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MASTER THESIS

A shift towards purpose-driven banking and its financial performance implications

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accenture

"The deepest resources for the transformation of business, as for society as a whole, lie within the human heart. It is there we have to seek what it is we truly value and yearn for, and where we can harness the strongest motivation to change - ourselves, our organizations, and our world - for the better."

Cardinal Vincent Nichols

UNIVERSITY OF TWENTE

Abstract

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A shift towards purpose-driven banking and its financial performance implications

by Diede BOERMAN

This thesis aims to research the complex concept of purpose-driven banking; an alternative to the traditional shareholder-oriented approach to banking. We are in an era where purpose and value become core reasons for doing business. From different perspectives, the need for purposeful organizations, including banks, continuous to rise. While various literature studies have examined purpose-driven businesses, the manifestation of purpose in organizations is frequently ambiguous and the implications are unclear, especially in the banking sector. Hence, in this thesis we increase understanding on the concept of purpose-driven banking and its main components, and provide insight in the financial performance implications of embedding a purpose-driven business model.

We conduct an extensive literature review to broaden understanding on the topic. Specifically, we investigate how purpose is manifested in banks, and find the main characteristics that describe purpose-driven banks. We use this knowledge to construct a comprehensive classification tool that distinguishes purpose-driven banks from non-purpose-driven banks. We apply the framework to a sample of 60 banks, resulting in a classification of 15 purpose-driven banks and 45 non-purpose-driven banks. We then conduct a comparative analysis to learn about the differences in financial performance implications between the two banking groups. The outcomes of the analysis suggest a significant difference between the two banking groups with regard to the tier 1 ratio. This result suggests that purpose-driven banks have a better risk profile than non-purpose-driven banks.

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List of Abbreviations

BIS	**B**ank for **I**nternational **S**ettlements
CSR	**C**orporate **S**ocial **R**esponsibility
DBS	**D**evelopment **B**ank of **S**ingapore
ESG	**E**nvironmental **S**ocial **G**overnance
FinTech	**F**inancial **T**echnology
GABV	**G**lobal **A**lliance for **B**anking on **V**alues
MCA	**M**ulti-**C**riteria **A**nalysis
NIM	**N**et **I**nterest **M**argin
PD	**P**urpose-**D**riven
PDB	**P**urpose-**D**riven **B**anking
ROA	**R**eturn-**O**n **A**ssets
ROE	**R**eturn-**O**n **E**quity
RWA	**R**isk-**W**eighted **A**ssets
SDG	**S**ustainable-**D**evelopment **G**oal
SCQ	**S**ituation **C**omplication **Q**uestion

Chapter 1

Introduction

In the past years, firms have been shifting focus from shareholder-oriented to stakeholder-oriented business models, implying a transformation from foremost shareholder value maximization to delivering value to stakeholders. Whereas building shareholder wealth is the main objective from a shareholder-oriented perspective, a stakeholder focus entails value creation for all stakeholders, e.g., meeting customer needs, investing in employees, and supporting external communities. While recent studies emphasize the promise of the emerging stakeholder approach to corporate business, for-profit firms are obviously driven to generate shareholder value and profits. The key point is that maximizing shareholder wealth should simply not be the only corporate objective function. Literature studies suggest alternatives to the shareholder-oriented model, of which one is related to purpose. Using a purpose-driven approach to business provides a way to use profits as a means through which an organization's purpose can materialize (George et al., 2021).

In cooperation with Accenture, we research purpose-driven business models and their performance implications, focusing specifically on banks. Accenture is a professional services company, specializing in technology services and consulting. The company's Financial Services practice examines the future of banking, including the potential of purpose-driven strategies.

1.1 Problem Context

In response to changes in the economic and financial environment, banks' business models and strategies evolve over time. Transformations, based on fundamental concepts that are trending, reshape the way in which banks do business.

The global financial crisis in 2008, different post-crisis market conditions, and changing regulatory requirements have affected the banking industry worldwide (Buch and Dages, 2018). Banks that survived the crisis, had to adjust to a completely different, highly regulated, and changing operational landscape. Moreover, the economic collapse induced a decline in trust and confidence in the sector (Knell and Stix, 2009). Consequently, banks have been shifting and revising their business models and strategies. Right after the financial crisis, for example, banks mainly tended to transition their business towards less capital-intensive activities, including retail banking, and away from the trading category (Buch and Dages, 2018).

