An Assessment of Voluntary Codes of Conduct in the Financial Sector – A case study of the GABV, UNEP-FI and UNPRI

by

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A thesis

presented to the University of Waterloo

in fulfilment of the

thesis requirement for the degree of

Master of Environmental Studies

in

Sustainability Management

Waterloo, Ontario, Canada, 2016

Author's Declaration

I hereby declare that I am the sole author of this thesis. This is a true copy of the thesis, including any required final revisions, as accepted by my examiners.

I understand that my thesis may be made electronically available to the public

Abstract

As a result of the key roles financial institutions play in the world today, they are pivotal in addressing arguably the biggest challenge the world faces today – sustainable development. Several pioneering financial institutions, some with the collaboration of non-governmental organisations, have developed key initiatives to act as roadmap towards ensuring intra and intergenerational equity. These initiatives are referred to as codes of conduct, and take on the name voluntary, because organizations are not mandated to adopt them. Nonetheless, these self-regulatory codes inadvertently act as soft laws to which adopters must abide by. This research describes the more prevalent codes in the financial sector – the Equator Principles, Global Alliance on Banking Values, United Nations Environmental Programme Finance Incentive, United Nations Principles for Responsible Investment – with the latter three used as a case study to determine if significant differences exist between signatories and non-signatories. Via quantitative techniques, results indicate that there is indeed a noteworthy difference between both groups of banks, suggesting that signatories address sustainability concerns in their reports more often than their non-signatory counterparts. The research concludes by noting that even though more reporting does not necessarily translate to enhanced performance, it is a step in the right direction, and exudes the qualities of the codes that may have been responsible for this development.

Key words; Voluntary codes of conduct, Sustainability, Financial sector, Sustainability reporting, GABV, UNEP-FI, UNPRI.

Acknowledgements

First, I would like to give thanks to my Lord and personal savior for His grace upon my life.

I would also like to express my gratitude to my supervisor Dr. Olaf Weber for his tutelage during the course of writing this thesis. The constructive feedback from my committee member, Dr. Jason Thistlethwaite and reader, Dr. Neil Craik were very helpful, and for that I say thank you. My appreciation also goes to CIGI for providing funding for this project.

To my parents and siblings, your financial and emotional support went a long way in allowing me complete this project. Thank you.

To my friends, Adeboye, Ola, Truzaar (to name just a few), and entire class of SUSM 2014, thank you for always being available to be a sounding board for thoughts and ideas. You have my utmost gratitude.

Last and definitely not least, Blessing. Despite being one of the last people on this list to come into my life in (and while I was writing this project), you have left indelible marks on this thesis. And for that, I am immensely grateful to you.

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Chapter 1: Introduction

1.1 Introduction

Financial Institutions, just as with corporate organizations, all over the world are under increasing pressure to act in a more socially acceptable manner. Within the banking space, this scrutiny has led to the emergence of the concept known as social banking; some scholars use the term sustainable banking instead. What really then is social/sustainable banking?

1.2 Sustainable Banking

A search through literature failed to show any clear distinction between social banking and sustainable banking. Thus, for the sake of this study, both terms are assumed to mean the same thing, and are used interchangeably.

Even finding a concrete definition for social banking is elusive. As De Clerck (2009) writes

"Social, ethical, alternative, sustainable development and solidarity banking and finance are denominations that are currently used to express particular ways of working with money based on non-financial deliberations. A precise and unified definition of these types of finance as such is not available and perhaps not possible because of the different traditions from which the ethical finance actors have emerged."

Nonetheless, this study will examine a few different definitions of this concept provided by various scholars.

Weber & Remer (2011) define social banking as banking that aims to have a positive impact on people, the environment, and culture by means of banking i.e. savings accounts, loans, investments and other banking products and services. According to the Institute for Social Banking (ISB), social banking describes the provision of banking and financial services that consequently pursue, as their main objective, a positive contribution to the potential of all human beings, today and in future (ISB, n.d). Triodos Bank, a forerunner in the sustainability banking clime, defines sustainable banking as using money with conscious thought about its environmental, cultural and social impacts, and with the support of savers and investors who want to make a difference, by meeting present day needs without compromising those of future generations. A similarity amongst these definitions is a primary focus on people and culture in the way a bank does business.

For the sake of clarity in this study, 'social banking' is not to be confused with 'social bank'. Social banks are a niche group of banks who prioritise providing services that create environmental and social benefit to profit maximisation as would conventional banks (Weber, 2013). Yet, all banks, conventional and otherwise, have some kind of social responsibility as they direct capital into different sectors and projects in the economy (Schuster et al., 2001). Thus, it is safe to say while banks may practice social banking, not all banks can be termed as social banks.

1.3 The rise of sustainable banking

In general, there are two ways through which financial institutions can practice sustainable banking;

- Pursuing environment and social responsibility in the bank's operations through environment initiatives and corporate social responsibility initiatives
- The integration of sustainability into the bank's core business, culture, mission, philosophies and product offerings.

These two are not mutually exclusive, meaning a bank may be actively engaged in both.

Regardless of the approach a financial institution adopts, Jeucken (2010) posits that there are four distinct phases a bank may find itself in its drive towards sustainability. Please see figure 1.

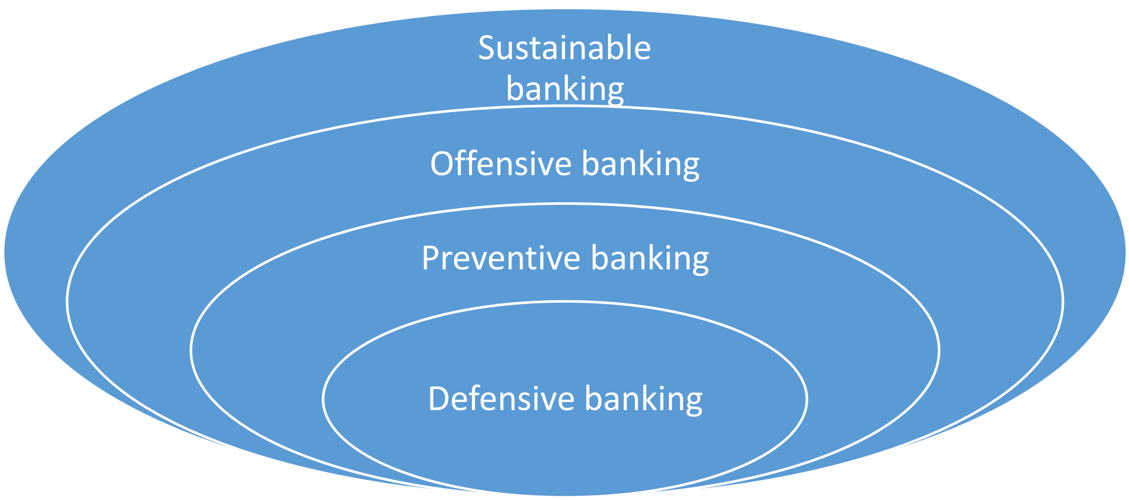

Figure 1 - Phases of banks in pursuing sustainability (Source: Jeucken, 2010, p. 71)

- Defensive banking; In this first phase, banks are doing the minimum to meet whatever government regulations that are in place, as such regulations are seen as threats to the normal line of business. Meeting these obligations are often considered as additional costs to the bank.
- Preventive banking; A progression on the first, this phase sees the integration of sustainability measures as a risk management approach, thus resulting in costs savings

for the organization. Examples of such include reduction of paper usage, energy usage and integration of sustainability criteria in the giving of loans.

- Offensive banking; A further progression on the former, in this phase, banks see the integration of sustainability measures as opportunities to advance their business interests. Sustainability measures are seen as an avenue to make profit. In this phase, banks use sustainability initiatives to differentiate themselves in their industries enhance their market share.
- Sustainable banking; The last phase, sustainability goes beyond being another opportunity to make profit, but is seen as the only way of doing business.

The desire of banks to clearly define and operationalize their sustainability goals and ambitions has culminated in the emergence of several voluntary codes of conduct within the financial sector. Similarly, the desire of governments to ensure their respective financial industries are acting sustainably, has led to the emergence of sustainability regulations. Both channels, voluntary codes of conducts and sustainability regulations, are active tools in the financial industry driving the industry towards attaining sustainability. The voluntary codes of conduct within the financial industry are the focus of this thesis.

1.4 What is a voluntary code of conduct?[1]

"Voluntary sustainability guidelines" is often used interchangeably with "voluntary codes" or "voluntary codes of conduct". As its name suggests, voluntary sustainability guidelines are

[1] Sections 1.4 and 1.5 of this chapter was culled from Weber, O., & Adeniyi, I. (2015). *Voluntary sustainability codes of conduct in the financial sector* (CIGI Papers Series No. CIGI Paper No. 78). Waterloo, Ontario: CIGI. The paper was published in November 2015.

guidelines adopted by corporations on their own, without any form of coercion, to improve their sustainability performance. Sustainability in itself find its roots in the concept of sustainable development as defined by the Brundtland Commission; the

> "… ability to make development sustainable – to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland et al., 1987)

The understanding of what sustainable development entails has continued to evolve over the years. Continuous deliberations have allowed for the emergence of goals to measure how much progress has been achieved in the sustainability journey. The Millennium Development Goals (MDGs) were established following the United Nations Millennium Summit in 2000. An offshoot of the UN Millennium declaration, the 8 MDGs had a completion target of 2015. The articulation of specific goals and targets with a heavy focus on social development such as education, health, nutrition, water and sanitation was a departure from the immense focus on macroeconomic growth (Chopra & Mason, 2015).

Following the expiration of the 2015 target of the MDGs, the Sustainable Development Goals (SDGs) came into effect on January 1, 2016. These SDGs also known as Global Goals follow the adoption of 2030 Agenda for Sustainable Development by world leaders in September 2015 and are 17 in number. SDGs go further than MDGs by taking into consideration the broader sustainability agenda, addressing the root cause of poverty and the universal need for development that works for everybody. A succinct list of the SDGs is provided below;

1. No poverty

2. Zero Hunger
3. Good health and well-being
4. Quality education
5. Gender Equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, Innovation and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong partnerships
17. Partnership for the goals

Therefore, a sustainability guideline is a blueprint which when followed should ensure the aforementioned objectives are achieved. It takes on the name 'voluntary' when corporations, who are not required to adopt them, do. A rigorous search through literature would fail to produce a concrete, generally accepted definition for a voluntary sustainability guideline or code. However, Macve & Chen (2010) in defining the Equator Principles (which will be discussed later) as a voluntary code provides a cursory definition of what a voluntary code entails;

“…a set of guidelines which banks [corporations] can sign up to voluntarily, but which then prescribe certain requirements to be followed with regard to consideration of environmental and social issues in their project financing”

1.5 Motivations behind voluntary adoption of codes of conducts

Corporations have different rationale for voluntarily adopting codes of conducts. Some of the motivations, discussed intensively in scholarly literature are detailed below;

- Signalling commitment to address societal issues such as the environment in order to show good corporate citizenship
- Demonstrating over-compliance in order to prevent hard laws and regulations (Watchman, Delfino, & Addison, 2007);
- Development of a level playing field with regard to sustainability issues;
- Protecting the organization’s reputation;
- Application of ‘standardized’ approaches to sustainability issues;
- Absence of regulations particularly for multinational corporations (Kolk, Van Tulder, & Welters, 1999);
- Sustainability risk management; and
- stakeholder pressure on businesses to manage sustainability issues (O'Sullivan & O'Dwyer, 2009).

1.6 The Financial Sector and Sustainability

The financial sector wields significant influence on the economy, society and sustainable development (Helleiner, 2011; Scholtens, 2009). Weber (2014) posits that the influence of the industry's dominance was exemplified in the last financial crisis as they act as intermediary to channel capital to different markets, regions, sectors or projects. Banks perform an intermediary role in our society as they price and value financial assets, monitor borrowers, manage financial risks and organize the payment system (Greenbaum et al., 2015). A simplistic representation of these relationships are shown in Figure 2.

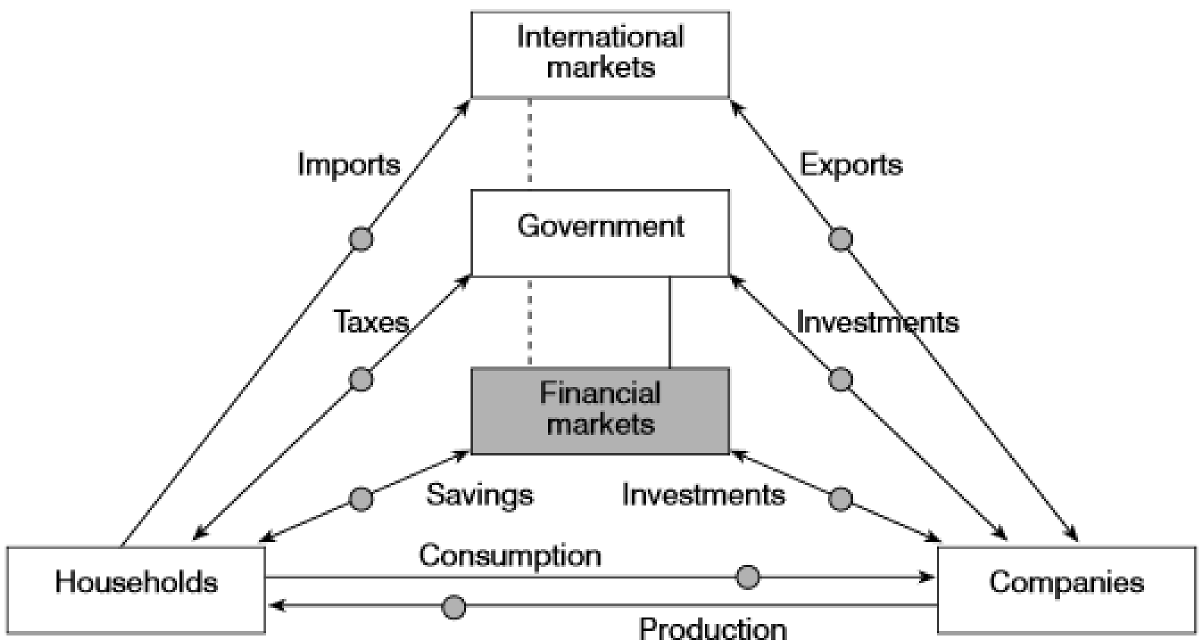

Figure 2 - Role of financial markets in the economy (Source: Greenbaum et. al, 2015)

The direction of the arrows indicates the flow of capital from one party to another. Government, international trade, businesses and household's deficits and surpluses are bridged by financial transactions mediated by financial markets, a significant part of which comprises of banks.

