TRIODOS BANK: Bank with values to improve the World and the people[1]

"In bank with values, a sustainable bank means that money serves people and not that people serve money"
Peter Blom, CEO, Triodos Bank

1. CONVENTIONAL BANKING VS ETHICAL BANKING

Especially after the last financial crisis, the banking sector has been facing an important problem of credibility. In fact, based on the Grayling (2015) report, 76% of people do not trust banks. On the other hand, there are more and more people interested in topics of sustainability because of the increasing information about the problems the world is facing. As an example, we can mention that according to Foretica (2016) 6 consumers over 10 affirm that when choosing between two products with similar characteristics, they would always choose the most responsible even if more expensive. These are factors that explain the growing interest for ethical banking. Throughout the years the banking sector has been playing a fundamental role for society which is the intermediary role between borrowers and lenders. Banks played this role focusing on profitability and people took advantage of the easy access to money these institutions used to provide. This system seemed to work until the financial crisis of 2008–2009 when Governments had to intervene in order to save banks from bankruptcy. It is exactly at this point that two main streams of thoughts started developing. The first one focusing on how to develop regulations for financial institutions able to prevent what happened in 2008–2009. The second one, it is a more disruptive initiative. The creation of a responsible green bank of which Triodos Bank is one of the best examples we have nowadays. The definition of a green sustainable bank can be broad, but it must have a fundamental differential feature with respect to conventional banks, which is the interest in the real economy. To be more specific, conventional banks try to understand the outcome of any of their operations analyzing its risk and return. However, the concept of risk and return is subject to the constraint of a short run orientation especially if the institution that is making the analysis has the final aim of maximizing shareholders equity. In the case of an ethical bank such as Triodos instead, the analysis would focus on impact, risk and return meaning that the financial institution would focus on

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stakeholders wealth trying to maximize the long term impact of its operations. To do this, ethical banks face a trade off in terms of returns. In fact, while conventional banks can reach a two digits return in good financial periods and heavy losses in downturns, ethical banks can guarantee something between the 5% to 8% stable return in long periods of time including upturn and downturn years. This is because while conventional banks take more risks investing in complex financial instruments as well as investing in the so called "sin industries" such as weapons, alcohol and tobacco companies, ethical banks do not do that. They prefer to take on less risks and invest in companies having positive impact to the real economy. To better explain this differentiation, the following parts of the case will focus on explaining the origins, mission, values, business model and main challenges of the world leader of ethical banks which is Triodos Bank as well as giving a quick look at the difference in performance evaluation between ethical and conventional banks.

2. THE ORIGINS OF TRIODOS BANK

In 1968 in the Netherlands, Adriaan Deking (economist), Dieter Brull (Fiscal Law Professor), Lex Bos (Business Consultant) and Rudolf Mees (banker) invited a group of people to discuss the concept of money in society as well as the concept of Social Threefolding. Social Threefolding is a concept that states that in order to have a healthy and innovative society there is the need to balance three main areas of it, each one needing particular regulations and needs. These areas are: legal, economic and cultural. The name Triodos comes from the Greek and it means Threefold way. For this reason, Triodos Bank based on the concept of social Threefolding tries to find a balance between People, Planet and Profits working in activities related to environmental issues, trying to finance people having innovative ideas that conventional banks do not want to finance and also investing in culture because a world without education cannot innovate.

It is exactly from the concept of culture and education that the idea of having a sustainable/ethical bank came from. Indeed, in 1968 the French riots were taking place and their demand for a different education and cultural system gave a push to Triodos founders to think about a business able to match profits with sustainability. At first, the founders were not thinking about a bank. In fact, they were more keen on starting a consulting activity to help businesses to develop business models that could match profitability with business ideas supporting a positive development of society. However, they soon realized that as a consulting activity they could not have easy access to money, so they could not have played a role as intermediary to support social growth. For this reason, they decided that in order to foster societal change, there was the need to become a bank.

Their first initiative was to gather funds from people, institutions and organizations relatively close to the founders, deposit these funds into a Dutch conventional bank which could guarantee higher interests rate with respect to the ones they could have earned just keeping the money by themselves. The depositors then would leave part of their interest rates to Triodos which would use them to finance with affordable loans some innovative initiatives that conventional banks would not have financed. This was the starting point of something called a "network guarantee". Basically, a group of people having a common investment idea could gather together and guarantee a little sum of money each. The sum of these money would reach a loan amount, hence Triodos could issue an affordable loan to the entrepreneur whose financing request would have probably been rejected by any conventional bank.

After that, Triodos applied for a banking license which after several detailed screening and some administrative challenges was granted in 1980. That year Triodos Bank was founded with the equivalent of € 540,000 in share capital.

3. THE DEVELOPMENT OF TRIODOS BANK AND ITS INITIATIVES

After its official foundation, Triodos Bank managed to grow in assets at a rate of 20% yearly and they were able to easily raise money to invest in innovative ideas, but the challenge was to find the right ideas to finance. Indeed, especially after the first years, Triodos Bank had to face several challenges among which there was the one related to sustaining its own growth. In 1986, Triodos Bank was facing its first moment of stagnation where its funds were not growing for the first time, so they realized they had to find new initiatives to start growing again. This was the first push toward many of Triodos Initiatives.

Innovating Green Funds: The first initiative Triodos Bank had to boost its growth again was to invest in renewable energy (mainly wind energy). Moreover, in 1986, there was the first big world nuclear disaster in Chernobyl, which pushed investors to question Triodos Bank about possible reaction to what happened. Triodos answered establishing its Triodos Venture Fund to finance the first wind farm which resulted to be successful since its beginning. Through this move, Triodos accessed a new customer base made of people concerned with the environment. At the same time, Triodos developed a first mover advantage in terms of expertise in alternative energy because in 1986, the concept of alternative energy was still at its very first steps. After this first big success of the wind farm Triodos established a fund to finance organic agriculture which resulted to be very successful too, and then another fund related to renewable energy.

