Performance Measurement and Governance of Sustainable Lending: An Exploratory International Study

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Kurzbeschreibung

Diese explorative Studie untersucht, wie Banken im nachhaltigen Kreditgeschäft die Leistung ihrer mittelständischen Firmenkunden im Hinblick auf Umwelt- und Sozialverträglichkeit während der gesamten Darlehenslaufzeit prüfen. Dabei werden insbesondere inländische Banken in Betracht gezogen, deren Geschäftsstrategie für mittelständische Firmenkunden die Vergabe nachhaltiger Kreditprodukte umfasst. Eine phänomenologische Untersuchung der praktischen Erfahrungen von vier Bankfachleuten in Europa und einer Bankfachkraft in Nordamerika belegte den Mangel an formalen Leistungsmessungssystemen für die Prüfung der Einhaltung von Nachhaltigkeitskriterien. So wurde festgestellt, dass Banken bei der Offenlegung ihrer Nachhaltigkeitsprüfung häufig auf Storytelling zurückgreifen. Aus der Studie gehen zwei Empfehlungen für Banken hervor. Erstens: Banken könnten mit externen Beratern zusammenarbeiten, die auf die Messung von Nachhaltigkeitsaktivitäten spezialisiert sind. Zweitens: Banken könnten internes Know-how durch die Schulung und Rekrutierung von Mitarbeitern entwickeln, die über Erfahrung in der Messung ökologischer und sozialer Auswirkungen verfügen.

Darüber hinaus untersucht diese explorative Studie die Kontrollmechanismen, die von Banken bei der nachhaltigen Kreditvergabe unterstützend eingesetzt werden. Eine Inhaltsanalyse der Webseiten der Mitglieder der *Global Banking Alliance on Value* und des *Institute for Social Banking* ergab, dass eine evidenzbasierte Offenlegung das unbestrittene Engagement einiger Banken für eine Kontrolle ihres nachhaltigen Kreditgeschäfts demonstriert. Die Publikation der Kreditnehmerliste erwies sich als Mechanismus einer „Governance by disclosure“ bei der Vergabe nachhaltiger Kredite. Sie hat eine neue Ära für die Untersuchung der Informationsasymmetrie und Transparenz in der Bankwirtschaft eingeläutet. Zudem wurde aufgezeigt, wie eine Zusammenarbeit von Banken, Einlegern, Kreditnehmern und anderen Beteiligten auf der Basis gemeinsamer Grundwerte zur Entwicklung effektiverer Kontrollmechanismen beitragen kann. Anhand der Inhaltsanalysen spricht die Studie zwei Empfehlungen aus. Erstens: Zur Förderung der Disziplin sollte die Bankwirtschaft erwägen, die Kreditnehmerliste nicht nur Banken, sondern auch Kunden zugänglich zu machen. Zweitens: Die Veröffentlichung dieser Informationen belegt das Engagement von Banken und Kunden für umwelt- und sozialverträgliches Handeln.

Abstract

This is an exploratory study which investigates how banks, engaged in sustainable lending, monitor the performance of SME borrowers to be environmentally and socially responsible throughout the life of the loan. The focus is on domestic banks that have adopted sustainable lending in their commercial lending activities to SMEs. A phenomenological inquiry into the lived experiences of four bankers based in Europe and one banker in North America revealed the lack of formal performance measurement systems to monitor compliance with sustainability requirements. It was identified that banks resorted to the use of storytelling to report on the performance of their sustainable lending activities. The study concludes with two recommendations for banks. First, banks could avail of the services of external consultants who specialize in the measurement of sustainability activities. Second, banks could develop internal expertise through training and hiring of personnel with experience in measuring environmental and social impacts.

This exploratory study also investigates the governance mechanisms created by banks to support the implementation of sustainable lending. A content analysis of the websites of the members of the Global Banking Alliance on Values and Institute for Social Banking reveals that evidence-based disclosures demonstrate the unquestionable commitment of some banks to govern their sustainable lending activities. The publication of the list of loan borrowers emerged as a governance-by-disclosure mechanism in the implementation of sustainable lending. It was also demonstrated how shared values among banks, depositors, borrowers, and other stakeholders could contribute to the development of more effective governance mechanisms. Based on the content analyses, the study concludes with two recommendations for the banking industry. First, the banking industry should consider the publication of loan borrowers to promote discipline not only within banks but also among clients. Second, the published information provides evidence to the commitment of banks and clients to environmentally and socially responsible practices.

1 Introduction

This chapter introduces the phenomenon of sustainable lending to provide a foundation for this exploratory study. The last 30 years have witnessed the growing importance placed on banks to promote sustainability in the corporate world. This chapter investigates the issues faced by banks in promoting sustainability in terms of performance measurement and corporate governance. It presents the research objectives and questions, and the outline of the study. The chapter concludes with the definition of sustainable lending. Overall, the discussions justify the urgent need for an exploratory research in this under researched phenomenon.

1.1 Problem Analysis

Starting the mid-1990s, banks started to incorporate the assessment of the environmental risk of borrowers in their lending criteria to protect themselves from potential remediation liability and losses from impairment of collateral value. Lender liability, together with possible losses in asset recovery and reputational issues, provided the initial motivation for banks to improve policies and procedures to adapt to a changing lending environment. Although bank operations do not directly pose a risk to the environment, banks can contribute to the degradation of the environment because they provide financing to companies whose operations and products may have a detrimental impact on the environment (Thompson and Cowton 2004). There is a concern that

some banks are there for the environment rhetoric but with little commitment on the actual implementation (BankTrack 2009). Over the years, some banks have also started to report the assessment of the societal impact of the borrower's operations in their lending criteria. The focus by banks on environmental and social risks has evolved to what is now known as sustainable lending. This type of financing puts emphasis on the assessment of sustainability risks (Weber, Scholz, and Michalik 2010), which is the uncertainty about the repayment capacity of borrowers emerging from environmental and social issues. Little is known of the performance measurement of sustainable lending in general and how it relates to small and medium-sized entrepreneur (SME) borrowers in particular. SMEs have been largely ignored because of the lack of published information. SMEs have been acknowledged as a major contributor to environmental pollution as a result of their critical role in economic growth of many countries (Spence, Gherib, and Biwole 2008). Existing literature claim that SMEs reportedly contribute from 40% to 70% of global environmental pollution (Rao, la O'Castillo, Intal Jr., and Sajid 2006). Organization for Economic Co-operation and Development (OECD) reports that some countries estimate that SMEs account for as high as 80% of pollution as a result of their major role in economic growth.

SMEs implement the most basic environmental initiatives to satisfy bank loan requirements (Revell and Blackburn 2007). Since banks only investigate environmental and social issues at the loan application stage, there is no motivation on the part of SMEs to go beyond what is required

after loan approval. Banks have not played out their role as a market mechanism to influence SMEs to implement consistent environmentally friendly and socially responsible practices throughout the life of the loan (Richardson 2003). The investigation by banks of the environmental practices of their loan applicants started in the early 1990s. However, banks have been slow in extending the monitoring of environmental and social practices of borrowers throughout the life of the loan. It appears that banks have not fully taken advantage of their position to influence SMEs to practice corporate sustainability.

There has also been a vast concern for corporate governance and interest in sustainability in the banking sector. Banks are in an interesting position with regards to their own governance and their place in the governance of the environment and society. The banking industry as a whole has a tarnished image as far as governance is concerned. Public trust has been lost resulting in greater demand for transparency. Despite the extensive literature on corporate governance, it failed to identify and warn about the collapse of leading banks resulting in the financial crisis of 2007-2009 (Ahrens, Filatotchev, and Thomsen 2011). Despite this, many banks did survive the crisis unscathed with their reputations and financial viability intact particularly those involved in sustainable lending (Global Alliance for Banking on Values 2013). There is undoubtedly a growing awareness of sustainability issues in the banking industry but little research has been performed to link governance and sustainable lending in the aftermath of the financial crisis. The recent financial crisis and scandals, and focus on sustainability call for a new paradigm in

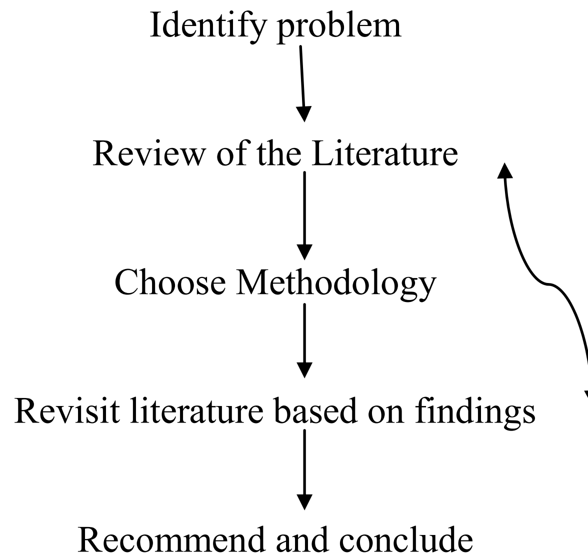
bank governance. This paper therefore examines the governance practices of these financial institutions engaged in sustainable lending.

Bank operations do not pose a risk to the environment and society. However, banks play a role in whether or not to support clients whose products and services may have a detrimental impact on the environment and society. Most banks assess the environmental and societal impact of their clients' activities to avoid liability from contamination and clean-up costs, and negative publicity. In sustainable lending, banks approve commercial loans based not only on the financial strength of applicants but also on their commitment to be environmentally and socially responsible throughout the life of the loan. Governance plays a critical role in sustainable lending because environmental and social initiatives require substantial investment and have significant impact on a bank's reputation and performance. The interdependence between a bank's governance and the environmental and social records of its clients pose a challenge to existing corporate governance models. The governance of a bank's impact in the operations of entities outside the realm of its direct control highlights the challenge being faced by banks engaged in sustainable lending. There is a need to investigate governance mechanisms which truly disclose a bank's sustainable lending activities.

This dissertation follows the pattern of an exploratory research design as conceived by Stebbins (2001) as shown in Figure 1. Exploratory research is basically characterized by the dearth of literature on the topic. However, the process of investigation may reveal new concepts that

would necessitate going back to the literature to explore other perspectives that could address the research questions.

Figure 1: Diagram of Exploratory Study Process



The flow of the dissertation follows a recurring pattern wherein the literature is revisited to draw together emerging themes with related concepts. This format provides the greatest added value to the exploratory study.

1.2 Objectives and Research Questions

1.2.1 Primary Objective and Research Question

This exploratory study is being driven by the lack of research on the performance measurement of sustainable lending. The first objective is to address this literature gap by examining how performance measurement systems could be improved to operationalize the implementation of sustainable lending within the context of SME borrowers. The following primary research question is formulated as follows: How do banks that are engaged in sustainable lending evaluate if SME borrowers continue to be environmentally and socially responsible throughout the term of the loan?

The study focuses on domestic banks that have adopted sustainable lending in their commercial lending activities to SMEs. The focus is on banks based in Europe and North America where there is a strong thrust towards sustainability. In commercial lending, banks approve loans based on the financial strength of applicants. Throughout the term of the loan, applicants are required to submit periodic financial statements to regularly evaluate performance and compliance with key financial ratios relating to cash flow, leverage and working capital. In sustainable lending, banks approve commercial loans based not only on the financial strength of applicants but also on their commitment to be environmentally and socially responsible throughout the life of the loan.

In this study, the following definitions of performance measurement, performance measure, and performance measurement systems are based on the literature reviews performed by Neely, Gregory, and Platts (1995) and Bourne, Neely, Mills, and Platts (2003):

> Performance measurement can be defined as the process of quantifying the efficiency and effectiveness of action. A performance measure can be defined as a metric used to quantify the efficiency and/or effectiveness of an action. A performance measurement system can be defined as the set of metrics used to quantify both the efficiency and effectiveness of actions.

1.2.2 Secondary Objective and Research Question

The second purpose of this paper is to investigate what governance mechanisms have been created to support the implementation of sustainable lending and to examine how governance mechanisms could be enhanced to improve the implementation of sustainable lending. The secondary research question is formulated as follows: What governance mechanisms have been created to support the implementation of sustainable lending?

The secondary research question calls for an investigation of the intersection between bank governance and sustainable lending by focusing only on new governance mechanisms that are working. The

World Economic Forum (2012) has described governance mechanisms as consisting of governing boards, monitoring systems, and reporting processes. In this study, the focus is on reporting processes that facilitate disclosure and improve transparency to support the achievement of sustainable lending objectives.

1.3 Outline of the Dissertation

The dissertation is divided into four chapters. The introductory chapter identifies the research questions and defines sustainable lending. Chapter two provides a description of the sustainable lending industry, review of the literature and development of propositions. Chapter three describes the methodology adopted by this research and presents the findings of the phenomenological approach and content analysis. Chapter four points out the implications of this study to research and practice, followed by the limitations of the dissertation. The last chapter ends with the conclusion of the dissertation.

1.4 Defining Sustainable Lending

The concept of incorporating environmental stewardship in business operations was first introduced by Hart's (1995) theory on the natural-resource-based view of the firm. Hart basically built on Barney's (1991) resource-based view of the firm by incorporating the natural environment

as one of the key ingredients towards achieving a competitive advantage in addition to internal resources and capabilities. Many researchers consider Hart's theory as the dominant paradigm in studying how environment protection adds value to a firm (Walls, Berrone, and Phan 2012).

The concern for the environment by the firm heralded a phenomenon where it became synonymous with sustainable development and corporate sustainability. The mid 1990s saw the banking industry join the effort to protect the environment through government legislation which made banks liable for the environmental damages created by its clients. A bank's close supervision and monitoring of a client's operations gave it an "ability to influence" the firm's management and therefore also liable for clean-up damages (Boyer and Laffont 1997). Thompson (1998, 243) explained that "banks could act as environmental policeman, scrutinizing borrowers to ensure that they comply with environmental standards, and denying finance to those who fail to comply with such standards." The effectiveness of banks as delegated monitors has been investigated by many researchers.

It was Jeucken and Bouma (1999) who introduced the concept of sustainable banking as the last of four stages or attitudes that banks are taking towards sustainability. The first stage is defensive banking wherein a bank basically takes no action or delays adopting any initiative to support environmental legislation. The second stage is preventative banking wherein a bank implements internal measures such as

incorporating environmental due diligence in credit risk assessment. The third stage is offensive banking wherein a bank implements both internal and external measures such as offering financial products that promote the environment. Finally, the fourth stage is sustainable banking wherein a bank will not lend or invest in a borrower whose operations and products may have a detrimental impact on the environment.

Giuseppi (2001, 101) provided the following definition of sustainable banking within the context of sustainable development which includes a social component:

> The definition of the term sustainable development means meeting the needs of today's generation without compromising the ability of future generations to meet theirs. Sustainable banking, therefore, should be interpreted as the decisions of banks to provide products and services only to customers who take into consideration the environmental and social impact of their actions.

The above definition of sustainable banking is widely used in the literature (Aras and Crowther 2008) and has been adopted by the International Finance Corporation (2007). However, there is no definition of sustainable lending in the academic literature.

Sustainable lending is basically a component of sustainable banking. Therefore, sustainable lending can be defined as the decision by banks to provide financing only to corporate borrowers who take into account the

environmental and social impact of their operations. This definition will be used in this paper. How does sustainable lending differ from corporate social responsibility? Ciliberti, Pontrandolfo, and Scozzi (2008, 1) quoted the definition of corporate social responsibility from the Commission of the European Communities (2001) as “the voluntary integration by companies of social and environmental concerns in their commercial operations and in their relationship with interested parties” Corporate social responsibility and sustainable finance have been used interchangeably in both practical and academic literature. Strandberg (2005, 6) defines corporate social responsibility or sustainable finance “as the provision of financial capital and risk management products and services in ways that promote or do not harm economic prosperity, the ecology and community well-being.” Therefore, corporate social responsibility and sustainable finance are both broader concepts, and the practice of sustainable lending could be considered as a strategy of banks to promote environmentally and socially responsible practices from borrowers.

Marcus and Fremeth (2009, 19) provide a description of the measurement challenges of the three interlocking spheres of environment, social, and economic, as follows.

> *Environment:* Organizations create environmental impacts at various levels, including local, national, regional, and international. These occur in relation to air, water, land, and biodiversity resources. Some are well understood, while others present

substantial measurement challenges owing to their complexity, uncertainty and synergies.

Social: The social dimension of sustainability captures the impact of an organization's activity on society, including on employees, customers, community, supply chain, and business partners. Social performance is a key ingredient in assuring an organization's ability to deliver high-quality environmental and economic performance.

Economic: The ways organizations affect the economies in which they operate are captured and disclosed by conventional financial accounting and reporting. Additional measures are required to capture the full range of an organization's economic impacts

Why domestic banks and not other financial institutions? Domestic banks can leverage their position as major providers of financing to SMEs. Therefore, the focus is on banks which provide commercial lending to SMEs because banks can impose the terms and conditions of the loan. The adage is that "what gets measured, gets done." For example, if a bank requires an SME borrower to maintain a minimum debt:equity ratio, then the SME borrower will ensure compliance otherwise it will be out of covenant. In the same manner, if a bank imposes waste recycling objectives as an additional loan covenant, the SME borrower will likewise endeavour to comply with this loan condition.

2 Theoretical Perspectives

This chapter provides a description of the sustainable lending industry. This is followed by the review of the literature from the perspective of the two research questions. Propositions will be derived from the review of the literature. The chapter concludes with the justification for the exploratory nature of the study.

2.1 Sustainable Lending Industry

This section provides an overview of the presence of sustainable lending in the financial industry. As a starting point, there is no consistency in both academic and practical literature in identifying financial institutions that claim to be concerned with the environment and social. These financial institutions have been known as sustainable, social, ethical, green, responsible, or alternative banks. They are not a separate class of financial institutions. Their regulation remains within the traditional financing system. They could be organized as a private commercial bank, government-owned bank, cooperative, or credit union. Some claim to be focused 100% on sustainable lending while others report they are moving towards this direction. These financial institutions are located across the globe with no real common factor except for the concern for the environment and society. There are three international organizations where many of these financial institutions have enlisted as members. The following sections provide a description of the origin of sustainable lending and players in the market.