Due to this intermediary role, banks play, and can still play a significant role in sustainable development as they transform money in terms of duration, scale, spatial location and risk, thus having a significant impact on the economic development of nations (Jeucken, 2001).

According to Weber (2014), there are three mentionable aspects showing the relationship between the financial sector and the concept of sustainable development. They are;

- The ability to influence the environmental and sustainability impacts of their clients such as projects, borrowers and investees (Baranes, 2009; Thompson & Cowton, 2004)
- Impacts environmental regulations have on the financial sector (Weber et al., 2014). By being mindful of them, banks will be able to minimize the risks, and exploit the opportunities therein
- Stakeholder pressure focusing on sustainable development influences the reputational risk of financial institutions (Berman et al., 1999; Crane et al., 2008)

It is the combination of these aspects that has led to the emergence of voluntary sustainability initiatives within the financial industry.

1.7 The Problem Statement

The concern about voluntary codes of conduct or sustainability initiatives is inherent in them being *voluntary*. Organizations, in this case financial institutions, are not mandated to comply with them by law or authority. Proponents feel the strength of these initiatives are embedded in their voluntary nature. They believe such self-regulatory codes have the ability to act as soft laws to bridge the gap between individual companies' sustainability initiatives and mandatory legal regulation Macve & Chen (2010). In addition, their flexible nature allows corporations build them into a business case, a business case for CSR. On the other hand, lack of rigidity in these voluntary codes of conducts often lead to a variety of non-standard and inconsistent responses. With the benefit of enhanced reputation and perception associated with adopting voluntary codes of conduct, some financial institutions sign up but fail to address the environmental and social risks their projects raise. With no regulator in place to check their excesses, the society suffers. This has resulted in public outcry, particularly from NGOs. One of such is BankTrack, an international tracking, campaigning and NGO support organisation targeting the operations and investments of private sector banks and their effect on people and the planet. BankTrack have published not only reports of the Equator Principles being inadequate to sufficiently address sustainability challenges, but also criticized the signatories of the EP of violating them. This outcry has led to calls for regulated codes of conduct. Coincidentally, there has been an emergence of regulatory sustainability initiatives in some countries.

The aim of this study is to establish whether the more prevalent codes in the financial sector have an effect on the organizational behaviour of its signatories when compared to non-signatories.

Chapter 2: Literature Review

2.1 Introduction

This chapter will discuss the emergence of voluntary code of conducts in the corporate world. It will proceed to describe the codes in operation in other sectors of the world economy, before focusing on the codes in existence in the financial sector as well as their strengths and weakness. The chapter concludes stating the main hypothesis of the study as well the research questions the study aims to answer.

2.2 Voluntary codes of conducts

Scholars suggest that voluntary codes of conducts did not emerge on a sectoral basis, but at an organizational level. Murphy (2004) defined codes of conducts as public welfare codes often relating to labour, environmental or human rights issues seeking to constrain socially undesirable of transnational non-state actors and that are adopted voluntarily by those actors. These actors were largely multi-national corporations (MNCs). The Sullivan Principles are regarded as the best known public welfare code of conduct and was developed with respect to MNC activities in the 1980s. Developed in 1977, by Reverend Leon Sullivan, the Sullivan Principles arose in response to the continued apartheid by the South African government Murphy (2004). Sethi & Williams (2000) wrote that the Sullivan Principles were the "first set of voluntary codes of ethical conduct that were applied under realistic operating conditions, involving a large number of corporations, recipient constituencies, and institutional framework for project implementation, monitoring and performance evaluation." At start off, 12 MNCs pledged to the principles. After the 15 years the Principles were in effect, that number had increased to 150. The Sullivan Principles has since metamorphosed into The Global Sullivan Principles of Social Responsibility.

Around the same time the Principles were developed, saw the expansion of multinational companies from developed countries to developing countries citing cheaper means of production. Owing to public perception that these moves were being made to the detriment of the nationals of these countries, multinationals adopted voluntary codes of conducts as internal codes to counteract these notions. Murphy (2004) cites companies such as Nike and Reebok in his work.

This suggests that at the onset, voluntary codes of conduct focused on ethical behaviour of companies. Other early voluntary codes of conducts include UN Draft Code of Conduct for Transnational Corporations (Morgera, 2006); (Chinkin, 1989), 1977 ILO Tripartite Declaration of Principles (Cernic, 2009), 2003 UN Sub-Commission on Human Rights Code on TNCs (Weissbrodt & Kruger, 2003); (Rule, 2004) and the 1999 UN Global Compact (O. F. Williams, 2004).

The phenomena of voluntary codes of conducts have transitioned from being internal codes of individual companies to being more broad scale and applicable to various industries. Some of the more popular industry specific codes are discussed below

2.2.1 Mining and Metals sector

As a result of the harmful effect its operations on the planet's physical environment, as well as the long term effect of many aspects of people's quality of life, the mining industry has been a subject of extensive public criticism (Sethi, 2005). This situation, not helped by increasing global awareness on environmental problems such as global warming and bio-diversity loss, has led to a variety of environmental impacts such as the depletion of non-renewable resources, disturbance of landscape and threats to the health and safety of workers and citizens (Azapagic, 2004).

There have been several industry specific initiatives to ensure the mining sector acts in a sustainable manner. One of such is the International Council on Metals and Mining (ICMM) Sustainable Development Framework (SDF). These are a set of ten sustainable development principles and guidelines for public reporting and external assurance. The objective of the SDF was to reduce the gap between the rhetoric and reality in mining sustainability strategies (Fonseca, 2010). Being one of first sustainability initiatives in the industry, the ICMM-SDF gained wide acceptance internationally and raised significant public awareness (Greene et al., 2002). It also served as a foundation upon which other sustainability initiatives were built on. A drawback however was a lack of proper monitoring mechanism, as studies show that only a few of the signatories to the framework were actually not abiding to its obligations (Fonseca, 2010).

There have also been country specific voluntary sustainability initiatives in the mining sector. The Mineral Council of Australia developed the Enduring Value Framework (EVF) in response to stakeholders' concerns in effort to maintain their social license to operate (Sarker, 2013). Launched in 2006, it is an offshoot of the ICMM-SDF. This framework seeks to provide guidance on the operationalization of the ICMM sustainable development principles for Australian mining companies and is presented in a format less technical in nature and designed for company level (Worrall et al., 2009). As of December 2015, and according to MCA's website, there are currently 57 member companies signed up to the framework. Probably as a result of the code being domestic and enforcement being feasible to enact, it has enjoyed significant success, as all members of the MCA are required to publicly report site-level performance annually using metrics sourced from the internationally recognized Global Reporting Initiative (GRI) (Worrall et al., 2009).

2.2.2 Chemicals sector

The Chemical Industry has also developed self-voluntary initiatives in its drive towards sustainable development. Perhaps the most prominent initiative is the Chemical Manufacturers Association's Responsible Care. The program was first developed in 1985 in Canada and in 1988 in the United States of America. The general perception is that Responsible Care was developed in response to declining public opinion of the chemical industry (King & Lenox, 2000; Simmons & Wynne, 1993). This became even more necessary following the Bhopal disaster of 1984. Prakash (1999) and King & Lenox (2000) even opine that Responsible Care was created to avoid sanctions following the disaster. The code has since evolved from being a country specific initiative to being a global initiative following the launch of the Responsible Care Global Charter in 2006 at the United Nations led International Conference on Chemicals management in Dubai.

With Responsible Care, companies commit themselves to the improvement of all aspects of their performance that relate to protection of health, safety and the environment (Gunningham, 1995). This includes a commitment to improving relations with customers and communities, product use and overall operation. It includes ten guiding principles and six codes of management practices Responsible Care is regarded as an elaborate environmental management system (Moffet et al., 2004), including over 100 management practices (King & Lenox, 2000).

Responsible Care has achieved contradictory results. Whilst it has triggered a significant improvement in the operations of chemical companies and has led to change in public perception (Givel, 2007), not all signatories of the code are in full compliance with its requirements (Gamper-Rabindran & Finger, 2011).

2.2.3 Forestry

The Forest Stewardship Council (FSC) was founded in 1993 in response to poor forest management practices and the resulting decline in consumer confidence in forest products (Greene et al., 2002). It is an international non-government organisation dedicated to promoting responsible management of the world's forests. FSC has developed a system of forest certification and product labelling that allows for consumers to identify wood and wood-based products from properly managed forests (FSC, 2013).

FSC uses its Principles and Criteria for Natural Forest Management to guide its members to practice sustainable forestry. The Principles and Criteria comprise of ten principles on economic, environmental and social requirements that individual forest managements units need to comply with if they want to be certified (Dingwerth, 2008). In addition to forest certification, the FSC provides a certified chain of custody system that tracks the timber through every stage in the supply chain from the forest to the final user (FSC, 2013).

Similar to the other industry specific voluntary initiatives, the FSC has achieved differing results. Uptake has been patchy, as the FSC seems to have been more accepted in United Kingdom than other parts of Europe, as well as in the United States (Greene et al., 2002). Studies however show that the FSC has achieved a relatively high level of visibility with the general public in the timber products market with standards developed by a tripartite governance arrangement (Bernstein & Cashore, 2004; Conroy, 2001). The credibility of the FSC initiative is still being contested (Counsell & Loraas, 2002) and its dependence on market viability leaves it open to continued criticism (Schiavi & Solomon, 2006).

2.3 Voluntary codes of conduct in the financial sector[2]

This section will describe the more prevalent codes of conducts in existence within the financial sector.

2.3.1 United Nations Environment Program Finance Incentive

One of the earliest financial sustainability codes of conduct, which coincidentally happened to be a voluntary one, is the United Nations Environment Program Finance Programme Financial Initiative (UNEP FI) (Weber, 2012). Based in Geneva Switzerland, UNEP FI was established as a platform associating the United Nations and the financial sector globally. The need for this public-private partnership arose from the growing recognition of the links between finance and environmental, social and governance (ESG) challenges, and the role financial institutions could play for a more sustainable world (http://www.unepfi.org/). The main mission of UNEP FI is to

[2] Sections 2.2 and 2.3 of this chapter has been published in Weber, O., & Adeniyi, I. (2015). *Voluntary sustainability codes of conduct in the financial sector* (CIGI Papers Series No. CIGI Paper No. 78). Waterloo, Ontario: CIGI. The paper was published in November 2015.

identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations (UNEP Finance Initiative, 2012).

The idea for the initiative was conceived in 1991 when a small group of commercial banks, including Deutsche Bank, HSBC Holdings, Natwest, Royal Bank of Canada, and Westpac joined forces with United Nations Environment Program (UNEP) to catalyse the banking industry's awareness of the environmental agenda. UNEP had been established following the United Nations Conference on the Human Environment held in Stockholm in 1972, to act as the environmental conscience of the United Nations (UN) system (http://www.unepfi.org/). In the run up to the Rio summit in 1992, the UNEP Statement by Banks on the Environment and Sustainable Development was launched in New York, and the Banking Initiative was formed in May 1992.

The goal of the initiative was to engage a broad range of financial institutions – commercial banks, investment banks, venture capitalists, asset managers, and multi-lateral development banks and agencies – in a dialogue about the relationship between economic development, environmental protection and sustainable development. In summary, the objectives of the Initiative at creation, can be classified into two;

1. Promotion of integration of environmental considerations into all aspects of the financial sector's operations and services
2. Foster private sector investment in environmentally sound technologies and services

Between its launch in 1992 and till date, UNEP-FI has developed in its quest to ensure we enjoy a more sustainable future. The significant milestones in this evolution process are contained in Table1

Table 1: Evolution of UNEP FI (source http://www.unepfi.org/about/background/)

Year	Milestone
1994	UNEP FI created a platform to engage governments in sustainable finance thinking by establishing biennial high-level summits. The first Global Roundtable was held in Geneva, Switzerland. The last one was held in Beijing in 2013.
1995	Similar to what happened in the banking industry, UNEP joined forces with a group of leading insurance and reinsurance companies to launch the UNEP Statement of Environmental Commitment by the Insurance Industry
2002	UNEP FI suggests a possible role for private finance in dealing with the publication of the acclaimed Chief Executive Officer Briefing on Climate Change. The report paved the way for a new kind of dialogue on climate change mitigation and adaptation.
2003	At its 2003 Annual General Meeting held in Geneva, the UNEP Statement by Banks on the Environment and Sustainable Development and UNEP Statement of Environmental Commitment by the Insurance Industry were merged together.
2005	UNEP FI released the Freshfields report, which affirmed the rights of pension funds to feature in Environmental, Social and Governance factors.
2006	In coalition with the United Nations Global Impact, UNEP FI launched the Principles for Responsible Investment, which is regarded as the world’s largest gathering of institutional investors committed to sustainable action.
2012	In a bid to align the insurance industry with sustainability guidelines, UNEP FI launched the Principles for Sustainable Insurance (UNEP FI-PSI)

It is apparent that the UNEP FI has grown significantly since it was launched. This incremental growth has not only been in its content, comprehensiveness and robustness, but also in its membership. From the five banks that began the initiative, UNEP FI currently has 230 members from 54 countries spanning 8 continents (http://www.unepfi.org/).

