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How do ethical banks produce returns compared with conventional banks? A comparative analysis based on the Balanced Scorecard metrics

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ABSTRACT

This article studies some differences in the functioning of conventional banks versus value-based banks. The empirical analysis has proven that three factors influence bank risk-taking levels: organizational mission, bank ownership and compensation schemes. Prioritizing shareholder value maximization, delegating control and decisive power to institutional investors and structuring employee compensation schemes with a variable part short-term performance-oriented, lead conventional banks towards riskier activities.

JEL Classification: M14, M21, M40

KEYWORDS

Financial Crisis, Conventional banks, Ethical or Value-based banks, Corporate Governance, Financial measures, Non financial measures, Risk-taking.

RESUMEN

Este artículo estudia diferencias en el funcionamiento de los bancos convencionales en relación con los denominados bancos éticos. El análisis empírico demuestra que hay tres factores que influyen en los niveles del riesgo bancario: misión de la organización, propiedad del banco y política salarial. Priorizar la maximización del valor de los accionistas, delegar el control y poder decisivo a los inversores institucionales y retribución variable orientada al rendimiento a corto plazo, hacen que los bancos convencionales se orienten hacia actividades más arriesgadas.

Clasificación JEL: M14, M21, M40

PALABRAS CLAVE

Crisis financiera, bancos convencionales, bancos éticos o basados en valores, gobierno corporativo, medidas financieras, medidas no financieras, asunción de riesgos.

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1. Introduction

Value-based bank arose in the 1970's as a response to social and environmental concerns such as wealth inequalities, environmental issues and gender gap. Since then, the term *"value–based bank"* or *"social bank"* has long-been considered a complex concept to define. The Institution for Social Banking (2018) defines value-based banking *"as financial services whose principal goal is to contribute to the development and prospering of people and planet today and in the future"*. All definitions share a common perspective that is centered around society's prosperity and preservation of our planet. The co-founder of the Global Alliance for Banking and Values 'GABV' and co-founder of Triodos Bank Belgium, Frans de Clerck, provides a more detailed explanation: *"Institutions that are trying to make triple bottom line a reality"*. The term *triple bottom line* is a unique feature among value-based banking and social finance as opposed to traditional financial institutions which based their approach on a *"single bottom line"* (e.g. profit maximisation). Value-based banks apply three different princi-

ples to their investment decisions and lending opportunities: profit, people and environment (Paulet *et al.*, 2015). Two other characteristics also differentiate value-based banks from conventional banks: transparency and human development. The former one aims at raising consciousness and responsibility, which are considered core attributes in their missions, with the sole purpose of maximizing transparency and consequently reduce asymmetric information issues (Weber and Remer, 2011). For value-based banks, the later characteristic toughly prioritizes the development, evolution of communities and capacities rather than profit, considering money an instrument for social change. Hence, altering the traditional banking business model towards a sustainable and eco-friendly lifestyle rather than solely representing the view of shareholder's, which is to increase returns.

According to these criteria, 54 financial institutions worldwide meet these features, ranging from banks and cooperative banks to credit unions, micro finance institutions and development banks. These financial institutions are predominantly members of the Global Alliance for Banking on Values (GABV, 2019). Founded in 2009, the GABV is an international network of banking committed to positively change the banking sector, with the aim to provide a more transparent banking system and use finance to provide sustainable economic, social and environmental development. To be a member of the GABV, the prospective bank needs to meet five criteria based on the "GABV Principles of Values-based Banking". The bank needs (1) to follow a triple bottom line approach in their business model, (2) serve the real economy as opposed to mainstream banks which emphasize on financial markets, (3) build long-term relationships with clients, (4) long-term, self-sustaining and resilient to outside disruptions and (5) maintain high level of transparency and inclusiveness in governance and reporting (GABV, 2019).

In 2012, the GABV published some unique evidences: value-based banks offered more stable returns to investors than the world's largest and most influential banks between 2007-2010. These results emerged in the wake of the 2008 Global Financial Crisis, which unveiled the significant impact the banking sector has on the world financial stability and exposed the flaws of the financial system. It also evidenced a misalignment between the priorities of these financial institutions and those from the bank's *stakeholders* (Federal Reserve Bank of New York, 2011). Thenceforth, a considerable number of adjustments in the banking sector have been implemented, aiming to protect consumers from the excessive risk-taking activities of mainstream financial institutions (FSA, 2009; Dermine, 2013). The GABV's report provided a new scope of research in the financial sector as value-based banks could potentially become a new significant player in the soundness of the financial system. However, the report mainly consists of a

comparative financial analysis between value-based and conventional banks without providing a theoretical ground explaining the linkage between the financial performance and the rest of the business operations and organisational structure.