2.1.1 Origin of Sustainable Lending

Weber (2012) traces back the origin of sustainable lending and the broader concept of sustainable banking to the creation of credit unions in the 19th century. The mandate of credit unions, which includes supporting local economies, would later become the foundation of the sustainability criteria. Weber ascribes the appearance of ethical banks in the 1970s as a result of globalization of the banking industry. Banks became more focused in financial markets than in the real economy and dealings with dictatorial regimes and money laundering. The author also attributes the further development of sustainable banking to the launch of the Kyoto Protocol in 2005 which led to the creation of financial instruments addressing climate change mitigation.

The external pressures from non-governmental organizations (NGOs) provide another explanation for the origin of sustainable lending. In 2002, four NGOs joined together to challenge the banking industry to address the environmental and social impacts of their financing activities (WWF 2006). This coalition of four NGOs consists of the Friend of Earth, Rainforest Action Network, WWF-UK, and the Berne Declaration, which have now evolved to what is known as BankTrack. In 2003, BankTrack launched the Collevecchio Declaration on Financial Institutions and Sustainability which has become the impetus behind the pressure for banks to promote sustainability. The Declaration, named after the Italian village it was conceived, outlines six commitments that

financial institutions must adopt and implement to support sustainable development, which are repeated below (BankTrack, 2003):

Commitment to Sustainability: Financial institutions (FIs) must expand their missions from ones that prioritize profit maximization to a vision of social and environmentally sustainability. A commitment to sustainability would require FIs to fully integrate the consideration of ecological limits, social equity and economic justice into corporate strategies and core business areas (including credit, investing, underwriting, advising), so that sustainability objectives are placed on an equal footing with shareholder maximization and client satisfaction; and to strive to finance transactions that promote sustainability.

Commitment to "do no harm:" FIs should commit to do no harm by preventing and minimizing the environmentally and/or socially detrimental impacts of their portfolios and their operations. FIs should create policies, procedures and standards based on the Precautionary Principle to minimize environmental and social harm, improve social and environmental conditions where they and their clients operate, and avoid involvement in transactions that undermine sustainability.

Commitment to Responsibility: FIs should bear full responsibility for the environmental and social impacts of their transactions. They must also pay their full and fair share of the risks they accept and

create. These include financial risk, as well as social and environmental costs that are borne by communities.

Commitment to Accountability: FIs must be accountable to their shareholders, particularly those that are affected by the activities of the companies they finance. Accountability means that stakeholders must have an influential voice in financial decisions that affect the quality of their environments and their lives through ensuring that stakeholders' rights are protected by law, and through practices and procedures voluntarily adopted by the FI.

Commitment to Transparency: FIs must be transparent to stakeholders, not only through robust, regular and standardized disclosure, but also through being responsive to stakeholder needs for specialized information on FIs' policies, procedures and transactions. Commercial confidentiality should not be used as an excuse to deny stakeholders information.

Commitment to Sustainable Markets and Governance: FIs should ensure that markets are more capable of fostering sustainability by supporting public policy, regulatory and/or market mechanisms which facilitate sustainability and foster the full cost accounting of social and environmental externalities.

In the past 10 years since its creation, BankTrack has become the global conscience of the banking industry. It now consists of a network of 30 civil society organizations. It has taken on the role of reporting banks

that have funded projects that could be harmful to the environment and/or society. BankTrack recognizes that progress has been achieved by many banks towards the journey to sustainability but significant improvements are still needed in the areas of monitoring and reporting. In 2006, BankTrack launched a "how-to guide" entitled The Dos and Don'ts of Sustainable Banking to assist financial sector to adopt sustainability practices.

Notwithstanding the historical perspectives provided by the credit union evolution and NGO coalition, the United Nations (UN) has its own version of events which contribute to the continuing involvement of banks in advancing sustainability. Established in 1945, the UN is an international organization with 193 member countries. The UN's foray into sustainability started first with a focus on the protection of the environment with the creation of the United Nations Environmental Program (UNEP) in 1972. Nineteen years later, the UNEP Finance Initiative was launched in 1991 when a small group of banks pushed the role of the financing industry in the environmental agenda. The membership has since grown to over 200 financial institutions from around the world, as shown in Table 1:

Table 1: UNEP FI Membership by Location

Region	Percentage Share
Europe	44%
Asia Pacific	28%

North America	12%
Africa	9%
Latin America	6%
Middle East	1%

Source: UNEP FI website

The UNEP FI likewise claims that it was instrumental in the integration of environmental consideration by financial institutions. Twenty years later in 2011, the UNEP FI Guide to Sustainable Banking was launched as a "how-to guide" to assist financial institutions to adopt sustainable practices. It is obvious that the UN has lagged behind BankTrack in setting standards on the implementation of sustainable banking.

The Institute for Sustainable Development (2013) in Canada identified four key drivers that lead to the further inclusion of sustainability in the banking industry in the mid-1990s. First, lender liability provided the initial motivation in terms of banks being held responsible for the cost of environmental clean-up of charged assets. Second, the repayment capacity of borrowers could be impaired if they are held responsible for environmental liabilities. Third, banks could no longer ignore the growing consciousness towards environmental protection. Fourth, many banks recognize the business opportunities associated with the thrusts toward sustainability.

It could be added that the recent financial crisis is another driver to the growing popularity of why banks should bank on sustainability. The collapse and bailout of many banks have highlighted the superior performance of banks engaged in sustainability activities. The following sections provide additional information on the identity of these banks.

2.1.2 European Federation of Ethical and Alternative Banks

Founded in 2001, the European Federation of Ethical and Alternative Banks (FEBEA) is the first group to be established with a sustainability focus. FEBEA consists of 22 members including banks, savings and loan cooperatives, investment companies and foundations, as listed in Table 2:

Table 2: FEBEA Members

Member Institutions	**Location**
APS Bank	Malta
Banca Etica	Italy
Bank Fur Sozialwirtschaft	Germany
BBK Solidariosa	Spain
Caixa Pollenca	Spain
Cassa Centrale De Cassa Rurale	Italy
CREDAL	Belgium
Credit Cooperatif	France

CS du Nord-Pas-de-Calais	France
Cultura Bank	Norway
Ekobanken	Sweden
Etimos	Italy
Femu Qui	France
Fiare	Spain
Hefboom	Belgium
Integra	Slovakia
La Nef	France
Merkur	Denmark
Oekogeno	Germany
SIDI	France
SIFA	France
TISA, S.A.	Poland

FEBEA's office is located in Belgium. FEBEA's website reports that its members represent a total balance sheet of 21 billion euros consisting of 528 clients. The website also lists the following membership criteria for organizations:

- To be a savings and credit financial institution
- To accept the Charter
- To have annual balance sheet of at least 1 million euro
- To carry out social finance activities of significant importance

- To have a complete autonomy of decision, independent of any external organization or enterprise
- To have its registered office in the European Union or an applicant country, even if the activities are taking place in third countries
- To provide complete transparency and information on its work procedures, the collection of savings and use of resources to the public.

FEBEA also accepts individual members as long as the person can demonstrate an established level of competence in the field of social finance. In effect, the creation of FEBEA is the earliest evidence of convergence by financial institutions and related entities who share the same concern for the promotion of the environment and society.

2.1.3 Institute for Social Banking

Founded in 2006, the Institute for Social Banking (ISB) consists of 15 member institutions from 11 countries in Europe. Listed in Table 3 are the members of ISB:

Table 3: ISB Members

Member Banks	Location
Alternative Bank of Switzerland	Switzerland
Banca Popolare Etica	Italy
Charity Bank	United Kingdom,

Clann Credo	Ireland
Cultura Sparebank	Norway
Ecology Building Society	United Kingdom
Ekobanken	Sweden
GLS Bank	Germany
GLS Treuhand e.V.	Germany
Hermes Osterreich	Austria
Hannoversche Kassen	Germany
Merkur	Denmark
LaNef	France
Stiftung Edith Maryon	Switzerland
Triodos Bank	The Netherlands

The ISB office is located in Germany. ISB's website simply stipulates that membership is open to "only organizations closely linked to social banking." The website also provides the mission of ISB:

> The Institute of Social Banking promotes a concept of finance and banking that specifically orients itself towards a perception of and responsibility for the development of both people and planet.

ISB also takes on a more education role by offering an annual 5-day summer school and a Certificate in Socially Responsible Finance in partnership with the Alanus University. ISN also has a strong focus on

research especially on the topic of measurement methodologies, legal aspects, and risk appraisal. The ISB website does not provide any information on the financial performance of its members.

2.1.4 Global Alliance for Banking on Values

Founded in 2009, the Global Alliance for Banking on Values (GABV) is the most international of these three organizations. GABV consists of 25 member banks located in Asia, Africa, Europe, Latin America, and North America with combined assets of over US Dollars 70 billion, as listed in Table 4:

Table 4: GABV Members

Member Banks	Location
Affinity Credit Union	Canada
Alternative Bank of Switzerland	Switzerland
Assiniboine Credit Union	Canada
Banca Popolare Etica	Italy
Banco Fie	Bolivia
Banco Sol	Bolivia
Bankmecu	Australia
BRAC Bank	Bangladesh
Centenary Bank	Uganda
Clean Energy Development Bank	Nepal
Credit Cooperatif	France

Cultura Bank	Norway
Ecology Building Society	United Kingdom
First Green Bank	USA
GLS Bank	Germany
Merkur Cooperative Bank	Denmark
Mibanco, Banco de la Microempresa	Peru
New Resource Bank	USA
OnePacificCoast Bank	USA
SAC Apoyo Integral, S.A.	El Salvador
Sunrise Banks	USA
Triodos Bank	The Netherlands
Vancity	Canada
Vision Banco	Paraguay
XacBAnk	Mongolia

The secretariat's office is located within the premises of Triodos Bank in The Netherlands. The website of GABV lists the following membership criteria:

- they are independent and licensed banks with a focus on retail customers

- with a minimum balance sheets of US Dollars 50 million;
- and, most significantly, they should be committed to social banking and the triple bottom line of people, planet and profit.

GABV (2013) recently commissioned a study comparing the performance of their 25 member banks with the largest banks in the world. Replicated below in Table 5 are the Loan to Total Assets and Deposits to Total Assets ratios of the member banks against Global Systemically Important Financial Institutions (GSIFIs).

Table 5: GABV Financial Performance

	Post-Crisis 2008 to 2012	Pre-Crisis 2003 to 2007	Over the Cycle 2003 to 2012
Loans to Total Assets			
Sustainable Banks	77.4%	74.5%	75.9%
GSIFIs[1]	39.3%	41.0%	40.1%
Deposits to Total Assets			
Sustainable Banks	75.3%	74.5%	73.1%
GSFIs	42.8%	43.0%	42.9%

Source: GABV Website

[1] GSIFIs: Bank of America, Bank of China, Bank of New York Mellon, Banque Populaire, Barclays, BBVA, BNP Paribas, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, Group Credit Agricole, HSBC, ING Bank, JP Morgan Chase, Mitsubishi UFJ FG, Mizuho FG, Morgan Stangley, Nordea, Royal Bank of Scotland, Santandar, Societe Generale, Standard Chartered Bank, State Street, Sumitomo, Mitsui FG, UBS, Unicredit Group, and Wells Fargo

Table 5 shows that the 25 member sustainable banks have been lending double their assets compared to the GSFIs during the 10-year period before and after the recent financial crisis. These statistics are counter intuitive since GABV member banks have a narrower target market compared to GSIFIs. On the other hand, the member banks appear to be attracting more depositors than the competition.

2.1.5 Other Organizations

It is important to recognize that there are many other organizations which have joined the sustainability bandwagon outside of FEBEA, ISB, and GABV. For example, the website of the Association of Development Financing Institutions in Asia and the Pacific states that it "supports green banking programs and local economic development projects." Likewise, the website of The Canadian Bankers Association states that "environmental sustainability is a key part of Canada's banks' social responsibility efforts." Other individual banks have likewise made similar announcements. For instance, the Industrial Development Bank of Turkey's (TSKB) website states that "TSKB shapes its sense of social responsibility within the scope of its "Sustainable Banking" mission, focusing on raising awareness about the issues that pose a risk on our planet and the future of humankind; in particular, on the issue of climate change."

A few countries have adopted sustainable banking as a national policy. In 2007, the Chinese government launched a series of green finance policies

to promote sustainable banking. Judging by the international media coverage of the smog choking Beijing, it appears the implementation of sustainable banking in China has still a long way to go. In 2008, the Brazilian banking association initiated the introduction of green protocols for both public and private banks in Brazil. In 2012, the Central Bank of Nigeria likewise required the implementation of sustainable banking by banks, discount houses and development finance institutions in Nigeria.

Banking regulators and associations have likewise joined the sustainability bandwagon. In 2012, the Sustainable Banking Network was launched whose membership was limited to banking regulators and bank associations. The objective is to serve as a platform for sharing best practices to support policy development in sustainable lending. Table 6 lists the 17 members:

Table 6: Sustainable Banking Network Members

Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
Bank of Bangladesh
Bank of Loa PDR
Bank of Mongolia
Central Bank of Nigeria
Central Bank of Brazil
China Banking Regulatory Commission
Otoritas Jasa Keuangan (Indonesia Financial Services Authority)
State Bank of Vietnam

Superintendence of Banks, Insurers, and Private Pension Funds of Peru
Asobancaria (Banking Association of Colombia)
China Banking Association
China Ministry of Environmental Protection
Mongolia Banking Association
Mongolia Ministry of Environment and Green Developmentq
Thai Bankers Association
Vietnam Ministry of Natural Resources & Environment

Source: First for Sustainability website

It was inevitable that an awards programme will eventually take place, which seems to accompany a new phenomenon. In 2006, the Financial Times (FT) and International Finance Corporation (IFC) launched the FT/IFC Sustainable Finance Award which included, among others, a Sustainable Bank of the Year award. This is now considered the world's leading recognition of environmentally and socially responsible banks. The categories have changed over the years. The most recent seven categories are: Sustainable Bank of the Year; Sustainable Investor of the Year; Sustainable Investment of the Year; Technology in Sustainable Finance; Achievement in Inclusive Business; Achievement in Impact Investing; and Excellence in Sustainable Finance. When the awards programme started in 2006, there were 90 entries from 48 institutions in 28 countries. In 2013, a record 254 entries were received for the highly sought awards from 164 financial institutions and 57 non-financial

entities in 61 countries . Shown in Table 7 is a list of winners of the Sustainable Bank of the Year award:

Table 7: FT/IFC Sustainable Bank of Year Award Winners

Year / Awards
2013 • Regional winner Africa/Middle East: Standard Bank, South Africa • Special Commendation for Leadership in the Middle East: Bank of Palestine • Regional winner Americas: Banco Santander Brasil, Brazil • Regional winner Asia/Pacific: Sumitomo Mitsui Banking Corp., Japan • Regional winner: Europe: GLS Bank, Germany • Special Commendation for Leadership in Europe: Center-Invest Bank, Russia • Sustainable Global Bank of the Year: Banco Santander, Spain
2012 • Regional winner Africa/Middle East: Nedbank, South Africa • Regional winner Americas: Itau Unibanco, Brazil • Regional winner Asia/Pacific: YES Bank, India • Regional winner Europe: Co-Operative Banking Group, UK • Sustainable Global Bank of the Year: Standard Chartered, UK • Special Commendation: Credit Suisse, Switzerland
2011 • Winner: Itau Unibanco • Regional winner Africa/Middle East: Access Bank • Regional winner Americas: Itau Unibanco • Regional winner Asia/Pacific: YES Bank • Regional winner Cross-Regional: Bank Sarasin
2010 • Winner: Co-Operative Financial Services, UK • Runner-up: HSBC, UK
2009 • Winner: Triodos Bank, The Netherlands • Runner-up: Standard Chartered, UK
2008 • Winner: Banco Real, Brazil • Runner-up: Rabobank, The Netherlands
2007 • Winner: ABN AMRO, The Netherlands • Runner-up: Barclays, UK
2006 • Winner: HSBC, UK

Source: Financial Times website

The focus on sustainability in banking has clearly become a global phenomenon. This is reflected in the locations of the winners from across the globe. It is interesting to note that none of the winners are from North America. In closing, it is safe to assume that sustainable lending is a growing sector. The growing popularity of sustainable lending may even precipitate the much needed paradigm shift in banking.

2.2 Literature Review and Propositions

The review of the literature is structured in two parts: The first part deals with the literature relating to the primary research question specifically on performance measurement. The review begins with the investigation of the influence of banks on SME performance. This is followed by discussions of the literature from the perspectives of banks and SME borrowers. The second part deals with the literature relating to the secondary research question. The review begins with an investigation of the importance of reporting processes in corporate governance in general. This is followed by a more specific discussion on bank governance and the mechanisms being implemented by banks engaged in sustainable lending. The last section concludes with the link between bank governance and sustainability.

2.2.1 Bank Monitoring of SME Performance

The effectiveness of banks as delegated monitors has been investigated by many researchers. One of the earliest studies was from Diamond (1984) who cited the cost advantage of banks in collecting information from borrowers as a result of direct lending. More recently, Mester, Nakamura, and Renault (2007) conclude that a commercial bank's access to a borrower's transaction accounts provide a unique advantage to monitor the client's performance. Ivashina, Nair, Massoud, and Stover (2009) elevated the role of banks as "insiders to firms" as result of the intensity of lending activities.

Research on the role of banks as firm monitors within the context of SMEs has been largely focused on relationship lending (Berger and Udell 2006). In relationship lending, a bank collects information over time from an SME borrower to mitigate information asymmetry. Banks gather information that are not available to outsiders, which then plays a key role on whether additional financing will be provided in the future. Relationship lending is important in many Western developed countries as evidenced by the proliferation of studies from these regions (Bakker, Udell, and Klapper 2004). Fellow scholars Elyasiani and Goldberg (2004) reported it was Lummer and McConnell (1989) who identified that relationship lending is not built when banks enter into a new credit agreement but is acquired over time through multiple interactions with the borrower. However, existing literature is largely focused on

empirical studies investigating the impact of relationship lending on collateral, interest rate, and loan workouts. There are no studies on how banks can leverage their client relationships to influence borrowers to implement environmentally and socially friendly practices.