In line with its mission to bring about systemic change in finance to support a sustainable world, UNEP-FI's motto is 'Changing finance, financing change'. They aspire to achieve this change by promoting the integration of sustainability concerns into the mainstream financial system, financial institutions' operations and decisions in all markets, as well as in their general business and governance. By providing a platform where the three main sectors of finance – banking, insurance and investment – can interact through the *UNEP-FI Statement of Commitment,* UNEP-FI provides a neutral, non-competitive space to convene stakeholders and acts as a platform at the intersection between finance, science and policy. The contents of the *UNEP-FI Statement of Commitment* are detailed in box 1 on page 55.

In addition to UNEP FI growing in size, relevance, and application, there has been the development of several other voluntary sustainability codes that focus on particular businesses in the financial sector such as project finance and institutional investing.

2.2.2 The Equator Principles

The Equator Principles (EP) were developed by project financiers including banks and export financing institutions, with the support of the International Finance Corporation and the World Bank as a voluntary code.

"The Equator Principles is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making."

(http://www.equator-principles.com)

Ten leading project financiers coalesced together to launch the equator principles on the 4th of June, 2003. The banks – ABN AMRO Bank, Barclays Plc, Citi, Credit Lyonnais, Credit Suisse First Boston, HVB Group, Rabobank Group, The Royal Bank of Scotland, WestLB AG and Westpac Banking Corporation – did not record any incident, but bowed to increasing pressure from non-governmental organisations (NGOs) that banks should take legal and moral responsibility for the environmental and social impacts of projects they were financing all over the world (Macve & Chen, 2010). The 10 EP [III] guidelines are

1. Review and categorization: EP describes three risk categories
2. According to the project's social and environmental impacts based on IFC's social and environmental screening criteria.
3. Environmental and social assessment: A mandatory pre-requisite for the project sponsor seeking financing.
4. Applicable environmental and social standards: The social and environmental assessment should be conducted in tune with the socio-environmental standards obtaining in the country or jurisdiction of the project.

5. Environmental and social management system and Equator Principles action plan: Clients must prepare action plans describing and prioritizing between mitigation measures, monitoring and corrective actions for anticipated risks.
6. Stakeholder engagement: EP requires the client, host country, or third party expert to engage with affected communities in a culturally appropriate manner, seeking their free, informed, and prior consent about the project for projects categorized A and B.
7. Grievance mechanism: the EPs require that the client establish a grievance mechanism appropriate to the level of risks and adverse impacts of the projects and whose existence should be brought to the attention of the affected communities.
8. Independent review: The EPs require an "Independent Expert" (IE) - independent of the borrower - to review documents on social and environmental assessment, environmental and social management systems, and environmental performance assessment procedures to inform on the due diligence process.
9. Covenants: The principle refers to covenants with the host country, compliance with the assessment procedure, periodic reports and where applicable and necessary, a decommissioning plan.
10. Independent monitoring and reporting (IM & R): A client will retain an IM & R expert for category A and B projects where "appropriate".
11. Reporting and transparency: The EPFIs will report on an annual basis about their implementation outcomes or report frequently or scaled to the severity of potential risks.

(The Equator Principles, 2013)

Project finance focuses on large projects, such as mining, energy and infrastructure projects. Often, a non-recourse debt is applied for capital investing, meaning that the lender is exclusively paid from the income of the project (Weber & Acheta, 2014). These projects are stratified into 3 risk categories (A, B or C) using International Finance Corporation (IFC) screening criteria depending on the level of environmental and social risk. Nonetheless, the minimum capital cost for an EP project today is US$10million (http://www.equator-principles.com).

The EP has undergone significant changes as well to cope with ever changing perception of what sustainable development entails. The EP was substantially revised in 2006 to produce EP II. The most significant changes made to EP II, compared its predecessor are;

- Reduction of the capital cost threshold from hitherto US$50million to US$10 million
- Inclusion of Project Finance Advisory Services in EP scope
- Inclusion of better social standards in line with IFC's performance standards

In addition, the launch of the revised EP resulted in increased transparency of Equator Principles Financial Institutions (EPFIs) as it mandated each of them to report publicly on its implementation of the EPs on an annual basis. This increased disclosure was coined "Principle 10".

Following a major revision of the IFC Performance Standards on Environmental and Social Sustainability in 2012, there was yet another review of the EP. This culminated in the production of a third iteration of EP – EP III – which was released in 2013. The transition period for EP III ended on 31 December, 2013. Thus, from 1 January 2014, all new project finance transactions of EPFIs are required to comply with EP III postulates. In comparison with its predecessor, significant changes in EP III include

- Extended scope of what qualifies as a project finance project.
- Public disclosure of Environmental and Social Impact Assessment
- Greenhouse gases alternatives analysis and reporting
- Increased scope of labour and working condition requirements
- Human Rights due diligence
- Free prior and informed consent.

Currently, there are 83 EPFIs spanning from 36 countries, covering over 70% of International Project Finance debt in emerging markets (http://www.equator-principles.com).

2.2.3 United Nations Principles for Responsible Investment

As mentioned above, the United Nations Principles for Responsible Investment (UNPRI) initiative is an offshoot of the UNEP FI. It is an international network of investors working together to put the six principles for Responsible Investment into practice. These principles are as follows:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.

Source: http://www.unpri.org/about-pri/the-six-principles/

The goal of UNPRI is to understand the implications of sustainability for investors and support signatories to embed these issues into their investment decision making and ownership practices (http://www.unpri.org/about-pri/about-pri/). It is expected that by adhering to the Principles, signatories contribute to the development of a more sustainable global financial system.

The Principles were launched in April of 2006 at the New York Stock Exchange. The process leading up this launch began however in 2005 when the then UN Secretary General, Kofi Annan, convened a dialogue between a 20-person investor group drawn from institutions in 12 countries. This group was supported by another 70-person group of experts from the investment industry, intergovernmental organizations and civil society.

The Principles are voluntary. They are also flexible enough to fit different organisations' investment strategy, approach and resources, without deviating from its original objective.

UNPRI has rapidly grown to become the leading global network for investors to show their commitment to responsible investment. It currently has 1,325 signatories spread across asset owners, investment managers and service providers with about US$45 Trillion worth of assets under management (http://www.unpri.org/signatories/signatories/, access date: 9 September 2015). Its widespread adoption has been interpreted by some to mean the global financial system is becoming more sustainable. Some scholars believe that these guidelines are too easy to adopt and lack the robustness to address sustainability challenges (Richardson & Cragg, 2010a).

2.2.4 Global Alliance for Banking on Values

The Global Alliance for Banking on Values (GABV) is an independent network of banks using finance to deliver sustainable development for unserved people, communities and the environment founded in 2009. It is made up of the world's leading sustainable banks, from Asia, Africa, Australia, Latin America to North America and Europe. The 27 members in 2015 include microfinance banks, credit unions, community banks and sustainable banks financing social, environmental and cultural enterprise (Niven, 2014). According to their website the focus of its member organizations is to use finance for delivering sustainable development for unserved people, communities and the environment with a focus on community based initiatives, sustainable and environmentally sound enterprises, poverty alleviation and a triple bottom line approach (Global Alliance for Banking on Values, 2014).

In addition to the above, there are other minimum requirements members must meet;

- Independent and licensed banks with a focus on retail customers

- Have a minimum balance sheet of US$50 million

Similar to UNPRI, GABV requires member banks to comply with 6 principles. They are based on what they consider to be the six pillars of sustainable banking; triple-bottom-line, client centered, long term resiliency, culture, transparency and real economy:

1. "Triple bottom line approach at the heart of the business model
2. Grounded in communities, serving the real economy and enabling new business models to meet the needs of both
3. Long-term relationships with clients and a direct understanding of their economic activities and the risks involved
4. Long-term, self-sustaining, and resilient to outside disruptions
5. Transparent and inclusive governance
6. All of these principles embedded in the culture of the bank"

(Source: http://www.gabv.org/about-us/our-principles)

In contrast to the initiatives described above, members have to fulfill certain criteria to join the voluntary code of conduct and have to conduct their core business in-line with GABV's principles. Though most of the members do not focus on profit maximizations, the GABV banks demonstrated a significant growth during recent years [2004 – 2014] (Weber, 2015b; GABV, 2015).

2.2.5 Impact Reporting and Investment Standards (IRIS)

A relatively new initiative, IRIS has been developed by the Global Impact Investing Network (GIIN) that is a not-for-profit organization dedicated to increasing the scale and effectiveness of impact investing. Impact investing is defined as investments that are able to create financial returns "while also intentionally addressing social and environmental challenges" ((Bugg-Levine & Emerson, 2011), p. 5)

Impact investors chase these goals by making debt or equity investments in social enterprises – companies and groups that use market-based solutions to address social and environmental issues. This is in tandem with what GIIN hopes to achieve. The idea was conceived in 2007 at the instance of the Rockefeller Foundation. More meetings and consultations resulted in the network eventually being launched in 2009 at the Clinton Global Initiative Annual meeting. They are championing initiatives such as developing IRIS a standardized framework for assessing social and environmental impact of investments.

The members of the GIIN represent the largest community of impact investors and service providers engaged in impact investing. Currently, that membership stands at 215 (http://www.thegiin.org/cgi-bin/iowa/network/members/index.html).

Recognizing impact measurement is a core characteristic of impact investing, the GIIN developed and offers IRIS as a free public good to support transparency, credibility and accountability in impact measurement practices across the impact investment industry (GIIN, n.d).

IRIS offers a collection of indicators that measure the impact of investments and therefore set a kind of impact investment standard or code of conduct and increased the credibility and transparency of the industry. Furthermore, IRIS decreases reporting efforts by guaranteeing compatibility to main reporting standards. Its focus is on the product and services that is invested in, in measuring impact on beneficiaries, and on financial operations using an investment lens. The standard measures the following types of performance:

- Financial performance: standard financial reporting metrics such as current assets and financial liabilities
- Operational performance: governance policies, employment practices, and social and environmental impact of day-to-day business activities
- Product performance: social and environmental benefits of the products, services, and unique processes offered by investees
- Sector performance: impact in particular social and environmental sectors, including agriculture, financial services, and healthcare
- Social and environmental objective performance: progress towards specific impact objectives

(Source: https://iris.thegiin.org/metrics)

Because of the effort of IRIS, a number of impact investors report about their businesses and investments in a transparent and reliable way. Consequently, not only financial returns, but environmental and social returns can be tracked. Asset managers have the opportunity to use IRIS to report about their impacts in a way that stakeholders including investors have the information they need to make their decisions. Furthermore, the standard helps investors to direct their investment toward particular social and environmental objective and to measure the efficiency of their investments.

2.3 Strengths and weaknesses of the voluntary codes of conduct

The voluntary codes of conducts listed above constitute the more prevalent codes in effect in the financial sector. That is not to say there are the only ones available. The other less pronounced sustainability codes of conduct in the financial industry include the London Principles of Sustainable Finance as well as FORGE II (Corporate Social Responsibility Guidelines for Financial Institutions). The focus of this study however has been on the more popular codes however. The question remains what advantages and drawback do these codes have, and what are their inherent strengths and weaknesses are. In order to respond to these questions, we will discuss the strengths and weaknesses of the respective codes of conduct.

What is generally inherent to all of the codes, however, is the issue of compliance and enforcement. Because they are voluntary mechanisms usually non-compliance does not have any consequences than reputation risks. In this paper, however, we do not discuss general problems of voluntary codes of conducts but will report about particular advantages and drawbacks of the codes discussed above.

2.3.1 United Nations Environment Program Financial Initiative (UNEP-FI)

Being the first sustainability guideline to be instituted in the financial sector, UNEP-FI is regarded as a leading light in ensuring the financial sector plays a vital role in transiting to a more sustainable future. Gathering the backing of the United Nations through the World Bank, and large commercial banks, UNEP-FI has sustained the dialogue of the financial sector integrating sustainability concerns into the world of finance. They have maintained this dialogue through the organisation of periodic knowledge sharing sessions, the most notable being the biennial global roundtable summits. These summits enable members and stakeholders to discuss sustainability related issues and contribute to capacity building about sustainable finance. The reach of this outcome of these sessions are far and wide as the UNEPFI member networks currently spans all continents.

Despite its large influence, and wide reach, UNEPFI has some weaknesses. Its major weakness is embedded in its nature. Committing to the UNEPFI requires institutions to become a signatory to the UNEP Statement of Commitment by Financial Institutions on Sustainable Development. Becoming a signatory is relatively easy, and there are no selection criteria of any sort, other than communicating your intent to join and to pay membership fees. As such, even institutions who are not environmental conscious can very easily commit to the UNEP statement. Committing to a statement such as UNEPFI is good for brand management, reputation, and public relations, and comes without real disadvantages. There have been several occurrences of UNEPFI members being accused to act contrary to the covenants of the Statement of Commitment (Watchman, 2006) . A lack of proper monitoring mechanism on the part of UNEP does little to help this practice of creating false impressions. There are also no sanctions and punitive measures to deter institutions from towing that route. This would not be an easy task anyway because the UNEPFI principles do not prescribe any accepted or unaccepted behaviour. Instead, the UNEPFI rather describes that are acceptable for all members of the financial industry (see box 1) on page 55.