Consequently, the purpose of this research is to find key differences that may potentially explain the distinctive return pattern of value-based banks as opposed to conventional financial institutions through the four Balanced Scorecard perspectives: financial, internal processes, customer view and learning and growth. The research will be performed based on two value-based banks, and two conventional institutions. In this article, we analyze profoundly these banks using publicly available data and based on the four perspectives of the Balanced Scorecard with the aim of identifying the similarities and discrepancies between them.

The methodology has consisted in gathering both quantitative and qualitative data. A deep information research has been conducted in order to build four strategic maps for the selected data sample: Two value-based banks (Triodos Group and Banca Popolare Etica) and two conventional banks (Caixabank and BBVA). The initial analysis consisted of identifying key performance indicators ('KPIs') for each balanced scorecard perspective and find the relevant information for each metrics from public available data between the years 2014-2018 based on annual reports, environmental reports, quarterly financial statements, pillar 3 disclosures and information disclosed on the website. Then, the measurements were linked to each organization strategy as an interphase to construct the strategic maps, which were built in consistency with the principles dictated by the research paper from Harvard Business Review (2000) "*Focusing Your Organization on Strategy – with the Balanced Scorecard"*. The purpose of this evaluation methodology was to identify main similarities and discrepancies in the way the selected financial institutions defined their main strategic priorities and metrics.

2. Data analysis & results

Triodos Bank:

- Profitability show positive signs with a ROE of 3,6% in 2018 (vs. 3,9% in 2017) continuing its strategy of maintaining a fair and stable return with an average ROE of 4,2%.
- Total net interest income grew 10.8% from 2017 to 2018 strongly focusing on fees and commissions as a main driver of revenue growth; commission income accounted for 35% of total income in 2018 and

2017, triggered by the low interest rate environment.

- Total assets rose 10% in 2018, in which 78% are centered on the real economy and 77% of its total assets are Triple Bottom Line assets. These assets have approximately amounted between 72%-83% of the total since 2014. These relatively high ratios are explained by the direct connection of value-based banks to finance the real economy due to its positive impact on people's lives and environment.
- The quality of loans has remained satisfactory across the years above market average. It has had a slight impairment increase to 0,05% for the average loan in 2018 (0,03% in 2017).
- Regarding regulatory requirements, Triodos has a solid common equity Tier 1 ('CET') and robust capital ratio well-above the regulatory constraints of 6% and 4,5% (Moody's Analytics, 2013) and has maintained an average capital ratio of 19% since 2014. Likewise, its Liquidity Coverage Ratio ('LCR') is remarkable with 227% ratio in 2018 and 642% in 2014, significantly mitigating liquidity risk.
- Additionally, in terms of internal processes, the cost-to-income ratio was of 80% in 2018 vs. 79% in 2017, despite efficiency gains across the business, which was mainly driven by regulatory pressures and Brexit. Improving efficiency in business operations is a key strategic priority for Triodos in the next years driven by a need for digital transformation.
- From a customer perspective, the growth in income and loans is also driven by the increase in the number of customers of 5% from 681.000 in 2017 to 715.000 in 2018, which is also in line with the growth of retail and business deposits. It is important to highlight that households and organizations are subject to a set of criteria by Triodos with the purpose to evaluate the degree of sustainability as Triodos supplies credit only to sustainable and responsible businesses. Moreover, the bank relies heavily on retail deposits as its operations pivot around the real economy and not on money markets, which make asset quality a core approach to banking in Triodos to further promote strong customer relationships and base. It is additionally reflected through its Net Promoter Score, which is a measure of the loyalty of a firm's customer relationships, of 25 and 27 in 2018 and 2017, respectively and above the average of large banks of 20 (in a scale from 0 to 100).
- Moreover, Triodos has had a 40% increase from 2014 to 2018 in employment.
- Another main strategic priority for Triodos is to become a learning organization. This management vision is reflected through the rise of

training days per employee, from 4,3 days in 2014 to 5,5 days in 2018 (growth of 24%) supported by Triodos Academy. Triodos fosters a culture of intra-entrepreneurship, equality and diversity for its employees reporting almost a 50:50 ratio of female and male employees in 2018 and in the previous year's (49,3% in 2018 and 50,5% in 2017) with 36% women board members.

- Has a salary spread (measured as the average ratio from highest to lowest salary; being those of the CEO and entry level position) of 9,8x and an average ratio from highest to median salary of 5,6 in 2018 and 5,7 in 2017 compared to a median in the Banking Industry of 45:1.
- Triodos Bank believes financial incentives are not an appropriate method to motivate and reward its employees, which means it does not offer any type of bonus or variable compensation to either the Supervisory Board, SAAT ('Foundation for the Administration of Triodos Bank Shares') nor co-workers and rather has an extraordinary system of "Token of Appreciations".
- As per annual reports and KPIs analysis, the key measurements have been linked to the strategy to construct a strategic map for Triodos Bank (figure 1).