It was Aintablian, McGraw, and Roberts (2007) who first documented the relationship between bank monitoring and environmental risk of borrowers. Based on a study of 152 bank loan announcements by Canadian firms from 1988-1997, the authors cited the “uniqueness” of bank loans as a signalling mechanism for positive environmental practices. When a bank approves a loan, it sends a signal that the borrower is not subject to high environmental risk. It appears that banks have the potential to leverage their position as relationship lenders to influence SME borrowers to implement practices that promote the environment and society.

SMEs have been acknowledged as a major contributor to environmental pollution as a result of their critical role in economic growth of many countries (Spence et al. 2008). Existing literature claim that SMEs reportedly contribute from 40% to 70% of global environmental pollution (Rao et al. 2006). OECD reports that some countries estimate that SMEs account for as high as 80% of pollution as a result of their major role in economic growth. There is a proliferation of information on environmental issues focused on large companies which is publicly available (Aragon-Correa, Hurtado-Torres, Sharma, and Garcia-Morales

2008; Buban-Litic 2008). However, SMEs have been largely ignored because of the lack of published information.

Aragon-Correa et al. (2008) point out the limited research on SMEs' impact on the environment because of the underlying assumption that SMEs' lack of resources prevents them from implementing any meaningful measures. There is a prevailing assumption that SMEs limit their environmental strategy to the minimum required for regulatory compliance despite their significant contribution to many economies. SMEs are too involved with daily challenges and will not implement environmental initiatives unless there is a monetary incentive to do so (Revell and Blackburn 2007). Based on 40 interviews of small firms in the UK and The Netherlands, Rutherfoord and Blackburn (2000) suggest that reliance on government rhetoric of win-win solutions is not sufficient to promote environmentally friendly practices. They argue that government through regulation is the appropriate mechanism to ensure compliance from small firms. However, Aragon-Correa et al. (2008) report that SMEs have unique characteristics which facilitate development of proactive environmental strategies. Based on study of truck and car repair shops in Southern Spain, they confirm that SMEs have the capability to contribute towards protection of the environment through their business practices.

Existing literature confirms the potential of SMEs to either implement environmentally friendly practices on their own or as part of a supply chain of larger companies (Ciliberti et al. 2008). Luken and Stares

(2005) point out those large companies could be a positive force to encourage SMEs to help the environment and become more socially responsible. The same authors cited the earlier work of Raynard and Forstater (2002) which confirmed the pressures being exerted by transnational corporations on SMEs belonging to their supply chain to increase environmental and social awareness. However, there is limited research which links banks as another large firm in the financing chain, to influence SME borrowers to adopt environmentally and socially responsible practices. Banks are a major source of financing for SMEs. Therefore, it could be argued that a bank's sustainability lending practices could have a disciplining effect on the behaviour of its SME borrowers. The SME borrower will now be more conscious about the health of their properties and their environmental and social practices to ensure a successful loan application and subsequent round of financing with favourable terms and conditions. The first proposition is hereby presented:

> Proposition 1: The measurement by banks of its sustainable lending activities will result in the promotion of environmentally and socially responsible practices among SME borrowers.

It is being anticipated that SMEs will become more conscious about the health of their properties and their environmental and social practices to ensure a successful loan application and subsequent round of financing with favourable terms and conditions. It was Houston (2003) who identified that a bank and loan-client relationship exhibits characteristics

of an alliance. A bank's concern over its client's environmental and social performance could be a driver for promoting sustainable practices in the private sector. However, it is important to recognize that the influence of banks' lending power on SMEs has its limitations (Coulson 2009). Banks do not normally participate in the daily activities of SMEs, not only because of the sheer number of SME borrowers but also due to the potential legal liability.

2.2.2 Bank Perspective

Financial institutions are just starting to document their internal environmental and social activities, such as recycling and donations, but have yet to account for the direct impact on borrowers during monitoring (Scholten 2007). Based on a survey of UNEP banks and non-UNEP banks, Weber, Fenchel, and Scholz (2008) report that analysis of environmental risks was integrated only during due diligence at loan application but not in all aspects of the life of the loan, specifically the monitoring phase. The authors argue that the banks do not have a complete understanding of the impact of environmental risks on their loan portfolio. Recent research shows that there appears to be a positive change towards this direction. The Chinese government has mobilized its banks to implement control mechanisms for environment protection (Aizawa and Yang 2010). This mobilization highlights the potential of banks to leverage their financial instruments to influence the actions of

borrowers. The high concentration of toxic smog in China makes this mobilization a very timely, if not a desperate exercise.

Despite initiatives to facilitate banks' involvement in promoting the environment and society, there is no evidence in the literature that banks are engaged in measuring their impact especially among SME borrowers. An appropriate analogy is a person who needs to exercise in order to lose weight but is satisfied with drinking diet beverages and eating non-fat food which are less painful and quick-fix alternatives. It appears that some banks may have adopted the "diet and non-fat label" approach by simply signing as a signatory member and paying the membership fees to various voluntary green clubs without going through the extra mile of measuring sustainability performance throughout the life of the loan. Ambec and Lanoie (2008) referred to this phenomenon as "Ecolabeling," which is a differentiation but superficial strategy for organizations to satisfy an increasing environmentally conscious market.

The focus is now being shift to a different theoretical perspective that could possibly explain the reasons for the lack of performance measurement of sustainability activities. The increasing popularity of membership or certification to a voluntary environmental framework led to the phenomenon of decoupling (Boiral 2007), wherein organizations adopt practices in paper with superficial implementation. The aim is that a bank achieves legitimacy with stakeholders by announcing the membership or certification without genuine interest in integrating standards in operations. Basically, the adoption of popular voluntary

standards is done symbolically for public relation purposes (Richardson 2005). This process of decoupling was investigated by Furrer, Hamprecht, and Hoffman (2012) in a study of 114 listed banks around the world within the context of adopting a climate strategy. The authors found evidence of deflective decoupling in which banks implemented limited climate strategies sufficient enough to satisfy stakeholders but decouple it from value creation processes such as lending.

The lack of performance assessment is also a result of the inadequacy of current financial reporting standards. Wagner and Schaltegger (2006) point out the unresolved issue of the need for accounting and reporting standards with indicators which are universally acceptable and applicable to any industry. A further argument was made that social and environmental reporting and accounting are meant to be developed and implemented side by side (Aras and Crowther 2008). It is expected that the success of using banks as conduits for promotion of the environment and society will require a comprehensive performance information system that should be shared with stakeholders. An agreement on how to evaluate environmental or sustainable performance in the academic literature remains elusive (Bos-Brouwers 2010). There is no consensus on how to measure the performance of sustainable lending. The second proposition is hereby presented:

> Proposition 2: The lack of performance measurement systems will prod banks to seek alternative ways to measure the results of sustainable lending activities

It is being anticipated that banks moving towards sustainable lending will evolve to seek ways to develop metrics to measure performance.

2.2.3 SME Perspective

So far the discussion has been focused on sustainable lending from the banks' perspective. In this section, the discussion focuses on the tools available to SME borrowers to assist in their compliance with the requirements of banks engaged in sustainable lending.

Early research in measurement of environmental protection has already identified the lack of standardized guidelines which clearly define what constitutes good and bad performance (Ilinitch, Soderstrom, and Thomas 1998). The challenges being faced by SMEs could be partly blamed for the inadequacy of corporate environmental reporting standards. It has been over 15 years since Tyteca (1996) raised the expectation that there will be an increasing demand for standardization of corporate disclosure of performance with respect to the environment. The objective is to develop performance measures that would facilitate inter-firm and inter-industry comparison and allow performance measurement and monitoring.

If SMEs are going to be concerned with measuring environmental and social performance, they must first identify what is being measured. At this point, I refer to practical literature to obtain the most comprehensive

list of these metrics. In a study of public companies, The Conference Board (Singer and Tonello 2012) referred to the Global Reporting Initiative (GRI) Sustainability Reporting Framework for a listing of 53 performance indicators for environmental and social impacts as shown in Appendix A. GRI has formulated a very comprehensive list, which could be overwhelming to SMEs. Shown in Table 8 is a sample of 10 environment and social performance indicators from GRI's list of 53 to provide evidence that it could be a daunting task to SMEs, if not self-incriminating, to choose which indicator(s) will be addressed.

Table 8: Selected Ten GRI Environment and Social Performance Indicators

1. Energy saved due to conservation and efficiency improvements.
2. Percentage and total volume of water recycled and reused.
3. Initiatives to reduce greenhouse gas emissions and reductions achieved.
4. Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.
5. Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.
6. Operations and significant suppliers identified as having

significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.
7. Percentage of operations with implemented local community engagement, impact assessments, and development programs.
8. Percentage of employees trained in organization's anti-corruption policies and procedures.
9. Public policy positions and participation in public policy development and lobbying.
10. Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.

It can be confusing and intimidating for SMEs given that there are too many performance metrics (Laughland and Bansal 2011). It is not clear whether metrics should be documented to a specific department or the company as a whole or what the impact is of the philanthropic activities instead of reporting the amount of donations (Porter and Kramer 2006). Specifically, metrics for measurement of social performance has not reached the same level of accuracy and universality as financial reports (Copestake 2007).

Among the many metrics, waste reduction and recycling appear to be the most easy to understand and implement from the point of view of an

SME. It would not be unreasonable for banks to require SMEs to focus on quick fixes such as implementing a waste reduction and recycling programme as a starting point.

According to transaction cost theory, companies will adopt sustainability practices when the cost of implementation and economic rationale makes sense for the firms (Connelly, Ketchen, and Slater 2011). Conventional wisdom concerning banks and SMEs dictates that these entities are profit seeking organizations and issues relating to the environment and society are given low priority. Orlitzky, Siegel, and Waldman (2011) cited the research by King (2007) wherein the latter applied transaction cost theory to hypothesize those relational contracts could be used to reduce ex post transaction costs. King's research was applied within the context of partnerships between corporations and environmental groups. A relational contract is basically an agreement that extends to the future, which encourages parties to act in an appropriate manner based on the expectation of future benefit. The logic of relational contracting could be applied to the bank and SME loan borrower relationship wherein the expectation to act in an environmentally and socially responsible manner goes beyond the one-time due diligence performed at loan application. Critics of sustainability or corporate social responsibility maintain that these initiatives require diverting the already limited resources of any firm thereby reducing profitability (Barnett 2007). Proponents of sustainability extol the achievements of relatively simple environment programmes such as waste reduction and recycling (Porritt 2003; Porter and Kramer 2006). The third proposition is hereby presented:

> Proposition 3: Banks can require and measure simple sustainability programmes such waste reduction and recycling being implemented by SME borrowers.

It is evident that the integration by banks of the social dimension in risk assessment poses a challenge (Weber et al. 2010). The measurement of the social aspect of sustainability is noticeably absent in the literature. It is anticipated that banks will initially focus on more straightforward sustainability programmes and later concentrate on more challenging aspects such as the social dimension.

2.2.4 Corporate Governance

This section of the literature review focuses on studies relating to the role of reporting processes in corporate governance in general. As a starting point, there is no single definition of corporate governance that is universally used in the academic literature. Turlea, Mocanu, and Radu (2010, 383-384) conducted a survey of the different definitions in the literature and formulated the following broad definition:

> Corporate governance is the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all direct and indirect stakeholders; the corporate governance system also includes the rights, claims and responsibilities of all participants in the corporation, as well as the

> rules and procedures applied in the decision-making process at all levels of the corporation; an appropriate corporate governance system provides the means for setting and achieving corporate objectives and for constantly monitoring and adjusting the level of performance attained.

The foundation of corporate governance can be traced from the theoretical perspective of the natural resource-based view of the firm (Hart 1995), and ultimately from the resource-based view of the firm (Barney 1991) which is simply the responsible use of internal and external resources to achieve a competitive advantage (Orlitzky et al. 2011). Elkington (2006) foresaw the inevitable convergence of sustainable development with the corporate governance agenda as a result of the concern for the triple bottom line of economic, social, and environmental performance, which started in the early 1990s. There is no definition of social governance in the literature. Researchers have yet to take on the challenge of integrating the social dimension in the study of sustainability (Sharma and Ruud 2003). Aras and Crowther (2008) cite that the concepts of sustainability and corporate governance complement each other. Lemos and Agrawal (2006, 298) define environmental governance as "the set of regulatory processes, mechanisms and organizations through which political actors influence environmental actions and outcomes." Embedded in this definition is that good governance is driven by processes and requires reporting systems that monitor and measure the achievement of strategic and operational objectives.

Good corporate governance has been largely equated with the assurance that the board of directors directs the management of a firm to act in the interest of all stakeholders as well as the implementation of internal and external control systems (Tarraf 2010). In a study of the corporate websites of firms quoted in the London Stock Exchange, Aras and Crowther (2008) hypothesize that good corporate governance will incorporate issues relating to sustainability such as environmental and societal impact of the firm in addition to financial performance

There are a large number of researches in corporate governance from the perspectives of agency theory and institutional theory (Ahrens et al. 2011). However, these authors question the validity of the application of agency theory when applied under different institutional settings. They suggest a practice theory approach by focusing on field studies on real life processes that may result in more relevant insights to corporate governance. The focus on processes is supported by Gupta (2008) who argues that governance-by-disclosure is the operationalization of transparency in the governance domain. This author points out that governance-by-disclosure is about creating and implementing processes to generate and disseminate relevant information. Gupta describes this focus as the emphasis on the "procedural turn" in governance mechanisms. The author concludes with a call for analysis of actual implementation of governance-by-disclosure initiatives in the real world.

Recent research breaks down governance disclosure mechanism into disclosure-based transparency and education-based transparency (Mitchell 2011, 1882), described as follows:

> Disclosure-based policies improve the information the public has about targeted actors' behaviors while education-based policies improve the information targeted actors have about their own behaviors, whether that is information about consequences, alternatives, or social norms.

Mitchell points out that disclosure-based transparency is more effective when there is alignment in the interests of all stakeholders and the mechanism is seen as more of a reward and not a sanction. In addition, consent is not always a prerequisite to disclosure. For instance, non-governmental organizations are able to report on incidents from publicly available information although they lack the legal teeth to impose any sanctions. On the other hand, education-based initiatives are more limited to just informing interested parties of the expected behaviour being required by the provider of the information. However, education-based disclosures do provide a clear message on what is expected from stakeholders and also from the providers of information themselves. Mitchell's study on transparency, whether disclosure-based or education-based, provides further evidence on the focus on the mechanisms by which governance could be more effective. The fourth proposition is hereby presented:

Proposition 4: Disclosure-based process is a plausible governance mechanism that could enhance governance of sustainable lending.

2.2.5 Bank Governance Mechanisms

This section of the literature review focuses on corporate governance in general and bank governance, in particular. It has been argued that the recent financial crisis was largely caused by weaknesses in bank governance (Kirkpatrick 2009). For this reason, it is important to recognize that banks face a different governance environment. Becht, Bolton, and Roell (2011) report three main reasons why banks face different governance issues compared to generic firms. First, banks are characterized by aggressive compensation schemes that are largely based on meeting short-term results, which are condoned by the board of directors. As a result, the debate on bank governance has been dominated by issues relating to executive compensation schemes and structure of bank boards (Adams 2012; Firth and Rui 2012).

Second, banks are heavily regulated to protect depositors and reduce the opacity of their loan portfolio. A bank's loan portfolio is difficult to value by depositors who provide the funds to be lent out because of the lack of appropriate disclosure. This information asymmetry is more evident in the banking industry than any other business sector. There is limited amount of literature on bank information and financial reporting and its

role as a governance mechanism. One of these limited studies is the survey of the literature conducted by Armstrong, Guay, and Weber (2010) on the role of information and financial reporting in corporate governance. They posit that formal and informal contracts are governance mechanisms that reduce agency conflict and facilitate transparency. They argue the merits of the formal loan contract as governance mechanism for increased disclosure. The decision of firms to obtain bank financing involves a commitment to comply with the terms and conditions of the debt contract, which could involve public disclosure of the loan transaction. Therefore, the information demand for public disclosure of a bank could serve as an alternative governance mechanism. The authors identified, as a topic for further research, the characteristics of the loan contract between banks and borrower as a governance mechanism.

Third, banks have multi-constituency stakeholders. When banks experience difficulties, not only are their shareholders and depositors impacted but also other creditors including taxpayers when government is involved in a bailout. A consistent reporting framework is required to satisfy the demands of multi-constituency stakeholders and reduce information asymmetry. The framework should provide guidelines on what type of information is reported and the format on how information is disclosed. Therefore, bank governance should address the interests of its multi-constituency market which consist of shareholders and stakeholders, including depositors, customers, and taxpayers. In a study

of bank governance after the financial crisis, Dermine (2013, 266) supports the focus on all stakeholders with the following statement:

> Shareholder value maximization is the scorecard objective, but to achieve this, common sense tells us that proper care must be taken of stakeholders; in banking it is known as fiduciary duty vis-à-vis depositors and clients.

Any discussion on the topic of bank governance always inevitably involves a call for increased transparency but provides little detail on how to implement in practice, especially given the wide range of stakeholders. In particular, there have been calls for more transparency in the banking sector following the financial crisis. Transparency has become an increasingly mandatory component of bank governance. It could be argued that increased transparency through disclosure reduces agency problem and asymmetry of information between banks and stakeholders. In the aftermath of the financial crisis, OECD (2010) called for increased disclosure and transparency as one of many recommended best practices for the banking sector. Mehran, Morrison, and Shapiro (2011) suggest that bank reports with more details could be utilized as a new governance mechanism to restore discipline in the banking industry. However, the same authors question why better reporting has not been implemented if it is really indeed what the market requires. One possible explanation is the limitation of available technology to generate information to assist governance in multinational banks that operate in many countries (Mehran et al. 2011). In addition,

Hermalin and Weisbach (2010) point out that increased disclosure could involve higher accounting costs and reduce competitive advantage when competitors access valuable information.