Microfinance: In 1994, Triodos Bank was approached by NGO's (Non-Governmental Organizations) interested in microfinance. Their idea was to ask Triodos for their finance expertise in order to run microfinance funds. This led to the establishment of Triodos first two microfinance funds. They approached Triodos Bank because of its focus on value and their opinion was that microfinance can be well done only if the institutions performing it are also values oriented. This was a very important engagement for Triodos because it entered a field which was of extreme interest at that time and allowed the bank to get an international dimension. In fact, throughout the years Triodos Bank developed microfinance interests all around the world.

The Fair Trade Movement: Thanks to its involvement in microfinance, Triodos bank was approached by several Churches and organizations when the debt crisis in South America took place. In fact, due to its reputation, Triodos Bank managed to attract many people and organizations who wanted their money to be invested in something profitable for the real economy and not only financially. For this reason, Triodos Bank started its commitment with fair trade establishing relationships with local farmers and cooperatives of farmers.

Socially Responsible Investments (SRI): One of the main accomplishments of Triodos Bank in relation to its development is definitely represented by its SRI policy. In fact, even if the Social Responsible Investment policy was already an established concept within financial institutions, Triodos Bank managed to even improve this vision introducing the concept of "Best in Class". Basically, to include a company in its SRI portfolio Triodos bank follows the following steps:

1) Companies must derive 50% of their revenues from sustainable activities.
2) If a company does not belong to point "1)" then in order to be part of Triodos SRI portfolio they need to pass an extra screening according to more than 70 industry specific criteria.
3) There are not included in Triodos SRI portfolio companies having interests in the following sectors: gambling, weapons, nuclear power, genetic engineering and factory farming. It does not also include companies violating labor and/or human rights as well as having issues of corruption.

Becoming a European Bank: Step by step Triodos Bank started expanding within Europe to add value to its activities and image. They first aimed at markets already opened to sustainable and green investments as well as having a strong base of organic agriculture, so this description led them to expand in Belgium. After that, they were contacted by a British Ethical Bank called Britain's Mercury Provident which shared Triodos principles 100%, but they were struggling financially. This was the opportunity for Triodos to enter the UK market, so they merged with the British Bank to establish

Triodos UK. After that, the consulting company S.A. Proyecto Trust, a company specialized in advising companies in projects related to environment, society and culture provided the framework for Triodos Bank to enter the Spanish market. Finally, Triodos entered Germany.

Full Retail Bank: The aim of Triodos founders was to make Triodos become a Bank in every sense, so the next challenge would have been to become a full retail bank without letting consumers increase thei debt level. In fact, by definition, a retail banking business allowing for credit cards and constantly pushing for increasing personal consumption could harm Triodos Bank principles. On the other hand, Triodos customers were pushing the bank to offer a current account service which was interpreted as the intention from the customers to move their savings to Triodos Bank. For this reason, Triodos Bank decided to enter this new adventure, but it did it fully respecting its values. Indeed, Triodos bank current accounts do not offer neither credit cards services nor loans. It rather provides a credit line defined by the customer monthly income, so the customer cannot spend more than he can potencially do based on his income. Doing that, Triodos does not maximize its financial profits, but it balances them with its mission.

Financial Crisis 2008-2009: This catastrophic event was also a great push for Triodos development. In fact, due to its policy of not investing in capital markets hence of not investing in any kind of toxic or complex financial product, even in a period where conventional banks were about to go bankrupt, Triodos Bank managed to maintain its balanced and constant of 5% to 8% periodical return.

Figure 1. Triodos Bank's history (main facts)

1968	A study group is created to see how money can be managed sustainably.
1971	Triodos Foundation is established. Using gifts and loans to support innovative projects.
1980	Triodos Bank NV is established.
1990	Triodos Bank launches the first green fund in Europe: Biogrond Beleggingsfonds. The Wind Fund and Green Investment Fund follow later.
1993	A branch in Belgium is opened.
1994	Triodos Bank launches two foundations. Both funds invest in developing countries and are among the first in the world to invest in microfinance.
1995	Triodos Bank opens a branch in UK.
1997	The Triodos Added Value Fund is launched.

2002	The Triodos Fair Share Fund is established in the Netherlands. This fund offers private individuals and institutions the chance to invest in microfinance institutions in developing countries.
2004	Triodos Bank opens a branch in Spain. Triodos Bank launches the Sustainable Real Estate Fund. It's the first real estate fund to invest exclusively in sustainable buildings.
2006	Triodos Bank opens its international headquarters in the Netherlands. Triodos Bank launches its first Luxembourg based investment fund. Triodos Renewables Europe Fund, to invest in European renewable energy projects. In the Netherlands, Triodos Culture Fund starts operating.
2007	Triodos Bank launches the Triodos Values Pioneer Fund.
2008	Triodos Bank launches the Triodos Sustainable Trade Fund. This fund provides trade finance to certified organic and fair trade producers in developing countries and emerging market.
2009	Triodos Bank opens a branch in Germany.
2013	Triodos Bank is taking its first steps in France.
2014	Triodos Investment Management launches the Triodos Organic Growth Fund. This is a long-term evergreen fund, which will provide equity to leading organic food companies and sustainable consumer businesses across Europe.
2016	Triodos Bank has 607.000 customers in The Netherlands, Spain, Belgium, Germany and the UK.

4.MISSION

The Nobel Prize Milton Friedman (1970) said that the social responsibility of a firm is to increase its profits. Today this concept went through important changes because ethics and sustainability play a more relevant role in the business world. Along this line, Triodos Bank's mission is:

"*To contribute to a society that promotes peoples' life quality and that has human dignity as its main theme*".

As the CEO Peter Blom says, the objective of Triodos Bank is having a positive impact. It also promotes that people, institutions and firms use money in a more conscientious way with the aim of generating benefits to every person and his surrounding creating a more sustainable development. In order to do so, one of the key concepts of Triodos Bank's mission is to revalue the concept of money. To be more specific, Triodos Bank sees money as a mean and not as an end as traditional banking institutions used to do. Money is the mean to make a change towards a sustainable world. For this reason, Triodos offers to its clients sustainable financial products and high quality services. Triodos Bank evolution has been very positive (See figure 2). The Non Profit British organization Move your

money considers Triodos Bank as the number one among 72 British financial institutions for its social and environmental initiatives. Triodos Bank promoted the creation of the Global Alliance for Banks Based on Values, this includes 28 ethical banks from all around the world which have 20 million clients and 30,000 employees and manages 100,000 million dollars of assets.

