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DISAMBIGUATING THE CONCEPT OF SOCIAL BANKING

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Abstract*: The concept of social banking is often confused with other similar notions, such as alternative, civic, value-driven, ethical or sustainable banks. This ambiguous situation makes it very easy for a given financial institution to proclaim their social and environmental commitment. Quite often, however, there is an obvious gap between overstated intentions and real facts. Within this context, the aim of this paper is to draw a clear distinction between the concept of social banking and other related banking practices.*
In more precise terms, the paper will first explore the context allowing the emergence of social banking. Secondly, a concrete characterization of social banks will be proposed taking into account two complementary approaches: 1) a study of their specific underlying philosophy; 2) an analysis of their distinct banking practice.

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Introduction

Defining the concept of social banking is not an easy task. There is not a universally agreed definition among scholars, who routinely use the notion of social banking as mutually interchangeable with other similar terms. Roland Benedikter (2011), who has conducted one of the most serious attempts in this regard, notes that "this notion [of social banking] currently includes 'ethical banking', 'cooperative banks and credit unions', the so-called 'new social banks', 'private and community shared development banks', and 'microfinance banks.'" (p. 49). Similarly, the Institute for Social Banking, a charitable association specialized in this specific domain since 2006, fully acknowledges this difficulty when they state: "a generally accepted definition of 'social baking' does not exist, and ―given the variety of its historic origins and underlying values― arguably cannot exist."[1]

Indeed, the general idea of social banking is often confused with other similar notions, such as alternative, civic, value-driven, ethical or sustainable banks (de Clerck, 2009, p. 214). Within a larger societal movement which calls for a move towards more social and environmental responsibility in the financial sector, the concept of social banking is also associated with more specific notions, such as narrow/safe banking (Kobayakawa & Nakamura, 2000) or slow money (Tash, 2008). Conversely, it might appear paradoxical to note that the concept of social banking is not always directly related to the already firmly established notion of social business, at least as defined by Mohammad Yunus (2007).

1 Our definition of Social Banking. (2011). Retrieved January 26, 2015, from http://www.social-banking.org/the-institute/what-is-social-banking/

Not surprisingly, when definitions of social banking are given, they turn out to be pretty dissimilar in their scope. In that sense, all authors would initially convey the idea that, unlike their mainstream peers, social banks do not see profit-making as an end in itself. But beyond this common ground, the precise characterization of social banks will quickly diverge. Some authors propose very broad definitions, emphasizing for instance that social banking is first and foremost about supplying financial services that aim to have a positive impact on people and environment (Guene & Mayo, 2001; Weber & Remer, 2011). But what is a positive impact? How to measure it?... Other authors, on the contrary, propose very narrow definitions that, for instance, restrict social banking to the exclusive role of fighting against poverty (Reifner & Ford, 1992). A more balanced characterization is thus needed.

In the meantime, this ambiguous situation allows that even mainstream banks could proclaim the social and environmental commitment of their institutions. Long chapters in their annual reports will illustrate, with colorful photographs and astonishing data, how sincere their commitment is. Given the fiduciary nature of their business, mainstream banks will not hesitate to self-proclaim as well the ethical basis underpinning all their activities. So, at a glance, all banks —social and not social— look the same, thus increasing the misunderstanding.

Within this context, the aim of this chapter is to draw a clear distinction between the concept of social banking and other related banking practices.

Traditional Typologies

The notion of social banking is relatively new. At least, no such category exists in any of the traditional typologies used by scholars to apprehend the diversity of the banking industry. And yet, the idea of introducing a certain social dimension in the banking practice is not new at all. Keeping this in mind, this section will briefly explore the origins of social banking before its actual appearance as a distinct category.

Taking into account traditional parameters such as the structure of ownership and the forms of governance, the banking industry is most often divided into two main categories: shareholder-based banks and stakeholder-based banks. The shareholder approach originates from the neo-classical theory of the firm, whereby the aim is to increase economic efficiency as a means of increasing shareholder wealth (Jensen & Meckling, 1976). Consequently, a shareholder bank will attempt by all means to maximize profits in order to amplify shareholder value. They are thus profit-driven institutions focused on short-term financial return to shareholders, who as owners of the firm provide the capital and bear the risk of failure. Outstanding examples of this type of institution in the financial domain are commercial banks and investment banks.

Alternatively, stakeholder theory suggest that the firm should be managed addressing the interests of other parties involved, such as employees, suppliers, trade unions, public authorities, and society in general (Freeman, 1984). This means that, in addition to the financial objective, the firm develops other social goals, such as enhancing the welfare of the communities in which they are located. It is precisely because stakeholder banks are not subject to the short-term pressure of capital markets and the myopic focus on the share price, that they can pay some attention to safeguard the longer-term stakes of other groups. This combination of social and financial objectives, commonly known as “double-bottom” line orientation or blended value (Emerson, 2003), are typical features of financial institutions such as cooperative banks and savings banks (Ayadi, Schmidt, Carbo, Arbak, & Rodriguez, 2009; Ayadi, Llewelyn, Schmidt, Arbak, & Pieter, 2010; Anguren & Marqués, 2011).