Based on the foregoing literature, the debate on bank governance should be extended to include reporting processes to all stakeholders as alternative governance mechanisms. The fifth proposition is hereby presented:

> Proposition 5: The reporting process could be utilized as a governance mechanism to facilitate the alignment of the actions of banks with the interests of shareholders and all stakeholders.

2.2.6 Bank Governance and Sustainability

The foregoing discussions considered the literature on reporting processes as it relates to corporate governance in general and bank governance in particular. This section concludes the literature review by investigating the intersection between bank governance and sustainable lending with a focus on reporting processes as governance mechanisms. Sustainable lending can be defined as the decision by banks to lend to corporate borrowers who take into account the environmental and societal impact of their operations. As sustainability becomes a more important issue in bank lending, banks are being held more accountable for proactive disclosures to ensure fulfillment of their missions and

satisfaction of multiple stakeholder interests. However, there is limited literature on the integration of governance and sustainability (Tonello 2010) and the mechanisms that could connect the two concepts. This is most likely because the shift in focus from financial objectives to non-financial parameters, such as sustainability, is just starting to make its way into the boardroom. Although sustainable lending has been heralded as the answer to the financial crisis (Benedikter 2011), its implementation remains a challenge for many banks hence, the limited academic research on this topic.

In view of the limited research, it appropriate to refer to the increasing popularity of voluntary sustainability initiatives as a proxy literature. These voluntary international agreements provide evidence of the growing interest by banks to join the sustainability bandwagon. Gupta (2008) describes this initiative as governance-by-disclosure, which was borne out of the call for increased transparency in global environmental governance.

Foremost is the United Nations Environment Programme's Financial Institutions Initiative (UNEP FI). Founded in 1991, UNEP FI is a unit of the United Nations based in Geneva, Switzerland. The UNEP FI has over 200 members which consist of financial institutions, which are required to sign and adhere to the UNEP Statement of Commitment by Financial Institutions on Sustainable Development as replicated in Appendix B. As a signatory, the members commit to the integration of environmental and social considerations into all aspects of their

operations. The membership requirements include signing the UNEP Statement, payment of a membership fee, and submission of an annual report. The annual membership fee is based on the total assets of the financial institution. The UNEP FI is basically no different from any private club (Prakash and Potoski 2006) whose administrative matters are managed by an officer-in-charge who reports to a steering committee consisting of executives from member financial institutions. It is neither a regulatory authority nor a legal entity. It does not have legal recourse against its members in the event of non-compliance with the UNEP Statement. The effectiveness of UNEP FI may be questionable but it is a global testament to the connection between banks and the environment (Thompson and Cowton 2004).

The Equator Principles is another voluntary credit risk management framework which requires member financial institutions to consider environmental and social risk in project finance transactions over US$10 million. It started as another private club in 2002 founded by nine international banks in consultation with the International Finance Corporation. In 2010, the private club was transformed into an unincorporated association which consists of 79 member financial institutions. The annual membership fee is GBP 3,100.00. Richardson (2005) argues that these voluntary mechanisms both have benefits and disadvantages. Although not required by regulatory authorities, banks sign up to genuinely facilitate a cultural change within the organization. On the other hand, banks may sign as a free rider and take advantage of the reputational benefits without performing any actual work to comply

with the requirements. Ong (2010) points out that the adoption of Equator Principles also resulted in a level playing field and raised the bar among providers of project financing regardless of the local laws where the borrower is domiciled. On the other hand, the signatory banks have been criticized for lack of transparency and substance over their reporting projects financed under the Equator Principles (Andrew 2070; Ong 2010).

Founded in 1997, the Global Reporting Initiative (GRI) developed the Sustainability Reporting Framework which guides all organizations to measure and report their economic, environmental, social, and governance performance. GRI is an independent non-profit organization based in Amsterdam with regional offices in Australia, Brazil, China, India, and the USA. It has a formal partnership with UNEP. GRI is funded by institutional support from a number of European countries. The Framework is a voluntary sustainability reporting system available to be used by organizations of any size. The reporting guidelines can be downloaded for free from GRI's website. GRI provides training on how to report the sustainability report. Training costs depend on the size and location of the business group. However, GRI (2013a) reports that SME uptake of sustainability reporting has been low.

Founded in 2003, the Carbon Disclosure Project (CDP) is an independent not-for-profit organization based in London. It publishes the greenhouse emissions of over 3,000 of the world's largest corporations. CDP works

with large companies to measure and disclose their greenhouse emissions. CDP also provides for free a voluntary reporting framework which enables a company to understand how climate change affects its financial performance. CDP receives funding from private foundations and various countries including the United Kingdom, the USA, Sweden, France, and The Netherlands. In addition, financial institutions can become a CDP signatory free of charge. Benefits of being a CDP signatory include limited access to its database. Any CDP signatory can become a member subject to payment of an annual membership fee of US$7,000 for organizations with assets of up to US$10 billion and US$9,000 for organizations with assets of US$10 billion or more. Benefits of membership include full access to CDP's database.

Founded in 1947, the International Organization for Standardization (ISO) is the world's largest developer of voluntary international standards under which companies and organizations seek to be certified. ISO is an independent non-governmental organization consisting of members from national standards bodies of 164 countries. Head office is located in Geneva. ISO does not perform certification. Private certification bodies perform the certification process. ISO develops processes but not standards. ISO 14000 Environmental Management System series, introduced in 1996 and revised in 2004, provides a framework for companies to identify and control their environmental impact and performance. Therefore, a company that is certified under ISO 14001 means it has documented its processes that impact product or service quality but it does not guarantee that it is environmentally

friendly (ISO 2010a). ISO is a documentation process and does not provide standards for corporate greening (Boiral, 2007). In its website, ISO (2010b) recognizes the challenges of SMEs in implementing an environmental management system. Yiridoe and Marett (2004) report that the cost of certification for SMEs can be prohibitive, which could range from CND $5,000 to CND $60,000 depending on the size of the company. There is little evidence in the literature that shows that SMEs have benefited from adoption of ISO standards. ISO has likewise entered the realm of social awareness with the launching of ISO 26000 Social Responsibility in 2010. Unlike many ISO standards, ISO 26000 provides guidance only and is not available for certification. This is expected since there is no clear agreement on the measurement of social performance (Ambec and Lanoie 2008).

Academic literature has likewise recognized Non-Governmental Organizations (NGOs), such as BankTrack, in their contribution to influence banks to use their lending activities to govern the environment (Coulson 2009). However, NGOs have largely focused their attention on highly visible infrastructure projects, such as dams and pipelines, which involve banks providing loans to multinational firms. Bank financing to SMES has been not under the radar of NGOs since it does not attract the same amount of publicity compared to, for example, construction of a dam in China.

The increasing popularity of membership or certification to a voluntary environmental framework led to the phenomenon of decoupling (Boiral 2007), wherein organizations adopt practices in paper with superficial implementation. The aim is that a firm achieves legitimacy with stakeholders by announcing the membership or certification without genuine interest in integrating standards in operations. Basically, the adoption of popular voluntary standards is done symbolically for public relation purposes. This process of decoupling was studied by Furrer et al. (2012) in a study of 114 listed banks around the world within the context of adopting a climate strategy. The authors found evidence of deflective decoupling in which banks implemented limited climate strategies sufficient enough to satisfy stakeholders but decouple it from value creation processes such as lending.

Although these environmental frameworks have limitations and challenges, there is an emerging paradigm shift in banking wherein either coercion or shared interests will be the driving force to promote sustainability. In a study of the corporate social reporting through the web pages of six selected banks in the United Kingdom, Coupland (2006) found that the information is peripheralized, which marginalized the importance of the reports. The opportunity exists to investigate situations where there is convergence in the interest of all stakeholders in the banking community.

Banks could impose that a borrower should demonstrate sustainable orientation as a lending requirement. The banking industry could be a

primary driver in the implementation of sustainability practices in borrower companies. The emerging issues from sustainable lending create challenges for new forms of governance mechanisms (Benn and Dunphy 2005). Such mechanisms need to be accompanied by processes to ensure that governance is being implemented in an effective manner. The sixth proposition is hereby presented:

> Proposition 6: The challenges of sustainable lending will prod banks to seek new governance mechanisms.

2.3 Summary of Theoretical Discussions

The review of the literature resulted in the formulation of the following six propositions, which will be the focus of further investigation in the succeeding chapters:

> Proposition 1: The measurement by banks of its sustainable lending activities will result in the promotion of environmentally and socially responsible practices among SME borrowers.

> Proposition 2: The lack of performance measurement systems will prod banks to seek alternative ways to measure the results of sustainable lending activities.

Proposition 3: Banks can measure simple sustainability programmes such as waste reduction and recycling being implemented by SME borrowers.

Proposition 4: Disclosure-based process is a plausible governance mechanism that could enhance governance of sustainable lending.

Proposition 5: The reporting process could be utilized as a governance mechanism to facilitate the alignment of the actions of banks with the interests of shareholders and all stakeholders.

Proposition 6: The challenges of sustainable lending will prod banks to seek new governance mechanisms.

The literature provides evidence of the potential significant role of banks in promoting environmental and social responsibility in SMEs. However, research has not comprehensively addressed what enables or hinders banks from measuring the performance of their sustainable lending practices. The definition and measurement of good or bad sustainable lending is still under-researched. Because sustainable lending is just gaining popularity, academic researchers have yet to conduct an in-depth investigation of this phenomenon. The literature could at best be described as mixed and fragmented. There is clearly a gap in the literature relating to a more consistent perspective on measuring the performance of sustainable lending.

The literature also shows that the focus on sustainability started as an operational issue especially for banks that incorporated environmental and social concerns in their lending criteria. This was followed by a natural evolution wherein governance expanded its focus to include sustainability in the form of external voluntary compliance frameworks, which were adopted by many banks. While the literature has considered various aspects of bank governance, no study has considered the governance of sustainable lending which has been heralded as the answer to the financial crisis. Although there is vast literature on bank transparency, little is known on the role of disclosure among banks engaged in sustainable lending especially in the aftermath of the financial crisis. The debate on bank governance should also focus on the role of reporting processes as a governance mechanism that are used by banks engaged in sustainable lending. The foregoing discussions on the theoretical aspect of the study justify the exploratory nature of the research. The literature also clearly reveals a prominent shortcoming. There is a lack of research based on actual face-to-face interviews with practitioners who are engaged in sustainable lending. There is a need to investigate this phenomenon based on the perspectives of practitioners who continue to experience the challenges of sustainable lending. The following chapter describes the methods employed to bridge the gap in the literature.

3 Empirical Investigation

This chapter states the empirical objectives of this exploratory study. It also justifies the research methods and triangulation approach being employed. The chapter concludes with a discussion of the findings. It will become evident that the findings stimulated the need to revisit the literature. Stebbins (2001, 43) describes this re-examination of the literature as inherent in exploratory research because "these links give exploratory data some additional intellectual anchorage; they show how the data relate to the wider scholarly world."

3.1 Empirical Objectives

The foregoing theoretical discussions aim to explain the phenomenon of sustainable lending from the perspectives of performance measurement and corporate governance. This section intends to test the links proposed by the six propositions. The objective is to examine how banks operationalize the phenomenon of sustainable lending in practice.

The literature provides evidence that sustainable lending is a multi-dimensional and complex area of research. In addition, it is appropriate to shift the focus to the practical world to investigate the lived experiences of banks engaged in sustainable lending. Evans (2011, 55) notes the following methodological challenge of sustainability research:

> One key factor that connects different sustainability research is that much of it focuses on human society. It is not something concocted in a laboratory or, at least when it is, the results of that laboratory study have to be released into society in order to determine the effect of the phenomenon on sustainability. This highlights the importance of the social dimensions of sustainability. Sustainability is something that must be practised, ultimately, by a number of individuals within a society. Whether looking at the environmental, economic or societal elements of sustainability, what we are looking at is, by definition, the actions of human beings in the world. The social side of sustainability research requires methods that can handle social phenomenon across the fields of sociology, politics, economy, human geography and anthropology, to name a few. Thus we need a methodological system that can take an interdisciplinary approach to enquiry and can handle research generated by research tools from multiple disciplines.

The application of a single methodological approach would not be sufficient to investigate this relatively new phenomenon. The exploratory nature of the research questions requires delving into the experiences of the people engaged in this emerging phenomenon called sustainable lending. The research questions therefore merit a qualitative approach in the research design. Edmonds and Kennedy (2013, 112) describe the objective of qualitative method as "to reveal and understand phenomenon within a particular context without attempting to infer any type of causation." One of the advantages of qualitative approach is to generate

insights into human experiences that cannot be captured by quantitative techniques (Castro, Kellison, Boyd, and Kopak 2010), which is makes it ideal as a research strategy for this study. The limitations of qualitative research are well known such as limited samples, lack of generalizability and replicability. However, not all problems could be addressed by quantitative methods hence the enduring pervasive use of qualitative approach in research. In order to address the literature gap and research questions, two qualitative research methodologies were adopted: phenomenological approach and content analysis. Given the limited and fragmented previous research on sustainable lending, these two methodologies are appropriate because of their focus on practitioners.

3.2 Multimethod Research and Triangulation

The use of two qualitative methods falls under the category of multimethod research. The best way to describe multimethod research is to differentiate it from mixed methods research. Despite the popularity of mixed methods research, there is no agreement of its definition in the literature. There is no single definition of mixed methods that is universally used in the literature. To address this situation, Johnson, Onwuegbuzie and Turner (2007, 129) performed a content analysis of 19 definitions provided by leaders in the mixed methods research and developed the following definition:

> Mixed methods research is an intellectual and practical synthesis based on qualitative and quantitative research; it is the third methodological or research paradigm (along with qualitative and quantitative research). It recognizes the importance of traditional quantitative and qualitative research but also offers a powerful third paradigm choice that often will provide the most informative, complete, balanced, and useful research results. Mixed methods is the research paradigm that (a) partners with the philosophy of pragmatism in one of its forms (left, right, middle); (b) follows that logic of mixed methods research (including the logic of the fundamental principle and any other useful logics imported from qualitative or quantitative research that are helpful for producing defensible and usable research findings); (c) relies on qualitative and quantitative viewpoints, data collection analysis, and inference techniques combined according to the logic of mixed methods research to address one's research question(s); and (d) is cognizant, appreciative, and inclusive of local and broader sociopolitical realities, resources, and need.

Despite the above comprehensive definition, Thurston, Cove, and Meadows (2008) argue that there remains no single definition of mixed methods in the literature. The authors cite that mixed methods can also refer to the use of multiple methods within the same research paradigm. Hence, it is appropriate to define multimethod as the use of either multiple qualitative or multiple quantitative techniques as opposed as to the combination of qualitative and quantitative approaches. For instance,

a multiple methods application could utilize two qualitative techniques instead of the traditional combination of qualitative and quantitative research. The authors emphasized that the congruence between the methods is more important than whether the approach is purely qualitative or quantitative or a combination of both. In effect, methodological congruence must dictate the selection of method or methods that are most relevant to the research questions being investigated (Thurston et al. 2008).

Methodological congruence leads to triangulation. This is in line with Denzin's (1970) original justification for triangulation, which is considered the rationale behind using mixed or multimethod. In academic language, triangulation involves the use of two or more methodologies to validate the convergence or divergence of research findings. The aim of triangulation is to use methodologies that compensate for each other's strengths and weaknesses. Denzin classified triangulation into two methods: with-in and between methods. With-in triangulation utilizes multiple purely qualitative or quantitative approaches as opposed to between methods which is a combination of both approaches. Johnson et al. (2007, 115) cited Morse (1991) who further classified triangulation into two types: simultaneous and sequential:

> Simultaneous triangulation represents the simultaneous use of qualitative and quantitative methods in which there is limited interaction between the two sources of data during the data

> collection stage, but the findings complement one another at the data interpretation stage. On the other hand, sequential triangulation is utilized when the results of one approach are necessary for planning the next method.

This dissertation ultimately adopted a multiple method strategy consisting of with-in and sequential triangulation approaches. This overarching research framework evolved naturally during the quest to gather data to address the research questions. Following the requirement of with-in triangulation approach, two qualitative methods were adopted by this study: phenomenological approach and content analysis.

3.3 Phenomenological Approach

The primary research question was addressed using a phenomenological approach by interviewing bankers engaged in sustainable lending. A phenomenological approach was the natural choice since the interviews focused on the lived experiences of the interviewees. The initial phase in phenomenological research should always start with the acknowledgement that there are individuals who are experiencing the phenomenon being studied (Englander 2012). Sayre (2001, 91) provides a useful framework in the use of a phenomenological approach for the primary question:

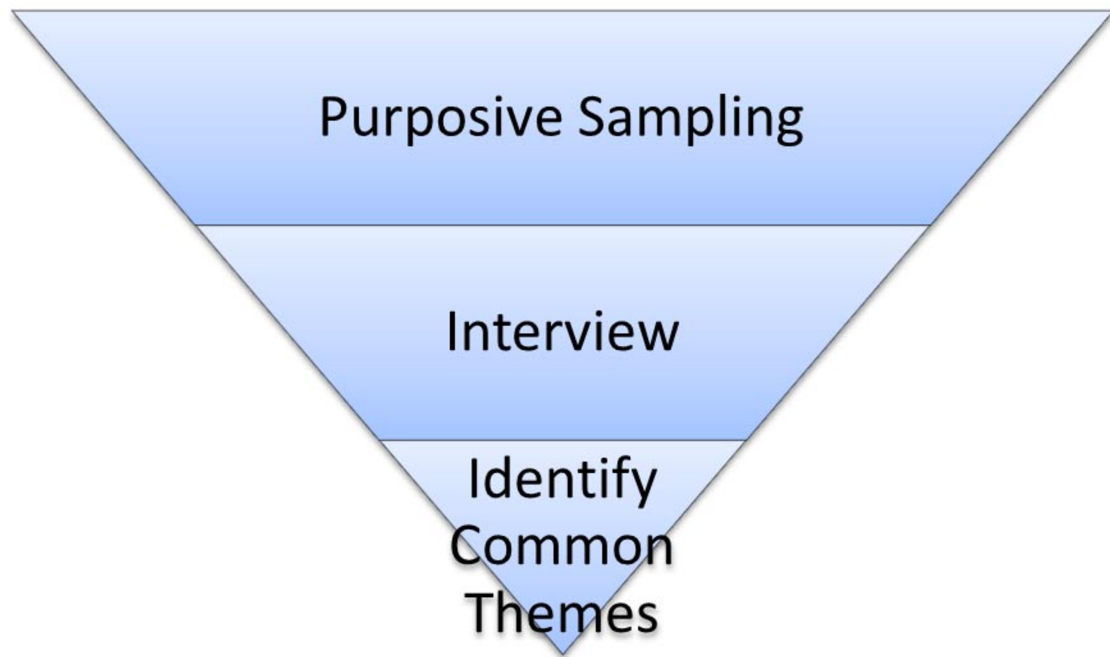
> Phenomenology begins with a research question. Phenomenologies describe the meanings of lived experiences for multiple consumers about a concept or phenomenon, whereas the intent of grounded theory study is to generate or discover a theory.