In the more recent past, banks have been facing another trend in the industry: a shift towards sustainable finance (Gyori et al., 2021). Around the entire world, Environmental, Social and Governance (ESG) factors have implications for companies. Consequently, regulators in the financial sector adopt standards for disclosure of sustainability-related information, supervisors shift focus to climate-related financial risks, and further regulations are expected in the near future (Feridun and Güngör, 2020). As banks are interconnected with many players, ranging from public authorities and businesses to individual customers, the banking industry can have positive impact on the economy, society, and the environment. Alexandra Basirov, global head of Sustainable Finance, Finance Institutions Coverage at BNP Paribas, agrees on the responsibility for banks: "the banking industry has the ability to play a major role in creating an economy that is more respectful of the environment, and more inclusive by choosing how to target its financing, and designing investment solutions and products" (Sibos, 2021). Consumers, regulators, and other stakeholders have put banks under rising pressure to meet the evolving sustainability goals. In response, banks must rethink how finance can contribute to a more sustainable world, and redesign their business models and operations accordingly.

Recently, the banking industry reached a new watershed moment: the COVID-19 pandemic. Instantaneously, banks had to embrace abrupt changes and transform their operations radically. The pandemic has, for example, increased the need for digital solutions and interactions within banks, to keep providing uninterrupted services and business continuity (Malviya et al., 2020). Besides these operational changes, people are realizing and rethinking the essence of human value and purpose. Accenture's Global Consumer Survey showed that 65% of customers want organizations to take a stand on issues that are close to their heart (Theofilou et al., 2020). Research on the top 10 trends for banking that shape the industry, also emphasizes the needs of the new generation of workers: they value purpose and want to feel valued and respected (Abbott, 2022). A study by Cone (2018) demonstrates that most people consider an organization's purpose when deciding where to work. Therefore, to both attract and retain talent, banks should have even more incentive to change their traditional, hierarchical organization and bureaucratic culture into a purposeful and meaningful business. COVID-19 has exacerbated this trend: the world expects an evolution in banking behavior, focusing on the needs of customers, employees, and the environment (Theofilou et al., 2020). Hence, once again, banks have to re-assess their business models.

While the banking environment is changing, new business models arise. Here, we make a clear distinction between the business of banking and a bank's business model. The core business of banking is financial intermediation, i.e., using resources from customers to offer financing to others. A bank's business model, on the other hand, is the mechanism through which the bank creates, delivers and captures value. Whereas the core economic functions of a bank remain unchanged, business models change over time (Thakor, 2019).

Traditionally, business models of banks have been shareholder value oriented, implying that shareholder wealth is the key element for decision-making (Jensen and Meckling, 1976). In recent years, several banks have displaced this traditional business model with a broader, stakeholder-oriented approach (Alcaniz et al., 2010). It is about stakeholder value maximization, considering the interests of all stakeholders involved in an organization, including shareholders. Besides stressing the importance of profits (related to the shareholder approach) in decision-marking, this modern perspective focuses on the social responsibility of the bank, taking into account the needs from all stakeholders, such as customers, employees, and communities.

Recent research has shown the potential of stakeholder-oriented business models, often referring to the idea of purpose-driven banking. Accenture defines it as "an authentic, transparent effort to help customers manage their finances more wisely and effectively, even if it means offering advice that may not immediately make money for the bank" (McIntyre, Skan, K. K. Oon, et al., 2020). Purpose is about creating value for an organization's stakeholders. By placing stakeholders in a central position and adapting banking products and services to their needs, banks with purpose-driven business models differentiate from traditional banks. In Case Example 1.1, we outline the purpose mission of Triodos Bank, and how they use it to help their customers and the environment. New and adaptive players in the market embed customer services into the right place and time in the customer journey (Abbott et al., 2021). Consequently, incumbent banks are threatened to lose revenue to these new entrants and adaptive players that are grabbing market share (Abbott et al., 2021). Financial Technology (FinTech) companies, for example, attract customers by making financial services simple and accessible to them. Traditional banks also have to deal with the risk of losing talent: although financial reward often plays a role, employees aspire to work at an organization where they are heard so that they achieve individual fulfillment and a sense of personal satisfaction (FCA, 2020).

