# CHAPTER 7

# ETHICAL BANKS BETWEEN MORAL SELF-COMMITMENT AND ECONOMIC EXPANSION

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## ABSTRACT

*German ethical banks have experienced a significant increase in customers, deposits, and lending. They aim to establish a fairer banking system. But the simultaneous pursuit of social, ecological, and economic goals leaves them vulnerable to conflicting orders of worth. The authors examine the normative foundations that ethical bank employees refer to when they describe their everyday practices and identify the specific problems that arise from negotiating between moral principles and economic demands to provide insights into the impacts, constraints, and paradoxes of normatively oriented business practices. Drawing on the theoretical framework of the sociology of critique, the authors assume that moral categories, social processes of interpretation, and justification are an essential part of markets. Ethical banking is characterized by the need to meet both market-limiting and market-expanding requirements, and this particularly becomes contentious when dealing with economic growth. By analyzing ethical banks' freely accessible documents, the authors first outline the institutional guidelines. In a second step, the authors analyze 27 qualitative interviews with employees of ethical banks to gain insights into everyday lending practices and action-guiding normative orientations. The goal of this chapter is to examine the tensions that may arise from applying normative guidelines under the condition of increasing economic requirements and to disclose the way that ethical banks negotiate between mechanisms of expansion and limitation. The analysis of this chapter points out a paradox of ethical banking: due to the banks' economic expansion, investments corresponding to their ethical commitments tend to become a luxury they cannot afford.*

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## THE DEVELOPMENT OF THE ETHICAL-BANKING BUSINESS

In recent years, German ethical banks have experienced an enormous increase in customers and clients, deposits and investments. In 2010, a newspaper article declared "Many New Clients: Ethical Banks are the Winners of the Financial Crisis" (Dohmen, 2010).[1] Between 2006 and 2011, the volume of deposits and loans with German ethical banks rose by 20–30% (zeb/, Alanus Hochschule, & puls Marktforschung, 2012), while conventional banks suffered from losses caused by the financial crisis. According to Thomas Jorberg, board spokesperson of GLS, one of the largest ethical bank in Germany, the constant growth of ethical banks' total assets and client numbers marks a paradigmatic change in the banking sector: "The classical banking we know today will not exist anymore in the near future" (GLS Bank, 2014).

Unlike conventional banks, ethical banks are governed by principles that do not exclusively aim at economic profitability. They focus on socially responsible investment (SRI) or responsible investment (RI),[2] an investment strategy that complements the typical aims of banking with moral guidelines such as sustainability and social and ecological commitments. Ethical banks strive to treat social, economic, ecological, and denominational goals equally in order to avoid negative externalities of the banking system.

Although ethical banks may represent an alternative to conventional banking, implementing ethical codes in the banking business is neither a historically new idea nor a consequence of the 2007 financial crisis. On the contrary, ethical banks have a long tradition. Early examples of ethical investment practices based on religious norms and values date back to the beginning of the eighteenth century (see Kreander, McPhail, & Molyneaux, 2004). Historically, ethical banking has been closely connected to social and religious movements. Religious groups such as the Quakers excluded the slave trade, the tobacco business, and investments in gambling from their business practices. The first ethical fund was created by Methodists in Great Britain around 1900 (see Domini, 2001; Hiß, 2011; Kreander et al., 2004; Louche, Arenas, & Cranenburg, 2012, pp. 303–305; Schwartz, 2003). Morally based financial activity first gained wider public attention in the United States during the 1970s and 1980s, when the anti-apartheid movement demanded that American banks sever their financial relations with companies that operated in South Africa and cooperated with the government in Pretoria (see Knoll, 2002; Stolle & Micheletti, 2013).

Since the 1990s, the focus of SRI has shifted from purely moral to broader social problems. SRI has also lost some of its political strength and has become mainstream. Modern forms of SRI, which were established in Europe in the 2000s especially during the global financial crisis, are characterized as a "turning point of responsible investment (RI)" (Louche et al., 2012, p. 303). Political activism is no longer the primary motivation for ethical investment: current SRI investment philosophy often also seeks to guarantee economic viability (Louche, 2004). Since the 2000s, political regulations such as one that obliges British pension funds to disclose their business have been of particular historical importance for the development of modern SRI (Sparkes, 2010). And beginning in 2010, mainstream, conventional investors such as pension funds have increasingly adopted SRI principles (Louche, 2006, p. 9). To implement SRI strategies successfully, sustainable investors need reliable data on the economic quality of sustainable investments, which leads to a transfer of conventional financial classification models into less financialized areas such as sustainable investment (Nagel, Hiß, Woschnack, & Teufel, 2017). In addition, mainstream media, such as *The Economist* (which are also dedicated to reporting on ethical investment trading), and global sustainable stock indices, such as the Dow Jones Sustainable Index, the ÖkoDax, and the Natur-Aktien-Index, have popularized and legitimized the concept of SRI (Louche, 2006, p. 9).

In Germany, the founding of GLS Bank (Gemeinschaftsbank für Leihen und Schenken [Community Bank for Loans and Gifts]) in Bochum in 1974 marks the starting point of ethical investment in German banking. While the GLS Bank was Germany's first ethical bank, its founding occurred relatively late by international comparison. Since then, ethical banking has grown strongly in Germany. Although the overall volume of sustainable investments remains at a low level compared to the total investment volume in Germany (Klein, 2014, p. 6), ethical banks such as GLS Bank, Triodos Bank, UmweltBank, EthikBank, Steyler Bank, Bank für Sozialwirtschaft, and Bank im Bistum Essen have doubled their client numbers in almost every year since 2011 (my calculation based on disclosure reports).