A phenomenological approach is suitable to conduct an exploratory study of bankers' understanding of sustainable lending. Since phenomenology is directed towards the lived experience of the research participants, it provides unique insights into the experiences of bankers in their daily professional lives (Klenke 2008). Finlay (2009, 8) argues that "phenomenological research is phenomenological when it involves both rich description of the lifeworld or lived experience, and where the researcher has adopted a special, open phenomenological attitude which, at least initially, refrains from importing external frameworks and sets aside judgements about the realness of the phenomenon." The phenomenon of sustainable lending is limited in certain parts of the financial world that not having preconceived notions is easy to achieve. This practice of "bracketing" ones existing knowledge of the phenomenon is a key feature that adds rigour to the research method.

Goulding (2005) points out that research participants should only be selected if they have experienced and lived the phenomenon being investigated. Goulding adds that purposive sampling and interviewing are the main methods of data collection by default. Therefore, the focus of phenomenological approach is to gather the perspectives of the interviewees about the phenomenon being studied (Groenwald 2004).

The face-to-face interviews will also shed light to the relevance and validity of the research topic not only from a theoretical perspective, but also from a practical point of view. The ultimate aim of the interviews is to identify common emerging themes from research participants. Figure 2 illustrates the design of the phenomenological approach:

Figure 2: Phenomenological Approach



On the issue of sample size in a phenomenological study, Decker and Sale (2009) cites Creswell (1998) and Groenwald (2004) who recommend interviewing between two and 10 participants to support a phenomenological-based research. Klenke (2008) suggests a sample size

of two to 25 and adds that there is no general consensus on the number of research participants. Englander (2012, 21) provides the following argument:

> Once again, the quantitative study, in such a case, tries to answer the question of "how many?" On the other hand, if a researcher has a qualitative purpose and qualitative research question, he or she seeks knowledge of content of the experience, often in depth, to seek the meaning of the phenomenon, not "how many" people who have experienced such phenomena.

In terms of data collection, the first step of the data gathering process was to interview bankers involved in sustainable lending to discuss the primary research question. The challenges of arranging interviews with bankers located in different countries became apparent. While phenomenological interviews provided invaluable deep insights, it was an intrusive, time consuming, and expensive exercise. Englander (2012, 19) agrees that "the difficulty of finding participants for a study is probably more of the real issue than anything else (depending on the phenomenon)." The difficulty in gaining access to bank executives with expertise in sustainable lending is an example of the challenges of elite interviewing. There is no agreement in the literature on the definition of elites. Harvey (2010) describes elites as those who hold senior management positions and are key decision-makers. Although sustainable bankers are a minority in the banking world, the successful ones are highly regarded by the sustainability community and could be

considered as elites. Vaughan (201, 110) puts it that "of the considerations particular to elite interviewing, the issue of gaining access to elites is seen as perhaps the key issue for the researcher." This dissertation demonstrates the challenge of accessing elites who possess rich knowledge of the phenomenon by virtue of their position. The challenge was compounded by the location of sustainable bankers, who are mostly in the Europe while I am located in Canada. Mikecz (2014) recommends that the researcher should disclose upfront his or her academic and professional credentials and institutional affiliation to increase probability of access to elites. In this study, my over 20 years of international banking experience and doctoral affiliation with a well-known European university was not sufficient to obtain interview appointments. The experience gained from the phenomenological interviews became the springboard for planning the next method.

3.4 Content Analysis

The secondary question deals with the identification of best practices in the governance of sustainable lending, which could be examined through documents. By default, sequential triangulation occurred when content analysis was chosen to address the secondary question. Michelon and Parbonetti (2010, 489) define content analysis as "a method of codifying the text (or content) of a piece of writing into various groups or categories depending on the selected criteria." Content analysis is considered a qualitative method for summarizing, categorizing, and

interpreting qualitative findings generated by either multiple qualitative or mixed-method approaches (Finfgeld-Connett 2013). A qualitative content analysis approach is suitable to identify common themes in governance mechanisms in practice based on a coding system. This method will facilitate identification of patterns of convergence and/or divergence. Since there is no coding system in place, Finfgeld-Connett (2013) recommends an inductive approach by creating the codes based on the analysis of the raw qualitative data as opposed to a deductive approach, wherein codes have been generated by prior research. The aim of this research methodology is to identify emerging common themes being generated by the coding analysis (Kardos 2012). Krippendorff (2004) describes this research design as problem-driven content analysis. Content analysis has been found to be suitable in the study of organizational phenomena due to its replicable methodology and capacity to handle intangible issues, which are difficult to examine using quantitative methods (Duriau, Reger, and Pfarrer 2007).

Content analysis facilitates examination of publicly available data of banks engaged in sustainable lending without the need to obtain consent and arrange for appointments from the data owners. In effect, methodology congruence (Thurston et al. 2008) was achieved since the strengths and weaknesses of phenomenological approach and content analysis complement each other and their relevance to the questions being researched. In a comprehensive review of the application of content analysis in management studies, Duriau et al. (2007) identified the potential of this research approach as a complementary methodology.

The authors also identified company websites as a rich source of data for management research using content analysis.

The practical world is also the focus to address the secondary research question by investigating governance mechanisms for disclosure being practised by banks engaged in sustainable lending. The websites of selected banks were reviewed using content analysis to examine the trends and categorize the governance mechanisms being used in sustainable lending. The examination of websites using content analysis to study governance disclosure has been used in prior studies (Conway 2012). The content analysis approach is appropriate to conduct an exploratory study of governance mechanism being practiced by banks engaged in sustainable lending because it deals with a real-world problem and available texts in websites could potentially provide answers. In addition, the content analysis approach allows examination of websites of banks located across the globe without going through the challenges of seeking permission from each organization. The approach is also appropriate given the exploratory nature of this study and the findings thereof could serve as a springboard for future studies using different methodologies.

3.5 Findings: Phenomenological Approach

The purpose of this chapter is to discuss the results of the phenomenological study. This approach was utilized to address the primary research question:

How do banks that are engaged in sustainable lending evaluate if SME borrowers continue to be environmentally and socially responsible throughout the term of the loan?

The phenomenological study focuses on how banks define sustainable lending and how they measure the performance of their sustainability lending activities to SME loan clients. A total of five bankers in Europe and North America were interviewed between November 2012 and January 2013. The banks were selected based on their focus on sustainable lending to SMEs as reported in their websites. A total of eight banks were contacted, of which five agreed to be interviewed, one declined, and no responses were received from two banks. To ensure cooperation from participating banks, all those interviewed were assured of anonymity. The interviews were not recorded to encourage open discussions including, sharing of confidential information and personal opinion. The research participants were selected using a purposive sampling strategy (Miles and Huberman 1994; Klenke, 2008) to ensure that the interviewees are involved in sustainable lending. The expertise and involvement of the research participants in sustainable lending were

identified through the bank's website and searches in the internet. This exercise ensured that the interviewees have an in-depth understanding of the phenomenon being investigated (Patton 2002). The research participants are referred to as Bank 1, Bank 2, Bank 3, Bank 4, and Bank 5. Bank 1 is the Head of Corporate Social Responsibility. Bank 2 is the Head of Special Lending Projects. Bank 3 is the Head of the Operations Group. Bank 4 is the Head of the Environmental Assessment Group. Bank 5 is the Head of the Lending Department. The sample is small but provides different perspectives from banks in Europe and North America where there is a strong focus on sustainable activities. The study is exploratory and the limited sample is in line with the research of this nature (Decker and Sale 2009).

3.5.1 Interview Results

A total of five bankers in Europe and North America were interviewed between November 2012 and January 2013. Following are the responses from key interview questions:

Question 1: How does your bank measure the environmental performance of SME borrowers throughout the life of the loan?

All five banks have a common mandate of focusing on the triple bottom line of people, planet, and profit. Banks 1 and 2 admitted that there is no assessment protocol to measure the environmental performance of loan clients throughout the life of the loan. They are looking into partnering

with a third party provider to develop a tool for measurement of carbon emissions of loan clients.

Bank 3 is one step ahead of Banks 1 and 2. Bank 3 has entered into a partnership with a third party to offer a certification process, which allows clients to work toward being carbon neutral. This certification process is offered to clients as one of the products of Bank 3. However, this certification process is not a requirement for loan borrowers. Bank 3 also does not have a formal process to measure the environmental performance of loan clients throughout the life of the loan. The community of environmentally-conscious customers, depositors and borrowers act as a reliable source of information regarding the performance of loan borrowers. Bank 3 publishes a list of all its borrowers who are expected to remain environmentally responsible. Clients have taken the responsibility to report borrowers who have ceased to comply with this requirement. When this occurs, Bank 3 encourages the borrower to seek financing elsewhere.

Bank 4 has an in-house department which conducts environmental and social analysis of the projects. Bank 4 identifies the environmental effects that may be caused by projects that it finances and supports its credit customers in the correct management of these effects. A project engineer conducts regular site visits throughout the life of the loan. Bank 4 is a major source of financing for local energy efficiency projects. Bank 4 reports that 1 million tons a year CO2 emission reduction will be

achieved from financing 19 energy efficiency projects from 2009 to 2011.

Banks 1, 2, 3, and 5 advised that there is a lot of storytelling when the bank's middle management discusses measurement of performance with top management and board of directors.

Question 2: How does your bank measure its influence on societal impact of SME borrowers throughout the life of the loan?

All five Banks admit that there is no formal process to measure societal impact. Regular site inspection is the common practice to ensure borrowers remain socially responsible. However, they emphasize that social responsibility is not the same as philanthropy. The common strategy revolves around the basic idea of increasing the awareness of customers on social and environmental issues through bank products, services, and sponsored events. For example, Bank 3 offers deposit products which allow the depositor to dictate what sector the funds will be lent to, such as organic farming. Bank 1 arranges an annual sustainability awards event for its SME clients. Bank 4 recently launched its website, which provides a very comprehensive portal aimed at increasing social awareness on environmental issues.

Banks 1, 2, 3, and 5 again mentioned the use of storytelling whenever there is a discussion of measurement of social performance. Basically, measurement of performance in this area consists of qualitative reporting. The four Banks are relying on the accounting profession to create a

quantitative reporting tool that is globally consistent and allows comparison. For instance, PUMA has published the first ever combined Annual and Sustainability report, which puts a monetary value on the impact of the sourcing, production, marketing and distribution of its products on the environment.

It is, however, interesting that the interviewees have attached different meanings of what it means to be socially responsible. As an organization, Bank 1 has a strong focus on philanthropic activities in the form of corporate donations to various local agencies. On the other hand, Bank 3 was visibly annoyed when it was mentioned that other financial institutions think of social responsibility in terms of philanthropy. Bank 3 believes that sustainable lending entails that borrowers should remain both environmentally and socially responsible. Bank 5 supports the same concern about the societal impact of their borrowers. Bank 5 cites an example of an accounting firm which allows its employees to perform volunteer work even during regular office hours.

3.5.2 Link Between Findings and Primary Research Question

At this point, it is appropriate to revisit the primary research question being addressed by this study which is: How do banks that are engaged in sustainable lending evaluate if SME borrowers continue to be environmentally and socially responsible throughout the term of the loan? The use of storytelling in performance measurement emerged as a

common theme based on the interviews and provides an answer to the research question. In the absence of a formal assessment tool, the banks resorted to storytelling to top management and the board of directors to report the performance of their sustainable lending activities. Verbal reports on the performance of SME borrowers are basically stories of how the sample banks are monitoring the compliance of its clients.

Storytelling, as a management tool, is not a new concept and plays a critical role in the validation of entrepreneurial activities (Lounsbury and Glynn 2001). According to Denning (2004), the practice of storytelling is an accepted management practice especially in situations when nothing else works. Denning is an advocate of the use of storytelling as a management tool to communicate strategies and values to the whole organization including customers. He argues that storytelling is a powerful means to convey information when grids and charts are either not effective or applicable. Garguilo (2005) describes storytelling as a communication delivery mechanism, which enhances organizational learning and facilitates the achievement of business objectives. Storytelling offers an answer to the research question and provides a springboard for further discussions in the following sections of the paper.

3.5.3 Link Between Findings and Literature Review

It is now appropriate to revisit the literature in view of the interview results. There are two key learnings from the findings which have important implications to the literature. First, the use of storytelling in

sustainability in general and sustainability lending research in particular is noticeably absent in the literature. The literature is rich in the application of storytelling in the areas of psychology and marketing research but not in the fields of sustainability and banking. This could be explained by the combination of storytelling being considered as a mundane activity and the liability of newness of sustainable lending. A typical reaction when mentioning storytelling as a legitimate management tool is to dismiss it as too elementary and that it has no place in the highly sophisticated world of banking. However, many banks have recently undergone a humbling experience with the recent financial crisis. The popular notion is that many banks did not understand what they were doing. Perhaps, the timing is appropriate for the use storytelling to return to the boardroom. Another compelling reason for the lack of use of storytelling in the fields of sustainability and banking is that sustainable practices remain largely rhetoric to many organizations especially banks and SMEs. The reality is that the implementation of sustainable lending remains a challenge for many banks hence, the dearth of literature on this phenomenon.

Second, it is appropriate to ponder upon the comments made by Bank 3 about their practice of publishing their list of borrowers who are expected to remain environmentally and socially responsible throughout the life of the loan. An interesting phenomenon has evolved wherein clients and depositors of Bank 3 have taken the responsibility of reporting borrowers who have ceased to become environmentally and socially responsible. The voluntary participation of third parties to ensure implementation of

sustainability practices throughout the life of the loan has interesting implication to agency theory. Although not discussed during the review of the literature, agency theory suggests that banks and their loan borrowers could have divergent interests. Therefore, banks with environmental and social focus must monitor borrowers whose managerial interests may run counter to sustainability initiatives (Connelly et al. 2011). Agency theory perspective is normally limited to the involvement of two parties namely the principal and agent. The experience of Bank 3 provides evidence of the involvement of a third party stakeholder, which reduces the information asymmetry between the bank as principal and the borrower as agent. The common factor between the bank and the community of clients and depositors lies in the shared values towards sustainability. This concept of shared values has important implication to agency theory wherein it is now possible that a third party stakeholder could voluntarily, without expectation of financial compensation, intervene to reduce the incidence of the agent acting against the interest of the principal.

3.5.4 Link Between Findings and Propositions

This section examines on the first three propositions, which are repeated below:

Proposition 1: The measurement by banks of its sustainable lending activities will result in the promotion of environmentally and socially responsible practices among SME borrowers.

Proposition 2: The lack of performance measurement systems will prod banks to seek alternative ways to measure the results of sustainable lending activities.

Proposition 3: Banks can measure simple sustainability programmes such as waste reduction and recycling being implemented by SME borrowers.

The exploratory results of the phenomenological approach provide encouraging evidence that some banks are moving in the right direction in their role as promoter, if not enforcer, of sustainability activities among SMEs. Banks 3 and 5 confirmed that three to five years ago it was challenging to explain to loan applicants the banks' criteria for environmental and societal responsibility. More recently, entrepreneurs are beginning to approach Banks 3 and 5 because they share the same values. Therefore, there is proof to the validity of the first proposition.

Storytelling provides evidence that banks are seeking alternative ways to measure sustainable lending results as posit by the second proposition. The second proposition highlights the dilemma being faced by banks engaged in sustainable lending. The phenomenology approach shows that the objectives of the banks interviewed are sincere and noble.

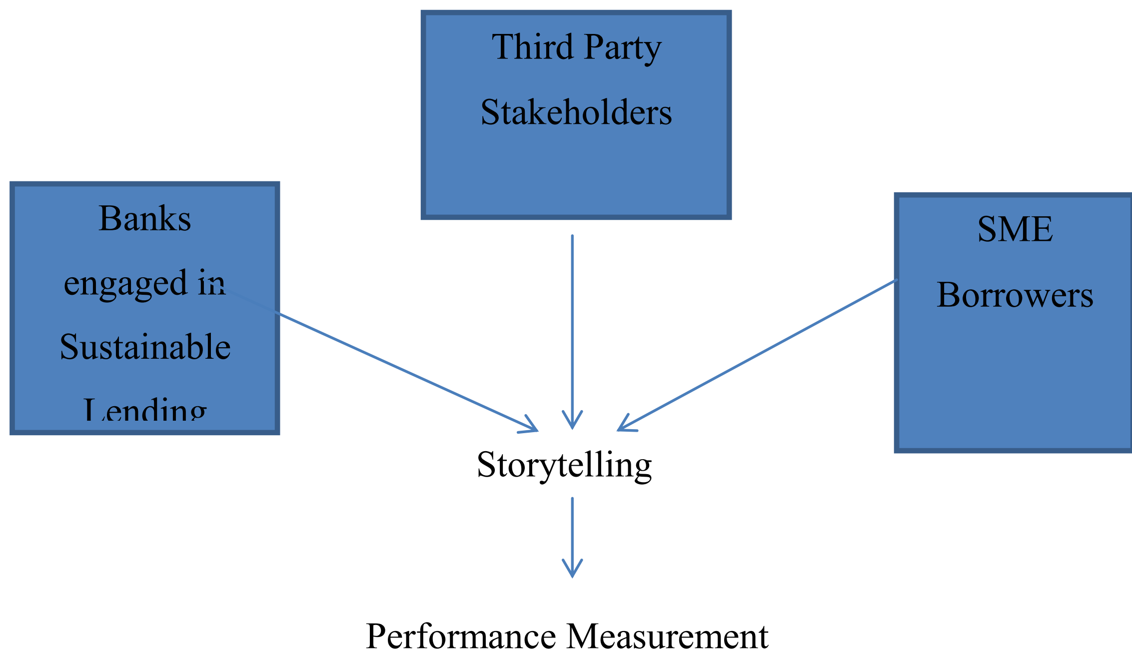
However, existing performance measurement systems have yet to evolve to meet the requirements of sustainable lending. For the time being, the sample banks satisfy themselves with the use of storytelling as an alternative tool to evaluate sustainable lending performance.