2.3.2 Equator Principles (EPs)

Ever since its establishment in 2003, the Equator Principles (EPs) have come a long way, gaining wide acceptance in the world of project finance. Currently, it is believed that 70% of the projects being financed in emerging markets are subject to the tenets of the EPs. Its network currently consists of 80 EPFIs (Weber & Acheta, 2014). The apparent success of the EPs within the project finance industry has also spurred on similar initiatives in the banking industry. Some of such include Carbon Principles in the US and the Climate Principles worldwide.

Another strength of the EPs is that despite being a voluntary code, it impresses on its signatories certain mandatory expectations, inadvertently acting as a soft law. For example, Principles 2 and 3 'Environmental and Social Impact Assessment' and 'Applicable Environmental and Social Impacts' requires the applicable legal laws and regulations in the host country to be dutifully followed. To ensure this happens, Equator Principles Financial Institutions (EPFIs) are required to enter contractual agreements with their obligors. Outlined in these agreements are legal covenants which align with the applicable laws of the host country. Thus, EPs indirectly culminate with these laws being followed. In instances where the applicable laws are not robust enough to address environmental concerns, such as in 'Non-Designated Countries', EPs requires compliance with applicable IFC Performance Standards and the World Bank Environmental, Health and Safety Guidelines (International Finance Corporation, 2007). The usage of the EPs is also relatively easy to follow and well documented because signatories are obliged to reports according to EP's reporting standards (Weber, 2014a).

The lack of a proper monitoring mechanism is a major weakness, as well as lack of integrity in EPFIs. There have been several projects financed by Equator banks which seem to have breached several postulates of the EPs. One of such projects is the Baku-Tbilisi-Ceyhan pipeline which was completed in 2004 by eight Equator banks and the IFC. An NGO's assessment found that there were 127 alleged breaches in the transaction (www.baku.org.uk, 2003; (Waters, 2003)). This assessment, however, has no legal binding and has not been conducted by an independent body.

Another weakness is the lack of enforcement on the part of EP head office. Critics have asked for an independent board that should help to guarantee compliance of EPFIs. But though the EPs were founded because of stakeholder pressure, particularly form NGOs, members of the EPs are only project financiers.

2.3.3 United Nations Principles for Responsible Investment (UNPRI)

In a bid to establish a similar initiative regarding investments as it did in the financial sector with UNEPFI, the United Nations coalesced with the UN Global Compact and several large institutional investors to create the principles for responsible investment. Its goals are not very different from that of UNEPFI; to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices, with the ultimate objective of contributing to the development of a more sustainable global financial system.

The strengths of UNPRI is also similar to that of the UNEPFI. The Principles are perceived to have been gained global acceptance with significant buy-in. Its large network of 1,325 members at the end of 2015, spread over 40 countries, atop US$59 trillion in assets under their control attest to this. Consequently, UNPRI became a kind of a governance body in institutional investment (Sievänen et al., 2013). UNPRI also provides several support channels to its members to ensure they are applying the principles as they should. One of such is the PRI in Person, an annual global conference on the responsible investment industry which provides a platform for PRI signatories and investment professionals to learn, network and collaborate (Gond & Piani, 2012). Another of such initiatives is the PRI Academy, an online training module on how Environmental, Social and Governance (ESG) issues impact company performance, shareholder value and investment decisions. A third initiative is PRI Academic network that conducts research on responsible investment and, for instance, has been involved in publishing 'The Routledge Handbook on Responsible Investment' (Hebb et al., 2015).

Despite there being adequate support to ensure members are rightly applying the Principles, there is unfortunately no proper monitoring mechanism to ascertain that they are. Some scholars opine that members sign up to the Principles for superficial reasons, knowing that becoming a signatory allows them to publicly demonstrate their commitment to responsible investment and to increase their reputation. Other set of scholars even question to the robustness of the Principles, as to whether address the more pressing sustainability challenges the world is facing (Gray, 2009).

2.3.4 Global Alliance on Banking Values (GABV)

For a relatively recent code of conduct, the GABV has achieved remarkable success. In a study conducted in 2012, it was found that sustainable values-based banks thrived better than traditional mainstream banks, even during the most recent economic recession (Korslund, 2013). This in turn has made a compelling case for value-based banking, a pillar the GABV is founded on. GABV's goal is to use finance as a tool to deliver sustainable economic, social and environmental development. To its credit, there have been numerous testimonials of its member institutions doing just that. Their network of 28 institutions is also vibrant, with members learning off one another. GABV also have predetermined membership criteria, so not just anybody can join the network. This, as well as, a good monitoring and feedback mechanism ensures that members act in line with the dictates of the code of conduct.

GABV is small network, comprising of only 28 institutions as at 2015. The weakness is not the number of these institutions, but in the size of them. The total combined assets of the 28 institutions is approximately US$100 billion, suggesting its members range from small to mid-size. It then begs the question of how a value based banking model would be attractive for larger financial institutions that mainly focus on profit maximization.

2.3.5 Impact Reporting and Investment Standards (IRIS)

These standards are the bedrock upon which the largest community of impact investors and service providers in impact investing, the Global Impact Investing Network (GIIN), operates on. IRIS is a catalog of generally accepted performance metrics used to increase the scale and effectiveness of impact investing. In other words, what IRIS and the GIIN provide, is a system which can be used to evaluate investments targeted at achieving a particular impact objective. The members of the GIIN get to use this tool for free. The identified metrics are expansive, well defined and articulated, allowing for easy usage.

However, what IRIS and the GIIN fail to provide is a blueprint for members to be more sustainable in their investment decisions, it fails to go beyond being just an evaluation system. Furthermore, IRIS is a conglomerate of nearly 500 indicators. The problem is to pick the right indicators for particular types of investment and beneficiaries.

2.3.6 Summary of strengths and weaknesses of codes of conducts

Table 2 below provides a brief synopsis on the more prevalent codes of conducts in existence in the financial sector. The second column, number of signatories, refers to the number of signatories signed up to the respective code of conducts as at January, 2016. Recognizing that the financial sector is broad, the third column identifies the part of the financial sector each code of conduct is targeted towards. The fourth column provides the main focus and objective of the code, whilst the last two columns takes a look at each code’s strength and weaknesses.

2.4 Similarities and dissimilarities of voluntary codes of conduct in the financial sector

Apart from being voluntary, do these codes have other attributes in common?

Adoption of these codes of conducts carry an annual membership fee, in addition to meeting to set prerequisites of each respective code, and a willingness to sign to the core beliefs and principles of each of the initiatives.

There are other similarities amongst some codes, but these similarities may not hold for all of them. For example, whilst the EP, GABV and UNEP-FI main target audience includes commercial banks (table 2), these targets are further differentiated to distinctive groups. The EP are for commercial banks interested in project finance, the GABV are for commercial banks interested exclusively in social banking, and the UNEP-FI are for all commercial banks. The specific nature of this categorization may be responsible for the difference in the number of their respective signatories.

On the other hand, the UNPRI and GIIN are targeted towards organizations, financial and otherwise, interested in ensuring their financial resources are being used in a sustainable manner. The higher number of signatories in this group can be attributed to this broader classification. Again, these signatories are not just banks, they range from banks to pension fund administrators to insurance and even other corporate organizations.

Progressing, despite all the codes having the central theme of sustainability, they are designed to achieve their goals differently. As noted in Table 2, the EPs are a risk management framework for determining, assessing and managing environmental and social risks in project finance ventures. In contrast, UNEP-FI, UNPRI and GABV are social ethic codes and principles signatories are required to abide to as they proceed with their daily operations. They are commitments that signatories pledge to not contravene in their day-to-day business. These codes afford their signatories the liberty to pursue their sustainability objectives in any way the organizations deem it fit, as far as the achievement of these goals does not renege on their commitment to the respective charters. IRIS provides a metric system through which the impact of the investments of its signatories can be evaluated.

Given that each of these codes are voluntary, one conspicuous similarity amongst them is the lack of a proper mechanism to observe if signatories are acting as they should in line with the dictates of the code. As a result, there have been reports of signatories breaching their pledges.

The EP requires EPFIs to provide an annual EPFI report, detailing their activities for the reporting year. A perusal of the EP website shows that while some of reports filed by the EPFIs were not recent, some were not specialised EP reports, but links to the organization's sustainability reports for the reporting year. The UNPRI also requires its members to provide a mandatory annual Responsible Investment (RI) report. None of the other codes required their signatories to provide an annual report to them for a reporting year.

Table 2: Financial sector sustainability codes of conducts and their main strengths and weaknesses

Name	Number of signatories	Part of financial sector being addressed	Main focus	Strengths	Weakness
United Nations Environment Program Financial Initiative (UNEP-FI)	230	Commercial banks, investment banks, venture capitalists, insurance companies, asset managers, multi-lateral developments banks and agencies.	Integration of environmental considerations into all aspects of the financial sector's operations and services.	• Reputed as a leading light in ensuring the financial sector is contributing to a more sustainable future. • Initiated and has sustained the dialogue of the financial sector integrating sustainability concerns into the world of finance. • Large network of members spanning over 8 continents. • Frequent knowledge dissemination sessions, the most renowned being the global roundtable summit that occurs biannually.	• No proper monitoring mechanism for membership. • Members who sign up tend to us for reputation management, to create impression they are environment conscious.
Equator Principles (EP)	83	Project financiers	Risk management in determining, assessing and managing environmental and social risk in projects.	• Widely perceived as successful with 70% of international Project Finance debt in emerging markets. • EPs is believed to have spurred the development of other responsible environmental and social management practices in the financial sector and banking industry like Carbon Principles	• Lack of integrity in EPFIs. Some projects financed by EPFIs were found to be breach some of the covenants of the EPs themselves. • Lack of proper monitoring mechanism.

				in the US and Climate Principles worldwide.	
United Nations Principles for Responsible Investment (UNPRI)	1,325	Assets managers, Investment managers, Service providers	Understand the implications of sustainability for investors and support signatories to incorporate these issues into their investments decision making and ownership practices.	• Raises awareness about responsible investment among the global investment community • Increases the level of transparency around the activities and capabilities of its signatories • Fosters collaboration and knowledge sharing among signatories about socially responsible investing.	• Perceived to be too easy to adopt and lack the robustness to address sustainability challenges
Global Alliance for Banking on Values (GABV)	28	Commercial banks, Credit Unions, Microfinance and Community banks	Using finance to deliver sustainable economic, social and environmental development	• GABV member banks have thrived better than traditional banks, particularly during the economic recession. • Good monitoring mechanism of member institutions	• Small network of mid-size financial institutions.
Impact Reporting and Investment Standards	215	Impact Investors	Increasing the scale and effectiveness of impact investing	• Largest community of impact investors and service providers in impact investing. • Provides a well-defined catalog of generally-accepted performance metrics for measuring impact investing	• Only 7 of its members are banks.

Whether these codes of conducts, as with the codes detailed above for financial sector, have met their set goals and objectives is still debatable. It is this argument that this study is aiming to further. Nonetheless, some scholarly work suggest that these initiatives are largely for brand management, public perception and greenwashing (Egels-Zandén, 2007; Erwin, 2011; Kolk & Van Tulder, 2005)

2.5 Literature Analysis on voluntary codes of conduct in the Financial Sector

There has not been extensive research done on the voluntary codes of conduct existing in the financial sector as a group. However, various research has been conducted on individual codes, most notably the equator principles. Since its launch in 2003, and revision in 2006, several scholars have dissected the equator principles to fully understand how it would aid financial institutions manage their environmental and social risks (Esty, 2005; Watchman et al., 2007; Wright & Rwabizambuga, 2006). Subsequent research has been carried to evaluate the impact EP has had on the financial sector (Conley & Williams, 2011; Macve & Chen, 2010). The conclusions drawn from these researches is that the adoption and successful implementation of the EP actually culminate in adopters being able to better manage their environmental and social risk. This aligns with Weber's papers which opine that the incorporation of sustainability criteria in the lending process can lead to improved credit risk management (Weber, Fenchel, & Scholz, 2008; Weber, 2012). In the same vein, some scholars have criticized the structure, and not the content of the EPs. Schepers (2011) lauds the EP, positing that it is a "step in the right direction in a highly unregulated and potentially destructive domain of business activity, but require strengthening". He called for a stronger governance structure, and thus reducing the leeway the EPFIs currently enjoy in the implementation of the EP. In the interim, (Schepers, 2011) calls for more collusion amongst banks and NGOs who take environmental and social governance seriously, thus eliminating those who hump on the bandwagon for reputational reasons.

Some other scholars do not contest the contents of the EP, but rather the attitude of EPFIs in their implementation of the EP (Amalric, 2005; Wright & Rwabizambuga, 2006). Again, the EP are intended to serve as a common baseline for the implementation of each EPFIs internal environmental and social policies, procedures and standards related to its project financing projects. Weber & Acheta (2014) believe that the variances in implementing the respective procedures arising from the differences of each organizational, strategic management and lending practices create a diversity of applications of the EPs inside the EPFI.

Some scholars have labelled the voluntary codes of conduct, particularly the EP, as being inadequate in tacking sustainability challenges. Missbach (2004) notes that the adoption of the EP had not stopped banks from financing highly damaging projects, such as the Baku Ceyhan Oil pipeline which when completed was going to run from Azerbaijan to Turkey to Georgia. The pipeline was opened in 2005 despite being subject of numerous criticisms.