It is easy to infer from the ongoing discussion that social banking is inherently closer to the stakeholder paradigm. Notice, however, that the social vocation of banks is neither to be found in all savings or cooperative banks, nor it is exclusive to them. One can thus not equate social banking with these two types of financial institutions. But having said that, it would be interesting to have a quick insight at the origins of savings and cooperative banks for better understanding their “intrinsic” affinity with what would be later called “social banking”.

Not-for-profit oriented banks can be traced back to the late Middle Ages with the creation of charitable organizations such as the “Mounts of Piety” run by mendicant orders in Italy (Milano, 2011). Their original goal was quite simple: offering an alternative for the poor to exorbitant interest loans proposed by money lenders and Jewish bankers. Savings and cooperative banks will appear later during the 19th century in Germany and then spread quickly to other European countries (Koch, 2000; Kluge, 1991). Both institutions were set up with a similar mission: giving access to some banking services to large segments of population that, for different reasons, were financially excluded.

At that time, conventional banking resources were mostly devoted to the funding of public debt, established businesses, landowners with sufficient collateral, and few other people from the more affluent classes. Serving private households from the middle/lower classes, farmers with few properties and volatile income, or small and medium enterprises, was considered too risky and economically unattractive for profit-oriented bankers. For these “unbankable” people, making appeal to money lenders was not a real solution either, since they practiced very high interest rates. There were thus two main reasons whereby stakeholder banks were created: fighting against financial exclusion and financial exploitation.

In terms of scope, savings and cooperative banks were originally focused on retail banking and provided a limited range of relatively simple financial services. Since the very beginning they were conceived as “down-to-earth” institutions, close to their clients and with local outreach. Their lending orientation, also predominantly local, was meant to foster regional development in the less developed areas, hence preventing “capital drain”. It was thus by increasing banking access in neighborhoods where other banks were less present, by facilitating credit and fostering thrift to financially excluded people, and by promoting economic activity at the regional level that an intrinsic social dimension of stakeholder banks is denoted. In order to make this social commitment still more visible, certain stakeholder banks conveyed their specificity through a number of underlying values and principles. This is particularly the case of cooperative banks which, on the one hand, are supposed to be based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. On the other hand, their activity is purportedly shaped by the so-called Rochdale cooperative principles[2]:

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Cooperation among cooperatives
7. Concern for community

2 Co-operative identity, values & principles . (n.d.). Retrieved January 26, 2015, from http://ica.coop/en/whats-co-op/co-operative-identity-values-principles

With the passage of time, this original spirit of stakeholder-based banks began to dilute. The number of their banking activities was progressively enlarged, the products they developed became gradually more complex, and the services proposed turned out to be increasingly monetary-bounded. In fact, many stakeholder banks have been evolving towards full-service universal banks that appear to be indistinguishable from their profit-maximizing peers. Their traditional social commitment has been clearly decreasing, and simultaneously, competition constraints obeying a purely commercial rationale have been steadily gaining in importance. The tension so created became particularly noticeable from the 1990s onwards, when the evolving process of globalization began to impose implicitly a number of important changes in the banking industry: significant applications of rapid technological progress, appearance of new and ever more sophisticated products, increased liberalization of rules, unprecedented circulation of capital flows, broader integration of financial markets, drastic rationalization of the operating costs, etc. (Pastré, Blommestein, Jeffers, & Pontbriand, 2005).

Under the pressure of this highly competitive market, stakeholder-based banks had to show that, in terms of efficiency, they were banking institutions “like the others”. Consequently, they initiated a concentration process to improve their economies of scale in areas such as information systems, risk management or business diversification. Local or regional entities thus delegated this type of functions to a central authority at a national level. In doing so, the original bottom-up model of stakeholder banks shifted into a more top-down arrangement. The wide range of powers given to DG-Bank (Deutsche Genossenschafts-Bank) and Deka-Bank (Dekabank Deutsche Girozentrale) in the case of the German cooperative and savings banks would be an outstanding example in this regard (Krahnen & Schmidt, 2004; Edwards & Fischer, 1994).

Another important consequence of the above-mentioned process of concentration has been the improvement of stakeholder-based banks to wholesale funding. Let it be reminded that, unlike their conventional peers, stakeholder-based banks are not always allowed to issue equity in financial markets. Consequently, they have traditionally relied on retained profits to increase their capital levels. This limitation creates important difficulties in order to achieve the new regulatory requirements, namely in terms of capital requirements (Basel III). Different strategies have been recently put in place to circumvent these restrictions. In Germany, for instance, the upper-layer central institutions (DG-Bank and Deka-Bank) have the competence to perform investment banking activities. In other countries like France, stakeholder-base banks have been able to extend the range of their business activities by creating cooperative holdings where wholesale and investing banking activities are carried through specialized subsidiaries (Ory, Gutner, & Jaeger, 2006). The case of Caisse d’Epargne – Banque Populaire Groupe (BPCE) perfectly illustrates this point.

