB	152,388	8.08%	0,08
FC	865,569	45.92%	0,00
FD		0.00%	0,00
FE	23,086	1.22%	-0,01
TOTAL ASSETS	**1,885,059**	**100.00%**	**1,41**

Classification of Placement of Assets and RAI: Ekobanken (Sweden).



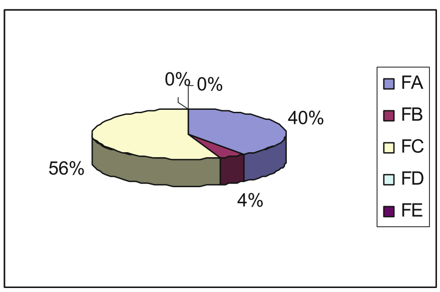
ASSETS	Kr (thousands)	%	RAI
FA	195,037	70.21%	2,11
FB	26,175	9.42%	0,09
FC	56,590	20.37%	0,00
FD		0.00%	0,00
FE		0.00%	0,00
TOTAL ASSETS	**277,802**	**100.00%**	**2,20**

Classification of Placement of Assets and RAI: BAS (Switzerland).



ASSETS	CHF (thousands)	%	RAI
FA	59,830	7.74%	0,23
FB	533,636	69.07%	0,69
FC	179,090	23.18%	0,00
FD		0.00%	0,00
FE		0.00%	0,00
TOTAL ASSETS	**772,556**	**100.00%**	**0,92**

Classification of Placement of Assets and RAI: Charity Bank (UK).



ASSETS	Pounds (thousands)	%	RAI
FA	17,022	40.29%	1,21
FB	1,891	4.48%	0,04
FC	23,339	55.24%	0,00
FD		0.00%	0,00
FE		0.00%	0,00
TOTAL ASSETS	**42.,252**	**100.00%**	**1,25**

References

Alsina, O.: 2002, *La banca ética. Mucho más que dinero* (Icaria Milenrama, Barcelona).

Baranes, A.: 2009, 'Towards Sustainable and Ethical Finance', *Development* **52**(3), 416–420.

Barbu, T. and G. Vintilã: 2007, 'The Emergence of Ethic Banks and Social Responsibility in Financing Local Development', *Theoretical and Applied Economics* 20–34.

Boatright, J. R.: 2002, 'Contractors as Stakeholders: Reconciling Stakeholders Theory with the Nexus-of Contracts Firm', *Journal of Banking and Finances* **26**(9), 1837–1852.

Boatright, J. R.: 2008, *Ethics in Finance*, 2nd Edition (Blackwell, Malden).

Buttle, M.: 2008, 'Diverse Economies and the Negotiations and Practices of Ethical Finance: The Case of Charity Bank', *Environment and Planning* **40**, 2097–2113.

Chami, R., T. F. Cosimano and C. Fullenkamp: 2002, 'Managing Ethical Risk: How Investing in Ethics Adds Value', *Journal of Banking & Finance* **26**(9), 1697–1718.

Coase, R. H.: 1937, 'The Nature of the Firm', *Economica* **4**(16), 386–405.

Cowton, C.: 1998, 'The Use of Secondary Data in Business Ethics Research', *Journal of Business Ethics* **17**(4), 423–434.

Cowton, C.: 2002, 'Integrity, Responsibility and Affinity: Three Aspects of Ethics in Banking', *Business Ethics: A European Review* **11**(4), 393–400.

Cowton, C.: 2010, 'Banking', in J. Boatright (ed.), *Finance Ethics: Critical Issues in Financial Theory and Practice* (Kolb Series in Finance, Wiley, NJ).

Cowton, C. and P. Thompson: 1999, *Ethical Bank: Progress and Prospects* (Financial Times Business, London).

Davies, H.: 2001, 'Ethics in Regulation', *Business Ethics: A European Review* **10**(4), 280–287.

Dembinski, P. H.: 2009, *Finance: Servant or Deceiver? Financialization at the Crossroad* (Observatoire de la Finance/Palgrave Macmillan, New York).

Demsetz, H.: 1967, 'Toward a Theory of Property Rights', *American Economic Review* **57**, 347–359.

Edery, Y.: 2006, 'Ethical Developments in Finance: Implications for Charities and Social Enterprise', *Social Enterprise Journal* **2**(1), 82–100.

Green, C. F.: 1989, 'Business Ethics in Banking', *Journal of Business Ethics* **8**(8), 631–634.

Harvey, B.: 1995, 'Ethical Bank: The Case of the Co-Operative Bank', *Journal of Business Ethics* **14**(12), 1005–1013.

Kendric, F.: 2004, 'Ethical Bank', *ABA Banking Journal* **96**(6), 14.

Kitson, A.: 1996, 'Taking the Pulse: Ethics and the British Co-Operative Bank', *Journal of Business Ethics* **15**(9), 1021–1031.

Lynch, J. J.: 1991, *Ethical Bank: Surviving in an Age of Default* (Macmillan, London).

Neu Berger, D.: 1998, 'Industrial Organization of Banking: A Review', *International Journal of the Economics of Business* **5**(1), 97–118.

Palazzo, G. and L. Rethel: 2008, 'Conflicts of Interest in Financial Intermediation', *Journal of Business Ethics* **81**(1), 193–207.

Perrini, F., S. Pogutz and A. Tencoti: 2006, *Developing Corporate Social Responsibility: A European Perspective* (Edward Elgar Publishing, Massachusetts).

Rodríguez, S. M. and M. J. Cabaleiro: 2007, 'El comportamiento social de la banca alternativa', *Ekonomiaz* **52**, 228–259.

San-Jose L.: 2009, 'Ethical Cash Management? A Possible Solution', *Finance & Common Good/Bien Commmun (Financial Ethics Review – Revue d'ethique financiere)* **33,** 58–68.

San-Jose, L. and J. L. Retolaza: 2008, 'Information Transparency as Differentiation Factor of Ethical Banking in Europe: Radical Affinity Index Approach', *The ICFAI Journal of Bank Management* **7**(3), 7–22.

Thompson, P. and C. Cowton: 2001, 'Financing the Social Economy: A Case Study of Triodos Bank', *International Journal of Non Profit and Voluntary Sector Marketing* **6**(2), 145–155.

Viganò, L.: 2001, *La banca etica. Esperienze in Italia e all'estero, strategie e innovazione nelle scelte operative* (Bancaria Editrice, Roma).

Leire San-Jose
University of Huddersfield,
Queensgate, Huddersfield,
West Yorkshire HD1 3DH, U.K.
E-mail: leire.sanjose@ehu.es

Leire San-Jose and Jorge Gutierrez-Goiria
Department of Financial Economics II,
University of the Basque Country,
Avda. Lehendakari Agirre 83, 48015 Bilbao, Spain

Jorge Gutierrez-Goiria
E-mail: jorge.gutierrez@ehu.es

Jose Luis Retolaza
AURKILAN Business Ethics Research Institute,
Vizcaya, Spain
E-mail: jlretolaza@aurkilan.org

and

Institute of Applied Business Economics,
Bilbao, Spain