Incidents such this led to the both reports by BankTrack mentioned above. In addition, another NGO called Friends of the Earth opined that voluntary codes of conduct have failed and have called for regulation and enforcement. (Richardson & Cragg, 2010b) concludes by saying that “the existing voluntary international standards, such as the UNPRI or the Equator Principles, are not sufficiently rigorous to change the status quo.”

These papers also suggest that financial institutions are becoming more willing to incorporate these sustainability factors in their lending process as it reduces financial risk and eventually loss. The implication is that adoption of the equator principles, and possibly other voluntary codes of conduct, is not necessarily as a result of these institutions becoming more sustainability oriented, but because it helps reduce their exposure. This may bode well for the world of sustainability, but it does not do so in its entirety. As a matter of fact, no research has been able to create a clear linkage between the adoption of the EP and environmental benefits. It is therefore plausible for financial institutions to be managing their credit risk better, without improving the environment.

2.6 Hypothesis / Research Questions

Scholarly work suggests that organizations adopt voluntary codes of conducts to manage reputational risk, without recourse to the postulates of these sustainability initiatives. This research puts this notion by the test by investigating if signatories address issues pertinent to the codes in their sustainability reports in comparison with their non-signatory counterparts.

Thus, the main hypothesis for this study is that

> H_1: Signatories [Banks] to voluntary sustainability code of conduct in the financial sector actually address the key areas highlighted in the contents of the codes of conduct, and so differ from their non-signatory counterparts.

The study will also seek to answer the following question;

1. Do factors such as size and region, individually and combined, have an effect on how members and non-members discourse the key topics in the codes of conducts in their own sustainability reporting?

Chapter 3: Theory

3.1 Institutional theory

This research uses institutional theory to explain the adoption of voluntary codes of conduct within the financial sector. This theory is premised on the notion that in “highly institutional environments, firm structures are shaped by responses to formal pressure from other organizations or by conformity to normative standards established by external institutions” (Wright & Rwabizambuga, 2006). Neo-institutional theory suggests that organizations and their strategies are influenced by the broader institutional settings in which they operate, and shaped by the institutional legacies that reflect the culture, history and polity of the particular region or country (Doh & Guay, 2006). According to (Keim, 2003; North, 1994), these institutional settings can be subdivided into three categories;

1. Formal institutions which are constitutions, laws, policies and formal agreements that citizens of different locales create
2. Informal institutions are the behavioural norms and mental models of individual who may have different cultural heritage or religious or political beliefs
3. Organizations form to advance collective interests, often with the objective of having these interests codified as informal practices, formal rules, or both.

The backbone for institutional theory are social legitimacy and survival. The external institutions specify procedures for organizations as “a generalized perception or assumption that the actions of an entity are desirable, proper and appropriate with socially constructed system of norms, values, beliefs and definitions” (DiMaggio & Powell, 2000).

How does this portend to the voluntary codes of conduct and the financial institutions?

There are external pressures enticing banks to adopt voluntary codes of conducts. These external pressures are in the form of Non-Governmental Organisations (NGO) – United Nations in the cases of the UNEP-FI and UNPRI, International Finance Corporation in the case of the EP, and the GABV. The rising influence of NGOs is one of the most significant developments in international affairs over the past 20 years (Doh & Guay, 2006). The emergence of NGOs that seek to promote what they perceive to be more ethical and socially responsible business practices is beginning to generate substantial changes in corporate management, strategy and governance (Doh & Teegen, 2002).

In addition to the increasing influence of NGOs, there are other factors responsible for corporations to show corporate social responsibility (CSR), with the adoption of voluntary codes of conduct being exhibition of such commitment. (Pryce, 2002) believes there are 5 forces responsible for the rise of corporate citizenship by organizations – customer pressure, changes in business procurement, government legislation and pressure, the rise of socially responsible investment and the expectation of employees. The coalescence of these actors contribute to the adoption of voluntary sustainability initiatives.

In their study of the EPs, Wright & Rwabizambuga (2006) suggest that the region where a bank is headquartered has a significant effect on the adoption of the code of conduct. Their paper advocates that the highly institutionalised environments such as Western Europe and North American have facilitated the adoption rate of EPs. They state ‘where environmental and social responsibility does not have significantly impact corporate reputation, the strategic motivations for adopting a code of conduct are reduced' (Wright & Rwabizambuga, 2006, p.90). This study will put this argument to test by examining if region has a significant effect on the reporting of signatories and non-signatories of other codes of conducts in existence within the financial sector.

In yielding to the pressures, organizations become isomorphic (Scott, 2013). That is, they become similar in form shape or structure as other institutions adopting the same procedures. This helps to aid survival, enhance legitimacy and build reputation. These formal pressures are coming from institutions who are buoyed by the increased knowledge corporate activities are having on sustainable development.

There are 3 types of isomorphism;

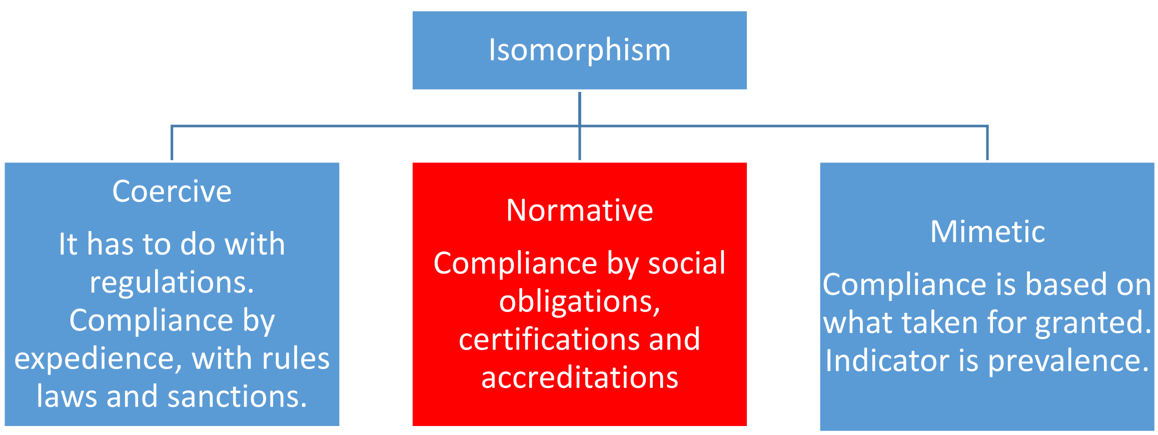

Figure 3 - Types of isomorphism in organizational behaviour

Coercive isomorphism results when an organization adopts certain practices due to formal and informal pressures exerted on organizations by other organizations upon which they depend on externally, such as government regulations, resource providers or head office control, and by the cultural expectations of the society in which the organizations operate (DiMaggio & Powell, 2000). According to Verbruggen et al., (2011), mimetic isomorphism is the process in which organizations deal with uncertainty by copying other organizations. Normative isomorphism comes as a result of professionalization (DiMaggio & Powell, 2000). They believe norms are developed by similar education received by professionals thus providing similar world views. (DiMaggio & Powell, 2000) also said that the interaction of professions through professional and trade associations leads to the ideas being shared further amongst them.

This study argues that normative isomorphism has exerted a significant influence on the adoption of voluntary codes of conducts within the financial sector. First, the fact the voluntary codes were birthed by collaborative efforts between the banks and NGOs bodes with the notion of normative isomorphism. Moreover, the banks which formed these guidelines, are under no form of compulsion to join them, but perhaps informal pressures. Lastly, these guidelines provide a foundational framework for banks to follow in their sustainability journeys. The expectation is that banks build on the framework provided, thus have peculiar notions on achieving sustainable development. Thus, imitating another organization, as mimetic isomorphism notes, is not totally feasible.

Chapter 4: Methods

4.1 Introduction

The objective of this study was to determine the impact of the voluntary codes of conduct in the financial sector, if any. The voluntary codes of conduct that fell within the purview of the study include the GABV, UNEPFI and UNPRI. The rationale behind focusing on these three codes, instead of all listed in Chapter 2, is two-fold. First, extensive work has been done on Equator Principles. As with the objective of making new contributions to existing literature of all studies, this study decided to focus on the less researched codes of conduct in the financial sector. Second, the nature and usage of Equator Principles and IRIS did not fit with the design of this research. Whilst the EPs are a risk management framework to manage specific projects, IRIS is a set of evaluation criteria for impact investing. Moreover, IRIS is available to the general public, and is not exclusive to signatories to the GIIN. Therefore, measuring if signatories addressed the key areas noted in both codes was not feasible with the design of this study.

To achieve its goal, the study adopted the mixed method approach. Newman & Benz (1998) states that the mixed method approach is at the centre of the research approach continuum, combining elements of both qualitative and quantitative approaches. According to Creswell (2013), the mixed method approach integrates both qualitative and quantitative data using distinct design with the core assumption that it will provide a more complete understanding of the research problem. Creswell (2013) categorizes mixed methods into four major modes depending on the manner, when and the usage of the data gathered. They are:

- The convergent parallel design: This occurs when the collection and analysis of both qualitative and quantitative data happens concurrently and independent of each other. Both data sets are compared and related to aid interpretation.
- The explanatory sequential design: In this approach, quantitative data collection and analysis occurs first. The quantitative data has the priority for addressing the study's questions. This is then followed up with qualitative data collection and analysis to aid interpretation. In essence, the latter phase (qualitative) helps further explain the finding in the former phase (quantitative).
- The exploratory sequential design: Contrary to the explanatory sequential design, the exploratory design prioritises the collection and analysis of qualitative data and thus begins with it. Building from results obtained, a quantitative phase is conducted to either test or generalize initial findings.
- The embedded design: This occurs when a researcher collects and analyzes both quantitative and qualitative data within a traditional quantitative or qualitative design. This is often done to enhance the overall design of the research.

This study adopted the embedded design. The research was primarily quantitative in nature, however its preliminary stage required the engagement of qualitative techniques in achieving its desired results.

4.2 Research Design

The first part of the study involved a comprehensive study of each of the selected codes of conduct to allow for each of them to be qualitatively coded into keywords. These keywords were indicative of the set goals and objectives of each code. The goal of qualitative research is to address research objectives and answer research questions through the understanding of a holistic view of the social phenomenon (Creswell, 2013). Coding is one of the methods through which qualitative research is conducted, and is today regarded as probably the most popular technique of data analysis (Gläser et al., 2013). Miles et al., (2013) define codes as ‘tags or labels for assigning units of meaning to the descriptive or inferential information compiled during a study.” The purpose of a code is to indicate what is being talked about in a text. This study used the process of open coding to classify the objectives of these codes of conducts into keywords.

The source of the coding process to determine the keywords for each of the selected codes of conducts were different. For the UNEP-FI, the UNEP Statement of Commitment by Financial Institutions (FI) on Sustainable Management (see box 1) was used as reference.

Box 1: UNEP Statement of Commitment by Financial Institutions (FI) 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. <u>1. Commitment to Sustainable Development</u>

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 endeavour 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.
Source: UNEPFI website

For the GABV, the GABV membership charter and principles of sustainable banking served as the source of its keywords. Please see box 2.

Box 2: GABV Membership Charter
The Global Alliance for Banking on Values is an independent network of banks using finance to deliver sustainable development for unserved people, communities and the environment.

Introduction

Over the last several decades a number of banks and their affiliates have emerged throughout the world to deliver innovative products to holistically meet the needs of their communities. In the more recent past the financial sector has found itself in a crisis of multiple dimensions including lack of confidence, inadequate profitability and over-complexity leading to a negative impact on the overall economic climate. The Global Alliance for Banking on Values has been

established to use the knowledge from these innovative banks and affiliates to provide alternatives for addressing the current crisis in our financial world impacting the overall sustainability of our society.

Who are our members?

Innovative banking institutions whose primary focus is on:

- Delivering social finance products and basic financial services while
- Financing community based development initiatives and social entrepreneurs thereby
- Fostering sustainable and environmentally sound enterprises and fulfilling human development potential including poverty alleviation while
- Generating a triple bottom line for People, Planet and Profit.

What are our shared values?

Although each of us is unique, we share the values of:

- Using money as a tool for enhancing the quality of life through human, social, cultural and environmental development,

- Responsibility for the long term impact of our efforts on our interdependent environment and communities, and
- Transparency, trust, clarity, and inclusiveness in delivering our products and services.

What is our joint mission?

As a global alliance we will work together to:

- Deliver joint ventures to drive sustainable social and environmental change,
- Provide thought leadership and advocacy for social innovation in the financial sector, and
- Combine and share strengths, capabilities and resources to improve each of our competitive positions.

GABV Principles of Sustainable Banking

1. Triple bottom line approach at the heart of the business model
2. Grounded in communities, serving the real economy and enabling new business models to meet the needs of both
3. Long-term relationships with clients and a direct understanding of their economic activities and the risks involved
4. Long-term, self-sustaining, and resilient to outside disruptions
5. Transparent and inclusive governance
6. All of these principles embedded in the culture of the bank

Source: GABV website

The keywords for UNPRI were derived from its six principles of Responsible Investment. See box 3.

UNPRI Principles of Responsible Investment
1. We will incorporate ESG issues into investment analysis and decision-making processes. 2. We will be active owners and incorporate ESG issues into our ownership policies and practices. 3. We will seek appropriate disclosure on ESG issues by the entities in which we invest. 4. We will promote acceptance and implementation of the Principles within the investment industry. 5. We will work together to enhance our effectiveness in implementing the Principles. 6. We will each report on our activities and progress towards implementing the Principles.
Source: UNPRI website

Each of these sources were studied holistically, sentence by sentence, to deduce the keywords for the selected codes of conducts.