Triodos highlights three main points in their strategic plan for 2019-2021: (1) Strengthen the bank by improving efficiency, higher customer satisfaction and empowering co-workers, (2) unlocking their purpose in terms of impact assessment, products offered and financial optimization, and (3) become a frontrunner in responsible finance. These objectives are separated into the 4 main BSC (Balanced Scorecard) perspectives which contribute to the ultimate objective of Triodos: to use finance to positively impact the economy by balancing impact-risk-return.

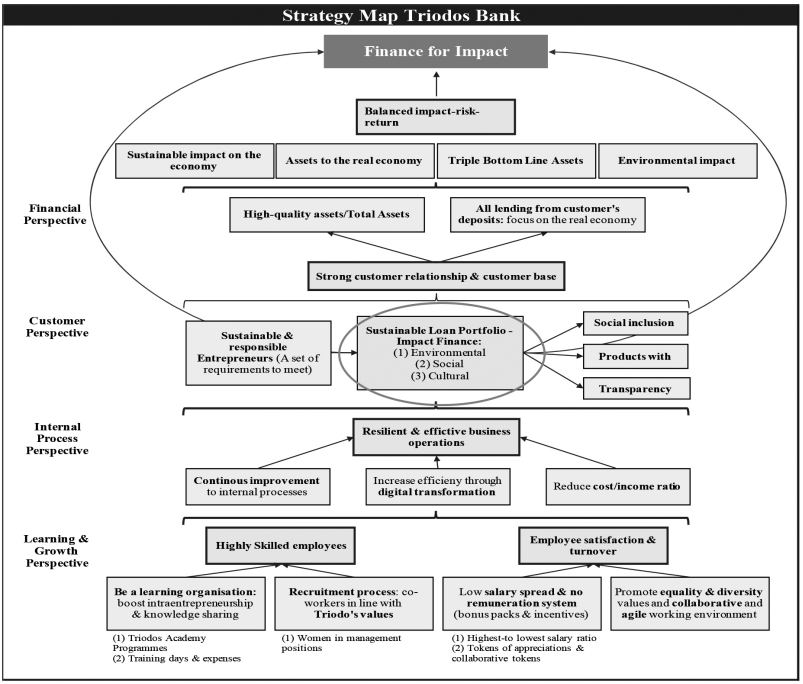

Figure 1. Triodos Bank Strategic Map 2019-2021.

Banca Popolare Etica ('Banca Fiare' subsidary in Spain/ 'BPE'):

Since the institution received its banking license in Italy in 1999, it has grown considerably across Italy and Spain, focusing primarily in raising savings to finance ethically oriented projects.

- From 2014 to 2018 the bank maintained an average ROE of 3,4% with a peak of 5,22% in 2016 due to the opening of new offices in Bilbao which saw a significant increase in the volume of depositors (11% growth in 2016) and loans (total debt grew by 26,2% in 2016).
- It is further reflected with the substantial net profit growth, between 2015-2016, of 445,8% and as of 2018, it reported a net profit of €3,2m, a 44,6% increase from 2017.
- Also, in 2018 it reported €1,9bn in total assets compared to €1,1bn in 2014 (equivalent to a 59% growth). Additionally, the number of partners has grown 8% since 2014 leading to a net equity growth of 41%, from €49m in 2014 to €69m in 2018.

- BPE has a unique shareholder structure that is characterized by the principle of "shareholder supremacy". Shareholders have the same voting power regardless of the number of shares held which is based on the concept of 'one person, one vote'. To become a partner of BPE you need to open an account and purchase a minimum capital of 5 shares at a price of €57,5.
- Concerning its organizational structure, BPE has established the GIT ("Territorial Initiative Groups") which are social groups elected at the local level with the aim to spread ethical finance within the territory, strengthen relationships with organizations and companies that work for a new economy and promote a culture of responsible "use of money".
- Moreover, another strategic priority is to improve external and internal process effectiveness through digital transformation. The cost-to-income ratio has remained approximately around 74% since 2014, due to the significant investment in technology. For example, the development of "Light branches", which is the replacement of the retail counters by automatization process to eliminate reductant costs and increase the productivity of the retail service.
- In addition, they've implemented the Flexcube project and the overall Bank has also carried out an IT migration to Cabel Holding system. From a customer perspective, the number of depositors has grown by 14% between 2017-2018, enlarging the customer base of BPE and allowing for further rise in financing with a total number of financed individuals of 12.265 by 2018 (22% growth since 2014).
- The net credit to clients has also grew by 47% since 2014, from €604.837 in 2014 to €891.139 in 2018.
- A main strategic priority for 2018-2021 is to protect credit quality, which is reflected through the significantly decrease in impaired loans by 40% since 2014, even though bad loans credits have risen by 22% since 2014. Within this aspect, Banca Etica has a strict credit policy, based on a fundamental analysis that needs to be consistent between the Bank's Code of Ethics and its operational activity.
- Regarding the learning and growth aspect, the number of employees has increased by 32% since 2014.
- Women employees account for 45% of the total workforce in 2018 with 25% being females in management positions compared to 43% women employees in 2015 and 20% females in management positions.
- Additionally, one of the key values of BPE is "sobriety", which is reflected in their pay policy and it translates in the promise of keeping a salary spread below 6x.
- In terms of employee's development, training hour per employee has lessened from 62 hours in 2014 to 49 hours in 2018 and training ex-