Despite the rapid growth of SRI in Germany, there are still significant international differences in the prevalence of SRI. In Germany, SRI made up only 0.3% of the total investment volume in 2007 whereas it was 10% of the total volume in the United States and 22.46% in the UK in the same year (Kahlenborn & Dereje, 2007, p. 3; Schäfer, 2008, p. 64). And in the Netherlands, SRI accounted for a market share of 20–30% of gross investment volume in 2011 (Nessel, 2012, p. 288). This asymmetry can be explained by the continued dominance of Germany's redistributive state-funded pension system and the minor role of private – equity-financed – pensions there. Simultaneously, the lack of political incentives and obligations to take ethical, social, and ecological aspects into account in state- and company-sponsored pensions has also slowed the adoption of SRI. But while SRI is more widespread and established in Anglo-Saxon countries, the only recently gained economic and social relevance of the ethical-banking system in Germany makes it a particularly promising field for investigation. This is because economic growth is now confronting German ethical banks with demands (e.g., customers and investors require returns and dividends) that they have not previously had to meet (Hiß, 2009; see also Hess, 2007). The German case can also expose international variations and the specific conditions for ethically oriented banking businesses, rendering it an exemplary subject for our research. Furthermore, the recent boom in SRI in Germany has led to the founding of a whole array of independent ethical banks.[3]

Against this background, the question arises as to how ethical banks succeed in maintaining compliance with their ethical guidelines while expanding economically. In economic sociology, moral categories and normative goals are considered to be essential elements of markets and are therefore not opposed to market processes. Moral principles can be described as *market limiting* if they exclude certain investment strategies and run counter to economic expansion. But moral principles can also have *market enabling* or *market complementing* functions when they provide the normative means to open up social spheres for market expansion or become a regulatory instance for market action (Beckert, 2012). In ethical banking, we find market-limiting justifications when institutions exclude investment in certain sectors such as nuclear energy or the pesticide industry. At the same time, expansion increases a company's economic needs and requires it to expand into new markets. The means for economic expansion must, however, meet the bank's ethical commitments to be justifiable. How specific moral principles arise and why some companies institutionalize these principles while others do not develop an action-guiding rationale remain open questions, which have to be answered empirically (see Sparsam, 2015, p. 251).

Little research has been conducted on the function of moral principles in the specific case of ethical banking, particularly with regard to the consequences of economic expansion. To do so, it is first necessary to reconstruct and analyze the normative foundations that ethical bank employees legitimately refer to when they describe their everyday professional practices. Our contribution therefore aims to identify the specific problems that arise from negotiating between moral principles – creating more justice in banking – and economic demands. Furthermore, we aim to determine the practical consequences of these problems. Analyzing specific negotiation processes on controversial lending options allows us to specify the influence and limits of moral guidelines in ethical banking. We consider lending decisions in ethical banking to be inherently conflictual since they oscillate between ethical commitments and economic profitability.

In the following section of this article, we explain our theoretical perspective, which focuses on the importance of normative orientations in the economy. The sociology of critique serves as our theoretical background (Boltanski & Thévenot, 2007). We then discuss our empirical data and methods of analysis. In the empirical part of this article, we first analyze the central normative guidelines of ethical banking and ask how they are translated into specific lending practices.

As superordinate guiding principles, not only they create orientation, but they also necessarily remain open to interpretation. The actors must first fill these mission statements with meaning and concretize them for a specific situation if they are to guide action. We assume that organizations are not guided by a single legitimate principle. Rather, they are characterized by a multitude of different and sometimes contradictory ones. Therefore, in a second step, we examine how the actors themselves describe the values and social benefits of ethical banking. Our aim is to let the actors themselves explain the relationship between ethical self-obligation and economic expansion.

The findings from these interviews provide insights into how ethical banking deals with moral problems created by lending decisions that are simultaneously expected to comply with social and ecological responsibilities and to meet the demands of economic profitability. Following the empirical analysis of lending practices in ethical banking, we summarize and discuss the challenges of a morally grounded banking model.

## MARKET MORALITIES

Economic sociology considers economic actions to be social actions. This means that economic actors never act outside of societal norms or within a space of purely fixed preferences. Due to the embeddedness of economic action and its pursuit of a social logic instead of purely economic rationales (Bourdieu, 2000, p.10), moral orientations or principles of justice are not external to economic action but rather inherent to it: "Moral struggles and the different paths they inspire are not a distraction from some 'real' economic issues beneath. They stand at the economy's core and at the heart" (Fourcade, Steiner, Streeck, & Woll, 2013, p. 636). Moral conflicts within the banking and finance sector are therefore more than mere expressions of uncertainty and confusion. Instead, financial markets, such as the loan and investment markets, are themselves economic and moral institutions, characterized by normative orientations that guide action (see Fourcade & Healy, 2007; Streeck, 2007).

In the ethical-banking sector, the impact of normative orientations can be observed in the bank's institutionalized criticism of conventional-banking practices and instruments. The influence of such normative orientations becomes evident when they diffuse into conventional banks, where they become institutionalized as, for example, ethical codes.[4] The conventional-banking industry is also responding to the global financial crisis with measures that aim at more socially acceptable financial practices under the heading of "cultural change."[5] Such processes illustrate how the financial sector is adverse to external political regulations, relying instead on normative self-regulation. However, this aspired-to normative self-regulation has a limited effect when it exclusively concerns the motives, values, and personalities of individual subjects and ignores the structural or institutional framework conditions of "good" financial practice (Neckel, Czingon, & Lenz, 2018).

From a sociological perspective, the establishment and stabilization of markets are underpinned by complex social processes of interpretation and valuation, which are, among other things, crucial to the marketability of products and services (see Vergne, 2012). Current economic sociology assumes that the consequences of moral categories and criticisms within market processes vary. As Beckert (2012) summarized, moral categories can have "restricting," "enabling," or "complementing" effects. Excluding specific areas of lending (like nuclear energy, child labor, pesticides, and addictive substances) or instruments (such as derivatives or speculative transactions), which is characteristic for ethical banks, is a typical example of a non-economic or morality-based restriction of markets in banking and finance. The practical use of these moral norms refers to the limitation of goods and services experienced as "unfair" or "unjust."