Case example 1.1 Triodos Bank

Triodos Bank N.V. is based in the Netherlands, and has subsidiaries in several other countries. The bank is considered a leading expert in sustainable banking. Their vision is to make money work for positive social, environmental and cultural change. By complying to their mission, they aim to enable individuals, organizations, and businesses to use their money in ways that benefit people and the environment (Triodos Bank, 2022).

Triodos Bank structures and manages its business in such a way that their mission is achieved. They offer products and services that directly promote sustainability, and only work with entities that benefit people and the environment. Additionally, the bank puts specific focus on their customers, by offering high quality products, and by being transparent in what is happening to their money.

Over the past years, Triodos Bank has shown impressive annual growth. Their 2020 annual report states a 15% growth in balance sheet, and a 12% growth in sustainable lending (Triodos Bank, 2021). The bank has proven that a different approach to finance is viable, and that it is possible to combine sustainable finance with stability and commercial success.

It has become clear that the banking industry is a dynamic environment. In order to survive and defend market share, banks have to select new strategies and revise their business model. The need for change and purpose puts pressure on the sector. What exactly is purpose-driven banking, and what are the actual implications of such a business model?

1.2 Core Problem

Since the beginning of the financial crisis, the banking industry has faced major changes in the way banks conduct business. Crisis periods and watershed moments have been widely documented and have sparked an overhaul of regulation and supervision (Ayadi and Groen, 2014).

We have now arrived at a point where purpose and value become core reasons for doing business. From different perspectives, the need for purposeful organizations continues to rise. Customers and employees embrace the idea that banks can be more than entities that solely exist to provide a product or a service, and several external stakeholders demand for a transformation of business models. We describe three main forces that push towards purposeful banking:

- *Customers* are more aware of their needs and have higher expectations regarding an organization's purpose (McIntyre, Skan, K. K. Oon, et al., 2020). Particularly in the banking sector, people remain skeptical about the bank's intentions and wonder whether the interests of the bank and its customers are truly aligned. If consumers feel that banks act purely for the own profits, they might decide to shift to competitors with a purpose that resonates with the customer's interests (K. Oon et al., 2021).

- COVID-19 has exacerbated the trend of *employees* reconsidering their purpose. A survey by Dhingra et al. (2021) shows that nearly half of US employees are re-evaluating the work they do, because of the pandemic. Additionally, a global Accenture survey demonstrates that 50% of workers agree that the purpose values a company holds will become more important to them after the pandemic passes (Sage-Gavin et al., 2020). Hence, in order to strengthen employee engagement and retain talent, it is important for banks to communicate and define their purpose.

- *External stakeholders* push organizations to become more purpose-driven. Regulators formalize the wider role of organizations in society by enhancing mandatory reporting on social and environmental impacts (George et al., 2021). Besides the regulatory objective, the direction towards purposeful organizations is a societal expectation: society increasingly expects firms to take a stand on climate change, on diversity and inclusion, on ESG issues, on ethical use of data, and on acting from a stakeholder-central perspective instead of a profit maximization perspective (FCA, 2020). Additionally, organizations face pressure from shareholders that are sensitive to reputational and regulatory risk; they might decide to invest in companies that have more sustainable profits (Xifra and Ordeix, 2009). People need to believe in the purpose of the corporation and see that it is embedded in the organizational culture and behavior.

Simultaneously, banks face pressure from competitors. Competition and transparency are pushing banks to become more purpose-driven (Abbott, 2022). Adaptive players see opportunity in the nature of their stakeholder interactions. Low interest rates, fee compression as a result of competition, and migration of revenues to non-banks cause a steady attrition of value and revenues for incumbents (Abbott et al., 2021). Hence, to defend market share and stay competitive, banks should rethink and redefine their business models. Figure 1.1 maps these pressures and their interrelationships in a problem cluster, as proposed by Heerkens and Winden (2012).