penses have also decreased by 42% since 2014. However, BPE aims to create a training course on digital communication tools for its members and two other training courses for GIT coordinators and social evaluators with the purpose of increasing the value and development of human capital.

Through the KPIs analysis, a strategic map has been constructed for BPE (figure 2) by linking the measurements to the 2018-2021 strategy of the Bank. Its main mission of is to recover the social value of money by mainly focusing on the non-economic consequences of the financial activities, which is considered a key priority according to their materiality matrix of 2018.

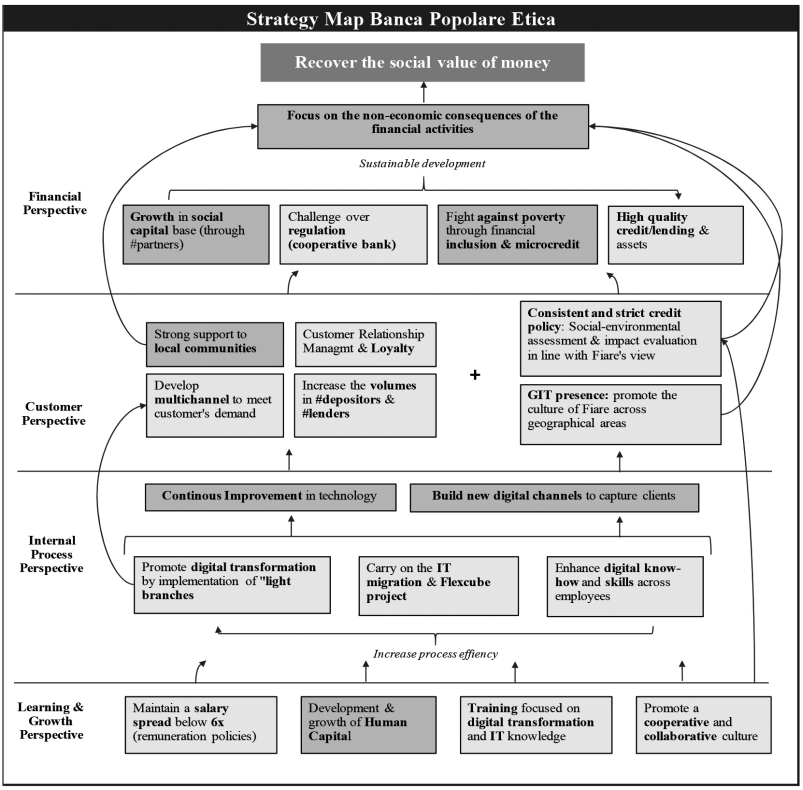

Figure 2. BPE Strategic Map 2018-2021.

From a bottom-up approach, they manage to achieve the goal by firstly investing into their workforce through training in IT, promoting a collab-

orative and cooperative culture. The focus on digital transformation within their internal management processes leads them to build new channels to capture more clients. From a customer perspective, their main priorities in the upcoming years would be to continuously support local communities financially and build long-term customer relationship by developing multi-channels to meet customer's demand leading to increase volumes in terms of depositors and lenders. Meanwhile, Banca Etica maintains its strict credit screening policy which allow for a healthy and sound financial position, with a special focus on fighting against poverty while keeping a high-quality portfolio to achieve the final goal of sustainable development.

Caixabank ('CABK'): Caixabank has developed financial resilience during the past five years.