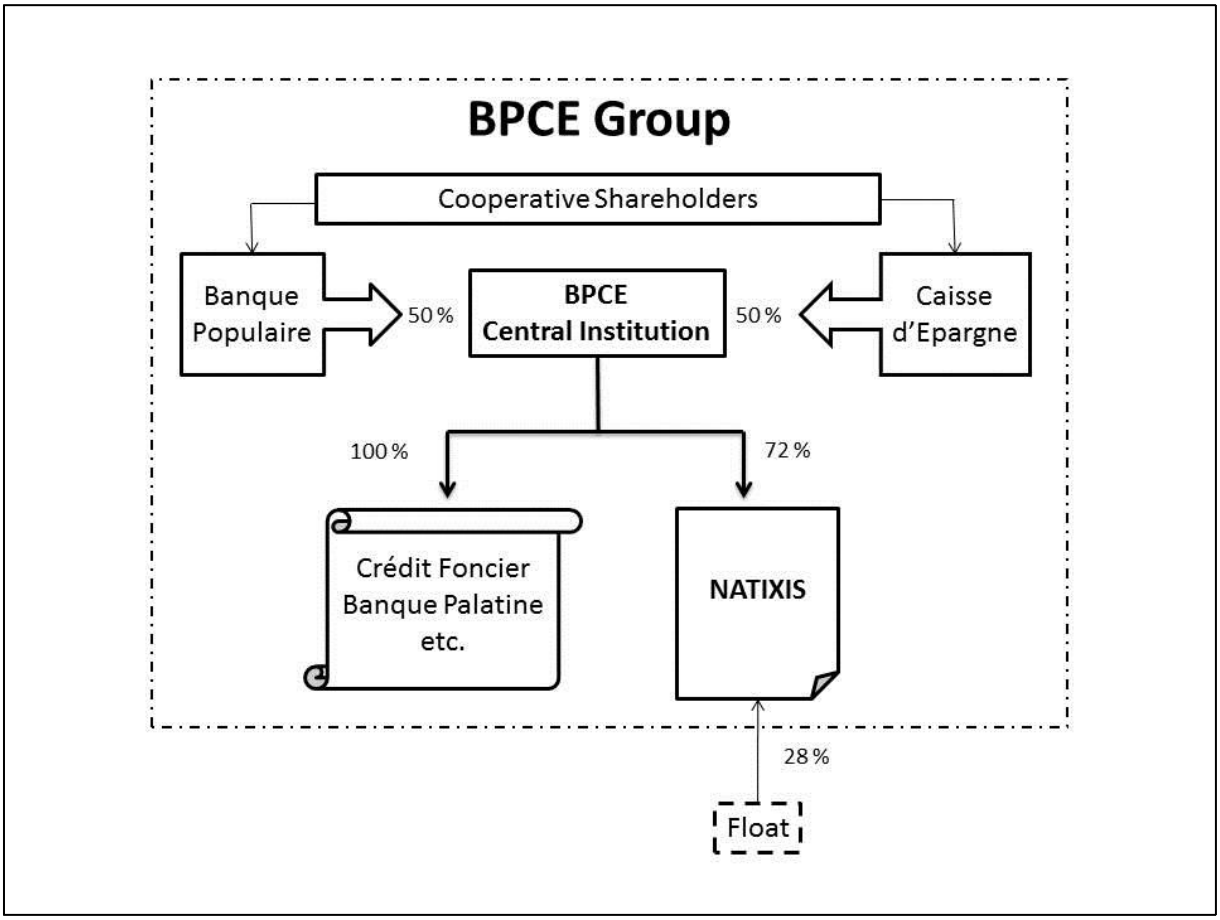

Figure. 1: Structure of the BPCE Group as of February 14, 2015
Source: made by the author from information retrieved at http://www.bpce.fr/Le-Groupe/Organisation/Organigramme

As can be seen (fig. 1), the organization chart of the BPCE Group includes, among other institutions, the shareholder-based bank Natixis. It is jointly owned at equal stake of 72 % by the two parent cooperative banks, the remaining float being listed on the Paris Stock Exchange. This specialized financial institution was created in 2006 with the specific purpose of raising capital from financial markets on behalf of the BPCE group through investing management operations. It is thus with this hybrid structure that the BPCE Group is able to transcend the traditional limitations of cooperative banks and compete with the same tools as their shareholder-based peers in an increasingly competitive market.

But looking at these initiatives from a different perspective, one cannot fail to notice that the original spirit of stakeholder-based banks is being simultaneously undermined. By trying to see everything through the lens of economic efficiency and showing by all means that they are "normal banks", stakeholder-based financial institutions seem indeed to be losing their initial commitment. For example, the fact that cooperative banks are now able to raise capital on public stock markets through hybrid structures creates agency conflicts between traditional members and new shareholders (Paulet, 2010). In addition, the emergence of this second class of shareholders, who compete with members for governance control, can eventually be interpreted as a dilution of cooperative principles 2 to 4 (see above). By all means, the risk of compliance with the profit-maximizing sector is so great that when one enters nowadays in a cooperative or savings bank and looks around at the people, the products or services offered, it is difficult to see at a glance any of the fundamental differences that allowed conceiving stakeholder-based institutions as seed for social banking.