Along these lines, Zelizer (1978) showed that the development of a market for life insurance depended on the moral acceptance of giving human life an economic value. And Akyel and Beckert (2014) recently demonstrated that the establishment of a funeral market was preceded by a cultural change in which moral reservations concerning the marketability of death disappeared.

These studies show that moral justifications play an important role in establishing and stabilizing market structures. Together with institutional standards (Meyer & Rowan, 1977), business concepts, and political regulations (Krippner, 2012), normative orientations – such as moral reservations – form a practical basis for the emergence and limitation of market structures. Beyond institutional standards, we assume that the establishment and institutionalization of market values and market structures results from micro-level negotiation processes in which actors at first evaluate, categorize, and classify persons, characters, objects, practices, groups, products, instruments, or even whole market sectors (Lamont, 1992; Lamont & Thévenot, 2000; Sachweh & Lenz, 2018). Practical sense, a sense of justice, and corresponding actions draw on arguments and references relating to universal normative principles. According to the sociology of worth (Boltanski & Thévenot, 2007), these historically contingent "orders of worth" indicate the legitimacy or illegitimacy of individual and collective actions. They define what persons, objects, and actions are recognized as "worthy" and thus provide actors with interpretations of "the right action" to legitimatize their own action or to criticize other actors.

Based the empirical findings of the sociology of worth, it is possible to ascertain different orders of worth that constitute the values of people, objects, or actions in varying ways, such as the inspired world, the domestic world, the world of fame, the market world, the industrial world, the civic world (Boltanski & Thévenot, 2007), the project-based world (Boltanski & Chiapello, 2006), and the ecological world (Lafaye & Thévenot, 1993).

For example, a person's value in the domestic world depends on their position in a hierarchy of trust (e.g., as a father or manager). And in the project-based world, the flexible, mobile, and active person is particularly highly valued, and relationships between people are characterized by the efficiency of their communication and the ability to build networks and mediate between different projects. In contrast, the inspired world is based on authenticity and artistic creativity; the value of a person is therefore independent of external influences. In the world of fame, the value of a person is measured by the number of those who recognize him or her and by the amount of people who follow his or her opinion. The civic world is defined by how it esteems collective interest and not individual interest. It values actions that go beyond pure self-interest and are oriented toward the community. In contrast, the market world revokes the subordination of individual interests to collective benefits and sees the harmonious order realized in the free market. Here, wealth, money, growth, and competition are decisive to the assignment of value. In the industrial world, those persons and actions are of value who align their actions with efficiency, standardization, and quantification.

Although these "worlds" represent different principles of worth, value, and legitimate justifications, they have in common that they must always answer questions of social coexistence, self-realization, and financial security in order to construct meaning (Boltanski & Chiapello, 2006, p. 42). In this view, the pragmatic perspective implies that there are a multitude of normative references that support and constitute economic action beyond purely economic or market justifications. According to this, the dominant normative orientation in banking and finance – the pursuit of profit – is only one possible justification among many (Diaz-Bone, 2011). For example, the moral justification of the market is based on the assumption, following neoclassical theory, that individual and selfish actions ultimately ensure prosperity.

In the ethical-banking sector, we can assume that actors are confronted with a multitude of values, which create tensions between different orders of justification. To overcome these tensions and remain able to act, they must establish compromises that meet both economic requirements and their ethical commitments (see Boltanski & Thévenot, 2011). Our goal is not simply to bring the heuristics of orders of justification, as elaborated by Boltanski and Thévenot, to our qualitative data. Rather, we would like to illustrate what specific orientations are effective in the field of ethical banking and at what points they may be challenged by other – foreign – demands and orders of worth so as to discuss possible shifts in the institutional framework of ethical banking.

Especially for ethical banking, it is still unclear how economic expansion affects the restricting and limiting function of moral categories. Similar issues, however, have been studied in markets that are closely related to social movements. A study on the ethical fashion market shows that the mode of criticism directed at the global fashion industry changed as soon as market leaders accepted and popularized the initial criticism (see Balsiger, 2014). Unlike social movements, which claim to expose social injustices like child labor, large companies merely address known problems when they incorporate moral demands into their policies (see Schiller-Merkens, 2013). Similarly, Suckert (2015) stated that the economization of the organic milk segment has been made possible through a comprehensive institutionalization of non-market ecological values. At the same time, growing recognition of sustainable consumption has also led to the strengthening of economic rights in such a way that the idea of ecological value has become decoupled from the original ecological ideals (see Suckert, 2015, p. 418). In the case of sustainable investments, it has been observed that their tradability is based on conventional financial valuations, which ultimately leads to a financialization of sustainability (see Besedovsky, 2018).[6] Market expansion, then, may limit the effectiveness of categories that were originally intended to have restrictive or limiting effects on the market.

Considering their economic boom, ethical banks face the question of how to expand without relativizing their own ethical claims, such as building a "better" or "fairer" banking system. They are confronted with the challenge of deciding on ethically justifiable business policies, which should be defined as market-limiting or non-economic justifications since they are meant to exclude unethical investment and lending practices. But these policies must also simultaneously be market-enabling or economically justifiable so as to meet the rising demand for ethical investments. While the approach to restricting the market by excluding conventional strategies can rely on an established set of criteria, developing new areas of business, lending, and investment that comply with ethical guidelines poses a different challenge. Ethical banks cannot simply rely on a pre-existing negative list of unethical investment sectors, but need to define and establish their own justifications, which requires constant renegotiation in the face of changing economic developments and current societal discourses. Ethical banks seem to typically seek a compromise between their commitments to an ethically based exclusion of certain markets and the economic necessity of widening their normative selection criteria for finding new markets. In other words, to expand economically, ethical banks must ideally augment their access to markets while also limiting it at the same time. We therefore ask what guides ethical bankers, what justifications they refer to, and how they mediate between market-limiting and market-enabling demands and justifications. The business practices of ethical banks provide concrete examples for such normative processes that occur when controversy arises over specific lending decisions.