5.VALUES

The main goal of Triodos Bank as a financial institution is to help individuals achieve a balance between profitability and sustainability and this is a very difficult balance to achieve. For this reason, Triodos established four main corporate values to be the foundation of its business. These values are:

Sustainability: Triodos Bank only finances activities having a positive impact in the world through activities benefitting the environment, people and culture.

Transparency: Triodos Bank is firmly committed in letting its customers and investors know exactly where their money are invested.

Excellence: Triodos Bank commits in developing and providing only products which can be considered among the best in the industry.

Entrepreneurship: Triodos Bank is always searching for new ways to finance innovative and sustainable activities that can positively impact society.

In summary, through these values Triodos Bank wants to reinforce the following concepts:

Sustainable Banking: Triodos Bank is very much committed in using money in a sustainable way. This means using money to address current economics needs, without hurting future generations because as stated in the mission, money is the mean to reach a sustainable world.

Profits are not an end: Triodos bank uses the concept of profitability not as the end of their mission which is rather to maximize sustainability, but as a signal that the company is performing well as an organization hence it is profitable.

Reappraise the role of money: This is probably the key distinction between a conventional bank and Triodos Bank. In fact, as stated several times, an ethical bank should use money as a tool to maximize sustainability and social welfare which is the actual profit in real economics terms. However, conventional banks use money to generate financial profits, so other money in this is

completely the opposite of what Triodos does. Therefore, even if Triodos is a bank, it is definetly not a conventional bank, but an ethical one.

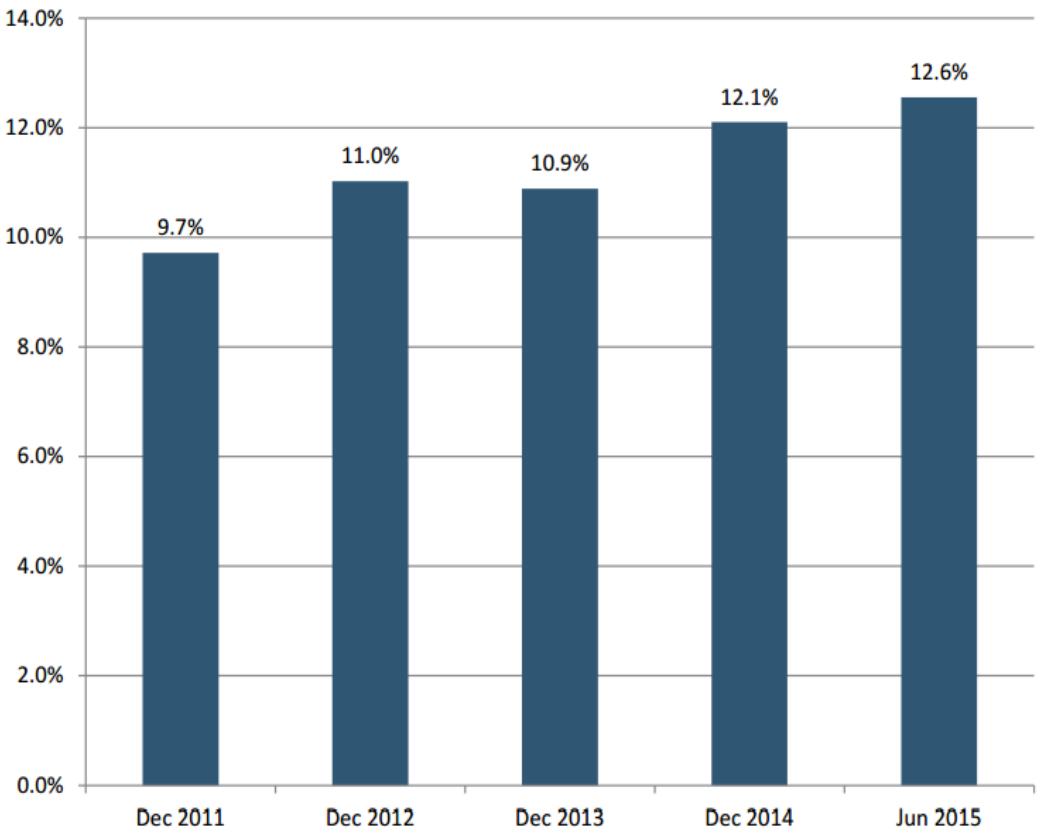
Figure 2. Triodos Bank's Key Figures

	2015	**2014**	**2013**	**2012**	**2011**
Equity (in Millions Euros)	781	704	654	565	451
Number of depository receipts holders	35,735	32,591	31,304	26,876	21,638
Funds entrusted (in Millions Euros)	7,283	6,289	5,650	4,594	3,731
Number of accounts	707,057	628,321	556,146	454,927	363,086
Loans (in Millions Euros)	5,216	4,266	3,545	3,285	2,838
Number of Loans	44,418	36,320	29,620	24,082	21,900
Total assets under management (in Millions Euros)	12,298	10,632	9,646	8,045	6,786
Total Income (in Millions Euros)	211.6	189.6	163.7	151.6	128.7
Net profit (in Millions Euros)	40.7	30.1	25.7	22.6	17.3
Tier 1 capital ratio (Equity / Total risk-weighted assets)	19.0%	19.0%	17.8%	15.9%	14.0%
Leverage ratio (Equity/Debt)	8.4%	8.8%	8.7%	9.0%	8.4%

A bank must have a Tier 1 capital ratio of 6% or greater to be classified as well-capitalized. The average of this ratio in 2015 of the European Union banks was 12,6% (See Figure 3).

Figure 3. Average value of Tier 1 capital ratio of the European Union banks (2011-2015).

Source: EBA (2015)



The average leverage ratio of European Union banks in 2015 was 4.9% (EBA, 2015).