I acknowledge that the interview results provide only a partial answer to prove the validity of the third proposition. The findings show that none of the banks have imposed specific reporting requirements from SME borrowers relating to environmental and social performance. However, the phenomenological approach reveals that Bank 3 has taken steps to measure sustainability practices of SME borrowers by engaging a third party to assist clients to be carbon neutral. The formulation of the third position may have opened an opportunity to formulate recommendations for practical application. I therefore defer further discussion on Proposition 3 under the Section on Implications For Practice.

In the foregoing discussion, it was demonstrated that the interview results provide evidence to the validity of Propositions 1 and 2 and partial evidence to support Proposition 3. I turn my attention to the implications of the propositions to the literature in the light of the findings of the phenomenological approach. The investigation of the propositions has led to the discovery of the linkages among banks, SME borrowers, and third party stakeholders such as depositors, in the common pursuit of sustainability practices. This triumvirate of banks, SME borrowers, and third party stakeholders is held together by storytelling as an instrument

of performance measurement of sustainable lending, as depicted in Figure 3:

Figure 3: Performance Measurement Model of Sustainable Lending



In addition to the possible modification of Agency Theory as discussed in the previous section, the validity of the propositions has opened theoretical possibilities for further investigation of the research question using a variety of methodologies. For instance, a longitudinal study with an ethnographic approach focusing on a specific bank and its depositors and SME borrowers will yield rich and balanced insights into the phenomenon of performance measurement of sustainable lending from different perspectives. In the same manner, a multi-case study approach

consisting of several banks in different countries will provide greater generalization of the findings.

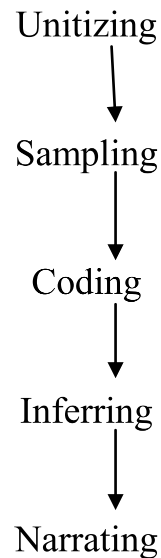
3.6 Findings: Content Analysis

The purpose of this chapter is to discuss the results of the content analysis, which was used to address the secondary research question:

What governance mechanisms have been created to support the implementation of sustainable lending?

The reason for the use content analysis was a result of the challenges in arranging interviews across Europe. While the phenomenological approach provided valuable insights on an under researched topic, it was a time consuming and expensive exercise given the scattered location of the interviews. On the other hand, content analysis provides the flexibility to reach a wider range of the target sample and to approach the research topic from a different perspective. In addition, content analysis is appropriate since the information is readily available on the web pages of banks. The content analysis was performed in two phases. The first phase was to identify common practices in governance for disclosure. The second phase was to conduct a comparative analysis to identify what similarities and differences emerge from the data. I follow the content analysis design as prescribed by (Krippendorff 2012) as shown below:

Figure 4: Content Analysis Design



The unit of analysis is any sentence that refers to governance mechanisms relating to transparency and disclosure. The use of a complete sentence as a recording unit avoids any misunderstanding when using only words or phrases (Michelon and Parbonetti 2010).

The sample was chosen from the members of the Global Alliance for Banking on Values (GABV) and Institute of Social Banks (ISB) using a purposive sampling strategy (Miles and Huberman 1994; Klenke 2008) to ensure that the selected banks are involved in sustainable lending. GABV and ISB members are committed to sustainable lending and the triple bottom line of people, planet and profit. GABV consists of 25 member banks located in Asia, Africa, Europe, Latin America and North America. ISB consists of 15 banks from 11 countries located in Europe.

Seven banks are members of both GABV and ISB resulting in a net total of 33 financial institutions. Another eight institutions, engaged in micro lending and other financial services, were excluded from the study resulting in a final sample total of 25 financial institutions.

Once the coding system was established, the websites of 25 selected members of GABV and ISB were revisited for a closer examination. The coding system was then applied to group together the governance mechanisms being practiced by the selected banks. As anticipated by Krippendorff (2012), the content analysis approach is an iterative process which involves reviewing the data several times until saturation is achieved. The data was later summarized. A manual approach was utilized in the data reduction process given the manageable sample. The data has been successfully reduced and analyzed in the following section.

3.6.1 Summary of Findings

Since there are no predefined codes for this type of study, the emerging code technique (Dahlsrud 2006) was utilized to create the coding scheme based on the emerging themes from the data. I then proceeded with the trial review of the websites to create the coding scheme. Based on emerging themes, three categories became evident: promise-based disclosure; negative criteria; and evidence-based disclosure, which are all relevant to the research question being investigated. Promise-based disclosure refers to the claim by banks to support environmentally and

socially responsible borrowers by explicitly stating this commitment either in their mission statement or lending criteria. Negative criteria explicitly state what a bank is not willing to do. Evidence-based disclosure refers to the publication of the names of loan borrowers to show that funds are actually being lent to companies who promote the environment and society. All mechanisms impact a bank's accountability and legitimacy towards stakeholders.

Promise-based disclosure as a governance mechanism achieves two objectives. First, stakeholders are fully informed of what the financial institution intends to do. Second, the promise provides comfort to the stakeholders that the financial institution will deliver on what it promises to do. As anticipated, all 25 sample banks reported a promise to lend to sustainability-focused businesses. However, only 20% or 5 banks reported negative criteria that explicitly state what industries and/or projects are ineligible for financing. It is possible that the low percentage reflects that sustainable lending is a specialized product for many of the sample financial institutions instead of a mainstream product. The disclosure of negative criteria demonstrates a more powerful form of disclosure since it provides additional transparency to the commitment to sustainable lending. Shown in Table 9 is a list of example phrases extracted from sentences which describe promise-based and negative criteria disclosures (see Appendix C for complete details):

Table 9: Promise-Based and Negative Criteria Phrases

Category	Example Phrases
Promise-Based	has an obligation before its depositors to loan out to projects that are beneficial to society, respect human rights, and safeguard the environment lending decision are based on the environmental and social impact of projects work with organizations that are taking significant steps to improve their social, ethical, and environmental performance focuses on cultural, social and ecological products
Negative Criteria	won't lend to any organization that puts profit before people and planet excludes weapons, tobacco, pornography, fur, gambling, animal testing, and inhumane farming methods non fundable activities: production and sale of arms; hazardous technologies for man and the environment; and intensive animal farms which do not comply with the criteria of organic certification standards.

	exclusion lending criteria: violation of human rights; child labour; animal experiments; controversial environment behaviour and economic practices; pornography. lend only to businesses that commit to improving the sustainability of their operations

The objective of applying negative criteria is to define the boundaries in which a bank intends not to lend to. In effect, positive criteria create a starting point and negative criteria determine the end point. From the perspective of stakeholders, the negative criteria address any ambiguity in the mandate of sustainable lending.

The perspectives adopted by the five banks evoked in a negative manner imply a more solid position and add comfort to the governance of sustainable lending activities. The negative criteria eliminate any misunderstanding or alternative interpretations of what a bank will not lend to. The public announcement of both criteria serves to align all employees, depositors, customers, and other stakeholders to the mandate and direction of the organization.

Despite the aforementioned encouraging results, governance based on a promise and negative criteria remain to be a written commitment without

evidence of actual delivery. The third category, evidence-based, demonstrates the unquestionable commitment of a bank to govern its sustainable lending activities through publication of its list of loan borrowers. Evidence-based disclosure not only enhances the legitimacy of sustainable lending practices but also renders the financial institution more accountable to the behaviour of their loan borrowers.

The results of the evidence-based analysis provide a springboard for the comparative analysis. Seven banks or 28% of the sample banks publish the list of their loan borrowers on a regular basis. Table 10 summarizes the results of the comparative analysis in terms of frequency and methods of publication, and the level of details of the disclosed information:

Table 10: Comparative Analysis

Bank Location	Frequency of Publication	Method of Publication	Level of Details
Denmark	Quarterly	Website	Magazine format
Germany	Quarterly	Website	Browse by sector: energy, residential, education, nutrition, and social.
Norway	Quarterly	Website	Magazine format
Sweden	Annually		Lists clients by category: children & education; ecology & climate; health & care; fair trade; and culture and others.
Switzerland	Annually	Hard copy	Available by request

		publication only	
The Netherlands	Continuously updated	Website	Provides two options. Option 1: Using an interactive map which shows the locations of loan borrowers. Option 2: Browsing by sector, which shows three broad categories (environment, social, & culture) followed by detailed subcategories.
United Kingdom	Continuously updated	Website	Browse by region, sector or loan amount.

The location of the bank is shown to illustrate that the willingness to disclose is not impeded by local privacy laws when a client provides consent. Below are illustrative examples from the banks in Table 7 of how the commitment to transparency is expressed in their websites:

"you see exactly what one's own money is working for"

"you can see how your savings are making a difference"

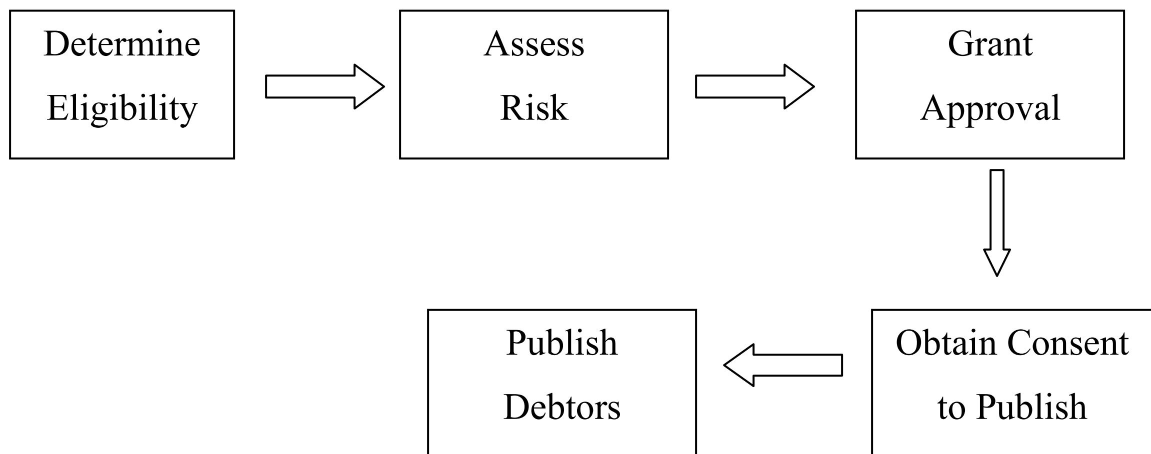
"to demonstrate that this is not a hollow promise and know where the money entrusted to us is being invested"

"open about who we lend to"

The above phrases provide evidence of convergence of interests and values between the banks and all stakeholders. In effect, the banks act as a conduit wherein depositors who share the values of sustainable lending, provide the funds to borrowers who are also committed to promote the environment and society. The reporting of loan details is the final act of transparency and also acts as the bonding mechanism that keeps the relationship between the banks and all stakeholders.

Based on the findings, the process for sustainable lending appears to consist of five steps: determine eligibility; assess risk; grant approval; obtain consent to publish; and publish debtors, as shown in Figure 5:

Figure 5: Sustainable Lending Process



It is safe to assume that the consent to publish is stipulated in the formal loan contract between the bank and borrower in order to address privacy

laws of the host country. The mechanism for governance-by-disclosure is embedded in the loan evaluation and reporting processes when consent is obtained from the client followed by actual publication of the list of borrowers. It appears that the reporting of loan details has been made possible by the shared values between the sample banks and its multiple stakeholders. Although the process appears to be linear, it is possible that a borrower is not willing to provide consent from inception which stops the whole process

3.6.2 Implications on Secondary Research Question

At this point, the secondary research question being addressed by this study is being revisited which is: What governance mechanisms have been created to support the implementation of sustainable lending? The publication of the list of loan borrowers emerged as a governance-by-disclosure mechanism in the implementation of sustainable lending. Banks have evidence that funds are lent to borrowers who comply with the sustainability requirement. Depositors and other stakeholders can verify and monitor that borrowers satisfy the sustainability criteria especially in smaller communities. In return, borrowers have more visibility and are held more accountable to promote the environment and society throughout the life of the loan. This publication of loan borrowers is unprecedented, if not revolutionary, in the banking industry in general and in sustainable lending in particular. The sample banks engaged in sustainable lending are not a special class of financial

institution in terms of legal organization. They are not treated differently from other financial institutions by regulators in their home countries. These banks are subject to the same privacy laws of their home countries. The fact that these banks are able to obtain consent to publish the identity of their loan borrowers demonstrates that the willingness to disclose information overrides any privacy law. The frequency and format of the publication of loan borrowers by the sample banks is probably the highest form of compliance with the increased call for bank disclosure after the financial crisis as embodied by the Basel Committee on Banking Supervision in Enhancing Corporate Governance (2010, 94) as follows:

> Disclosure should be accurate, clear and presented in an understandable manner and in such a way that shareholders, depositors, other relevant stakeholders and market participants can consult it easily. Timely public disclosure is desirable on a bank's public website, in its annual and periodic financial reports or by other appropriate forms. It is good practice that an annual corporate governance-specific and comprehensive statement is in a clearly identifiable section of the annual report depending on the applicable financial reporting framework. All material developments that arise between regular reports should be disclosed without undue delay.

The publication of the loan borrowers is compatible with the information required by depositors and other creditors to ensure that the bank delivers on its mandate (Mitchell 2011). By providing information on loan borrowers, financial institutions can increase transparency and eliminate

any gap between what stakeholders expect and what the organization can deliver. It can be argued that the finding that some banks now publish their list of loan borrowers to show proof of their commitment to their mandates is too simplistic for academic research. However, the revelation of this governance mechanism could be considered the foundation of a paradigm shift in banking. Banks can no longer hide behind glossy reports and privacy laws. The publication of loan borrowers is a reporting initiative that is neither a part nor a requirement of any of the existing international voluntary frameworks for sustainability reporting. This finding could be a springboard to challenge long standing norms in banking both from theoretical and practical perspectives.

3.6.3 Implications on Research Propositions

I now shift the focus on the last three propositions, which are repeated below:

> Proposition 4: Disclosure-based process is a plausible governance mechanism that could enhance governance of sustainable lending.
>
> Proposition 5: The reporting process could be utilized as a governance mechanism to facilitate the alignment of the actions of banks with the interests of shareholders and all stakeholders.
>
> Proposition 6: The challenges of sustainable lending will prod banks to seek new governance mechanisms.

The results of the content analysis show that governance-by-disclosure is a mechanism that could facilitate progress towards achievement of a bank's sustainable lending mandate. In view of the tarnished image of the banking industry, banks could improve their disclosure processes to show unquestionable proofs that they are achieving what their mandates are promising. The publication of the list of borrowers is a form of governance-by-disclosure as posit by the fourth proposition. Therefore, there is proof to the validity of the fourth proposition.

The exploratory results of the content analysis provide encouraging evidence that banks are utilizing the reporting process to attract depositors and all stakeholders who share the same sustainability values. In particular, the investigation of the fifth proposition has led to the discovery that governance could be facilitated when rooted on the shared values of the banks and its multiple stakeholders. Therefore, the fifth proposition is also valid. It also serves as a wake-up call to the banking industry that financial institutions can no longer operate in isolation and should begin to re-align their values with depositors and all other stakeholders.

The results of the content analysis provide encouraging evidence that banks engaged in sustainable lending are beginning to adopt new governance mechanisms. While the use of promised-based disclosure may be standard practice in the banking industry, the use of negative criteria is not that prevalent. The publication of the credit list has been considered as a marketing tool (Passavant 2011) but it could be the long

awaited governance mechanism that may prevent the next financial crisis. When conventional banks begin to lose market share to banks engaged in sustainable lending, it may just be the trigger to join the bandwagon of reporting borrowers to regain goodwill and credibility. It is interesting to note that regulatory agencies such as the OECD have not called for this type of disclosure. It would be an interesting question to ask regulatory agencies and conventional banks why the list of borrowers is not being made public. Nevertheless, there is emerging proof of the validity of the sixth proposition.

I now turn to the implications of the proposition to the literature in the light of the findings of the content analysis. Ahrens et al. (2011) point out that the literature failed to identify the poor governance in banks which contributed to the financial crisis. The literature remains silent in identifying and recommending concrete processes to improve bank governance. There are many studies calling for increased disclosure but fall short of formulating concrete and implementable recommendations. The three propositions were basically validated by the publication of borrowers as a governance-by-disclosure mechanism which confirms the alignment of interests of all stakeholders in sustainable lending. This is a direct challenge to the notion that increased disclosure involves higher accounting costs and could reduce competitive advantage when competitors can access valuable information. The validation of the propositions likewise presents a solution to the phenomenon of decoupling wherein some banks claim to adopt sustainability initiatives on paper only. I believe the publication of loan borrowers has heralded a

new era in the study of information asymmetry and transparency in the banking industry. What was considered to be unimaginable is now a reality being experienced by a few banks.