The Challenge of Sustainable Finance

In the most extreme cases, the pressure exerted by market forces on stakeholder-based banks has led to a process of demutualization and/or privatization (Redler, 1994; McKnight, Fraser, & Gething, 1996). The fortune of British building societies during the 1990s would be an interesting case in point, though similar developments also occurred in other Anglo-Saxon countries (Cook, Deakin, & Hughes, 2001; Chaddad & Cook, 2004; Davis, 2007). It is worth noting that even the DG-Bank, the central clearing house for cooperative banks in Germany, has adopted the legal form of a stock corporation. It is not yet listed in the stock market and for the moment all shareholders are cooperative banks, but given the recent trends it is difficult to foresee what the future holds.

Despite this evidence illustrating the thesis of continuing degeneration, some authors still think that the new financial environment can be seen as an opportunity for stakeholder banks (Gijselinckx & Develtere, 2008). These institutions are certainly undergoing a transformation, but not necessarily in the sense of diluting their social commitment. Invoking the theory of a life-cycle, they argue that there is a renewal of their original mission through a new unavoidable concept now affecting all firms: corporate social responsibility (CSR). It is thus via their contribution to sustainable development and responsible finance that stakeholder-based banks can reaffirm their original identity in a new form.

Let it be reminded that the idea that firms should pay more attention to the extra-financial consequences of their business is not really new, but it acquired a whole new dimension by the end of the 1980s after the publication of the famous Brundtland Report (1987). Since then, the notion of sustainable development became a buzzword and civil society began to pressure firms for accountability of their social and environmental responsibility. The firms' response soon took shape through the concept of corporate social responsibility (CSR) (Garriga & Melé, 2004).

Interestingly, the NGO campaigns in the 1990s were still mostly focused on polluting industries (Hoffman, 2002). . No one did realize at that time the importance of the financial sector. So just when the chemical industry was fully engaged in CSR policies, banks were proud to show that they also contributed to sustainable development by recycling their paper from photocopies or by using energy-efficient light bulbs. The situation changed when people recognized that the significance of the banking sector does not lie in its direct impact on environment or society, but mostly in its indirect role through the clients and projects they finance. Since then, pressure for recognition of the extra-financial responsibility of firms shifted from the heavy and extractive industry to the banking sector.

The so-called Collevecchio Declaration (2003), a global coalition endorsed by more than 200 organizations, is in that sense an outstanding example of the efforts made by civil society to unveil the role of banks in advancing environmental and social sustainability.[3] More specifically, this declaration calls on financial institutions to embrace six main principles that reflect best practice from the CSR movement. Acknowledging that financial institutions, like coorporations, operate in a given society and should act in the public interest, they claim that

3 Collevechio Declaration. (n.d.). Retrieved January 26, 2015, from http://www.banktrack.org/download/collevechio_declaration/030401_collevecchio_declaration_with_signatories.pdf

banks should take their share of responsibility in promoting the protection of environment, universal human rights and social justice. This commitment to sustainability would require banks to fully integrate the above-mentioned issues into corporate strategies and core business areas such as credit granting, investing, underwriting, advising, etc.

Within this context, stakeholder-based institutions would turn out to be the pioneers of social responsible banking. Owing to their historic origins and their specific way of functioning, stakeholder-based banks are supposed to have a special link with the concept of sustainable development which is not to be found in other banking institutions. Their distinct profit allocation (with limited return on equity and profits distributed in proportion to business volume rather than capital investment) or their particular way of decision-making (with equal voting rights based on one member, one vote) would be just two specific features revealing this intimate relationship. More generally speaking, stakeholder-based banks should actually be seen as undisputed "champions" of CSR simply because, rather than being guided by profit-maximization, their business operations are meant to be vehicles for reaching social goals. What changes in the new context is the scope of their social dimension: traditionally it was rather inward-looking, with particular concern for the business-members and the local community in the narrow sense of the term; now it is more outward-looking, with social concern encompassing the whole society (Levi, 2001). This results into a shift from traditional single-stakeholder institutions to a newly multi-stakeholder entities. In either case, one may say that CSR has always been an integral part –though not always explicit- of stakeholder banking institutions.