- Profitability has evidenced a positive trend having ROE, ROTE (return on tangible equity, whichs means total equity minus intangible assets) & ROA experienced a 5%, 6% & 0,3% increase since 2014 respectively.
- Also, the average payout ratio has been greater than 50% and the dividend per share has remained high (avg. 0,16€/share); in consistency with their main goal of improving shareholder value. Both revenue and net profit have followed a decelerated growth trend, evolving from 14% growth in 2017 to 3,4% in 2018 and from 61% in 2017 to 18% in 2018 respectively.
- Last year, fees & commissions reached up to 53% of total revenues, mainly driven by the low interest rate environment in Europe.
- In terms of liquidity, Caixabank proves to have enough resources to cover its short-term obligations, since it has an average LCR of 181% during the past years and 20,6% of liquid assets in 2018.
- On the matter of solvency, the bank has been able to reduce the non-performing loans by 5% since 2014 (from 9,7% to 4,7% in 2014 & 2018 respectively). Moreover, it maintains a capital requirement and CET1 ratio over regulatory levels (15,6% & 11,8% respectively) and has also managed to decrease the risk-weighted assets RWAs by 3,5% during the period.
- CABK processes have proven to be more efficient during the 2014-2018 period, managing to reduce operating expenses in relation to revenue income (efficiency ratio has diminished 2% since 2014), thanks to the embraced digitalization process.
- Also, its solid market share has experienced an upward trend since 2014, achieving a 5,5% growth. Regarding the customer perspective, during the period the customer base has increased from 13,4m in

2014 to 15,7m in 2018. Both customer funds and credit have experienced an average growth of 7% and 3% since 2014, both suffering a slowdown in 2018, due the customer base standstill.

- The global Customer Satisfaction Index ('CSI') has been strong for the past years averaging 8,7 out of 10 points, in concordance with the excellent customer relationship the bank prioritizes.
- From an employee's view, the percentage of women in management positions follows a positive trend, being 40% in 2018. However, only 28% of females represent the Executive Board, which is still a minority.
- Also, the salary spread has significantly widened, from 163x to 228x within 2014 & 2018 respectively.
- Both the investment in training expense and hours per employee have been increasing over the period up to 434€ and 72h per employee in 2018, emphasizing the strategic customer-oriented, digital & socially responsible workforce ambitioned.

A top down approach captures its strategy, for the period 2019-2021, in a 5-level map (figure 3 contains the strategy map). The ultimate objective of CABK is the improvement of shareholder value. Regarding the financial perspective level, two possible routes have been defined to improve shareholder value: The revenue growth strategy and the productivity strategy. The first one ambitions to understand the customers' habits and differentiate accordingly. It is planned to be accomplished through an increase in core revenues and through the addition of new product and services, fruit of the digitalization & digitization transformation the bank is currently embracing. The second strategy aims to improve the cost structure and divest in non-strategic assets. CABK is targeting a lower recurring expense than revenue growth, with the purpose of widening the cost-income jaw. Also, a non-strategic asset reduction is expected (Non-Performing Loans ('NPLs') decline, equity investment portfolio rebalancing, etc.).

The former financial objectives will be accomplished through an appropriate customer strategy. The bank focuses fundamentally in the organizational reputation. The desire to be seen as a socially responsible bank is a priority. The attributes of its products and services are supporting the first goodwill pillar, providing safety, quality, innovation and functionality in their solutions. Finally, ensuring the best experience in all channels and offering tailored solutions to customers is also essential. In relation to the internal processes that will enable the customer strategy, four main points are worth highlighting. First, new processes will be adapted to provide the new products and services fruit of the digital transformation. Second, a more digital profile will be encouraged and promoted among teams. Third,

back-office processes will become more efficient through technology advancements, which will directly contribute to the cost structure improvement. Fourth, new process design needs to enable the establishment of a responsible banking and social commitment culture within the organization, which will increase overall stakeholder satisfaction, contributing to shareholder value improvement. The workforce of the bank will enable the accurate design and implementation of the internal processes' improvements through the learning & growth perspective level: Promoting customer-oriented, digital and socially responsible skills among employees, fostering a flexible technological structure and emphasizing a people-centric, agile and collaborative culture within the bank.