In our empirical research, we first analyze the institutional framework and guidelines of ethical banks in Germany. Since corporate principles are always open to interpretation and must be filled with meaning in everyday practices, we examine the patterns of an order of worth in ethical banking to understand how everyday negotiations constitute the ethical-lending business. More broadly, we investigate typical situations in lending processes to gain deeper insights into how ethical banks negotiate between mechanisms of expansion and limitation and address the ambivalence that characterizes ethical banking in Germany today.

## DATA AND METHODS

Our empirical findings derive from the research project "The Banker's Moral – Group Formation and Professional Ethics in the Field of Banking and Finance," which was part of the cluster of excellence "Normative Orders" at the Goethe University Frankfurt between 2013 and 2015.

The study uses two empirical approaches and data sets to consider our questions about the specific normative references ethical bankers refer to in their everyday practices and about the ways employees deal with controversial situations arising from the simultaneity of non-market and market justifications in the context of economic expansion.[7] To reconstruct the institutional order of worth within German ethical banks, we first analyzed freely accessible and official documents (e.g., banks' websites, sustainability reports, banks' magazines, newspaper articles) using qualitative content analysis (Mayring, 2010). Based on theoretical and empirical categories, we identified characteristics, features, and structures in the qualitative data that would allow us to identify commonalities and differences in the histories of the banks, their criticisms, worldviews, economic growth, and practical conversion of specific normative aims. We further analyzed 27 qualitative interviews with employees of ethical banks to gain insights into everyday lending practices and action-guiding normative orientations in ethical banking. In this way, we have tried to approach the tensions that may arise from applying normative guidelines under the condition of increasing economic demands. Following Glaser and Strauss (1998 [1967], p. 51), interviewees were selected through theoretical sampling, and they represented a wide range of different positions, from loan advisors to management positions. This sample of different positions and functions within the field allowed us to analyze everyday practices, shared knowledge, and subjective interpretations of legitimate banking strategies and practices. The interviews lasted on average 1.5 hours and focused on everyday practices, personal biographies, and general conflicts in ethical banking.

Our analysis of the interview data is based on the documentary method of interpretation (Bohnsack, 2014), which is particularly suited to reconstructing the implicit normative orientations actors refer to when resolving moral or institutional conflicts. These normative orientations are unconscious and must first be made accessible through sociological analysis. Since this is about incorporated knowledge,

> we do not assume that … we know more than the actors but rather that the actors do not know what they actually know. They thus have implicit knowledge that is not readily accessible in a reflective way. (Bohnsack, Nentwig-Gesemann, & Nohl, 2001, p. 11)

The documentary method is therefore particularly suitable for recovering milieu-specific forms of knowledge, which constitute shared spaces of experience based on mutual understanding and sustaining collective action (Bohnsack, 2014, p. 60). It therefore serves as the basis to analyze what's crucial in the ethical banks' orders of worth.

To reconstruct these implicit forms of knowledge, the documentary method differentiates between two forms of knowledge mirrored in two central analytical steps (Bohnsack, 2014, p. 136). *Formulating interpretation* analyzes communicative knowledge and provides information about socially "objectivized" knowledge, which is immediately accessible to large parts of society (Bohnsack, 2014, p. 61). In contrast, the second analytical step asks how action and sense is constructed in the interviewees' narratives. This kind of *reflecting interpretation* aims to uncover the implicit and sense-making normative foundations of social action.

To understand the problems and challenges that confront ethical banks, it is important to analyze what the underlying normative orientations are and how the actors deal with controversial situations within the ethical-banking sector. These underlying and mostly implicit processes of negotiations are important to establishing compromises and a common knowledge between ethical commitments and economic rationalities. By analyzing what is central to ethical bankers' implicit knowledge and what conflicts they have to deal with and how, we aim to contribute to understanding the normative basis that ethical bankers act on and the type of compromises that have a potential to be institutionalized at the organizational level.

## INSTITUTIONAL GUIDELINES, CLIENTS, AND CRITICISMS OF ETHICAL BANKING

Depending on their priorities, German ethical banks draw their ethical guidelines from ecological, social, or denominational contexts. Most strive for an equal consideration of social and ecological aspects. Aside from integrating SRI principles into their business practices, ethical banks follow the motto "use money to do good" (see Hampel, 2016) and claim to positively impact societal developments and to represent an alternative concept to the predominant financial-market structures. They share a disapproving attitude toward conventional banks and their business practices, which are held responsible for the 2007 global financial crisis. For example, the business profile of EthikBank draws a clear distinction between ethical and conventional banks: "We are bankers, not speculators" (Will, 2014). In a similar fashion, a position paper by the board spokesperson of GLS Bank distances his company from conventional banks, which, according to the paper, "have almost ruined entire countries in the past and cost taxpayers billions for bailouts. Too many bankers have cheated, bribed, and manipulated to fill their pockets" (see Jorberg, 2015).