The challenge of sustainable development in the financial industry would thus allow transforming the traditional typology (shareholder vs. stakeholder) into a new classification that would distinguish between mainstream or conventional banks on the one hand, and socially responsible banks on the other (fig. 2). Many people would then mechanically relate social banking with the latter category, but reality is not that simple. If it is rather easy to understand how the focus of stakeholder-banks on CSR could help them to reconquer their "relinquished" identity, this very same endeavor can conversely be seen as an instrument of mimetic isomorphism (DiMaggio & Powell, 1983). Indeed, it should be reminded that CSR was originally designed for profit-driven firms, quite often as a simple communication device. When stakeholder-based institutions rely on this very same tool to assert their identity, what they are actually doing is to validate the thesis that market forces have a strong power of homogenization of all business practices (Richez-Battesti & Boned, 2008). Since all banks use the concept of CSR as a benchmark to emphasize their social commitment and all provide similar kind of financial services, it is indeed easy to conclude that e they are all roughly the same. But in fact they are not. So if stakeholder-based banks really want to make a difference, they should develop their own specific sustainability-related instruments. .

More importantly, it is far from clear that stakeholder-based banks are indeed the "champions" of sustainable finance. A recent survey on the CSR reporting of European banks shows that the different sustainability policies are not dependent on the legal status (Lavedeau, Lafarie, & Husson-Traore, 2012). Cooperative banks, for example, do not particularly excel in this regard. While Crédit Agricole and Rabobank are indeed ranked at the top among the most virtuous institutions, Crédit Mutuel is conversely positioned at the bottom among those with less satisfactory performance. Others like the BPCE Group fall somewhere in between with a passable reporting. It is thus not entirely true that stakeholder-based banks are "intrinsically" better than their shareholder-based peers in their sustainability practice.

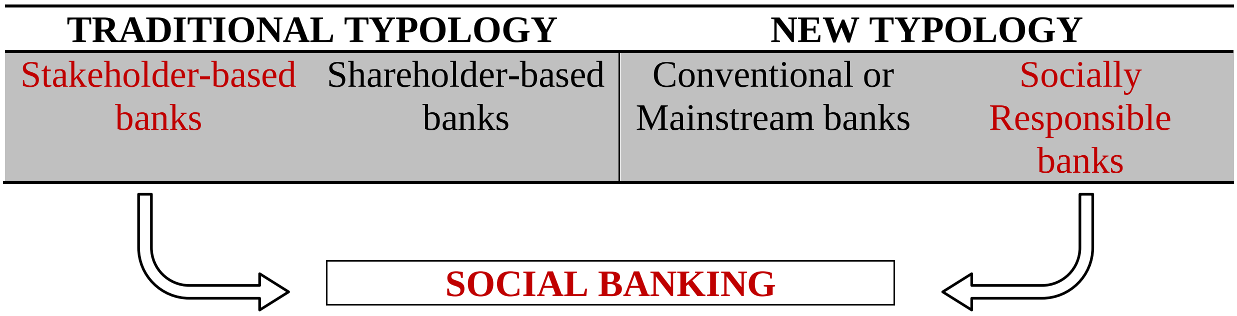

Fig. 2: The context of social banking
Source: author

As figure 2 shows, setting apart conventional and socially responsible banks in a new typology makes full sense in a context where sustainable development has become an inescapable challenge of our present-day society. But it would be misleading to think that this new categorization is directly linked to the legal status or the corporate governance structure. Eventually, what really matters for discerning if a given bank fits into one category or the other is to examine the nature and the concrete implementation of their policies as regards the environment, social impact, transparency, integrity and ethical behavior. The precise content of day-to-day business practice is far more important than the legal form of a given institution.

Within this new typology, social banking would clearly be positioned on the social responsibility side of the banking spectrum. The problem is that while most banks are ready to adopt an environmental rhetoric in their discourse, little sincere commitment follows to change in depth their attitudes (Relano & Paulet, 2014). Green-washing is rather easy. It suffices to issue a certain number of ethical funds to its clients, to devote some money to social patronage, to promote a number of internal environmentally-friendly attitudes, to adhere to international principles which do not compromise the core of the business, and finally to publish an annual extra-financial report in which all these initiatives are appropriately highlighted.

Let us illustrate this rather generalized attitude with the concrete example of Deutsche Bank. The leading German bank has indeed put in place a powerful and efficient marketing policy to communicate about their extra-financial policies. Besides producing once a year an externally audited CSR report, which is thick (almost one hundred pages), their sustainability-related activities are deployed in a web-page specifically devoted to these issues.[4] Their efforts seem to be rewarded by the above-mentioned survey about CSR reporting, which ranks Deutsche Bank among the financial institutions with most responsible practices. The overall picture would nevertheless be incomplete without mentioning, for example, that Deutsche Bank also topped the ranking of financial institutions with the largest number of subsidiaries operating in tax havens (Merckaert, Nelh, & Estival, 2010). More shocking and disturbing is still to note that, either as direct lender or simply as underwriter in the issuance of shares/ bonds for a particular company, Deutsche Bank has been actively participating in a series of controversial dealings (Van Gelder, Denie, & Scheire, 2009).