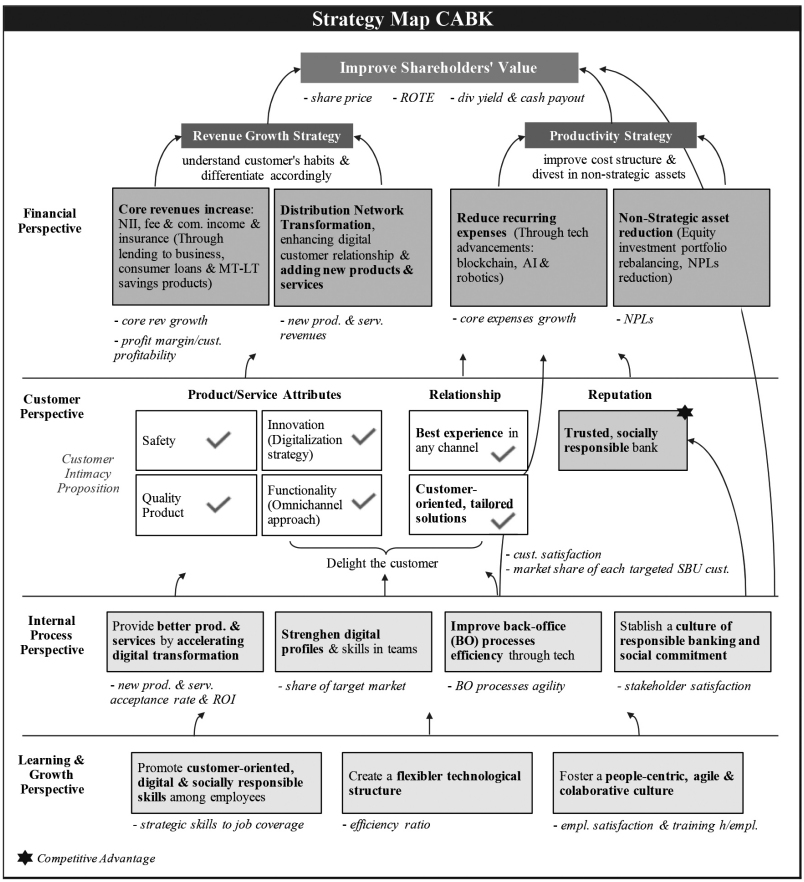

Figure 3. CABK Strategic Map 2019-2021.

Banco Bilbao Vizcaya Argentaria ('BBVA')**:**

- BBVA improved its financial robustness, achieving strong profitability ratios of 11,6%, 14% & 1% (ROE, ROTE & ROA respectively) above industry average.
- Also, the average pay-out ratio has remained within their yearly target of 35-45% but the semi-annual dividend per share has slowed down by 0,05€ in respect with 2017. Nevertheless, the resilient and steady pay-out ratio is in line with the bank's main goal of achieving greater shareholder value.
- Although recurrent revenues (net interest & fees & commission income) experienced a slight growth break of 5% in 2018, net profit evidenced an important growth of 51,3%, from 3.519 to 5.324m€ in 2017-2018; explained by the lower financial asset impairments losses (2017 the bank suffered a loss on its Telefónica share equal to 1.123m€) and provisions the entity had to incur last year in comparison with 2017 (due to a reduction of defaulting).
- On the matter of liquidity, BBVA has maintained a healthy LCR above 100% all years, reaching 128% in 2017.
- Also, NPL (non-performing loans) were successfully reduced by 2% since 2014 (from 6% to 4% in 2014 & 2018 respectively) & the NPL coverage ratio progressed up to 73% in 2018. Moreover, it holds a total capital & CET1 ratio over regulatory levels (15,7% & 11,3% respectively) and has also managed to decrease the RWAs by 2%, being 54% in 2014 and 52% in 2017.
- Due to the successful cost containment and increase in revenues achieved by a higher degree of digitalization since 2014, BBVA process efficiency has improved by 2%, having the efficiency ratio (operating expenses over income) evolved from 51% to 49% in 2014 & 2018 respectively. Also, the credit borrowed to customers and the customer funds deposited have showed a negative growth trend since 2014 (being steeper the credit trend) mainly driven by the progressive decelerated trend in the customer base (being 74,5M in 2018).
- As a result, the loan-to-deposit ratio diminished to 77% last year.
- From an employee's view, those shrank 9% since 2015**,** mainly due to fact that they recently sold BBVA Chile, which accounted for approximately 4.005 employees and due to the technological transformation carried out in South America and Turkey.
- The percentage of women in management positions has significantly improved up to 54% but the female executive board representation worsened down to 18% last year.

- Moreover, the salary spread has noticeably widened, from 73x to 180x in 2014-2018 respectively; and the investment in training expense per employee has followed a positive trend over the period up to 394€/empl., unlike the training hours per employee, which shrank to 47h in 2018.

Next, BBVA measurements have been linked to the strategy. Again, a top down approach captures the current strategy of the bank (figure 5). In the first place, the main organizational purpose of BBVA is to achieve greater shareholder value (like CABK), through the maximization of the share price, profitability ratios ROTE & ROE and the maintenance of the target pay-out ratio (35-45%). Then, net income can be improved either through revenue growth or productivity increase. The bank is expecting to support growth with a positive performance on the more recurring items (NII, Fees & commissions, trading income & entrepreneurship ecosystem activity) and with the addition of new digital business models (100% digital products & services offering), fruit of the transformation strategy the bank is embracing. Thereafter, targeting an unrivalled cost efficiency, an optimal capital allocation (focusing on the most relevant business activities) and continuing with the non-strategic asset reduction; BBVA is planning to improve its cost structure and core robustness. The former financial objectives will only be accomplished with a customer strategy that aims to strengthen the relationship with the customers. Providing the best omni-channel experience and excelling at tailoring the customers' offering so they are simpler, more transparent and faster, are the basis of BBVA customer strategy. The products and services attributes support the main pillar, providing safety, quality, innovation and functionality in their solutions (like CABK). On the matter of reputation, building a trusted, honest and socially responsible image is also important for the organization. In relation to the internal processes supporting the overall performance of the BBVA, new processes will be adapted and evolved to provide the new digital products and services, with the maximum agility, simplicity and automatization; contributing to improve efficiency. Also, the new process strategy needs to emphasize the establishment of a responsible banking and social commitment culture within the bank, which will contribute to a greater shareholder satisfaction. Finally, through the construction of a first-class workforce, which is people-centric, digital, collaborative, diverse and empowered BBVA will be able to fulfil the strategic priorities, creating opportunities for greater SH value.