By claiming to avoid the financial sector's negative external effects on economies and societies, ethical banks reject the idea of homo economicus and the corresponding concepts of corporate philosophy. Ethical banks are not oriented toward shareholder value. Nor do they offer monetary incentives such as bonus payments, which is part of their business policies. Contrary to neoclassical assumptions, which posit that the free play of market forces ensures optimum allocation, ethical banks emphasize a morally based distribution of money, which should benefit social purposes and not solely serve monetary interests. The mission statements of ethical banks accordingly put special emphasis on money as a public good:

> Ethical banking guides money to where it has a positive effect: Where money creates something good. (Steyler Bank)
>
> Money should serve people. (GLS)
>
> All lending has effects – we make sure they are the right ones. (Steyler Bank)
>
> As a bank rooted in Christian belief, we are committed to the preservation of nature, social justice, and peace. (Steyler Bank)[8]

To implement their ethical guidelines in business practices, ethical banks use elaborate screening methods. Lending and investment decisions are based on prescriptive rules specifying positive and negative criteria as well as on best-in-class approaches, and they usually undergo a multi-stage selection process. Decisions are also guided by ratings and rankings provided by sustainability rating agencies and consulting companies (e.g., Imug, Inrate, Sustainalytics, Oekom-Research AG). Although ethical banks focus their lending strategies on projects and companies in the industrial and agricultural sectors, they also pursue financial investment activities. These also have to follow the principles of sustainable investment. For example, securities offered by other companies are screened for environmental, social, and governance (ESG) criteria. Similar to the negotiation processes that characterize ethical banks' lending decisions, this approach complements aspects of profitability, volatility, and liquidity with criteria for sustainability and provides information on whether and how financial-service providers have taken into account ecological and social aspects in their analyses of specific companies. The specific principles, however, vary between banks. Triodos Bank and GLS

Bank thus emphasize an anthroposophical orientation, while UmweltBank legitimizes itself mainly through environmental protection, and EthikBank does not explicitly commit itself to any specific ideological perspective but highlights its political effectiveness. It supports a financial transaction tax and bank-critical and anti-capitalist movements such as Occupy. Banks with denominational orientations refer to Christian social doctrines and further legitimate their actions with reference to Christian charity.

Some of the banks examined in our study only work with financial products and funds that they established themselves. Such policies are explained in different ways: "If a fund screens its investments according to ESG criteria, it does not necessarily follow that it does not include an arms manufacturer" (Haas, 2016). According to the GLS Bank's financing and investment policies, "financial-market activities that may destabilize markets and, in effect, countries" (GLS Bank, 2015) – such as currency speculation, speculative investments in commodities, and investments in companies based in offshore financial centers – are excluded altogether.

Ethical banks primarily address clients and customers who identify with their criticism of conventional banking and who, according to the banks' self-descriptions, embrace a "lifestyle of health and sustainability" (see Mosch, 2011). A 2012 study on the overall potential of the social-banking market in Germany found that the main target groups comprised approximately 16 million people who valued social justice and ecological sustainability, the majority being female, urban, and highly educated and having an above-average income (zeb/ et al., 2012, p. 2).

But criticisms of the negative effects of the financial sector's activities are no longer restricted to certain social milieus. They have become connected to the widespread criticism of globalization and to public debates on sustainability. Due to the increased public awareness and appreciation of alternative economic concepts, more private customers and institutional investors are using forms of ethical investment (see Hiß, 2012, p. 90). In general, major cities – and especially the German capital – are considered promising markets, as Triodos Bank explained to the press on the occasion of opening its Berlin branch: "The capital and its surroundings are one of the most important regions for Triodos Bank. Many of our customers and clients call Berlin their home" (Wolf, 2016).

Based on our analysis of freely accessible documents about and from ethical banks in Germany, elements of an institutional order of worth emerge that demand a fairer banking system by criticizing the established financial market structures. Ethical banks' institutional order of worth is not based on individualized competition and is not exclusively oriented on profit. In addition, they criticize global non-transparent transactions and argue for regional and manageable banking transactions and businesses. The justification structures of ethical banks contain strong references to the collective, transparent, and fair allocation of funds. Their rejection of bonuses also shows that their employees are to measure their own business activities not by their own financial benefit but rather by the benefit to society. In light of these developments, a form of banking that has committed itself to presenting a socially responsible business model, contrary to the financial markets' growth compulsion, faces the question of how to tackle the requirements of its own expansion.

## JUSTIFICATIONS AND CONFLICTS IN ETHICAL BANKING

Our empirical findings document various moral conflicts and problems encountered by ethical bankers in their professional practice. Upon closer examination of these conflicts and problems, our research also reveals, however, that employees of ethical banks rarely perceive decisions concerning investment and lending as conflicted. A business-client advisor at an ethical bank gave an exemplary statement when he said that

> it's really interesting that we don't experience tensions because, as an ethical bank, we have clear rules …. If a project doesn't fit, then there's a clear reason for that. (5, 855–857)[9]

Other interviewees also mentioned the guiding function of self-imposed screening criteria, which they viewed as an effective protection against making wrong decisions. They said that excluding business relations in the alcohol, tobacco, nuclear energy, defense, and pesticide industries serves as a strong signal to investors. It is therefore, as one employee put it, highly unlikely that "a nuclear power plant would ask us for a loan. Nor would a manufacturer of cluster bombs. Or a liquor store." Tension and conflicts in everyday banking can thus be minimized, at least within the socio-ecological framework. One consequence of excluding certain investments that do not correspond to these legitimate values is that ethical banks have been protected from investing in areas and companies that have fallen into disrepute, especially since the global financial and economic crisis. For example, ethical banks categorically reject derivatives and speculative financial-market transactions.