Figure 4. Profit and loss account of Triodos Bank per segment (2014)

Country	The Netherlands	Belgium	United Kingdom	Spain	Germany	France	Intercompany transactions	Total
Total income	93.125	34.529	23.179	33.782	5.988	1.271	-2.283	189.591
Operating expenses	-61.969	-24.495	-16.855	-27.891	-8.333	-1.238	2.428	-138.353
Impairments loan portfolio	-6.527	-597	948	-2.693	-2.224	–		-11.093
Value adjustments to participations	181							181
Operating result	**24.810**	**9.437**	**7.272**	**3.198**	**-4.569**	**33**	**145**	**40.326**
Taxation on operating result	-6.641	-1.961	-1.998	-872	1.320	-11	-38	-10.201
Net profit	**18.169**	**7.476**	**5.274**	**2.326**	**-3.249**	**22**	**107**	**30.125**
Number of co-workers on a full-time basis	434,4	106,8	110,3	239,4	40,2	4,0		935,1

6.BUSINESS PRACTICES

Triodos Bank has a challenging and very different mission and objectives when compared to conventional banking, but at the same time it has the role of a bank. Therefore, in order to appropriately comply to its mission and goals, Triodos had to develop different business practices encompassing the following areas: the lending Process, the human resources approach, the ownership model and the reporting process.

The Lending Process: Triodos Bank has very strict criteria when dealing with its lending procedure. In fact, given Triodos mission, it is fundamental to find companies that are actual innovators in sustainability for the society and this process is very complicated. In fact, generally speaking it is not difficult to find companies investing in sustainable businesses especially because it has become a trend recently. The problem is that most of these companies also have non sustainable interests. Either because their sustainable activity is supported by unsustainable behavior or simply because the activity itself is defined as sustainable, but it is not actually performed in a sustainable way. For example, a company can produce renewable energy which is fully considered a sustainable activity, but if the way it produces this sustainable energy is not sustainable then this company would not qualify for a loan. Therefore, the borrowers selection process must be extremely detailed and transparent. Moreover, sustainable industries are evolving at a very fast pace and this makes the selection process even more challenging. Indeed, something can be considered sustainable at a certain moment in time, but then it can become obsolete and not be considered sustainable anymore in the future. In general, Triodos Bank invests in the following areas:

Environment: Any activity that can minimize the harm to nature and maximize the positive impact to it. For Instance: organic farming and renewable energy.

Culture: Any activity that can foster education and its developments. Some examples are: education, childcare, arts and cultural organizations and community projects.

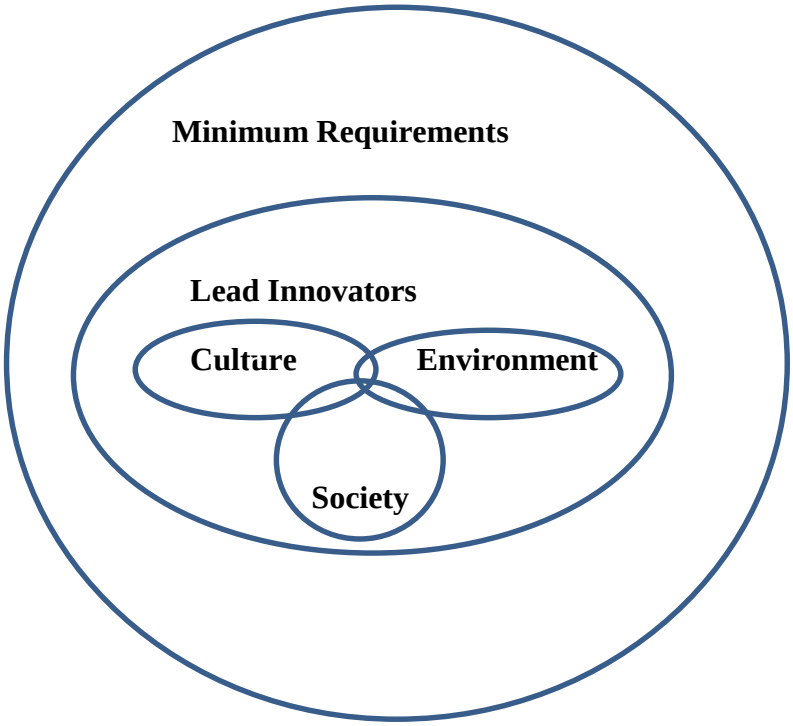
Society: Any activity which can have a positive impact on society as a whole. For example: housing, fair trade and development organizations.

At the same time, Triodos Bank does not invest in the following sectors:

Non-Sustainable products and services such as gambling and tobacco companies.

Non-Sustainable working processes such as animal experimentation and genetic engineering.

Figure 5. The lending process (From MIT case study)



Another key point regarding Triodos lending policy is the fact that Triodos' customers can constantly check where their money goes and this factor allows for a kind of double checking procedure which is first internal through the bank itself and then external through its customers.

Human Resources Practices: This is another key differentiation between Triodos Bank and conventional banks. In fact, Triodos has three main pillars on which its HR procedure is built which are:

1) Professionalism in the job.
2) Connection to the mission.
3) Fit to the working culture.

Usually, when talking about HR processes in the banking industry, there is always the idea of an extremely stressful environment where technical skills must be the key and the focus should be on the periodical financial returns. For Triodos Bank the concept is a bit different because it started with a completely different philosophy giving more importance to the mission and the involvement to it as well as to the values of the bank. However, the bank has been growing throughout the years and this led to the need of hiring new technically skilled personnel. Therefore, Triodos challenge is to balance the qualification of its employees and their identification with Triodos mission. Moreover, Triodos wants to also maintain a healthy balance between highly specialized employees and more

generalists profiles. Another extremely important point of Triodos HR policy is that it does not work with bonuses, stock options and extremely high salaries either. The difference between the lowest salary and the highest salary in Triodos Bank is 1 to 10, while there are conventional banks where this range is of 1 to 600 or even more. Hence an employee in order to choose Triodos must value its mission to the level of giving up some financial benefits. This applies to both basic employees to the senior ones who might be tempted by the high bonuses of the traditional banking sector, so if they choose Triodos means they are very attached to its values and mission.