Most profit-oriented banks fall in this contradiction between boasting proclamation of good intentions and poor reality testing, but they are not the only ones. Cooperative bank Crédit Agricole also makes ample use of specialized subsidiaries in tax havens; the BPCE

4 Our understanding of responsibility. (2015). Retrieved January 26, 2015, from https://www.db.com/cr/index_en.htm

Group was fully involved, through Natixis, in the Madoff investment scandal; Rabobank has been severely fined for fraudulent manipulation of Libor rates; several *Landesbanken*, which are part of the German Savings Bank Finance Group, had large exposure and were substantially hit by the subprime crisis. More generally speaking, many of the banks which self-proclaim to be socially committed continue to trade and speculate with sensitive products having potentially negative social impacts such as agricultural commodities derivatives.

And yet, all banks are not the same. As the next section will show, green-washing attitudes demand going beyond the CSR paradigm. This will allow seeing social banking in a new light and permit a better understanding of their true nature as regards other banking institutions.

Repositioning Social Banks

The main reason whereby there is an obvious gap between overstated intentions on sustainability and real facts is that mainstream banks have tried to satisfy the customer's simultaneous demand for increasing profitability on the one hand, and higher standards of ethics on the other. Unfortunately, this is just not possible, at least in the short term. Companies firmly commited to being socially responsible necessarily incur in additional costs. Conversely, they will eventually be rewarded with enhanced reputation and lower risks, but this creates a new competitive advantage only in the long run. So those banks which are not ready to renounce the dogma of profit maximization can only be engaged in the idea of sustainable finance in a rather superficial manner. This has been so far the most common attitude amongst conventional banks. Obviously, most of them offer their clients the possibility of investing in a wide range of ethical funds and do have a number of credit lines especially devoted to environmental or social issues. But their general strategy has not changed. In their mind, the development of these new products must serve one invariable objective: more benefits. In fact, since the idea of "greening" the environment is now in fashion, mainstream banks have used this tendency to win new clients, thus making still more profit.

Socially responsible banks, on the contrary, work with the idea that man, planet and society come first. They obviously need to be sustainable businesses, with decent profits, but profit-making is not the same as profit-maximizing. One may summarize their distinct approach by saying that socially responsible banks work *with* capital rather than *for* capital. It should be noted, however, that one can obtain "decent profits" by using different means. The problem is to determine whether the means used matter as much as the end goal or not. Here is precisely where various sub-groups of socially responsible banks begin to diverge. In particular, a distinction should be made between socially-oriented and ethically-oriented banks. Their respective characterization will become manifest when taking into account their distinct underlying philosophy on the one hand, and their banking practice on the other.

The underlying philosophy

There are two major traditions in modern philosophy regarding how to determine the ethical character of actions. One argues that actions have no intrinsic ethical character but acquire a moral status from the consequences that flow from them. It is thus a results-oriented perspective, since it is the outcome and not the specific quality of the action itself that decides what is morally appropriate. The whole concept can be summarized in one passage from Machiavelli's *Prince*:

"In all men's acts and in those of princes most especially, it is the result that renders the verdict when there is no court of appeal." (ed. 1981, p. 63)

Jeremy Bentham was the first to develop this point comprehensively in his *Introduction to the Principles of Morals and Legislation* (1781). More precisely, he argued that something is morally good to the extent that it produces a greater balance of pleasure over pain for the largest number of people involved. This principle of utility, which sustains Bentham's whole manuscript, has often been subsequently abridged in the popular formula: "the greatest good for the greatest number" (Bentham, ed. 2000, pp. 14-18). When translated into the banking perspective, this attitude would eventually justify the following reasoning: first to invest in the stock market, even if this action potentially harms nature or society, and then, with the maximum profits so obtained, to make the biggest possible investments in environmentally or socially-friendly sectors. In general, social banks are very much in agreement with this philosophy. Even a microfinance institution like *Compartamos* is proud of having issued an initial public offering (IPO) in 2007 to raise capital for its socially-oriented activities.

The second perspective is based on Immanuel Kant's treatment of morality in his *Foundations of the Metaphysics of Morals* (1785). The German philosopher believed that he had discovered the fundamental law that would determine the ethical character of a given action irrespectively of its consequences. He called this moral law the "categorical imperative", i.e. a command that holds no matter what the circumstances. In one of its simplest versions, it says: "Act only according to that maxim by which you can at the same time will that it should become a universal law" (ed. 1959, p. 421). So, unlike Bentham and his followers, Kant believed that actions have an intrinsic moral value. The act itself, not its outcome, is endowed of ethical virtues. In general, ethical banks would tend to comply with this principle, but this would be better appreciated when examining the banking practice.

The banking practice

Exploring the whole range of banking activities is beyond the scope of this chapter. We will thus confine the current analysis to a quick overview of a few basic features that allow appreciating the most significant differences. Beginning with ethically-oriented banks, one of their most defining characteristics is that they refuse to participate in speculative operations of the financial markets. According to them, doing so would be inherently unethical because this forms part of an economic logic that pushes to prioritize short-term profit irrespective of the social or environmental consequences. Financial speculation is actually accused of being at the origin of many current international crises, social inequalities and ecological problems. Most fundamentally, such a proceeding would entail a deep-rooted inconsistency between short-term actions and the long-term goal. Consequently, ethical banks prefer to focus on the original business of banks: financing the real economy by lending money entrusted to them by savers to local entrepreneurs they know well through a triple bottom line approach (Relano, 2008).