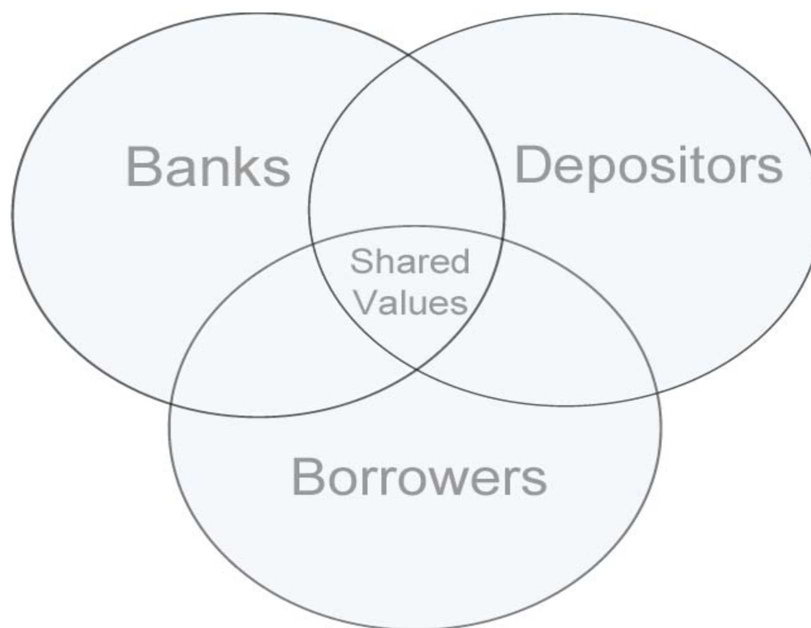
The written consent serves as a contract between the bank and its borrower, which signifies a commitment by both parties to more transparent information environment. This provides support to the argument of Armstrong et al. (2010) that formal contracts facilitate governance-related working relationships between organizations and stakeholders.

3.6.4 Implications on the Literature

It is now appropriate to review the literature in view of the results of the content analysis. There are two key learnings from the findings with important implications to the literature. First, the publication of loan borrowers as a governance mechanism for banks is noticeably absent in the literature. The publication of loan borrowers is made possible by the shared values toward sustainability among the bank and the community of borrowers and depositors. I revisited the literature to find a possible explanation for this unprecedented convergence of interests among the bank, depositor, borrower, and all other stakeholders. I came across research by Porter and Kramer (2011) who propose the creation of shared values as a foundation to enable local cluster development. The authors defined shared values as "policies and operating practices that enhance

the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates." A bank, just like any company, is not self-sufficient and operates within a cluster of depositors, borrowers, and other stakeholders. Porter and Kramer argue that the concept of shared values has emerged as businesses embrace corporate responsibility. The findings of the content analysis suggest that this convergence of values has facilitated the publication of loan borrowers as an effective governance mechanism as depicted in Figure 6:

Figure 6: Convergence of Shared Values



The emergence of shared values runs contrary to the predictions of the agency theory. Agency theory suggests that banks and their managers and loan borrowers would have divergent interests. However, the findings of the content analysis show a convergence of shared values

among the different players. In addition, the publication of loan borrowers is a direct assault to the long tradition of information asymmetry in the banking industry. Perhaps the publication of loan borrowers is the long awaited answer to reduce the opacity of banks. The written consent provided by the borrower to the bank supports the argument from Armstrong et al. (2010) that formal contracts could be an alternative governance mechanism to promote a more transparent information environment.

Second, I revisited the literature to search for research relating to the use of promise-based and negative criteria commitments. It was Jonathan R. Macey (2008) in this book, "Corporate Governance: Promises Kept, Promises Broken," who pointed out that corporate governance is based on a promise and is not contractual in nature. Hence, what makes a good promise? I came across an article by Sull and Spinosa (2007) on the topic of promise-based management. The authors identify five characteristics of a good promise as being public, active, voluntary, explicit, and mission based. The results of the content analysis confirm that the promises to deliver sustainable lending satisfy the aforementioned characteristics of a good promise. The promise-based category reveals pledges that are publicly announced in the banks' websites, which are open to active scrutiny by any stakeholder. The promises fall under the heading of either mission or values. If the sentences under promise-based category are not explicit enough, the negative criteria eliminate any form of misunderstanding. Overall, the

findings of the content analysis show that banks engaged in sustainable lending acknowledge the importance of multiple stakeholders.

Reporting of corporate borrowers was not identified by the literature as an important ingredient towards improving disclosure in the banking industry. However, the literature did identify that providing more details in bank reports could improve bank governance (Mehran et al. 2011) but may be hindered by existing technology especially for large banks operating across the globe. It is important to note that the largest sample bank that report their list of borrowers has over 24,000 borrowers located in five countries across Europe. However, it would be naive to recommend that banks could just easily start publishing the identity of loan borrowers given the complexity of privacy laws and the preference for confidentiality by the borrowers themselves. Instead of publication of loan borrowers, one option is for a bank to commission its external auditor to provide assurance that it has reviewed the list of borrowers and attest that the borrowers satisfy the bank's criteria for environmental and social responsibility. In line with the exploratory approach of this dissertation, I revisited the literature, both academic and practical, to explore related research on this topic which is discussed in the following section.

3.6.5 Sustainability Assurance

The first step was a Google search to identify the generally accepted definition or description when external accountants provide assurance to sustainability-related information. I found that the common term being used by industry and academic community was sustainability assurance. The next step was to explore the practical literature to obtain a definition or description of sustainability assurance. KPMG's (2014) website provides the following description of sustainability assurance:

> Provide confidence to stakeholders, directors, and senior management as to the accuracy and credibility of publicly disclosed performance data and associated information;
>
> Provide comfort to management that the sustainability information supplies a robust basis for decisions and accurate presentation of performance against business objectives;
>
> Become a tool for mitigating risks associated with the potential disclosure of inaccurate or misleading information;
>
> Add independent credibility to publicly performance date and information; and
>
> Provide useful feedback on better practice observations.

There is evidence supporting the growing popularity of sustainability assurance. In its most recent survey of 4,100 companies in 41 countries, KPMG (2013) reports that 51% includes sustainability-related information in their annual reports. This is a dramatic increase from 20% in 2011 and only 9% in 2009. The Global Reporting Initiative (GRI) (2013b) likewise reports that 46% of the sustainability reports registered in their database had some form of independent assurance from an external party. GRI adds that external assurance on sustainability information is normally provided by accountants, engineers, and sustainability experts. It is interesting to note that the external assurer may or may not be the external accountant. The internal auditor may also play an important role in the assurance of sustainability information. The Institute of Internal Auditors (IIA) (2010) established its International Professional Practices Framework Practice Guide to set standards for the assurance activity of an internal auditor relating to a company's sustainability programs and reporting. The IIA recognizes the concern regarding the public's perception of the independence of the internal auditor who is also an employee of the company. To mitigate any question of independence, the IIA recommends that the internal auditor worked with an external accountant or team up with a subject matter expert. It is also important to note that the current practice of independent or external assurance of sustainability information is purely on voluntary basis.

The Conference Board of Canada (2014, 7) highlights its more recent perception of the state of communicating sustainability information, as follows:

> Today, most companies have some experience in communicating sustainability activities to stakeholders. However, due to the lack of universally accepted measurement standards in the field, sustainability reporting is not as verifiable as financial reporting: on the one hand, it may be used artfully to distort market perception and inflate the reputation of an organization; on the other, meaningful accomplishments in the environmental and social sphere may go unnoticed by the outside world.

Now that the practical literature has provided evidence on the role of external accountants to provide assurance to the credibility of sustainability-related information, it is appropriate to shift the focus to the academic literature.

It was Wallage (2000) who reported on the preliminary experiences of the accounting profession in the assurance or audit of sustainability reports. Wallage points out that the key characteristic of disclosure of sustainability information is that it is the communication instrument between the company and stakeholders. This author concludes that there appears to be a gap between the level of assurance and the expectations of stakeholders. In a case study of a large multinational company, Adams (2004) reached the same conclusion regarding the lack of

consultation with stakeholders in the assurance process of sustainability information. Three years later, another study of 29 reports with assurance statements provided further evidence to the lack of consultation with stakeholders when establishing the framework of the assurance engagement (O'Dwyer and Owen 2007).

Simmett, Vanstraelen, and Chua (2009, 939) argue that the objective of assurance is "to improve the credibility of the disclosed information." At the time of publication of this article in 2009, the authors report that there was still limited research on the voluntary assurance of sustainability reports. These authors point out an important distinction between a stakeholder – and shareholder – oriented business culture. In countries where stakeholders are active, there is more pressure for companies for assurance of sustainability disclosure. In contrast, there is less pressure in countries where there is a strong orientation towards shareholders.

More recently, Junior, Best and Cotter (2014) investigated the assurance practices of top 500 corporations in the world to account for the variability across countries. The authors reach a common conclusion on this world-wide phenomenon that a transparent assurance process is the key to a credible disclosure of sustainability information. They add that stakeholders should be fully aware of the scope of the assurance engagement to enhance the reliability of the disclosed information. In a study of 35 Canadian corporations, Searcy and Buslovich (2014) reached the same conclusion that stakeholder input is a key ingredient in

sustainability reporting. The same authors discovered that the changing focus of stakeholders is a big challenge when soliciting stakeholder input.

Based on the foregoing discussions on the practical and academic literature, it is safe to conclude that the engagement of external accountants to provide independent assurance of disclosed information will address the concerns against the rhetoric about sustainable lending. Overall, the involvement of stakeholders appears to be a critical component in the process of developing sustainability reports.

3.7 Summary of Findings

The primary research question addressed in this study is: How do banks that are engaged in sustainable lending evaluate if SME borrowers continue to be environmentally and socially responsible throughout the term of the loan? The interviews with the five banks reveal the use of storytelling as the emerging tool being utilized for performance measurement. The interview results also suggest the potential of banks to contribute in the promotion of sustainable practices among SME borrowers. I demonstrate how the use of storytelling holds together the triumvirate of banks, borrowers, and third party stakeholders in the common pursuit of sustainability. In the absence of available quantitative techniques, banks have resorted to storytelling to discuss the results of their sustainable lending activities. The investigation of the propositions generated many areas for further research and a recommendation for

banks to use consultants as an initial step towards developing a performance measurement system for banks engaged or intending to engage in sustainable lending. Future research on storytelling has the potential to explore many theoretical and practical possibilities within the realm of performance measurement and sustainable lending.

The secondary research question addressed in this study is: What new governance mechanisms have been created to support the implementation of sustainable lending? This question was answered using a content analysis methodology. The results of the content analysis reveal the publication of loan borrowers as the emerging governance-by-disclosure mechanism to monitor and report a bank's sustainable lending activities. The published information provides assurance of a disclosure process which is understandable and accessible to the stakeholders. The investigation of the propositions identified new areas for further research and a recommendation for other banks to start publishing their loan borrowers. I do acknowledge that the publication of loan borrowers is a direct challenge against longstanding traditions in the banking industry. However, history may repeat itself in the form of another financial crisis if we fail to learn from past mistakes. The sample banks and their borrowers have raised the bar for voluntary disclosure to a level never seen before in the banking industry. As an alternative, banks could also consider engaging their external auditors to provide assurance covering sustainability-related information.

The continuing popularity of sustainable lending is a testament to a new form of competitive advantage in the banking industry, which involves a convergence of shared values towards the protection and promotion of the environment and society. It was demonstrated how shared values among banks, depositors, borrowers, and other stakeholders could contribute to the development of more effective governance mechanisms. I conclude that this phenomenon of shared values will facilitate the governance of sustainable lending and create the foundation of a paradigm shift in the banking industry.

The combined use of phenomenological approach and content analysis likewise provides invaluable insights. The challenges faced in arranging phenomenological interviews stimulated the development of alternative ways to collect data to address the secondary question. In this case, content analysis was the suitable partner to compensate for the limitations of a phenomenological approach. The complementary features of the two research methods provide evidence to their methodological congruence. Sequential triangulation facilitated the validation of the phenomenon of shares values, which was a common finding under the phenomenological approach and content analysis. I go back to the adage that "what gets measured, gets done." Although performance measurement tools have yet to evolve to catch up with sustainable lending, the shared values of stakeholders have supported this phenomenon. The next adage is "if you can't measure it you can't control and manage it." Likewise, shared values have been the bonding mechanism that facilitates the governance of sustainable lending.

4 Implications for Research and Practice

Although this is an exploratory study, this dissertation provides useful suggestions to the academic community and practitioners. The study is innovative since it provides unique insights from practitioners that could serve as springboard for future research and best practices in the future.

4.1 Implications for Future Research

It is typical of exploratory studies to identify more areas for further investigation than the research questions under consideration. The theoretical underpinnings for performance measurement of sustainable lending remain undeveloped. Researchers can address this gap by drawing on storytelling theory as a theoretical lens for future research.

Propositions 1 and 2 could serve as a springboard for future research. The aim is to identify deeper issues in storytelling practices and perhaps other tools as experienced by top and middle management and front-line managers, using a grounded theory approach. The concept of shared values within the organization would be an interesting component of grounded theory inquiry into storytelling practices among banks engaged in sustainable lending.

The grounded theory approach will contribute to the literature on the use of storytelling as a tool for legitimization (Maclean, Harvey, and Chia

2011) of sustainable lending. The literature review shows that the topic of sustainability is multidisciplinary, which crosses numerous disciplines covering business administration, accounting, law, ethics, and management information system. A grounded theory methodology is appropriate to achieve a more holistic understanding and a more comprehensive resolution of the research question. The ultimate aim is to propose a theory on why some banks have lived up to their potential to promote sustainability practices among SMEs. In addition, a grounded theory approach will provide a theoretical base to understand the interplay among performance measurement, sustainable lending, and storytelling.

The theoretical underpinnings of the impact of shared values on the pursuit of sustainability also remains underexplored. The opportunity exists for other researchers to expand this study using longitudinal analysis through the lens of shared values to obtain a deeper understanding over an extended period of time. Another possible area of research is an ethnographic approach by focusing on only one bank in one country. This approach will provide in-depth insights from the perspective of one community of stakeholders. Likewise, a comparative study involving banks in two or more countries will identify common patterns or variations. The aim is to use a complementary methodology that improves on the findings of the content analysis.

The phenomenology approach highlights the importance of the input of the practical world in sustainability research. The involvement of experts

outside the academic community in transdisciplinary research is another approach for future collaborative investigation into the real-world phenomenon of sustainable lending. Following is the definition of transdisciplinarity (Lang, Wiek, Bergmann, Stauffacher, Martens, Moll, Swilling, and Thomas 2011, 26):

> Transdisciplinarity is a reflexive, integrative, method-driven scientific principle aiming at the solution or transition of societal problems and concurrently of related scientific problems by differentiating and integrating knowledge from various scientific and societal bodies.

The notion of sustainability has become increasingly complex, which highlights the need for collaboration between the academic community and practitioners in order to advance deeper understanding of this phenomenon. Perhaps, the most promising research would be a collaboration between an academic investigator and a practitioner using a grounded theory approach. Moreover, transdisciplinarity research starts with a real life phenomenon as a springboard for the investigation (Schaltegger, Beckmann, and Hansen, 2013). Triangulation may be also achieved with the interaction between academic and practitioners.

Finally, this dissertation has demonstrated the potential of the phenomenon of sustainable lending for further investigation using different theoretical lenses and methodologies.

4.2 Implications for Practice

I decided to tackle the issue of the validity of the third working proposition under this section. Proposition 3 states that "Banks can measure simple sustainability programmes such as reduction and recycling being implemented by SME borrowers." I admit that the phenomenological results have only generated limited evidence to support Proposition 3. I anticipate that the validity of this remaining working proposition will become more apparent as further research is completed. However, the interview results have hinted at a possible practical solution that could be beneficial to banks engaged or intending to engage in sustainable lending. Two recommendations are being offered. First, the use of an external consultant could be a possible alternative to provide assistance to banks in designing performance measurement systems for sustainable lending. I refer to Bank 3 which has entered into a partnership with a third party to assist clients to become carbon neutral. The hiring of an external consultant could be part of a pilot project. This will not be only economical but will also result in less disruption to the daily activities of bank employees. The external consultant must focus on straightforward sustainability activities, which SMEs can easily implement and banks can efficiently measure. The aim is to take small steps which will facilitate buy-in by both banks and SME borrowers.

Google search reveals a growing list of sustainability consultants. Many accounting firms have now expanded their operations to include sustainability assurance services. More importantly, some banks already have their in-house consultants or access to a short list of consultants who assist both banks and clients in many aspects of operations. In particular, in-house consultants have a thorough understanding of the bank's culture and processes and most of all, the clients' businesses. It is therefore a short step to extend the engagement of consultants to cover performance measurement of sustainable lending activities.

The second recommendation involves banks developing internal expertise through training and hiring of personnel with experience in measuring environmental and social impacts. It should be noted that the academic community has likewise joined the bandwagon with business schools offering degree programmes and short courses with a focus on sustainability. The near future will see business school graduates with training in sustainability practices. External consultants could also assist in the training of bank staff. Hopefully, the hiring of consultants and development of internal expertise are the first steps in solving the dilemma being faced by banks engaged in sustainable lending.

Governance-by-disclosure as a governance mechanism offers many practical benefits in the banking world. First, disclosures promote market discipline not only within banks but also among clients. Since stakeholders are more informed, the tendency of banks and clients is to operate within the expectations of the market. Second, the publication

of loan borrowers serves as free advertisement for banks and clients. The published information provides irrefutable evidence of the banks' delivery on its mandate. It also improves borrowers' reputation in the market as being environmentally and socially responsible. If the publication of loan borrowers is not possible, another option is for a bank to commission its external auditor to provide assurance that it has reviewed the list of borrowers and attest that the borrowers satisfy the bank's criteria for environmental and social responsibility.