Moreover, the employees did not primarily view the banks' increasing growth as a serious problem that hampers their professional activities. Instead, growing customer deposits and lending activities are first of all seen as encouragement for their ethical concepts. Economic growth is morally legitimized. In this regard, one employee stated that "it would be shameful to keep growth small." The moral justification for economic expansion then refers to the fact that "one cannot be sustainable without economic success." The economic expansion of ethical banks becomes particularly important for employees' self-image when it is interpreted as a sign of growing recognition. A credit advisor at a Christian bank saw the current growth of his bank as a "positive effect and boost," which also confirms that he is "doing the right thing." Sometimes people were "proud" of this "gigantic growth." In particular, employees also viewed the fact that ethical investments are conquering a wider sphere of activity and "are becoming more and more popular and penetrating the market" as well as "reaching other customer groups" as "a huge affirmation." In contrast to other employees, some interviewees also did not see conventional institutions' expansion into the area of sustainable banking as negative but rather as confirmation of their own pioneering role: "We may be small, but the big banks are looking to us. Then what we do must be right." Some employees thus view the growth of the bank positively and consider it proof of a strengthening democratization and participation in the banking system and state:

> So that's really a truly wanted growth, wanted by many people in Germany. And we can see that many people want to build a better banking system. They don't just want to leave their money at the counter and then it's over. (20, 935–938)

Despite this moral legitimization of growth, conflicts arise when ethical banks have to open up new markets because of their current growth. Although the screening process described above is an effective method to assure compliance with their ethical commitments, it also has inherent limitations. These limitations are particularly evident when ethical banks are confronted with growing deposits, which require that they expand into new markets. And when ethical banks expand to new lending areas, exclusion criteria and institutional frameworks do not suffice. To enter new markets, ethical banks have to develop positive justifications that comply with both their ethical principles and their economic goals. One employee described this conflict in a way that is representative of other interviews:

> This conflict is, on the one hand, doing business and, on the other, the, I don't want to say, these principles. So there are actually always these two positions that work against each other in this way there. It's great when they function in unison, but that's often not the case. And then we have to find a solution. (13, 502–506)

One of the greatest challenges is to resolve the tense relationship between "good business" – meaning profitable business – and the principles of their ethical commitments in such a way that it becomes manageable in various situations. Formulating these justifications is related to what is currently seen as the "biggest challenge" for ethical banks, namely, "creating enough lending business," as one interviewee put it. Due to their recent growth, ethical banks face the problem of matching the increased demand for ethical investments with sufficient and adequate projects to fund. An employee described this problem as follows:

> In terms of business, our bank is rather passive. That is, we have a lot of money from many people who were very eager to put their money in our bank or other sustainable banks. But then, in turn, to do business, you also have to make sure to get rid of that money by lending it. (25, 756–760)

Similarly, another employee viewed the entrepreneurial consequences of increasing investment customers as problematic. This makes it clear that ethical banks cannot only serve the normative or moral dimension but must also assume basic functions of money creation:

> because a bank only earns money by lending money at certain rates. What is deposited in the bank, that is, the money the customers bring and on which they get 0.5% interest, it only costs the bank money. We welcome every customer, of course. But first, they only cost us money and we need to find a way to invest their money in projects and loans. This is the biggest challenge now, and it will be in the future. Our growth largely depends on finding and financing the right projects. (12, 1019–1040)

One compromise ethical banks pursue to respond to the scarcity of ethical-lending opportunities is to "preferably focus on large projects that do not require much auditing, so it doesn't take too much time to lend large sums." But while ethical banks "used to be able to choose [their] projects" and "handle the sustainable segment on their own," as one interviewee told us, they now find themselves competing with conventional banks, which have become increasingly interested in ethical-lending and investment practices and are in a better financial position. In contrast to the positive interpretations of conventional banks' adopting ethical principles cited above, some employees pointed out the practical consequences of this diffusion. Now, not only do interested customers pose a practical problem for ethical banks, so do conventional banks, where the "current growth of sustainable banking is concentrated," as some employees mentioned. This penetration of conventional commercial banks into "previously uninteresting and unnoticed areas" of sustainable investment has been increasingly discussed as a problem. Multiple employees described how conventional banks appropriate the image of ethical banking:

> Just watch the new Commerzbank commercial where a young woman walks around Frankfurt and then ignore the images and just listen to the text and you'll think: great, they're an ethical bank; their ideals are the same as mine. (13, 494–499)

> I suppose that other banks looked very closely at what we were doing and tried to translate it for their own purposes. I mean, where did these large private banks get such a campaign about sustainability and so on? They must have got it from somewhere. And that is now becoming a problem for us. (4, 1023–1030)

From the interviewees' perspective, the mainstream adoption of ethical banking has resulted in a scarcity of credit opportunities, which is why ethical banks are increasingly having to turn to projects and investments that are characterized by higher economic profitability. One employee said:

> The conventional banks have discovered a market that one does not want to miss out on, [which is why we now] have to deal more or more intensely with these more profitable projects. We have to see that we can keep up. (9, 521–532)

Another compromise we reconstructed from the interviews responds to the relative scarcity of ethical-lending opportunities by applying looser lending criteria. As one credit advisor put it, we "do things that we wouldn't have done five years ago." When normative ethical criteria are loosened, one can observe a change from "hard" (e.g., anthroposophical or religious) to "soft" values and to a more popular understanding of sustainability. An ethical banker told us that his bank now focuses on "normal organic farms," whereas anthroposophical farms, which are characterized by a complex set of specific esoteric rules and have a rather low credit volume, have become less attractive as clients:

> We don't earn money if we lend half a million to a client like a farm with a specific esoteric or spiritual orientation. That is just not enough money in comparison to the huge effort it takes. Therefore, everything is reduced, and we become more conventional …. This is how we can earn money. But we need to find a way our clients will accept. (4, 730–733)

Ethical banks' loosened normative criteria and their embrace of popular cultural values such as organic farming require a legitimization that is acceptable for their clients. Ethical banks that are organized as banking cooperatives furthermore need to represent their members' interests and meet their obligations in paying dividends.[10] In this regard, lending to renewable energy projects is considered "an ideal compromise between economic efficiency and their principles," making them benchmarks for other lending options.