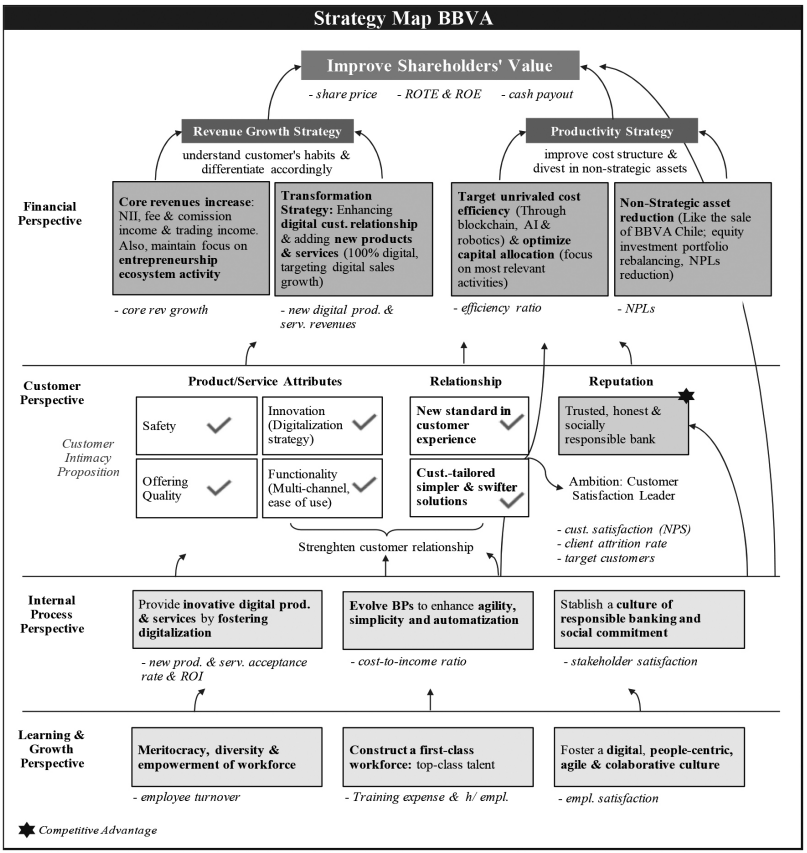

Figure 4. BBVA Strategic Map (2018 – Onwards).

3. Results

Based on the data gathered from the analysis conducted in the above-mentioned financial institutions, three critical points have been identified:

Real economy vs financial economy

Value-based banks deliver a business model that takes into consideration the long-term view of profit and prosperity. In line with this, value-based banks solely focus on providing financial services that positively impact to the real economy, by providing simple financial products to their customers and corporates clients and do not provide complex financial

products like traditional banks. Institutions, such as BBVA and CABK, have a robust commercial division providing all type of financial instruments to their corporate clients like hedging instruments (swaps, options, futures, forwards) and complex credit lines. Therefore, the underlying risk inherent in the products offered by conventional institutions is higher than in more plain ones (e.g. credit cards, saving/current accounts, etc.). Moreover, value-based banks perform a stricter credit screening process by establishing a minimum set of criteria, in line with the values and mission of the institutions, that need to be met by the potential lenders, giving greater importance to the qualitative impact rather than the quantitative aspect. Oppositely, the credit screening criteria for conventional banks mainly focuses on the project's riskiness. The difference in the credit screening process by value-based banks is further nurtured by the need of transparency in the financial system. For both Triodos Bank and BPE, transparency is considered a core value in their business model and lending criteria, which reduces the likelihood of asymmetric information and strengthens their balance sheet position with less level of loan impairments and damage credits. Therefore, the main reason behind these investment criteria differences is driven by the distinctive organizational missions of the banks: (1) value-based banks offer financial solutions to positively impact society and (2) conventional banks focus on generating shareholder value. It evidences that conventional banks considerably suffer from a misalignment between its *shareholders*' and *stakeholders*' interests. Conventional banks are inclined to engage on a short run perspective, leading towards a higher risk-taking bank activity as opposed to value-based banks which prefer the long run impact of its operations while focusing on stakeholder's wealth.