Ownership Model: Due to its commitment to balance profitability with sustainability, Triodos needed to establish a particular ownership model that could support the decision of not being quoted in the stock market nor to invest in toxic or complex financial products which in the past helped financial institutions to make two digits returns periodically. However, the last financial crisis has been a strong reinforcement from Triodos policy which when conventional banks were making losses it managed to maintain its 5% yearly return. In particular, Triodos's shares are held by the SAAT (Foundation for the administration of Triodos Bank Shares). Then the SAAT issues some kind of depositary receipts that Triodos Banks share with the public. At an annual meeting the holders of these receipts have the right to vote based on their part of shares. Each depositor cannot have more than 10% of all depository receipts issued. Triodos Bank is a special case in which more than half of its ownership is placed within its customers. This particular ownership model has the purpose of not allowing the external environment to affect Triodos policy mission and values. To summarize the bank has 32.591 stockholders having economics rights (they receive an annual dividend between the 4% and 5% yearly), but they do not have right of vote because it is the Foundation for the Administration of Triodos Bank Shares that has the custody of the shares, so it controls the bank. In this way, it preserves its mission. In the annual meeting of 2015, the 94% of the people having certifications showed his satisfaction in relation to the banks operations and 88% of them say that there is the right equilibrium between financial results and social environmental impact.

Transparency and CSR Model: Triodos Bank makes of the concept of using money only as a tool to generate positive impact to society a core point of its mission. Therefore, a well-designed and substantially different from conventional banks reporting system is needed. Moreover, throughout the years, Triodos Bank captured the attention of the media especially after the financial crisis because it was a bank which was still making profits despite the financial turmoil. It kept attracting new depositors and the more the world becomes aware of sustainability, the more Triodos Bank is under the spotlight of the media. For this reason, Triodos Bank has a fully transparent system which besides including the usual annual reports and meetings, it also includes workshops and conferences,

availability to the media and an interactive website where each investor can see where his money is going. In fact, it is possible to check exactly where each Triodos investment is, which sector and to what extent. This approach is a double hedge sword because it can become a competitive advantage in a world that is asking for more and more transparency every day, but it also carries the risk that if an investment does not go well, all the world will know it. Finally, it is important to mention that given this extremely high level of transparency Triodos Bank does not need a specialized CSR department to take care of corporate social responsibility issue and in fact it does not have such department.

7.MAIN CHALLENGES IN A HIGHLY COMPETITIVE WORLD

Triodos bank has to face several challenges for the future such as:

Finding the right employee: For an ethical bank it is always difficult to balance the concept of profitability and sustainability both from a merely numerical point of view, but also from a more behavioral point of view. In fact, a big challenge Triodos Bank faces is to find the right employee, someone who is both technically skilled as a banker and very much aligned with the company mission. A professional that must accept to give up some financial benefits on order to be part of a special community.

Not using standardized procedures: As specified previously when talking about the lending policy, Triodos Bank does not use the classical industry standards to assess if an entrepreneur deserves a loan. Triodos Bank uses a more detailed procedure which takes into account that many of the sectors where it invests change at an extremely fast pace, hence the research process behind any investment decision requires an important effort. This effort is difficult to sustain when the bank keeps growing at a 20% rate yearly.

Competing with Conventional Banks: Until today, implementing its policy, Triodos Bank managed to face the competition of the big conventional banks. Part of Triodos Bank success was due to the fact that conventional banks ignored the sustainability part of the industry and focused only on financial returns. Nowadays, however, also conventional banks started entering the sustainable sector because they saw profitability in it, so they are going to be able to offer high salaries to employees and high return to investors. Hence a big challenge for Triodos will be to convince people that just investing in sustainability does not mean being fully sustainable.

Rapidly Changing Markets: The financial industry moves into a world that changes in a matter of seconds, so it is fundamental to always be prepared to change. For Triodos Bank, this feature is even more challenging because in order to maintain its competitive advantage, Triodos Bank must always try to be one step ahead than its competitors.

Growth model: Since its foundation Triodos Banks has been experiencing a growth which reached a 20% rate a year. This can be seen as a great achievements, but also as a huge challenge to face. In fact, besides the numerical achievements, due to the challenges mentioned, Triodos Bank will have to reinvent itself for the future maintaining its values and mission. They did it through entering microfinance, and fair trade because of their forward looking approach. A great example of it was the introduction of the Dutch credit scheme for the green sector. Now Triodos is trying to explore sectors such as venture capital and private equity and make them sustainable. However it is important to keep experimenting to change society and be the prototype and just the icon for what actually banking can be in the future. In figure 6 you can see how Triodos Bank through its product development process is able to positively impact society and directly benefit from it.

Measuring performance

One of the present challenges for an ethical bank like Triodos is how to establish a control systems which allows to monitor the level of adoption of the strategy and the fulfillment of objectives according to the mission and values.

In conventional banks measures concentrate in value creation for shareholders, drivers of financial return, leverage, solvency, risks, reputation, customer satisfaction and employee satisfaction:

-Value creation: Variation in share price, dividend per share, pay-out (Dividend / Net profit) and yield (Dividend per share / Share price).

-Financial return: ROE (Net profit / Equity), ROI (Net profit / Assets)

-Efficiency: Noninterest expenses / Revenue

-Leverage: Equity / Debt.

-Solvency and risks: Equity / Total risk-weighted assets, Credit Agencies ratings

-Reputation: Position in reputation rankings

-Quality: Internal audit rating

-Customer satisfaction: Results of customer surveys, Customer complaints. Cross selling.

-Employee satisfaction: Satisfaction results in employee surveys, Bonuses, Stock options, Absenteeism, Staff turnover.

In figures 6 and 7 we enclose examples of strategy maps of conventional banks, which focus in return and value for the shareholder.

Figure 6. Strategy map with key success factors of a conventional bank. Source: Paladium Group, Inc.