Social banks have a more nuanced position. Since their primary goal is to induce a positive impact on people and environment through their banking activities, they would partly agree on the above reasoning. The difference is that social banks accept to make a "reasonable" use of financial markets. They believe that doing so might eventually bring about positive spill-over effects on society in the long term. Simply said, this means that higher profits are liable to being used for strengthening social impact. In any case, renouncing this financial instrument would be tantamount to confining their institutions to the status of inconsequential "niche banks", pure in their principles but with insignificant capacity to generate real change. So, without taking a stand for the profit-maximizing rationale, social banks will tend to make a moderate use of financial markets with the hope that this will maximize social benefits. In fact, what they actually do is to subordinate their use of financial markets to their founding values and principles, whereas ethical banks refuse "on principle" to do so.

Interestingly, what the banks actually do is ultimately reflected in their financials. Eastern Bank (Massachusetts, US), for example, is a widely praised institution for its commitment to local communities and champion of social-justice causes, namely as heir of former Wainwright Bank. It looks at a glance like an ethical bank. However, its everyday practice, as reflected in the balance sheet, shows a level of financial transactions that regularly exceeds 25 % of total assets. This percentage has nothing to do with that of mainstream banks such as HSBC or Deutsche Bank, whose investing and wholesale banking activities routinely represent the most important part of their net income. But, conversely, trading activities in financial markets are almost negligible in other institutions such as GLS Bank (Germany). Somewhere in between, Eastern Bank might thus be considered as a social bank.

What is important to know is how a bank earns money, and not just how they use and distribute their profits. Certain institutions like Ethik Bank (Germany) or Green Bank (US) might look pretty ethical at a first glance, but then comes the structure of their financials. Both dimensions have to be consistent for apprehending the real nature of a given financial institution. This is why the next sub-section proposes one last typology that brings together these two elements and allows seeing social banking repositioned in a more enlightening form.

A triptych typology

The difference between mainstream and socially responsible banks has been firmly established quite a long time ago. But within the latter group, the difference between ethically and socially-oriented institutions has never been clearly determined. Contrary to the pervasive confusion that most authors still show in this regard, the following typology draws the contours of social banking by placing this category within a new banking setting (composed of conventional, social and ethical banks) shaped by four parameters (ultimate goal, operational means, business approach and underlying philosophy).

	CONVENTIONAL BANKS	**SOCIAL BANKS**	**ETHICAL BANKS**
GOAL	Maximizing profit	Maximizing social value	Optimizing social value
MEANS	Global Financial Market	Global Financial Market	Local Savings / Loan activities
PHILOSOPHY	Philanthropy (out of business)	Utilitarianism (results oriented)	Categorical imperative (action oriented)
APPROACH	Diachronic	Diachronic	Synchronic

Fig. 3: Triptych typology for banking institutions
Source: made by the author

Mainstream banks are essentially for-profit-maximization institutions. They also claim to be very much concerned with the social and environmental problems of the planet, but the analysis of their financials shows that they obtain their profits mostly through wholesale and investing banking operations. There is thus a big gap between what they “say” and what they actually “do” (Relano & Paulet, 2014). Their social/environmental activities are conceived as a marketing device put in place to improve their image without generating real commitment. So, whatever the extent of their “green” promises, the original business model remains substantially unchanged. This is because their social and environmental commitment is actually conceived as a complementary or even as an “out of the business” activity, occasionally financed by majority-owned foundations. Banca Prossima (Italy) is in that sense an interesting case in point. Though essentially devoted to financing the non-profit sector, the fact that it is a fully-owned subsidiary of Intesa Sanpaolo group, excludes any possible consideration of this organism as a socially-responsible bank. Finally, let it be noted that the business logic of conventional banks is clearly diachronic (Benedikter, 2011, p.78): first to maximize profits by “playing tough” in business, often through unethical and unfair competition practices, as the Libor scandal illustrates, and then make the Good Samaritan by allowing an inconsequential part of the benefits to sponsor social patronage or to promote a number of environmentally-friendly attitudes. A recent survey on the banking industry as regards UN guiding principles on business and human rights would be a case case in point (Brightwell, 2014).

Social banks see things differently. Their main goal is not to maximize profits but to strengthen a positive impact on society. Unlike mainstream banks, their commitment to CSR policies is deep and sincere, but they obtain social benefits by doing “business as usual”. Certainly, the use that social banks make of speculative products in global financial markets cannot be paralleled with that of conventional banks, but it exists. Their overall banking philosophy is resolutely utilitarian. It is by obtaining profits according to mainstream rules that Eastern Bank (US) can best take care of certain deprived segments of the American society. The same applies, for example, to Umwelt Bank in Germany or Banca Etica Adriatica in Italy. Most of cooperative banks might also eventually be considered as social banking institutions. Their generalized process of demutualization and mimetic isomorphism with mainstream banks is indeed quite symptomatic of their real nature. Ultimately, cooperative banks share with the rest of the social banking institutions the following rule: controversial means, even with potential negative externalities, may justify a respectable end.