4.3 Limitations

The dissertation has five limitations worth mentioning. First, the exploratory nature of the study is in itself a limitation. The exploratory study was conducted to confirm the validity of the research question not only from a theoretical perspective but also from a practical point of view. Second, the insights from the sample of five domestic banks limit the generalizability of the findings of the phenomenological approach. The generalizability of the findings of the content analysis is also debatable given that the sample was limited to the members of two associations. International and multi-lateral banks were purposely excluded since they will provide additional complexity in terms of multiple banking regimes operating under different legal environments. This additional complexity is beyond the scope of this exploratory study but could provide interesting research topics in the future. Third, the study delivers a positive spin because it only focuses on banks which

have successfully implemented sustainable lending. It would be interesting to investigate less successful experiences including complete failures. A more balanced study should investigate both successful and failed situations. Fourth, I acknowledge that “no one-size-fits all” when it comes to governance mechanisms especially in the banking sector. Fifth, the study is being written from the perspective of Western banks which is a common approach of academic research but not always recognized as a limitation. Banks in the other parts of the world can equally offer meaningful experiences and perspectives.

Although apparent limitations exist, opportunities for further research and development of best practices are evident. Moreover, this dissertation has likewise identified opportunities for collaboration between the academic community and practitioner to engage in research that will generate useful insights for the real world.

5. Conclusion

The main contribution of this dissertation has been to present an organized body of knowledge on the phenomenon of sustainable lending from the perspectives of performance measurement and governance. It was established that the question of performance measurement of sustainable lending remains to be the holy grail of sustainability research. Performance measurement systems have yet to evolve to catch-up with the requirements of sustainable lending. In the meantime, bankers have resorted to storytelling to discuss the performance of sustainable lending activities. The question of governance of sustainable lending was addressed by publication of borrowers, which provides irrefutable proof of banks' compliance with their mandate. Ultimately, the exploratory design resulted in a well-grounded description of the phenomenon and identified related concepts and new areas for research. One of these concepts is shared values, which has been identified as the bonding mechanism that holds together the many players in sustainable lending. The significance of shared values highlights the paradigm shift in banking where the concern for the environment and society by banks, depositors, and borrowers has become the driver for sustainability practices.

Based on the literature review, it can be concluded that the theoretical development of sustainable lending is still in the infancy stage. Prior to this study, the literature was largely fragmented. This dissertation advanced six propositions ranging from alternative performance

measurement systems to the reporting process as a governance mechanism. These propositions could serve as a springboard to utilize different theoretical lenses to investigate the many aspects of sustainable lending. The propositions also set the stage for future empirical research. This dissertation highlights the potential for mixing different qualitative methods to mitigate challenges in data gathering. Hopefully, future researchers will think out-of-the-box and apply multiple empirical methods to extract new insights and best practices.

While the small sample size was recognized as a limitation, the phenomenology approach demonstrated the challenge of assessing bankers who are considered as elites in the industry. The challenges faced in arranging interviews are in itself a learning experience and a reality check for future researchers. The task of assessing elite sustainable bankers will remain to be a major challenge in the field. Nevertheless, the comments provided by practitioners cannot be underestimated. By drawing on the lived experiences of selected bankers, a recommendation to hire consultants to deal with performance measurement issues was formulated. The content analysis approach likewise resulted in a recommendation for banks to engage external accountants to provide assurance to the reporting of sustainable-related information when privacy laws may prohibit the publication of borrowers. This dissertation contributed to the robust methodological debate on the use of qualitative techniques by demonstrating the relevance of delving in-depth into the phenomenon instead of focusing on "how many" has experienced the phenomenon.

From both academic and practical standpoints, this dissertation identified the importance of collaboration between academic and practitioner to pursue transdisciplinary research in sustainable lending. It is critical for the academic community to engage practitioners actively in collaborative investigation to overcome the challenges of research in sustainable lending. The presence of a practitioner will hopefully facilitate access to other bank executives. The best-case scenario would be to involve one practitioner each from a Western bank and another from the Eastern hemisphere to eliminate the Western bias inherent in academic research. This approach will provide interesting insights not only on triangulation beyond methodological congruence but also on the convergence or divergence of global practices.

In conclusion, this dissertation has revealed positive developments in sustainable lending; however, there is considerable room for improvements. It is worth restating, therefore, that sustainable lending poses challenges to performance measurement and governance. The exploratory approach laid down the foundation for an aggressive impetus to examine new approaches to the study of sustainable lending.

Appendix A: GRI Performance Indicators for Environment and Social Impacts

Environmental

MATERIALS

EN1 Materials used by weight or volume.

EN2 Percentage of materials used that are recycled input materials.

ENERGY

EN3 Direct energy consumption by primary energy source.

EN4 Indirect energy consumption by primary source.

EN5 Energy saved due to conservation and efficiency improvements.

EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.

EN7 Initiatives to reduce indirect energy consumption and reductions achieved.

WATER

EN8 Total water withdrawal by source.

EN9 Water sources significantly affected by withdrawal of water.

EN10 Percentage and total volume of water recycled and reused.

BIODIVERSITY

EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.

EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.

EN13 Habitats protected or restored.

EN14 Strategies, current actions, and future plans for managing impacts on biodiversity.

EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.

EMISSIONS, EFFLUENTS, AND WASTE

EN16 Total direct and indirect greenhouse gas emissions by weight.

EN17 Other relevant indirect greenhouse gas emissions by weight.

EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved.

EN19 Emissions of ozone-depleting substances by weight.

EN20 NO, SO, and other significant air emissions by type and weight.

EN21 Total water discharge by quality and destination.

EN22 Total weight of waste by type and disposal method.

EN23 Total number and volume of significant spills.

EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.

EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.

PRODUCTS AND SERVICES

EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.

EN27 Percentage of products sold and their packaging materials that are reclaimed by category.

COMPLIANCE

EN28 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.

TRANSPORT

EN29 Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.

OVERALL

EN30 Total environmental protection expenditures and investments by type.

EMPLOYMENT

LA1 Total workforce by employment type, employment contract, and region, broken down by gender

LA2 Total number and rate of new employee hires and employee turnover by age group, gender, and region.

LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.

LA15 Return to work and retention rates after parental leave, by gender.

LABOR/MANAGEMENT RELATIONS

LA4 Percentage of employees covered by collective bargaining agreements.

LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.

OCCUPATIONAL HEALTH AND SAFETY

LA6 Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advice on occupational health and safety programs.

LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.

LA8 Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.

LA9 Health and safety topics covered in formal agreements with trade unions.

TRAINING AND EDUCATION

LA10 Average hours of training per year per employee by gender, and by employee category.

LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.

LA12 Percentage of employees receiving regular performance and career development reviews, by gender.

DIVERSITY AND EQUAL OPPORTUNITY

LA13 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.

EQUAL REMUNERATION FOR WOMEN AND MEN

LA14 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.

Human Rights

INVESTMENT AND PROCUREMENT PRACTICES

HR1 Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.

HR2 Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.

HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.

NON-DISCRIMINATION

HR4 Total number of incidents of discrimination and corrective actions taken.

FREEDOM OF ASSOCIATION ANDCOLLECTIVE BARGAINING

HR5 Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.

CHILD LABOR

HR6 Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.

FORCED AND COMPULSORY LABOR

HR7 Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.

SECURITY PRACTICES

HR8 Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.

INDIGENOUS RIGHTS

HR9 Total number of incidents of violations involving rights of indigenous people and actions taken.

ASSESSMENT

HR10 Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.

REMEDIATION

HR11 Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.

Society

LOCAL COMMUNITY

SO1 Percentage of operations with implemented local community engagement, impact assessments, and development programs.

SO9 Operations with significant potential or actual negative impacts on local communities.

SO10 Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.

CORRUPTION

SO2 Percentage and total number of business units analyzed for risks related to corruption.

SO3 Percentage of employees trained in organization's anti-corruption policies and procedures.

SO4 Actions taken in response to incidents of corruption.

PUBLIC POLICY

SO5 Public policy positions and participation in public policy development and lobbying.

SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.

ANTI-COMPETITIVE BEHAVIOR

SO7 Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.

COMPLIANCE

SO8 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.

Source: Global Reporting Initiative – Sustainability Reporting Guidelines, Version 3.1. 2012. Retrieved on February 3, 2013 from https://www.globalreporting.org/resourcelibrary/G3.1-Quick-Reference-Sheet.pdf.

Appendix B: UNEP Statement of Commitment by Financial Institutions on Sustainable Development

We members of the Financial Services Sector recognize that economic development needs to be compatible with human welfare and a healthy environment. To ignore this is to risk increasing social, environmental and financial costs. We further recognize that sustainable development is the collective responsibility of governments, businesses and individuals. We are committed to working collectively toward common sustainability goals.

1. Commitment to Sustainable Development

1.1 We regard sustainable development - defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs - as a fundamental aspect of sound business management.

1.2 We believe that sustainable development is best achieved by allowing markets to work within an appropriate framework of cost efficient regulations and economic instruments. Governments have a leadership role in establishing and enforcing long-term priorities and values.

1.3 We regard financial institutions to be important contributors to sustainable development, through their interaction with other economic sectors and consumers and through their own financing, investment and trading activities.

1.4 We recognize that sustainable development is an institutional commitment and an integral part of our pursuit of both good corporate citizenship and the fundamentals of sound business practices.

1.5 We recognize that the sustainable development agenda is becoming increasingly inter-linked with humanitarian and social issues as the global environment agenda broadens and as climate change brings greater developmental and security challenges.

2. Sustainability Management

2.1 We support a precautionary approach to environmental and social issues, which strives to anticipate and prevent potential negative impacts on the environment and society.

2.2 We will comply with all applicable local, national and international regulations on environmental and social issues. Beyond compliance, we will work towards integrating environmental and social considerations into our operations and business decisions in all markets.

2.3 We recognize that identifying and quantifying environmental and social risks should be part of the normal process of risk assessment and management, both in domestic and international operations.

2.4 We will endeavor to pursue the best practice in environmental management, including energy and water efficiency, recycling and waste reduction. We will seek to form business relations with customers, partners, suppliers and subcontractors who follow similarly high environmental standards.

2.5 We intend to update our practices periodically to incorporate relevant developments in sustainability management. We encourage the industry to undertake research accordingly.

2.6 We recognize the need to conduct regular internal reviews and to measure our progress against our sustainability goals.

2.7 We recognize the need for the financial services sector to adapt and develop products and services which will promote the principles of sustainable development.

3. Public Awareness and Communication

3.1 We recommend that financial institutions develop and publish a statement of their sustainability policy and periodically report on the steps they have taken to promote the integration of environmental and social considerations into their operations.

3.2 We are committed to share relevant information with customers, as appropriate, so that they may strengthen their own capacity to reduce environmental and social risk and promote sustainable development.

3.3 We will foster openness and dialogue relating to sustainability matters with relevant stakeholders, including shareholders, employees, customers, regulators, policy-makers and the public.

3.4 We will work with the United Nations Environment Programme (UNEP) to further the principles and goals of this Statement, and seek UNEP's active support in providing relevant information relating to sustainable development.

3.5 We will encourage other financial institutions to support this Statement. We are committed to share with them our experiences and knowledge in order to extend best practices.

3.6 We recognize the importance of other initiatives by the financial services sector in forwarding the aims and objectives of sustainable finance and will seek to assist such initiatives in an appropriate manner.

3.7 We will work with UNEP periodically to review the success in implementing this Statement and expect all Signatories to make real progress.

Appendix C: Content Analysis Results

	Location	Category: Promise-based	Positive Endorsement: located in Vision, Mission & Values	Negative Evaluation Criteria
1	Switzerland	ABS	We invest the money of our customers over the long term and in the real economy, in businesses bringing social and environmental projects, such as farm bio, a circus for young or e-bike innovative service.	We categorically exclude investments that contravene certain criteria of the universe ABS placement. It may be whole branches or fields of activities only, such as nuclear energy, the tobacco industry or weapons. The evaluation also covers suppliers.
2	Italy	Banca Popolare Etica	The Bank manages savings raised from private citizens, as singles or families, organizations, companies and institutions in general, and invests them in initiatives pursuing both social and economic objectives, operating in full respect of human dignity and the environment.	We exclude the possibility of funding economic hampering human development, in particular: production and sale of arms; use and development of energy sources and hazardous technologies for man and the environment; child labour; etc.
3	Germany	GLS Bank	The Bank focuses on cultural, social and ecological projects which try to tackle challenges in our society by developing creative solutions. Loans	Exclusion lending criteria: violation of human rights; violation of fundamental rights and labour laws; child labour; animal experiments; controversial environmental behaviour,

			are offered to projects like independent schools and kindergartens, organic farms, institutions using therapeutic pedagogy, nursing homes, projects for the employed, health-food stores and communal living projects, as well as sustainable businesses.	controversial economic practices; atomic; biocides; organochlorine mass products; embryo research; agro-biotechnology; pornography; armor; and substance.
4	USA	New Resource Bank	New Resource Bank has helped award-winning organic food purveyors satisfy growing demand, innovative solar providers make home power systems affordable and green builders create homes and offices that model resource conservation. We're always looking for innovative, sustainability-focused businesses with market-changing potential, as well as traditional businesses that want to integrate sustainability practices.	We work with a range of California businesses—not just inherently green companies—but we need to know that you have a commitment to sustainable business practices. All commercial loan applicants complete our Sustainability Assessment, which gives us a picture of your current sustainability level and shows us how we can help you progress along the sustainability spectrum. We use the assessment to evaluate loan applicants, and while no minimum score is required, we lend only to businesses that commit to improving the sustainability of their operations.
5	The Netherlands	Triodos Bank	We only lend to and invest in organizations that	Who won't we lend to? We won't lend to any organization that puts

			benefit people and environment.	profit before people and planet. More specifically, the absolute criteria we apply in making lending decisions come under two main headings: Non-sustainable products and services: This includes all businesses involved in producing or trading in weapons, tobacco, pornography, fur or environmentally hazardous substances. It also covers the gambling industry. Non-sustainable working processes: This covers everything from animal testing and inhumane farming methods, through corruption and support for dictatorial regimes, to breaches of fundamental labour rights.
6	Canada	Affinity Credit Union	We understand and respect individual needs and strive to enhance the economic and social well-being of our members.	
7	Canada	Assiniboine Credit Union	That's why we take steps to minimize our own ecological footprint and to support others who are working to find positive solutions to environmental concerns. We take responsibility for the financial, social,	

			environmental and economic impacts of our decisions and actions, and disclose our performance in a transparent manner.	
8	Australia	Bankmecu	We also invest our customers' money in responsible ways that generate benefits for them as well as create stronger communities and a healthier environment.	
9	Uganda	BRAC Bank	BRAC Bank never stands or finance for any project that can harm the environment.	
10	Nepal	Clean Energy Development Bank	To provide mid-term and long-term financial means and resources as may be required for investment to be made in the development of infrastructures of the country in a businesslike manner, while remaining vigilant towards the protection of environment.	
11	France	Credit Cooperatif	Credit Cooperatif conducts business with clients with high social utility: social economy, solidarity finance.	

12	Norway	Cultura Bank	Cultura Bank has an obligation before its depositors to loan out said deposits to projects that are beneficial to society, respect human rights, and that safeguard the environment.	
13	United Kingdom	Ecology Building Society	Our lending decisions are based on the environmental and social impact of projects, including energy use, pollution, saving resources and supporting sustainable communities.	
14	USA	First Green Bank	It is the first bank of its kind to promote positive environmental and social responsibility while operating as a traditional community bank.	
15	Denmark	Merkur	The majority of our loans are to projects in environment, culture or social purposes.	
16	Peru	Mibanco, Banco de la Microempresa	We seek to transmit a responsible business culture. For this reason, we are guided by the concept of Triple profitability, which includes	

			economic profitability, and Social and environmental responsibility. This approach, which is based on the sustainability of Mibanco, constitutes its main differential. For this reason, we care to measure performance, and social, environmental and economic sustainability of our activities and spreading its impact through various reports.	
17	USA	One Pacific Coast Bank	We look for ways to help non-profit organizations and businesses that typically find conventional financing out-of-reach, such as specialty agriculture, renewable energy, green building and low-income housing.	
18	El Salvador	SAC Apoyo Integral. S.A.	We are a company specialized in microfinance, socially committed to sustainable development of its	

			customers through quality products and services.	
19	USA	Sunrise Banks	Sunrise is a certified B Corp. B Corps use the power of business to solve social and environmental problems. In order to gain certification, companies must demonstrate responsible corporate governance, environmental stewardship, and accountability to their community. B Corps are accountable to all stakeholders including the community, customers, vendors, and the environment.	
20	Canada	Vancity	We want to support businesses and organizations that align with our values and vision. Because we're committed to having a significant, positive impact in our communities, we seek the opportunity to work with organizations that are also taking significant steps to improve their social,	

			ethical, and environmental performance.	
21	Mongolia	XacBank	We will seek to form business relations and alliances with partners, suppliers, and clients who follow similarly high social and environmental standards.	
22	Ireland	Clann Credo	Clann Credo provides affordable loan finance to community, voluntary and charitable organizations, community businesses and social enterprises throughout Ireland.	
23	United Kingdom	Charity Bank	Providing loans and support to charities, social enterprises and community organizations.	
24	France	LaNef	LaNef helps support the creation and development of professional and community activities for the purpose of social and environmental benefits.	
25	Sweden	Ekobanken	Most of Ekobanken lending goes to schools, Eco villages, community living, organic farming and food	

			production, renewable energy, fair trade, periodicals, cultural, social cooperatives or artistic activities.	

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Master of Science in International Banking and Financial Studies
Heriot-Watt University, Edinburgh, 1985 - 1986

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Professional Designations

Sustainable Investment Professional Certification, 2013

Certified Management Accountant, 1996

Work Experience

Business Development Bank of Canada

- Regional Director, Underwriting (2010 to date)
- Area Manager, Underwriting & Portfolio Mgt (2007 – 2010)
- Area Manager, Special Accounts (2003 – 2007)
- Manager, Special Accounts (2000 – 2003)
- Account Manager, Business Development (1994 – 2000)

International Bank of Asia, Hong Kong (1991 – 1993)

BEII (DTC) Limited, Hong Kong
A subsidiary of Bank Ekspor Impor Indonesia (1989 – 1991)

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