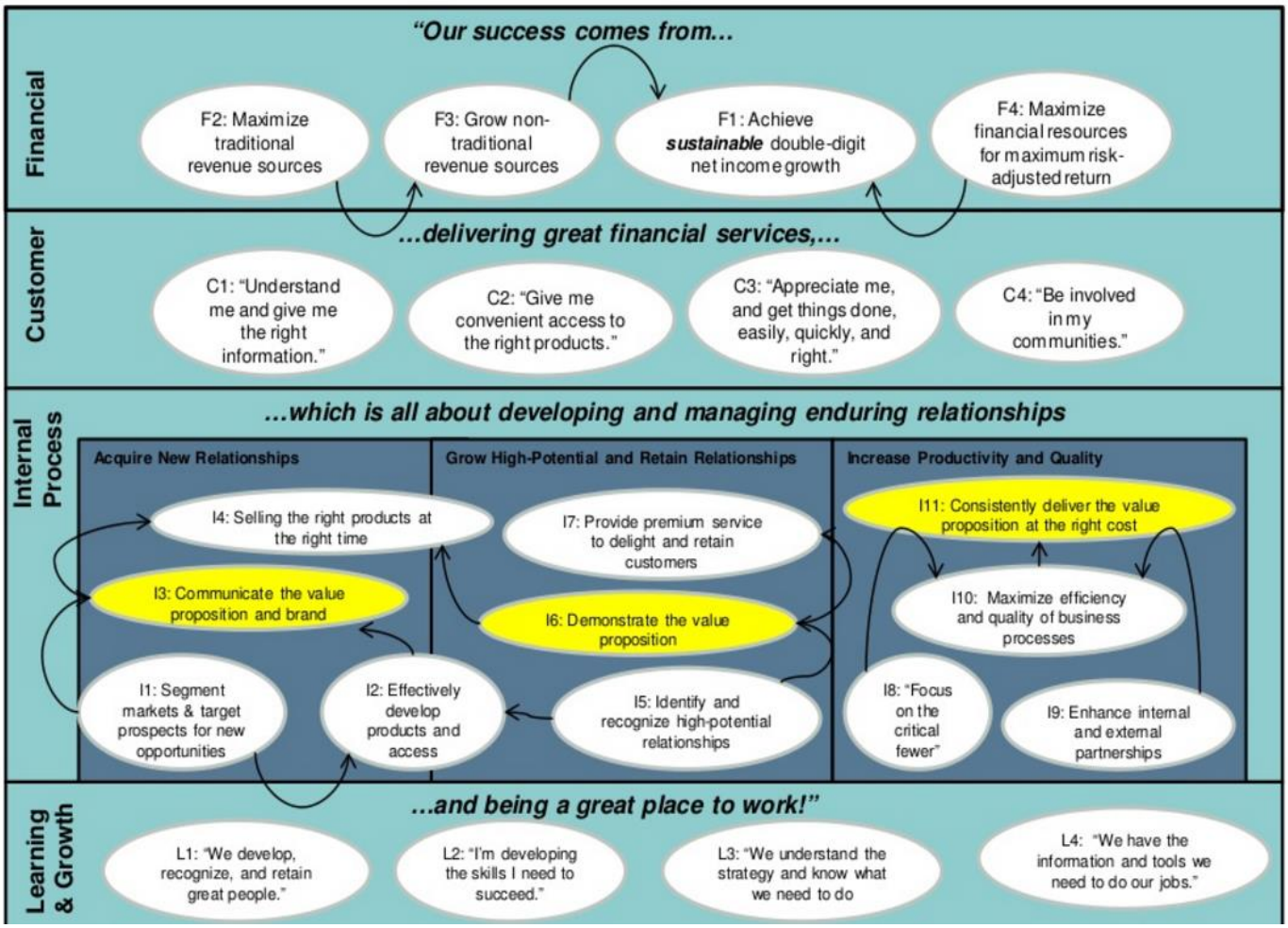
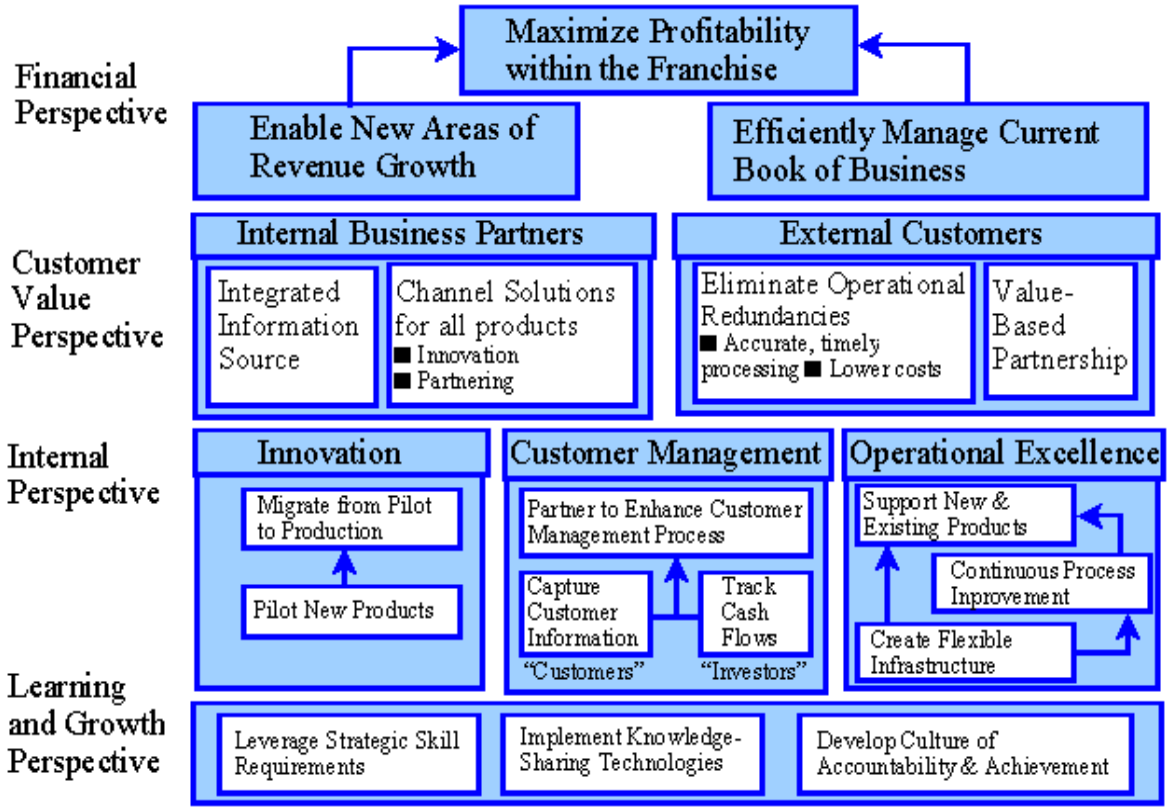