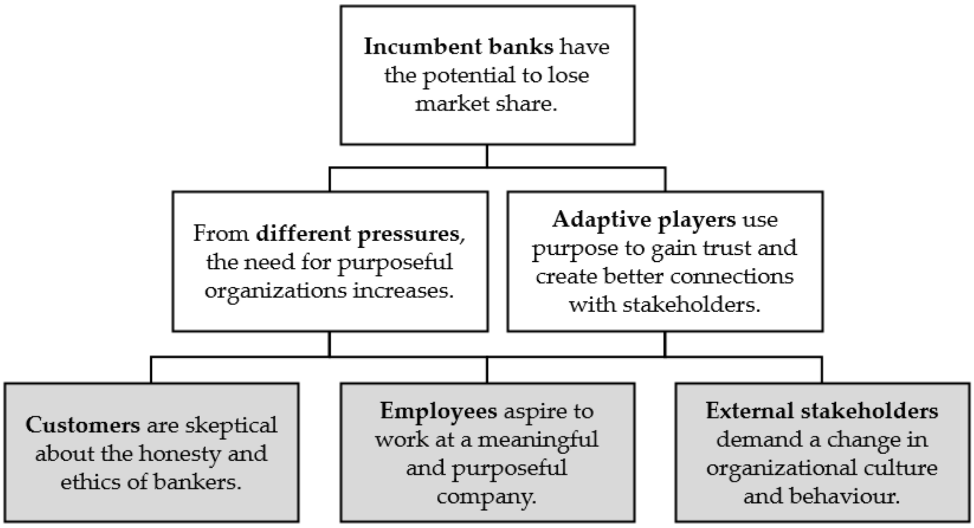


FIGURE 1.1: Problem cluster with drivers towards purpose-driven banking.

The purpose of any organization sits at the heart of its business model, strategy, and culture (FCA, 2020). It should play a fundamental role in reducing potential harm to customers, employees, and the environment. An increasing number of traditional banks are rediscovering their purpose (Abbott, 2022). However, distinct types of banks respond differently to changing situations.

In order to react properly, banks have to assess the possibilities regarding purpose-driven banking and its effects. While various literature studies have examined purpose-driven businesses, the manifestation of purpose in organizations is frequently ambiguous and the implications are unclear, especially in the banking sector. Therefore, the core problem of our research is the following:

"There is no clear understanding of the manifestation of purpose in banks and the actual implications of these purpose-driven strategies."

Analyzing literature and bank data of recent years can provide insight into the concept and its main characteristics, as well as the performance implications of purpose-driven business models. Based on these observations, banks can develop strategic plans and determine business objectives that align with market expectations.

1.3 Research Goal

The Bank For International Settlements (BIS) conducted research on banking business models during and after the financial crisis (Roengpitya et al., 2017). They examine trends and market structure in the financial industry, and assess performance implications of banking business models. We are interested in the evolving business models of banks in more recent past. More specifically, we aim to analyze purpose-driven business models. As the concept of purpose-driven banking is not commonly used in literature, we strive to set a formal definition and formulate the main components, before conducting the analysis. The eventual goal is twofold: provide understanding on the concept of purpose-driven banking and its main components, particularly focusing on purpose manifestation, and provide insight in the financial performance implications of embedding a purpose-driven business model. Hence, we formulate two research questions:

1. ***How is purpose manifested in banks?***
2. ***What are the financial implications of embedding a purpose-driven banking business model?***

The questions address the core problem, i.e., having no unambiguous understanding of purpose-driven business models and its implications. In Figure 1.2, we give an overview of the defined problem through the SCQ (Situation Complication Question) framework. By answering these research questions, we hope to increase understanding of purpose-driven banking and its consequences. Banks might use these insights to support the development of strategic plans and objectives.

SITUATION

- The banking sector is **dynamic**, and players are **developing rapidly**.
- Recently, **purpose** has been brought to the **top of mind** for people.

COMPLICATION

- Stakeholders embracing the idea of corporate purpose push banks to become more **purpose-driven**.
- Competitor banks use purpose to strengthen **stakeholder relationships** and win **market share**.

QUESTION

Traditional banks should rethink their purpose and align their strategies.

- How is purpose **manifested** in banks?
- What are the **actual implications** for banks embedding purpose-driven strategies?

FIGURE 1.2: SCQ framework of our research.

We intend to answer the research question through investigations, data analysis and interpretation. To structure the research, we divide the main questions into sub-questions. These provide further support for the research question and help to solve the core problem. In the next section, we describe them in detail.