Shareholder Structure

Value-based banks have limited the maximum ownership hold by a single investor, being 10% in Triodos Bank and the implementation of 1-person 1-vote cooperative concept in BPE, both aiming to protect their core mission and objective. In contrast, Caixabank & BBVA shareholder structure is mostly composed by institutional investors: (A) Criteria Caixa owns 40% and another 40% is owned by other institutional investors and (B) In BBVA, 54% of the shares are owned by the top 10 institutional and investment funds investors. The presence of institutional investors in banks ownership structure has been proven to increase the riskiness of them, since bank risk-taking is positively correlated with the comparative power of institutional shareholders within the corporate governance structure of banks (Laeven and Levine, 2009). The strong institutional presence influences the banks' operational direction, tipping the balance in their own favour and

thus prioritizing the shareholder value improvement (inclination towards volatility and short-term perspectives) at the expense of the other *stakeholders*' interests (low volatility and longer-term views). By limiting the influence of *shareholders* on the decision-making of the financial institutions, value-based banks manage to protect their mission and values from external disruption and potential excessive risk-taking activities led by *shareholders* with the purpose of generating greater returns. Thus, value-based banks are less inclined to movements in the market and economic cycles.

Incentive model & salary spread

Employees and directives in value-based banks follow the concept of intrinsic motivation, whereby employees are motivated to perform well based on the institution's values and mission. Neither Triodos nor BPE offer any type of variable financial compensation to its employees nor to its senior management as financial incentives are not considered an appropriate way to motivate and reward co-workers in a values-based bank. However, both BPE and Triodos Bank have established an extraordinary reward: Token of Appreciations and Agendale Prize for its employees excluding senior management. In contrast, conventional banks like BBVA & Caixabank offer financial package rewards to its employees and senior executives based on a fixed part and on a variable part, which is linked to the personal and the overall bank performance and it is reviewed on an annual basis. Board members and senior executive's variable compensation tend to be dependent on both short- and long-term targets. However, the incentives for the clear majority of the other employees are only oriented towards short-term results. Also, there is no information disclosure about the board bonuses amount, which are much larger than the lower levels ones. The difference in incentive models exposes the discrepancies in the way corporate governance is employed across the organisation. The 2008 financial crisis exposed several issues related to corporate governance, especially in terms of the compensation models for senior executives, which was an important factor contributing to the 2008 GFC (Mehran *et al.*, 2011; Angeli *et al.*, 2015). It showed that senior executives' compensation was strongly related to the financial performance of the institution in the short-term, leading to take excessive risk with the aim of receiving a higher and faster reward. It caused for the need of a regulatory response to align the bank's incentives with the risks taken by the institution.

Moreover, Triodos Bank has a current salary spread of 9.8x times and BPE of 4.87x in 2018. In contrast, Caixabank and BBVA have ratios of 228x and 180x in 2018, respectively. The former finding evidences different hierarchical structures within both type of organizations: value-based banks

are flatter, in terms of salary levels. Moreover, several empirical studies have demonstrated the significant positive correlation between a bank's size (based on assets, credit growth and profit margin) and the level of executive pay (Kutum, 2015; Mehran *et al.*, 2011) which encourages additional risk-activities by senior management in large conventional banks. Additionally, CEO compensation also impacts the salary spread: a higher compensation, which lead to a higher pay-level, implies a greater salary spread. On the contrary, even though both value-based banks analyzed are considered significantly smaller than BBVA and CABK, they both limit their exposure to risk by setting a limit in the salary spread of 10x for Triodos and 6x for BPE.

4. Conclusion

The results have demonstrated that focusing on the real economy rather than on financial markets enables to take into a longer-term view and allows to achieve a more sustainable economy through empowering transparency across the organization. Moreover, another significant factor is the absence of institutional investors in the shareholder structure which limits the voting power of *shareholders* and potential influence in the bank's decision-making with the aim of protecting their mission and values for economic prosperity enabling them to protect themselves from financial disruptions and downturn.

Finally, the lack of incentive and variable compensation system which leads to a lower salary spread also allows for a more cooperative culture and reduces the potential excess risk-taking activities for the CEO or other senior management. Therefore, these results have led to better risk management practices and corporate governance for value-based banks. From these results obtained and the conclusions established by the GABV in their research paper, it further shows that value-based banks are less interconnected to business cycles in the market as opposed to conventional banks. Due to their better corporate governance policies and lower risk-behavior across the institution, value-based banks produce more stable return patterns and are less volatile during different economic cycles.

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