Most poverty-alleviation banks and community-development finance institutions share this very same endeavor (Scheire & De Maertlaere, 2009). Some reinforce their social commitment through membership to the Global Alliance for Banking on Values (GABV), whose laudable mission is to inspire profound changes in the mainstream banking industry that public regulation to date has been unable to achieve.[5] But compliance with sustainable and socially responsible principles is not a sufficient condition for being considered as a social bank. At least two other prerequisites are needed. From an operational perspective, it is first necessary that these institutions are not dependent on external donations or borrowed funds for financing their activitiesl Otherwise, we would be entering in the field of philanthropy (see above Banca Prossima). Secondly, and perhaps more importantly, they must possess a full banking license and comply with the associated requirements. Otherwise, they cannot be compared with mainstream banks (cf. microfinance institutions). So, despite the human potential of most development finance institutions, the fact that many of them do not comply with the aforesaid conditions prevents them from being globally considered as social banks.

5 Global Alliance for Banking on Values. (n.d.). Retrieved January 26, 2015, from http://www.gabv.org/

The third group is ethical banks. Unlike building societies or credit unions, that may be partly or wholly exempt from banking license, ethical banks are full-banking institutions offering a whole range of financial services. They must thus abide by the same rules as social and mainstream banks, but they conduct their business in a very different way. At level of underlying philosophy, for example, ethical banks believe that one cannot separate the yearning goal from the means used to attain it. So rather than *maximizing* social added value by all means, as social banks do, ethical banks prefer to *optimize* their social impact by following strict principles. They believe that actions have an intrinsic moral value, and that of using the financial markets is considered as inherently unethical for reasons that have already been previously expounded. This implies working with less financial return but, unlike their social and conventional peers, ethical banks believe that even with lower profits one can finally obtain higher impact in society. They actually think that "less is more", simply because doing business while doing good (synchronic approach) means that ethical banks are internalizing, on a voluntary basis, the costs of a better society. So rather than repairing the harmful consequences inherent to certain activities, ethical banks try to integrate in their business model the production of global common goods, which would otherwise be paid by the collectivity. In a nutshell, this means that social, environmental and financial concerns are really embedded within the organization, not sit in its periphery or out of business.

In practice, recent studies show that focusing on core banking operations, addressing the resources to the real economy at the local level, working with lower levels of financial collateral if the project financed is worth it in other terms, or simply fostering transparency in the funding policy, is not only possible from a socially-responsible grounding but also sound from a purely business perspective (Paulet, Parnaudeau, & Relano, 2015). The ongoing concentration process in mainstream and social banks, coupled with their generalized focus on the most profitable segments of society, creates a niche market for those who prefer giving sense to their money rather than waiting passively for the maximum capital return. The recent financial crisis has actually resulted in an unprecedented performance of this type of institutions in terms of the balance sheet (Weber, 2014). So much so, that the great dilemma now is whether ethical banks can continue to grow without diluting their original spirit. In this regard, the general strategy of institutions such as Triodos Bank (Netherlands) on the one hand, and Freie Gemeinschaftsbank (Switzerland) on the other, are likely to diverge in a near future. But for the time being both still share one of the most basic principles that divide social and ethical banking: what matters most is not "what" they want to do (both types of institutions generally agree at the level of goals and principles) but "how" are they actually going to achieve it.

Conclusion

The triptych typology shows that only ethical banks are really at variance from the mainstream logic of traditional banks. Social banks are somewhere in between. By using investment banking operations, even moderately, social banks differ from conventional banks only in quantitative terms. Intrinsically, in qualitative terms, they are fairly similar. Since both use the same tools, there is a difference of "degree" but not of real "nature". The related idiosyncrasy of conventional and social banks can eventually be visualized as variations within the same paradigm. Only the banking practice and an underlying philosophy of ethical banks represent a distinct business model. Ethical banks are actually the worthy heirs of the pioneering spirit inaugurated by Raiffeisen and Schulze-Delitzsch that no longer holds in social banks. The whole ambiguity of social banks is crystalized in this intermediate position.

It is very difficult to assess if this ambiguity of social banks will last over time. This will depend to a large extent on the mutual interplay between ethical and social banks. On the one hand, the exponential growth of the former finantial institutions cast some doubts on their capacity to remain faithfull to their original idiosyncrasy. The reason is that changes in the banking practice are very often linked to modifications in the underlying business philosophy. Triodos bank would be in that sense an outstanding example of a financial institution at the borderline of their original category. On the other hand, the recent financial crisis and the consequent loss of trust among costumers on mainstream banking and sophisticated financial engineering tehchniques has decided many social banks to move closer to the business model of ethical banks. Circumstances change. Banks change. Typologies evolve to see what are the principles that remain the same. These are, in addition, the lens through which we apprehend the reality of their banking practice. Future research will thus say to what extent the “glasses” proposed in this paper allow to see better.

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