A benefit of coding is that it ensures the validity of the work being researched, as the concepts derived from the raw data result in the development of a descriptive, preliminary framework (Khandkar, 2009). According to Gläser et al., (2013), this advantage also counts as a disadvantage is it hides the fact that it is impossible to conduct an analysis without prior assumptions.

The results of the coding process are contained in the table below.

Table 3: Results of coding process of voluntary codes of conduct

	Key words
UNEP-FI	Sustainability Climate change/Climate Environment Social Human rights Financial performance Citizenship Security Compliance Water Waste
GABV	Sustainable development Community Environment Social Poverty Triple bottom line Resilience Human rights People
UNPRI	Environment Social Corporate governance SRI (Social Responsible Investment) Responsible investment

The next component of the study was to measure the imprints the adoption of the voluntary codes of conduct have had on the sustainability reporting of its signatories. To achieve this, a content analysis was performed on the sustainability reports of each signatory vis-à-vis the identified keywords, representative of the objectives of each code. A similar analysis was done for non-signatories that fell within the same region and were approximately the same size as the selected signatories. The outcome of this – number of references and coverage of each keyword – formed the basis for the next phase of the study. Coverage (%) is defined as the total portion that the keyword occupies within the entire sustainability report.

Content analysis is a method of analysing written, verbal or visual communication messages (Cole, 1988). Abbott & Monsen (1979) defines it as a text analysis research approach that categorises texts, tables or figures into various predetermined groups. With its usage origin in analysing hymns, newspapers, and political speeches in the 19th century (Harwood & Garry, 2003), content analysis is used significantly today in health studies (Elo & Kyngäs, 2008). As a research method, content analysis is a systematic and objective means of describing and quantifying phenomena (Sandelowski, 1995). Within the context of this study, content analysis was used to quantify how much of an impact the adoption of a voluntary code of conduct by a bank has on the bank's sustainability report. Kondracki et al., (2002) opines that there are two ways of doing this – quantitatively or qualitatively. Quantitative content analysis involves message elements being counted to determine explicit themes, relative emphasis on various topics, amount of space and time dedicated to certain topics and numerous other dimensions (Shepherd & Achterberg, 1992). Qualitative content analysis is used to examine inferred meanings of the communication under study which may lead to development of constructs based on the researchers' knowledge and evidence drawn from the study (Shepherd & Achterberg, 1992). In this study, the quantitative content analysis approach was used by counting the number of times those keywords appeared, as well as calculating their coverage ratios, in the sustainability reports of both signatories and non-signatories. The results obtained were fed into the concluding phase of the study. The logic behind performing a word count is founded in the belief that to understand the meaning of a word to a user, you can take note of the frequency of use of the particular word by that user (Leech & Onwuegbuzie, 2008). (Carley, 1993) writes that the more frequently a word is used, the more important the word is to the user. Miles & Huberman (1994) cites three reasons for performing word counts – identify patterns more easily, to verify a hypothesis and maintain analytic integrity. Considering that the objective of this study was to test the hypothesis that the sustainability reporting of signatories was different from non-signatories, a word count analysis was suitable for the study. However, word count analysis has some demerits. First, the use of synonyms throughout a document can lead a researcher to underestimate the importance of a concept (Weber, 1990). To avoid this, the keyword/phrases selected for this study were for concepts with little or no synonyms. Leech & Onwuegbuzie (2008) also notes the fact that a word being used more frequently than another word does not necessarily imply that it is more important for the speaker. While this study agrees with this notion, the focus of the study was on the reporting of signatories and non-signatories. There is a need for further research to establish how seriously the concept of sustainability is taken in signatory and non-signatory institutions.

The word count analysis was conducted via a computer-assisted qualitative data analysis software called NVivo. A representation of the procedure is presented in Figure 4.

First, the reports of the banks in the sample were downloaded, and classified into the two different categories (signatories or non-signatories), and further differentiated into the code of conducts (UNEP-FI, UNPRI or GABV) they were selected for analysis. The reports were then uploaded into the software.

Via a query function, the software was instructed to search for the frequency of a keyword in the reports of the subsample of the individual codes of conducts. For example, climate was identified as a keyword for UNEP-FI. NVivo was commanded to run a query of the word 'climate' through the reports of the sample identified for UNEP-FI i.e. signatories and non-signatories. At the end of the query, NVivo produced results that showed the frequency of the word 'climate' in the reports of each bank represented in signatory and non-signatory categories in the UNEP-FI subsample. The software also calculated the coverage of the keyword.

This process was repeated for each of the keywords for the subsamples of UNEP-FI, UNPRI and GABV.

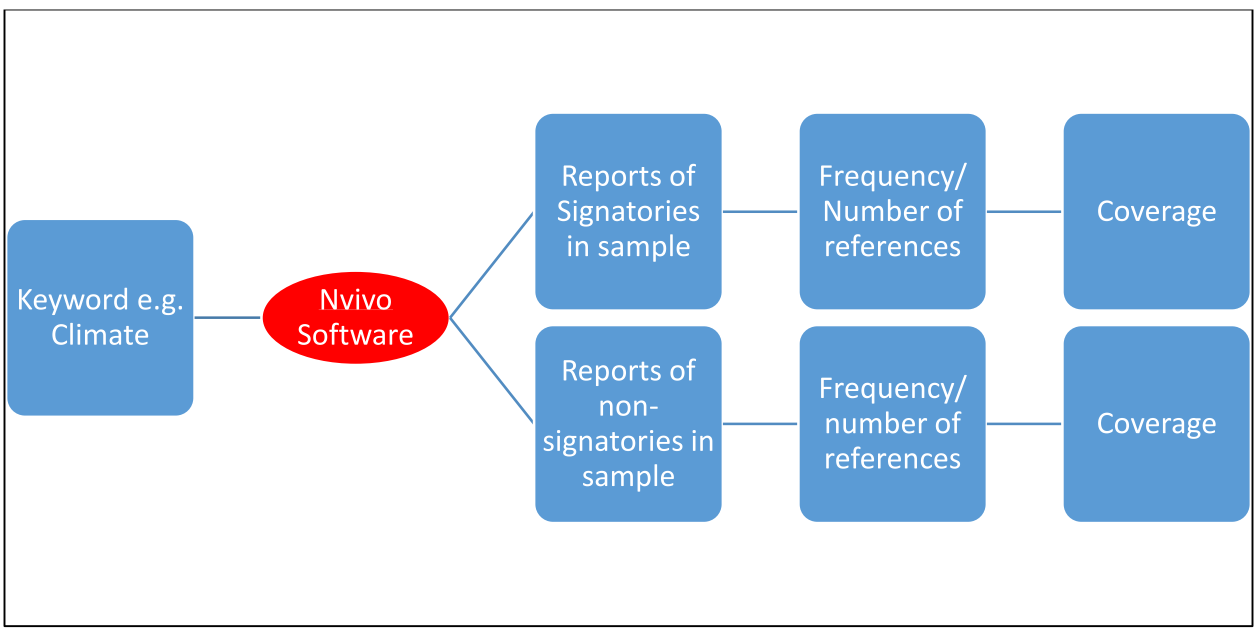

Figure 4 - Schematic representation of coverage determination

The last phase of the study involved a statistical comparative analysis between signatories and non-signatories for each of the selected codes of conducts. This part of the study was quantitative in nature. Quantitative research involves the collection of data so that information can be quantified and subjected to statistical treatment in order to support or refute alternate knowledge claims (Creswell, 2013). The researcher uses mathematical models as the methodology of data analysis (Williams, 2011). This goal of this phase of the study was to see if a statistical relationship existed between the membership/non-membership of a code of conduct and the coverage ratio of keywords in their sustainability report. Thus, membership was posited as the independent variable, while coverage acted as the dependent variable. This was done for the overall coverage of keywords for the entire sample, as well as for each of the three codes of conduct. In addition, several control variables were included in the statistical simulation to ascertain if they played a significant role in the relationship between membership and coverage. These control variables included region where the bank was headquartered and size in terms of total assets.

To investigate any statistical relationships that may exist, this study engaged 3 statistical tests. One of such is the independent sample t-test. According to Allua & Thompson (2009), the independent sample t-test is used to "test the statistical significance of the differences in means between two groups (a dichotomous independent variable) on some dependent variable measured at the interval or ratio level." This test was used for the hypotheses concerning the two groups of banks – signatories and non-signatories.

Taking into consideration other control variables such as region translated to having more than two groups to analyse thus rendering the independent sample t-test inoperable. As a result, the analysis of variance of variance (ANOVA) test was used instead. The ANOVA test was selected because its independent variable can handle two or more groups. Despite being slightly more complex than a t-test, ANOVA operates on the same mathematical principles (Allua & Thompson, 2009). The ANOVA assesses the statistical significance of the difference in the variance in means of groups.

The last statistical method that was used was regression test. Linear regression analysis is used to measure the relationship between a single independent and dependent variable, while multiple regression analysis is used for multiple independent variables. Regression analysis is related linear model like ANOVA but is used for independent variables that are measured at the interval level, rather than nominal level (Allua & Thompson, 2009).

4.3 Data Sample

In total, 78 banks were considered in this study. However, the selection criteria for each code of conduct varied slightly. In addition, the number of signatories to the codes of conduct dictated the overall sample size.

4.3.1 UNEP-FI

With membership of over 200 financial institutions situated all over the world, the target of the study for this category was to capture the biggest banks possible. Size in this context, refers to total number of assets under the bank’s control. Thus, the 16 biggest banks in the world, based on total assets, that were signatories to UNEP-FI were analysed. The sample size was 16 to have a large enough sample size to perform statistical analysis. In addition, noting that some of the biggest banks in the world were signatories to the UNEP-FI, the selection criterion focused on the banks whose total assets exceeded US$1 trillion. Sixteen signatory banks met this criterion. Of the 16 however, one of them did not have an accessible sustainable report. Hence, the bank was replaced with another whose total assets was less than US$1 trillion. The opposing group consisted of the biggest 16 banks that were not signatories to the code of conduct.

Table 4: Data sample for UNEP-FI members and non-members (*membership as of September 2015)*

Non UNEP-FI Member Banks	UNEP-FI Member Banks
China Construction Bank Corporation	HSBC Holdings
Agricultural Bank of China	JPMorgan Chase & Co
Bank of China	BNP Paribas
Credit Agricole Group	Mitsubishi UFJ Financial Group
Wells Fargo	Bank of America
Japan Post Bank	Deutsche Bank
Societe Generale	Barclays PLC
Groupe BPCE	Citigroup Inc
Lloyds Banking Group	China Development Bank
Goldman Sachs	Mizuho Financial Group
Morgan Stanley	Banco Santander
Norinchukin Bank	Sumitomo Mitsui Financial Group
Credit Mutuel	Royal Bank of Scotland Group
China CITIC	UBS Group AG
Commerzbank	UniCredit S.p.A.
Bank of Nova Scotia	ANZ Group

4.3.2 UNPRI

A similar methodology to that of UNEP-FI was applied to the sample of UNPRI. The biggest 12 banks that are signatories to UNPRI were included in the dataset. Similar to UNEPFI, the sample size of 12 was selected to ensure a large enough sample size for statistical analyses. For the opposing group, each signatory member was matched up with a non-signatory member located in the same region as the signatory, which controlled a similar amount of total assets. This resulted in a data set of 24 banks consisting of 2 groups of banks located in the same region as well as having a similar amount of total assets.

Table 5: Data sample for UNPRI members and non-members (*membership as of September 2015)*

UNPRI Member Banks	Non-UNPRI Member Banks	Country
Lloyds Banking Group	Standard Chartered	United Kingdom
ABN AMRO Bank NV	Rabobank	Netherlands
Danske Bank	Saxo Bank	Denmark
Mitsubishi UFJ Trust and Banking Corporation	Norinchukin	Japan
Mizuho Trust & Banking Co Ltd	Resona	Japan
Sumito Mitsui Trust Bank Limited	Bank of Yokohama	Japan
Bank of America Global Wealth and Investment Management	Citigroup	USA
Credit Suisse Private Banking & Wealth Management	UBS AG	Switzerland
Handelsbanken Asset Management	Skandinavskia	Sweden
JPMorgan Asset Management	Wells Fargo	USA
Sumitomo Mitsui Asset Management (SMAM)	Fukuoka Financial	Japan
TD Asset Management - TD Asset Management Inc and TDAM USA Inc	Royal Bank of Canada	Canada

4.3.3 GABV

The initial goal of the study was to analyse all banks that are signatories to the code of conduct. As at 2015, the GABV had 28 member banks. However, the unavailability of sustainability reports, or where available, not in English, modified the initial plan of the study. Consequently, only 11 members of the GABV were included in the dataset. This 11 member banks were matched up with non-signatory member banks located in the same region and having similar total assets as the signatory banks. As a result, the dataset for this code of conduct consisted of 22 banks divided into 2 groups differentiated by membership status but located in similar regions with similar amount of total assets.

Table 6: Sample of banks for GABV members and non-members (*membership as of September 2015)*

GABV Member Banks	Non-GABV Member Banks	Country
Affinity Bank	Coast Capital	Canada
Bank Australia	IMB	Australia
BRAC Bank	AB Bank Limited	Bangladesh
Centenary Bank	Crane Bank	Uganda
City First Bank of DC	MBL Bank	USA
Cultura Bank	Helgeland	Norway
Merkur Cooperative Bank	Bank Nordik	Denmark
New Resource Bank	Fresno	USA
Triodos Bank	NIBC	Europe
Vancity	Meridian Credit	Canada
XacBank	Golomt Bank	Mongolia

The selection parameters for the data sample allowed for some banks to be selected in the different subsample for the different codes of conduct. For instance, Citigroup, being one of the biggest non-signatory banks to UNEP-FI, qualified for selection in the UNEP-FI subsample. Citigroup was again selected in the UNPRI sub-sample as a non-signatory counterpart, in terms of size, to Bank of America who met the selection criteria for signatory banks to UNPRI. The same rationale was responsible for the multiple selection of JP Morgan and Sumitomo Mitsui Financial Group as well.

