

## **EXPANDED ABSTRACT**

# **Strategic analysis of Ethical Banking in Spain through Triodos Bank. Financing social and environmental projects**

### **Objectives**

Banking with ethical values appears as an alternative to traditional banking, answering the need of integrating ethics with entrepreneurial activity, prioritising the social commitment face to the economical profitability. In this sense, ethical banking limits the credit to non-socially responsible projects and it provides financing to vulnerable groups and investment with a positive environmental and social impact, at the same time that all its activities are transparent. The objective of this paper is to study the origin and features of the ethical banking, establishing the main differences with the traditional model, to analyse its implantation in Spain and to review the conditions and initiatives that Triodos Bank makes to position itself as the leader bank with ethical values.

### **Methodology**

The implantation level and development of the ethical financial companies in Spain (Triodos Bank España, Fiare Banca Ética, Coop 57, Oikocredit España, etc.) has been analysed through the data of its financial statements. However, in order to study the Triodos Bank's corporate strategy, an external and internal analyse has been made. In this sense, the PESTEL analysis, which studies the Political, Economic, Sociocultural, Technological, Ecological and Legal factors that set up the environment and how they can affect the activity, is used to identify the factors of the general environment that influences the financial company's strategical position.

Regarding to the competitive environment, the Porter's "Five Forces" model has been analysed, its main competitors have been differentiated, as well as its main threats and opportunities. In order to do the internal analysis, four models have been used in the entrepreneurial scope: first, the weaknesses and strengths found in Triodos have been determined; second, the resources that contribute a competitive advantage according to the VRIO model, have been analysed; third, the "Value chain" described by Porter for the company, which describes the development of the activities performed by the bank to create value for the customer, is studied; and, finally, the Triodos Bank's organizational structure and the social and environmental data, are analysed.

## Results

The ethical banking's customers belong to groups with a high social commitment, who need to know the destiny of their savings. In the same way that it has happened in traditional financial companies, since the beginning of the crisis in the ethical institutions (Triodos Bank España, Fiare Banca Ética, Coop 57, Oikocredit España, etc.) the capital destined to the loan transactions was overcome by the bank customers' savings; the trend has been increasing and it is remarkable that in 2016 the savings almost doubled the capital given in loans. The increase experienced by the ethical banking is also reflected in the 48.26% increase in the number of customers and users from 2013 to 2016, and in its amount of capital, which was almost 171 million euros in 2016, and all of this with a low rate of defaulting.

Regarding to Triodos, whose beginning in Spain is in 1998, even though it was in 2004 when it was converted into Triodos Bank España, the assets managed were 13,454 million euros in 2016, with a 9.40% annual increase. Regarding the sustainable sectors that are financed by Triodos, and knowing that the aim is to allocate to credit between 65% and 75% of own funds, it is remarkable environment (38%), social (24%), culture and leisure (14%), and loans given to people, city councils and sustainable residential mortgages (24%).

The Triodos Bank's strategic analysis shows that the distrust created by the non-ethical political practices has led to rules that search for the transparency of the financial system; moreover, the traditional banking's abusive practices have originated the demand of ethical products and companies by society. Likewise, the banking's development through the Internet and the mobile apps have implied the disappearance of regular offices. However, the threat of new financial companies in the sector of ethical finance is a reality, since the absence of a strict regulation for the ethical banking provokes that several traditional companies offer their saving and credit products under the name of sustainable, and this confuses customers. Nevertheless, Triodos is a European consolidated bank, it has a bigger infrastructure than its ethical competitors, it is a financially healthy company, with trained personal and it provides all kinds of financial products and services, what allows it to be competitive to face traditional banking.

The model VRIO notes that a resource provides a competitive advantage if it has the attributes: valuable (V), rare or scarce (R), inimitable (I) and related to the organisation of the enterprise (O). If it is applied to Triodos Bank, we can be sure that human resources (staff who is trained and with experience in the banking sector) and the intangible resources (solid image of a financial group with a successful trajectory) are a sustainable competitive advantage, while the tangible resources (branch network) and the client portfolio which share the company values, suppose a competitive parity with the rest of banking companies.

The Triodos' organizational structure, which is different from other financial companies and it is based in the Triodos' Foundation for the Administration of the Shares, allows it to have control of the decision making and not to be subjected to the shareholder's power, assuring the fulfilment of the ethi-

cal values. On the other hand, the success of the implantation of Triodos depends to a great extent on the workers in the company, who have to be qualified and motivated with the mission and have to be able to put it in practice daily in the development of their work. The company has the commitment to invest an important amount of resources in training programs and professional development, with the purpose of training its workers. In this sense, the average expense in training by worker in 2016 was 1,731 euros.

### **Practical conclusions and original value**

The inclusion of the ethical banking model in Spain is relatively recent; in fact, no companies like this have been created in the Spanish financial system as of yet. Up to now, the rule has been to establish branch offices, following the model applied in other countries by consolidated companies, like Triodos Bank and Fiare Banca Ètica, and to act according to the lines of financing that lead to the development of sustainable projects, sharing actively this banking business segment with financial companies which are called traditional banking, like BBVA, CaixaBank and Banco Santander. This sector may become saturated and, somehow, dilute efforts to ensure that the perception of society is based on a business model that includes social, environmental, cultural and economic results. The cooperatives that trade ethical saving and financing products, like Oikocredit and Coop57, also have an important role to establish and consolidate an ethical finance model, though more residual.

Ethical banking in order not to be a mere illusion associated with financial crisis periods and to become definitely in a consistent alternative, it should offer services and products similarly to the conventional banking and an economic and social profitability to contribute to their credibility and a clear differentiation in equality of conditions with the traditional banking.

This paper provides a strategic analysis without precedents about ethical banking in Spain, focused on Triodos, which is the leader ethical banking company. Traditional methodologies of external and internal analysis have been applied to this newly created sector providing useful information to its future implantation, as the strengths and weaknesses of this sector have been shown.

**KEYWORDS:** Ethical Finance, Socially Responsible Investment, Social Bank, Strategic Plan, Triodos Bank.