Figure 7. Strategy map with key success factors of Mannie Mae. Source: Kaplan, R. S. and D. P. Norton. 2001. *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*. Boston, MA: Harvard Business School Press.



In the case of a sustainable bank such as Triodos Bank instead, there is the need to heavily restructure the way of measuring performance because the final goal is to reach concrete results linked to the triple bottom line approach. This is an important challenge because such a way to measure performance does not formally exist yet. Therefore, it must be thought from scratch. The key elements that make this task extremely difficult lay into the difficulty of measuring the following three key factors:

Money at Risk Exposures : This is the degree at which a bank delivers value based on its money management practices.

Real Economy vs Financial Economy: A bank with value should aim at having a positive impact on the real economy rather than making primarily financial profits. Hence, the measurement of how much a bank is close to the real economy with respect to the financial economy must be found in order to assess the sustainability of a bank.

Triple Bottom Line: Why, how, and how much a bank delivers its value through social empowerment, environmental regeneration and economy resiliency.

The development of a scorecard able to include the measurements of these three main features of sustainable banking would be an extremely powerful tool that would allow investors to actually see the real results banks give without having to rely only on financial economics outcomes, but also on real economic outcomes.

QUESTIONS FOR DISCUSSION

1) Which are the key success factors of Triodos Bank as a bank with values? Classify them into People, Processes, Finance, Customers, Society and Human Resources.
2) Propose a Strategy Map for Triodos Bank.
3) Propose some possible indicators for Triodos Bank's success factors.

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TEACHING NOTES

Objectives:

The objectives of this case are the following:

-First, it has the aim to make the student familiarize with the concept of ethical/sustainable banking. This is important because of the growing interest in corporate social responsibility both from the point of view of the firm and from the point of view of the customer. Besides the concept of ethical banking is in a stage of growth and it can represent a possible future pathway for the finance profession.

-Second, to improve the competencies in identifying key success factors and designing strategic maps and indicators. For this case the R. Kaplan concept of Strategy map has been used.

Case description:

In fact, this case study is divided into seventh parts. The first part, is dedicated to the explanation of the differences between ethical banking and conventional banking and it also provides an introduction to the case study. The second part, introduces the history and origins of Triodos Bank. A third part explains the development process of Triodos Bank mainly going through its various initiatives throughout its business history. The fourth and fifth part are fully dedicated to triodos Bank's values and mission which are at the core of its business activities. The sixth part goes through the business practices of the bank emphasizing its uniqueness with respect to the rest of the industry. The eight part tries to addresses the various challenges Triodos Bank has to face to achieve its objectives in the future considering the evolution of the industry environment.

Audience:

This case is meant to be used for graduate level students (such as MBA, Master in Management or Master in Accounting and Finance) especially interested in topics related to Managerial Accounting and Strategy. In fact, it merges both the technical and analytical features that an accounting case must have with a more general approach which a strategy case needs to have in order to join the different

business points of views. Therefore, this case can be taught at both an intermediate difficulty and at an advanced level of difficulty depending on the approach of the faculty member as well as the level of the audience. In order to get the most out of this case, students must have at least an introductory level of the following topics: Basic Managerial Accounting, Fundamentals of Strategy and Finance as well as a good understanding of accounting interpretations techniques.

ANSWERS TO THE QUESTIONS

1. Which are the key success factors of Triodos Bank as a bank with values? Classify them into People, Processes, Finance, Customers, Society and Human Resources.

Human Resources:

Recruit Staff aligned to the values of Triodos

Wage spread

Committed employees

Skilled employees

Employee satisfaction

Employee turnover

Internal Processes:

Quality: Internal audit rating

Accurate risk management

Evaluation of sustainable products to be offered to customers

Efficiency

Customers:

Customer satisfaction

Inspire loyalty

Transparency

Products easy to understand

Reputation

Finance:

Risk control

Leverage

Return

Maximize Stakeholders Value

Does not depend on the financial markets

Society:

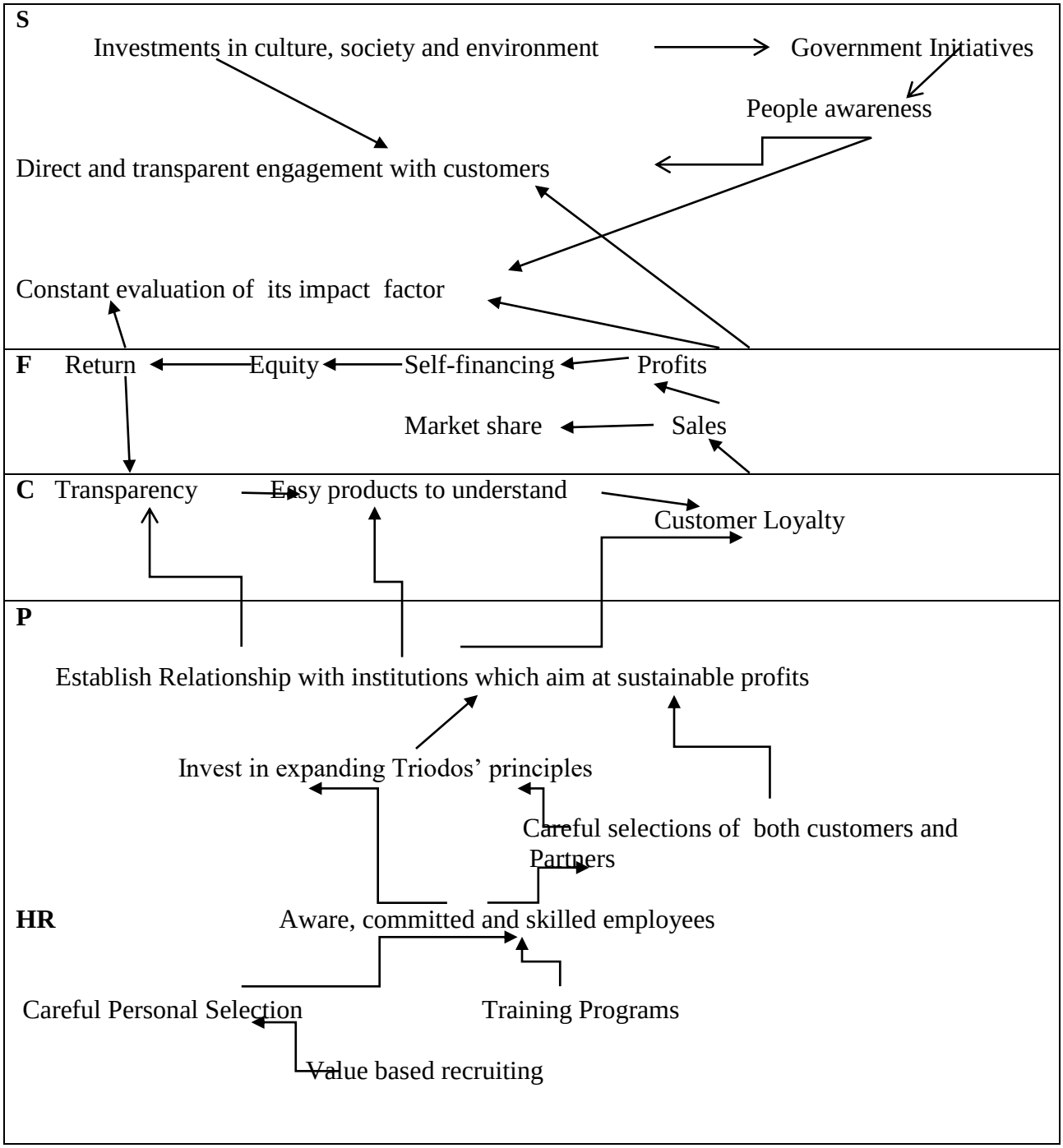
Create quality partnerships

Expand territory of the business

Direct and transparent engagement with customers

Constant impact evaluation

2. Propose a strategy map for Triodos Bank.



3. Propose some possible indicators for Triodos Bank's success factors

As explained in the last part of the case, one of the biggest challenges Triodos Bank as well as all banks with values have to face is to find a way of measuring performance that can actually capture the full value of the bank which in sustainable banking goes always beyond the traditional financial economic indicators. To respond to this challenge, Triodos Bank is actually developing a new way of

measuring performance using the powerful tool of the balanced scorecard. Therefore, the next steps of this part of the case will be dedicated in showing Triodos Bank's approach to address the performance measurement issue.

Figure 8. Financial Economics vs Real Economics

Real Economy	1 Degree	2 Degrees	3 Degrees	4 Degrees	Financial Economy

Some examples related to the degrees (Ffrom Triodos.com):

1. Degree : Alternative energy equity stake.

2. Degrees : Mortgage backed securities for low income houses.

3. Degrees : Credit Default Swap.

4. Degrees : Tranche of a collateralized Debt Obligation for commercial loans.

Figure 8 shows how Triodos Bank measures the impact on the real economy as well as the money at risk exposure factor. In fact, figure 8 can be interpreted as the more the bank is close to the real economy cell, the more it is sustainable mainly because it uses transparent financial instruments and has a strong relationship with its customers. The distance between the extremes is expressed in degrees, each one representing particular kinds of financial instruments which would push the bank more to one side or to another.

The other very important aspect of which Triodos Bank needs to quantify performance is the exposure to the triple bottom line policy, so to obtain a comprehensive sustainable banking performance it designed a balanced scorecard. This scorecard would have both quantitative features and qualitative features, but in order to be implemented to any sustainable bank, it will have to satisfy some basic main requirements. These requirements would be the Bank's reporting transparency and mission statements, both of them having a sustainable aim and obviously, the bank must be a regulated banking institution. If and only if the bank meets all three main requirements in can be assessed through the balanced score card which would start with a quantitative assessment where an algorithm would be applied to assess the sustainability of the bank. This algorithm would need to be able to address the financial viability of the activities of the bank, its triple bottom line focus as well as its real economy focus. Once applied the algorithm, there is still the need of a qualitative assessment because numbers cannot capture all the factors a bank needs in order to be classified as sustainable. In fact, a qualitative assessment would focus on the bank strategic direction, the implementation of

that strategy and the assessment of concrete results if any. In figures 9 and 10 there are some examples of quantitative weights and qualitative assessments of sustainable banks.

Figure 9. Possible Quantitative Factors and Assigned Weights

Metric	**Weight**
Return on Average Assets- 3 years average	10
Equity to Total Assets	10
Asset Quality Ratio	5
Client Funding to Total Assets	10
Real Economy Exposure to Total Exposure	15
Real Economy Revenues to Total Revenues	10
Triple Bottom Line Exposure to Total Exposure	40
Total Possible Score	100

Figure 10. Example of Qualitative Assessment

Strategic Direction	**Implementation**	**Identifiable Results**
The Bank will be transparent in reporting its activities	All lending clients requested to allow publication of financing	Detailed information on 95% of all loan clients available on the bank website

Using these tools along with the management expertise, a sustainable bank such as Triodos Bank can have a well-defined way of measuring performance which would be a great achievement in the field since it would allow sustainable banks to be evaluated at their full potential and not only based on their financial economics related results.