4.4 Data Collection

All data used in this study was obtained from secondary sources. For the initial phase of the study, data was collated from the websites of the governing bodies for each of the voluntary codes of conduct. Each code has a list of principles that it expects its signatory to uphold and abide by. The expectations of each code differs, depending on its set objective. UNEP-FI expects all its member to abide by the principles listed in the UNEP Statement of Commitment. UNPRI members are expected to uphold the six principles of Responsible Investment. GABV also has six principles which it expects its member to put in practice. Each set of principles were open coded to the keywords used in this study.

The data for the second phase of the study were sourced from the websites of the banks selected in the data sample. The data was obtained from the most recent sustainability report of the banks. Where their sustainability reports were not available, the bank's most recent annual report was selected instead.

Chapter 5: Results

5.1 Introduction

The aim of this research was to determine if voluntary codes of conduct had an effect on the sustainability reporting of its signatories, when compared to non-signatories. To achieve this, as described in Chapter 3, the research methodology adopted was in 3 phases, with the results of the former phase feeding into the latter. The results of the first phase are already detailed in Chapter 3. The following sections will explain the results from the remaining 2 phases.

Using the keywords deduced from the codes of conduct, a content analysis was performed on the reports of signatory and non-signatory banks.

5.2 Results of Content Analysis

The following sections will explain the results obtained.

5.2.1 Descriptive Statistics

Table 7 contains the descriptive statistics for the full sample (n = 78), signatory banks only (n = 39) and non-signatory banks (n = 39). The average total assets of all in the banks in the sample was US$1,060.5 billion, with signatories having an average of $US1, 1,205.4 billion, as against the average of US$ 915.5 billion. This suggests that the bigger banks seem to be signatories to at least one voluntary code of conduct, if not more.

An early observation is that there were some signatory banks that made no mention of the keywords in any of their sustainability reports. On average however, signatory banks made more mention of the key sustainability terms ($\bar{x}$ = 26) when compared to their non-signatory counterparts ($\bar{x}$= 21). In terms of coverage, it was also observed that the mean coverage of keywords in the reports of the signatory banks (0.062), was almost double the coverage of non-signatory banks (0.035).

With higher number of references and a high coverage, it is safe to assume membership to a code of conduct has a positive influence on the reporting of its signatories.

Table 7: Descriptive statistics of total assets, number of references and coverage of data sample

Full sample: signatories and non-signatories (n = 78)					
Variable	Obs	Mean	Std. Dev	Min	Max
Total Assets (US$ billion)	78	1060.48	902.36	0.09	2704.16
Number of references	702	23	48.27	0	464
Coverage	702	0.048	0.085	0	0.91
Non-signatory banks subsample (n = 39)					
Total Assets (US$ billion)	39	915.53	846.16	0.25	2704.16
Number of references	351	21	45.01	0	337
Coverage	351	0.03	0.07	0.00	0.63
Signatory banks subsample (n = 39)					
Total Assets (US$ billion)	39	1205.42	934.19	0.09	2634.14
Number of references	351	26	51.25	0	464
Coverage	351	0.062	0.10	0.00	0.91

5.2.2 Statistical Analysis Results

To test if the signatories to the code of conducts truly addressed topical issues in the contents of the codes when compared to their non-signatory counterparts, this study employed the use of multiple statistical methods. Depending on what was being tested, the methods used were either the independent sample t-test, ANOVA or regression analysis. This section will present and detail the results obtained.

5.2.2.1 Influence of membership on sustainability reporting

To analyse whether the codes of conduct had a significant reporting on sustainability reporting, an independent sample t-test was conducted to compare members and non-members, with membership as the independent variable and coverage as the dependent variable. The results indicate that the codes do have an effect, as signatory banks (M = 0.0006186, SD = 0.0009755) performed statistically higher than non-signatory banks (M = 0.000345, SD = 0.0006852, t= -4.3006, $p < 0.0001$) (Table 5). With a p value < 0.05, the results allow for the null hypothesis of this study to be rejected thus indicating that signatory banks are statistically different from non-signatory banks vis-à-vis the addressing the topical highlights in voluntary codes of conduct.

Table 8: Results of t-test for coverage between members and non-members of codes of conduct.

Group	Obs	Mean	SD
Non-members	351	0.000345	0.0009755
Members	351	0.0006186	0.0006852
Combined	702	0.0004818	0.0008534
Diff		-0.0002736	

Will the same notion hold sway when the codes of conduct selected for this study were individually analysed?

To a large extent, yes. A summary of the results is presented in Table 9. The independent sample t-test conducted showed that GABV member banks (M = 0.0005895, SD = 0.0012215), performed statistically higher than their non-member counterparts (M = 0.0001729, SD = 0.0.0005881, t = -3.0578, p = 0.0025). Similarly, signatories to the UNEP-FI (M = 0.0006323, SD = 0.0009033), performed statistically better than the non-signatory banks (M = 0.0004192, SD = 0.0003121, t = -2.5129, p = 0.0124). There was a difference to the norm with the UNPRI, as the signatories to the UNPRI (M = 0.0006228, SD = 0.0007232), were not statistically different when compared to their non-signatory counterparts (M = 0.0003916, SD = 0.0000719, t = -1.9627, p = 0.052). The threshold p-value for the study was 0.05. Thus, with a p-value of 0.052, the results of the UNPRI sub-sample show that UNPRI has not had a significant effect on the reporting of its members when compared to non-members. However, when this sample was analysed uni-directionally, it had a p-value of 0.026 showing a one-sided significant difference between the members and non-members of the UNPRI and their sustainability reporting.

Table 9: Results of t-test of coverage between members and non-members of specific codes of conducts

	GABV		UNEP-FI		UNPRI	
Group	Obs	Mean	Obs	Mean	Obs	Mean
Non-members	99	0.0001729	192	0.0004192	60	0.0003916
Members	99	0.0005895	192	0.0006323	60	0.0006228
Combined	198	0.0003812	384	0.0005258	120	0.0005072
Diff		-0.0004166		-0.0002132		-0.0002313

The results above suggest the null hypothesis for this study can be rejected, indicating that being a member to a code of conduct has an effect on an organization’s sustainability reporting.

4.3.2.2 Influence of location and size on coverage ratio of keywords

This study considered two other factors that could have influenced the sustainability reporting of signatories and non-signatories to the codes of conduct. The factors were location and size (in terms of total assets). The results are summarized in the table below;

Region

The results of the ANOVA tests conducted suggest that region does not have a statistical effect on the coverage of key terms in the sustainability reports of the banks in our sample ($F = 2.29$; $df = 701$; $p = 0.0579$). A Scheffe's test shows that there is no significant difference between each region. The regions covered in this study and the banks represented in each of these regions in contained Table 10.

Table 10: Region of banks in total sample

Region	Number of banks
Africa	2
Asia	22
Australia	3
Europe	30
North America	21
Total	78

Size

A linear regression analysis was conducted to determine if the size of a bank, in terms of total assets, had an effect on the coverage of sustainability key terms by banks. The results of the analysis suggest that size does not have a significant influence ($F = 0.97$; $df = 701$; $p = 0.3241$) (Table 10). The r-squared value of 0.0014 indicates that total assets of a bank can explain only 0.14% of the variability in coverage of key terms in the bank's sustainability reports.

Table 11: Regression of total assets on coverage

Coverage					
	Coefficient	t	P>|t|	p-value	R^2
Total Assets	3.52e-08	0.99	0.324	0.3241	0.0014
Constant	0.0004444	8.94	< 0.001		

Region and Size

A multiple linear regression analysis was run to find out if when combined, region and size had a significant effect on the coverage of key terms in the sustainability reports of banks. Similar to the outcome when each factor was considered individually, the results indicate that combined, region and size have no significant influence on coverage of key terms ($F = 2.14$; $df = 701$; $p = 0.0591$) (Table 11). The r-squared value for this model was 0.0151, indicating that the region and size can only explain 1.5% of the variability in the coverage of key terms in the banks sustainability reports.

Table 12: Regression of total assets and region on coverage

Coverage					
	Coefficient	t	P>|t|	p-value	R^2
Total Assets	4.58e-08	1.23	0.219	0.0591	0.0151
Region					
Asia	0.0002184	1.02	0.310		
Australia	0.0005294	2.09	0.037		
Europe	0.0002628	1.24	0.214		
North America	0.0004094	1.92	0.055		
constant	0.0001393	0.70	0.487		

Region and membership

To determine if the combination of region and membership had a significant effect on coverage, a multiple linear regression analysis was conducted. The results were significant (F =

5.51; df = 701; p = 0.0001) (Table 12), suggesting that both factors do have a significant effect, with membership carrying the most weight. The r-squared value for this statistical model was 0.0381, indicating that 3.8% of the coverage of key terms can be explained by combination of region and membership. The analysis was conducted again, but restricted this time to each code of conduct. The results show that region, when combined with membership to the GABV (F = 3.56; df = 197; p = 0.0043), and the UNEP-FI (F = 3.98; df = 383; p = 0.0035), had a significant effect on coverage of sustainability key terms. This was not the same for UNPRI (F = 1.28; df = 119; p = 0.2844), whose results show that membership status and region did not have a significant effect on coverage when combined with membership.

Table 13: Regression of membership and region on coverage

Coverage					
	Coefficient	t	P>|t|	p-value	R^2
Membership	0.0002721	4.26	<0.001	<0.0001	0.0381
Region					
Asia	0.0002941	1.42	0.156		
Australia	0.0004892	1.95	0.051		
Europe	0.0003023	1.48	0.140		
North America	0.0004616	2.23	0.026		
constant	3.27e-06	0.02	0.987		

<u>Size and membership</u>

Similar to above, a multiple regression analysis was conducted to determine how much of an effect total assets and membership had on the coverage of key terms. The results indicate that both factors have a significant effect on coverage (F = 5.51; df = 701; p = 0.0001) (Table 13). With the r-squared value of 0.0259, this indicates that 2.6% of the coverage of key words can be explained by combination of size and membership. The same notion held sway for GABV and

UNEP-FI when the analysis was rerun when restricted to the particular codes – GABV (F = 4.5; df = 197; p = 0.0106), UNEP-FI (F = 6.19; df = 383; p = 0.0023). The analysis for UNPRI produced a contrary result (F = 2.20; df = 119; p = 0.1152), indicating that the size of the bank and membership to the UNPRI does not have a significant effect on coverage.

Table 14: Regression of membership and total assets on coverage

<table>
<tr><th colspan="6">Coverage</th></tr>
<tr><th></th><th>Coefficient</th><th>t</th><th>P>|t|</th><th>p-value</th><th>R^2</th></tr>
<tr><td>Membership</td><td>0.002704</td><td>4.19</td><td><0.001</td><td rowspan="3"><0.0001</td><td rowspan="3">0.0259</td></tr>
<tr><td>Total Assets</td><td>1.11e-08</td><td>0.31</td><td>0.755</td></tr>
<tr><td>constant</td><td>3.27e-06</td><td>0.02</td><td>0.987</td></tr>
</table>

Region, size and membership

A multiple linear regression analysis was conducted to determine the significance of the combination of the independent variables in the study – region, size and membership – had on the dependent variable – coverage. The results indicate that the combination of all factors had a statistical effect on coverage (F = 4.62; df = 701; p = 0.0001) (Table 14). Also, the r-squared value of 0.0383 indicates that the combination of region, size and membership is accountable for 3.83% in the variability of sustainability key words in a bank's reporting. When restricted to the individual codes of conducts, the results for GABV and UNEP-FI, (F = 3.14; df = 197; p = 0.0266) and (F = 5.90; df = 383; p = 0.0006) respectively, indicate that there was a significant effect on coverage by region, size and membership for these sub-samples. The results when restricted to UNPRI (F = 1.45; df = 119; p = 0.2306) indicate no statistical effect on coverage for this subsample.

Table 15: Regression of membership and total assets on coverage

Coverage					
	Coefficient	t	P>|t|	p-value	R^2
Region				<0.0001	0.0383
Asia	0.0002722	1.28	0.201		
Australia	0.0004851	1.93	0.054		
Europe	0.0002837	1.36	0.175		
North America	0.0004455	2.12	0.035		
Membership	0.0002666	4.10	<0.001		
Total Assets	1.68e-08	0.45	0.655		
constant	6.01e-06	0.03	0.976		

5.3 Summary of results

On a general note, the results indicate that membership to a code of conduct has a significant effect on the coverage of key terms in the sustainability reports of banks. Even when controlled for size and region, the influence of membership status was still significant.

When restricted to the particular codes of conduct, membership to the GABV and UNEP-FI had a significant effect on the coverage of key words, with and without the control variables. The results of the analysis of the UNPRI subsample bucked this trend, as it was shown to not have a significant effect on the reporting of its signatory banks vis-à-vis non-signatory banks.

In conclusion, the results obtained align with the hypothesis of this study, that being a signatory to a code of conduct has an effect on the sustainability reporting of banks. Consequently, the null hypothesis can be rejected.

Chapter 6: Discussion

6.1 Introduction

Using a mixed methods approach, this study was designed to determine if voluntary codes of conduct have had any effect on the sustainability performance of its signatories. The main hypothesis for the study resonates with the line of thought that the codes do in fact have an effect. This chapter will explain the statistical results detailed in Chapter 4.