> In the case of renewable energies, economic viability is linked to these basic principles that our bank has, but that is of course an ideal. That is why in some cases they are opposed to one other, and then there are conflicts. (20, 516–518)

Lending decisions become more controversial when they concern projects less profitable than renewable energy, which at least until recently used to guarantee high profits. Although ethical banks consider organic agriculture, for example, as "very acceptable" due to the sector's congruence with their own aims, ethical banks increasingly refrain from financing organic farms. Arguments against funding such "dilemma projects," as ethical bankers call them, usually refer to insufficient profitability. This would clearly be an elimination criterion for a conventional bank. Ethical banks, however, are confronted with serious problems when economic realities seem to jeopardize their ethical commitments. Even lending decisions that seem to clearly benefit ecological aims may present conflicting detrimental effects as the following example of a planned wind farm shows. A bank employee reported:

> The first project that I worked on was to be constructed near a forest. That meant that a portion of the forest would have to be cleared. Besides that, bats and wild cats lived in the forest. Of course, you have to weigh the pros and cons – especially as a sustainable bank. On the one hand, it is a profitable business, but on the other, many trees will be cut down for this project, and it can have a strong negative impact on the environment and the flora and fauna. (25, 412–419)

While the bank aims to support projects that provide ecological benefits, it faces the dilemma of also causing ecological damage by investing in this project. The economic aspect, that is, the "profitable business" of wind power, occupies a key role in the balancing of interests, which legitimizes clearing the forest and displacing animals in favor of a higher ecological benefit.

Ethical banks are not only required to distinguish between ethical and unethical lending projects and to pursue a business morality that excludes certain markets; they also face the difficult task of making decisions among ecological lending options, which, in turn, require plausible and legitimate arguments for profitable market expansion. The same employee reported:

> Then we had to see how we could compensate for the damage. If a few hectares are cleared, an area of at least the same size needs to be reforested somewhere else. We had to judge whether we could justify that. Can we do something like this as a sustainable bank? We decided to do it because it is in a very good location. Not like a place where the wind turbines don't move most of the time. There's a lot of wind in this place and of course we said that if we can provide renewable electricity for six thousand households, this impact on the environment is justifiable. (25, 419–430)

The prospect of providing 6,000 households with green electricity is both an ecological project and a profitable loan. Limited negative ecological consequences could therefore be tolerated. Such compromises between ecological ethics and economic rationality enable ethical banks to expand their market activities and consolidate themselves financially. But the loosening of normative criteria also has repercussions on the banks' customer base. The lending activities of ethical banks largely depend on the consent of their clients and their voting members. A change in their customer base therefore has effects on the kinds of lending considered ethically legitimate. According to ethical bankers, most of their clients used to be "convinced people" who strongly identified with the banks' normative concepts. While these "convinced people" were willing to forego claims on interest and returns, recently acquired customers – especially those who have switched from conventional banks – are characterized as people who "want to change their behavior … but also … want their profits." Although ethical banks still refuse to give "maximum return," having to meet the demands of profit-oriented customers is one of the consequences of going mainstream. Ethical bankers interpret this as a tendency toward conventionalization:

> I think that someday this concept will not be successful anymore. Normal products or normal interest will be needed. If this goes on like this, it'll all be very conventional. Then nothing will distinguish us from big private banks. (24, 616–620)

## CONCLUSION: THE ETHICAL-BANKING PARADOX

Considering the insight of economic sociology that markets are always embedded and that moral norms can enable or restrict access to markets and serve as regulative guidelines, we examined normative justifications as crucial elements of an order of worth in ethical banking and the challenges caused by their expanding business. To investigate the practical problems stemming from this confrontation, our empirical analysis reconstructed how ethical banks legitimize their own banking practice and how they deal with difficult and controversial lending issues.

We observed that the exclusion criteria used by ethical banks fulfill an important orienting function and serve as the moral foundation for effectively restricting access to certain markets. From an institutional perspective, exclusion criteria could solve conflicting institutional demands (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Kraatz & Block, 2008; Pache & Santos, 2010). First, they consist in externally standardized guidelines, which are "conveyed by actors located outside of the organization[s] that disseminate, promote and monitor them across the field" (Pache & Santos, 2010, p. 11). Such powerful external actors might be international federations like the Global Alliance for Banking on Value (GABV), concepts like the triple-bottom-line approach, or valuation systems such as the ESG and SRI approaches. Despite different world-views and moral persuasions (e.g., ecological, religious, and political ones), almost all ethical banks use such criteria in similar ways. Second, exclusion criteria distinguish ethical banks from conventional institutions that are also pursuing SRI. They therefore not only serve as an orientation but also fulfill an important identificatory function for the banks' employees: identity "functions as a filter for interpreting and responding to strategic issues and environmental changes" (Glynn, 2008, p. 418; see also Kodeih & Greenwood, 2014, p. 9). In addition, the fact that ethical bankers deny the existence of tensions between their ethical commitments and economic growth demonstrates the strength of these ethical criteria. As long as ethical business practices can refer to these justifications, economic growth is not a practical problem. Instead the bank's own expansion becomes morally legitimized and is seen as indicating societal recognition.

Using publicly accessible documents published about and by ethical banks, our analysis of institutional guidelines initially shows a strong rejection of conventional practices and instruments. Ethical banks thus formulate a critique of the order of the conventional-banking system, which – similar to the described market world – is based on supply and demand, individual success, a strong belief in competition and global transaction to gain profit. At least at the institutional level and in their business models, ethical banks belong to the civic world since they try to go beyond pure self-interest and instead orient themselves toward the welfare of the community. Employees' performance is neither measured by individual success nor honored by bonus systems. Instead of the principles of success and performance, ethical banks rely on the principles of fairness and equal pay, which are expressed in child benefits, and sabbaticals. However, it turns out that this order of worth comes under pressure when it is confronted with the market world, which is gaining importance due to ethical banks' growth and the spread of ethical-banking practices to conventional banks. Despite this strong criticism of the mechanisms and practices typical of conventional banking, employees assess the economic growth of their own sector positively and separate themselves from conventional banking by morally justifying the economic expansion of ethical banks.