6.2 Influence of voluntary codes of conduct

Do voluntary codes of conduct have an effect? The general trend is that they do. The descriptive statistics show that signatories used the keywords associated to the voluntary codes of conduct more often than non-signatories. The question however was whether this difference could be attributed to membership.

The statistical results reflected show that membership has a significant effect on the coverage of key terms when the reports of signatories were compared with non-signatories. When the codes of conduct were analysed individually, membership to the GABV and UNEP-FI were shown to have a statistical effect on the reporting of its signatories. UNPRI showed an anomaly, but its p-value of 0.052 was only marginally higher than the significance ratio. Thus, it is safe to assume that membership to a code of conduct does not have an effect on the behaviour of its signatories.

6.3 Influence of size of bank on reporting

Could the size of the bank have an effect on its reporting? The results suggest that the size of the bank in terms of total assets has no significant effect on reporting. This is an encouraging development, knowing that banks big or small, take the matter of sustainability seriously. One would expect that the bigger the bank, the more stakeholder pressure it comes under, and perhaps the more seriously it addresses sustainability concerns. However, this study shows that smaller banks, with probably less scrutiny are doing just as much to tackle and report sustainability challenges. This is just one assumption. Different factors could be responsible for this as listed in Chapter 1. It is important to note, however, that membership to the GABV has a requirement of minimum balance sheet size of US$50 million.

6.4 Influence of region on reporting

Oyegunle & Weber (2014) note that there has been a growth in the number of countries adopting mandatory sustainability guidelines. They are also of the opinion this number will keep increasing. The majority of these countries are developing countries. Of the seven considered in their paper, four of them were in Asia, two in Latin America, and one in Africa. As at December, 2015, two more countries have joined this fold – one each in Africa and Asia. With existing mandatory sustainability guidelines, one would expect region to have a significant effect on reporting. This study contradicts this notion, albeit marginally, as the p-value was just a little higher than the significance threshold. In effect, it did not matter whether the bank was located in regions where self-regulation policies existed such as Europe and North America, or in regions where mandatory guidelines were in effect such as Asia and Africa.

There is a tendency this trend could change as the proliferation of mandatory sustainability guidelines continues.

6.5 Influence of membership, size and region on reporting

Regardless of what factor was combined with membership, whether it be region or size, results show that membership still had a significant effect on coverage. Region and size, individually and when combined had no statistical effect on coverage. However, when either or both factors were combined with membership, the reverse was the case. This affirms the main hypothesis of this study that membership to a code of conduct does in fact have an effect on the sustainability performance of its signatories.

How is this possible? How come signing to a voluntary code of conduct has had an effect on the sustainability reporting of its signatories?

The focus of this study was not on the motivations behind signing up to a code of conduct, but rather on the effect these initiatives have had. Nonetheless, it is safe to assume that motivation does play a significant role in determining how successful adoption is. Some of such reasons are already listed in Chapter 2.

Beyond motivations however, some of the initiatives themselves have mechanisms in place to ensure better adoption. The following section will take a look at some of the avenues through the codes aids its members.

6.6.1 UNEP-FI

UNEP-FI has a plethora of channels available to their signatories to aid them along their sustainability journey. Their website contains tools such as an online guide to banking and sustainability (http://www.unepfi.org/bankingguide/). This tool is subdivided into 10 categories for 10 different working groups in a bank, with which category detailing what the benefits and expectations for each of those groups along their journey to sustainability.

Another tool available to signatories is the human rights guidance tool for the finance sector (http://www.unepfi.org/humanrightstoolkit/). This tool is designed to provide information on human rights risks for financial institutions. It teaches the organization how to identify human rights risks in lending operations, assess the materiality of these rights as well as identify possible mitigants.

Another benefit available to signatories are the Environmental and Social Risk Briefings, which provides a summary of 10 sectors, followed by the headline issues, the environmental and social risks, the key considerations, and pertinent resources.

In addition to this, they also help build the capacity of their signatories by providing training platforms. Probably the most pronounce of this training programmes is the Environmental and Social Risk Analysis Training (ESRA) programme which celebrated its 10th year anniversary in 2015. The programme offers lending practitioners across the globe with a comprehensive set of trainings on how to establish and implement effective environmental and social risk management systems within their banks. According to their website, the ESRA programme has trained 1,773 participants from Financial Institutions in 120 countries (www.unepfi.org)

Corporate Eco-Efficiency in financial institutions is another course offered by the UNEP-FI. An online course, it is designed to train representatives of the financial sector on how to make efficient use of the resources involved in the daily internal operations of financial institutions, thus reducing their environmental footprint.

UNEP-FI also run a Climate Change Online course designed to educate senior and mid-level executes to further understand the business complexities presented by climate change. Since its inauguration in 2007, UNEP-FI reports to have trained 735 participants from 86 countries.

UNEP-FI also organize periodic interactive knowledge sessions wherein signatories and partners can share latest information and trends occurring within the financial sector. The most notable of these events is the bi-annual UNEP-FI Global roundtable. This event is regarded as the single largest conference devoted exclusively to sustainable finance issues, spanning the banking, investment and insurance industries. The most recent of these events was held in 2013 in Beijing, China.

6.6.2 GABV

A relatively new initiative, the GABV has enjoyed some remarkable success. In its 2014 report 'Real Economy – Real returns: The Business Case for Sustainability Focused Banking', the GABV reports that Sustainability focused banks are outperforming the Global Systemically Important Financial Institutions even in financial returns. The success of the GABV has been scrutinised however, as only a few banks can match its membership criteria. Another criticism is their goals, objectives and principles are too rigid for a conventional bank to adopt. Regardless, it is praiseworthy that the banks fall within its purview are doing well, a fact this study corroborates. The following are of some of the avenues through which the GABV sets out to achieve its objectives.

To ensure the debate about a sustainable future is ongoing, the GABV created five different programmes. The *Advocacy & Engagement Programme* is designed to create awareness about values-based banking. Run both online and offline, by engaging the workforce of its member banks, this GABV programme ensured that the discussion about sustainable banking was not just at executive level, but translated all through the organization. The *Human Capital Programme* is focused on developing the human potential of its network. To aid this, the GABV facilitates a periodic meeting between Senior Human Managers of member banks for peer coaching and to discuss human resources can be advanced from a value based perspective. This has birthed the GABV Leadership Academy where leaders from member banks learn together and share knowledge about innovative techniques and trends in value-based banking. The *Regional Chapters Programme* allows for greater collaboration between banks within the same region in the GABV network. Currently, there are 3 chapters – the European Charter, The North America chapter and the Latin America Chapter. The *Impact Metrics Programme* was designed to allow for uniform and transparent reporting for values-based reporting. The experts for the development were chosen from among its member banks. A uniform reporting approach ensures their members have a clear understanding of the expectations of values based banking. The last programme the GABV runs is the *Financial Capital Programme* wherein the GABV sources and provides funds to support the growth of value based banking all over the world, thereby ensuring that financial capital is not an obstacle for such banks to reach their goals.

In addition to the aforementioned programmes, the GABV convenes influential meetings, like their annual meetings to ensure that the conversation about sustainable banking, networking and collaboration is always ongoing. They also sponsor research efforts geared towards assessing the impacts of their initiatives.

6.6.3 UNPRI

Despite the results of this study indicating that the membership to UNPRI does not have a significant effect on the reporting of its signatories, they have in place several initiatives to aid adoption. One of such is the PRI Clearinghouse which provides signatories with a private forum to pool resources, share information, enhance influence and engage with companies, stakeholders, policymakers and other actors in the investment value chain on environmental, social and corporate governance issues across different sectors and regions. Reporting is also one of the mandatory requirements for all asset owners and investment manager signatories. UNPRI also have regional networks all over the world to allow for further collaboration. The UNPRI also organises a yearly event, PRI in person, regarded as the world's leading responsible investment event. The most recent was held in September, 2015 in London. To provide education on Environmental and Social Governance, UNPRI launched the PRI academy. For a fee different from subscription, the academy's global curriculum creates a body of knowledge and common design language designed to inspire teams and professionals across investment and capital markets.

This section has tried to concisely detail the additional support these codes of conduct provide to their members. By being just more than a charter that banks sign up to, and by providing aid, tools, training and guidance to banks along their sustainability journeys, UNEP-FI, GABV and UNPRI are actively influencing the sustainability performance and behaviour of their signatories.

Literature suggests that voluntary codes of conduct are an effective tool in promoting corporate social responsibility in companies (Kolk & Van Tulder, 2002). The findings of this study are in-line with Kolk and Van Tulder, as signatories to the codes of conduct within the financial sector selected in this study had a higher coverage of key words in their sustainability reports when compared to their non-signatory counterparts. Thus, these signatories can be assumed to take the matter of corporate social responsibility more seriously than non-signatories. This assumption could be misleading, as self-regulatory initiatives such as voluntary codes of conducts have to contend with two problems i.e. free rider and adverse selection (Sethi, et al., 2006). The free rider problem occurs when member companies have little incentive to improve their performance because of recalcitrant companies are not pulling their weight by not upholding the ethos of the code of conduct (Sethi, 2002). Adverse selection refers to a situation where companies signing up to a code of conduct exploit the benefits attributable to the initiative, without considering the harm their actions could have on other members of the group. An example of this are the EPs where studies by Waters (2003) and BankTrack have shown breaches by signatories to the code of conduct.

Wright & Rwabizambuga (2006) argue that institutional theory is largely responsible for the adoption of voluntary sustainability initiatives. This study agrees with this line of thought but not in its entirety. Their work posits that highly institutionalized environments such as Western Europe and North America affect the adoption of these codes of conducts, akin to coercive isomorphism, and thereby suggesting lowly institutionalized environments such as Africa and Asia did not have as much an effect. The results of the study show that region had no effect on the sustainability reporting of both signatories and non-signatories, analogous to normative isomorphism. This may be a result of increasing awareness of sustainability issues, increasing stakeholder pressure, and country-specific mandatory guidelines. Further research is required to fully understand what could be responsible for region not having an effect, as well as to discover what could be influencing the sustainability reporting habits in these region.

Literature suggests a positive correlation between an organization's size and its sustainability performance (proxied by their membership of the Dow Jones Sustainability World Index) (Artiach et al., 2010). This study followed the assumption that better sustainability performance translates to enhanced sustainability reporting, and so tested to see if there is a relationship between the size of an institution and sustainability reporting. The results of this study suggest that size has no statistical effect on reporting of banks regardless of affiliation to code of conduct.

Region and size being used as controlling variables highlights the significant impact voluntary codes of conduct have on the sustainability reporting of its signatories when compared to non-signatories.

Lastly, this study contributes to the ongoing debate about voluntary vs mandatory sustainability guidelines. While proponents of the latter argue that adoption of voluntary codes of conduct is purely for brand management and reputational reasons, and have no direct effect on organizational behaviour, this study shows that voluntary codes of conduct do have an effect on at least the reporting of signatories.

Chapter 7

7.1 Conclusion

This study set out to determine if voluntary codes of conduct have an effect on the sustainability performance of its signatories. By engaging both qualitative and quantitative techniques, this research was designed to either support or disprove the main hypothesis of the study which was that voluntary codes of conduct do in fact have an effect. The main findings of the research are listed below;

1. Membership to a code of conduct has a significant effect on the sustainability reporting of banks. When individual codes of conduct were considered, membership to GABV and UNEP-FI had a significant effect on the coverage of key terms in signatories' sustainability reports. Membership to the UNPRI was shown to not have a statistical effect on the coverage of the key terms in the sustainability reports of its signatories.
2. Total Assets did not have a significant effect on the coverage of key terms in the sustainability reports of banks.
3. The region where a bank is headquartered has no statistical effect on the coverage of key terms in the sustainability reports of banks.
4. When total assets and region were controlled for, members to codes of conduct performed statistically higher than their non-member counterparts. When scaled down to the codes of conduct selected for this study, GABV and UNEP-FI members were shown to be statistically different in terms of coverage than the non-members they

were paired with. UNPRI members were statistically similar to their non-UNPRI counterparts.

The objective of this study was to test the hypothesis that signatories to codes of conducts differed from non-signatories in sustainability reporting. The aforementioned results aligned with this notion, thus allowing for the null hypothesis for the study to be rejected. This is particularly interesting as the methodology for the study used a formal but basic approach of using a word-count analyses. Noting that membership was not solely responsible for this difference, this distinction in sustainability reporting of both groups is striking.

The debate as to whether banks sign up to these codes purely for reputation and brand management will continue to rage on. Nonetheless, it is praiseworthy to see that there is positive correlation between being a member to a code of conduct and increased usage of sustainability key terms. A word of caution however is that even though increased coverage suggests increased activity, that is not always the case.

The question about the adequacy of these voluntary codes of conducts to address the sustainability challenges the world faces remains unanswered. Their flexible and generic nature makes for its practicality in different countries challenging. However, their emergence has initiated and maintained the sensible dialogue amongst banks to ensure they act in a more sustainable manner. This dialogue will always be perceived as a step in the right direction along the journey to a sustainable future.

7.2 Future Areas of Research

Extensive work still needs to be done on the contents of each of the voluntary codes of conduct selected for this study – the UNEPFI, GABV and UNPRI. Similar to the work that has been done on the Equator Principles, researchers should thoroughly examine the content of each of these codes to assess their adequacy in solving the world's sustainability challenges. This research should begin with deep content analysis of the aims, objectives and activities of these codes and should extend to interacting with signatory banks to understand the impacts these codes have had.

Learning points from this interaction could be developed into a more robust framework to assess their sustainability performance, beyond using a word count as this study has done.

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