Yet while excluding certain lending options harmonizes the latent conflict between ethical self-commitment and economic expansion, the balance between ethical and economic principles becomes fragile when ethical banks enter new markets where ethical banks must compete with conventional institutions to attract customers. To maintain a balance between market justification and the principles of ethical banking and to avoid conflicts between the two, ethical banks need to constantly renegotiate their principles of justification. Ethical banks are not only confronted with the challenge of distinguishing between ethical and unethical investments and excluding certain markets and lending areas, economic expansion also requires market-enabling strategies. In other words, they are confronted with an order of worth that has had little if any influence on their actions up to now: the world of the market. There are several reasons for this. On the one hand, they must meet the growing demand for ethical investments, and selecting projects and companies using the exclusion criteria is no longer sufficient. Second, ethical banks must compete with conventional institutions to attract customers and borrowers. Consequently, decisions about ecological or sustainable lending options must be ethically and economically justifiable. Our reconstructions show that ethical banks react to these internal conflicts and requirements with compromises that provide economic justifications for their ethical obligations, which could thus change the logic of the field.[11] These new orientations could in the long run "define what actors understand to be the appropriate goals as well as the appropriate means to achieve these goals" (Pache & Santos, 2010, p. 11; see also Scott, 2001). Because economic profitability plays a crucial role in the conflict between market limitation and market expansion, ethical principles may lose their priority.

In addition, we observed a change in ethical banks' customer base, which is due to their economic expansion. As the acceptance of criteria of economic profitability increases, so does the number of customers who have different attitudes toward – and interests in – ethical banking. Unlike ethically committed customers, whose interests were not primarily financial, new clients claim their returns. To meet the rising demand for ethical funds, ethical banks have needed to open up new fields for lending. Since increased demand for ethical-banking practices has also led conventional banks to create sustainable funds, suitable investment and lending opportunities have become scarce. This has made it more difficult for ethical banks to meet their customers' demands for returns, interest, and dividends. The impact of changing customer demands on the practice of value-based companies is similarly evident in the ethical fashion industry. Schiller-Merkens (2017) noted that ethical fashion designers' dependence on the British Fashion Council (BFC) has contributed to a change in self-descriptions. The transition from activist self-images to entrepreneurs has been supported by the fact that "they participate in the fairs, programs and workshops organized by the BFC, where they become increasingly socialized with the beliefs, norms, and values in the fashion market" (Schiller-Merkens, 2017, p. 230).

Similar to how the BFC has influenced the self-description of ethical fashion designers, who increasingly perceive themselves as market-oriented, conventionally oriented customers in the ethical-banking industry support a shift in ethical criteria toward marketable compromises. Both ethical fashion designers and ethical banks rely on the material and immaterial support of external actors. In the case of ethical fashion designers, it is the BFC; in the case of ethical banks, the customers increasingly articulate financial interests.[12] In general, these developments point out the limited assertiveness of sustainability in markets: sustainability and related orders of justification claimed by ethical banks are incompatible with marketization.

Our analysis thus reveals the paradox that in light of their economic expansion, it is becoming increasingly difficult for ethical banks to afford financial activities that comply with their ethical commitments. The fact that ethical banks' guidelines have gained widespread societal acceptance can be interpreted as a strengthening of ethical principles, which allow for an exclusion of markets that are perceived as unfair. But once the appreciation of ethical banks manifests itself in their economic expansion, ethical banks need to develop market-enabling strategies that pursue the same ethical guidelines that are vital to their success.

## NOTES

1. All translations of citations from the research literature are our own.
2. As of yet, there is no uniform definition or application of SRI. Both overarching guidelines and their practical applications present considerable national and international differences. Louche et al. (2012, p. 302) stated that different designations such as *socially responsible investment*, *ethical investment*, *sustainable investing*, *triple bottom-line investing*, *green investing*, *best-of-class investing*, *ESG investing*, *impact investing*, and *responsible investing* partly reflect the various lines and foci of historical developments in responsible or ethical banking. For the sake of uniformity, we use the term socially responsible investment (SRI).
3. Unlike conventional banks, which also set up sustainability departments, ethical banks base their entire business concept, including the policies and infrastructure of human resources, on ethical criteria.
4. www.banktrack.org/download/2ee9224/160609_code_of_conduct_en.pdf
5. www.db.com/cr/de/konkret-Kulturwandel-Fragen-und-Antworten.htm
6. For a general sociological perspective on sustainability (see Neckel et al., 2018).
7. The research project was led by Sighard Neckel. Sarah Lenz investigated professional morality in ethical banks while Claudia Czingon did the same for conventional banking. For other findings of this research project, see Czingon (2016), Czingon and Neckel (2015), Herzog, Hirschmann, and Lenz (2015a), Herzog, Lenz, and Hirschmann (2015b), and Lenz (2016). For a comprehensive analysis of our research, see Neckel et al. (2018); for a more comprehensive analysis of ethical banks, see Lenz (2018).

8. Since the empirical analysis is based on documents and interviews in German, we have translated the quotations for this publication.

9. Since our analysis is based on the documentary method, it is interested in shared knowledge and underlying orientations, not individual opinions. For this reason and for better readability, condensed metaphors from the interviews are simply in quotation marks. For longer quotations and complete sentences, we include the corresponding interview number and position in the transcript.

10. In 2011, the member assembly of GLS Bank decided to establish a dividend of 2–4% on cooperative shares after regulators had increased the capital requirements for financial service providers and decided that only cooperative shares contribute to a bank's capital (Fischer, 2011). Members of Triodos Bank enjoy rights similar to those of shareholders.

11. What effect the microlevel negotiations have on the mesolevel of the field must remain open at this point and requires further research.

12. The relationship between ethical banks and their customers suggests that the latter hold powerful positions in the transformation of ethical banking. Since our study focuses on bank employees' perceptions and experiences, the question of customers' real power must remain open.

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