1.3.1 Research questions

The sub-research questions provide the 'skeleton' of the research. We discuss them below and briefly elaborate on the methods used to answer each of them.

1. ***How to define purpose-driven banking?***

   At the start of our analysis, we formulate a definition of purpose-driven banking. We conduct a literature review to convey what knowledge has been established related to the general idea of purpose in organizations, as well as to the more specific concept of purpose-driven business. We combine the literature findings and summarize them into a meaningful definition that will be adopted throughout the remainder of the research.

2. ***How to identify purpose-driven banks?***

   As we want to compare the consequences of purpose-driven strategies with non-purpose-driven business models, we have to make a distinction between purpose-driven banks and non-purpose-driven banks. Hence, we are interested in characteristics that describe purpose-driven banks. Our settled definition serves as a starting point for answering this question. We then gain understanding in the 'status quo' of purpose in banks by conducting an extensive literature review. We study different types of purposes and elaborate on how purpose is embedded in organizations. We use the findings to identify possible indicators for the classification of banks.

3. ***How to classify banks based on the identified characteristics?***

   After determining the purpose-driven banking indicators, we want to classify banks into two categories: purpose-driven and non-purpose-driven. Since purpose-driven banking is a quite subjective idea, it is a difficult concept to quantitatively and objectively identify. Existing studies, trying to identify purpose in organizations, use either qualitative or quantitative assessment methods. Since we want to capture a broad perspective, we aim to integrate both quantitative and qualitative methods by creating a comprehensive framework. We assess and measure "purpose-drivenness" in banks based on existing purpose metrics and the indicators obtained by answering the previous sub-question. To answer this sub-question, we have to collect the right data and ensure that we construct a sound measurement tool.

4. ***What are the financial performance implications for purpose-driven banks compared to other banks?***

   Once the purpose-driven banks are classified, we are able to analyze the actual implications of such a business-model. We focus specifically on financial performance implications, because we have these data readily available. Besides the main argument of data availability, this choice might seem contradictory, as we explained that purpose-driven business models go beyond shareholder values and sole profit maximization. However, financial insights are still important for a bank, as it helps determine a business's potential growth, effectiveness, and financial performance. Hence, insight in the financial implications of embedding purpose-driven business models is certainly useful. To understand how purpose-driven banks differ from non-purpose driven banks, we compare the financial effects.

We answer the research questions sequentially (see Figure 1.3).

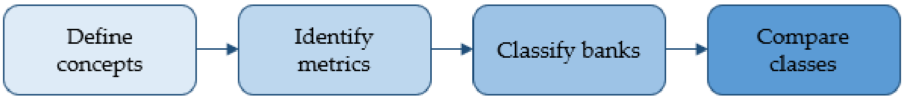


FIGURE 1.3: Sequence of research steps.

1.4 Research Design

We aim to conduct the study in a structured way and therefore treat it as a sequential process. We make use of the Research Process as described by Cooper and Schindler (2014) (see Figure 1.4).

The methodology serves as a foundation for this research and is useful for keeping the project orderly as it unfolds. The main idea is that a thorough understanding of the management problem is fundamental to the research's success. Clarification and identification of the main problem has been covered in the first sections of this chapter (Sections 1.1, 1.2 and 1.3). We stated the core problem that prompts the study and then defined several, more specific sub-questions.

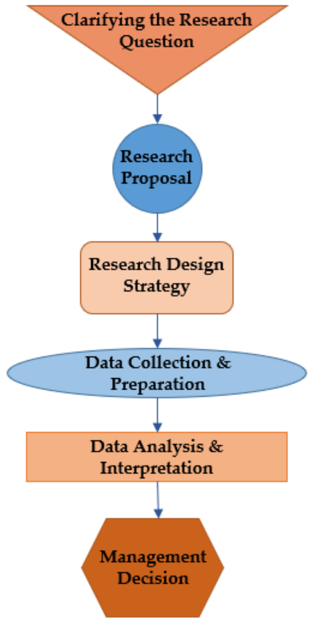


FIGURE 1.4: Research process (Cooper and Schindler, 2014).

We use it to establish a research proposal, also including additional, more detailed information (e.g., on scope and planning of the project). The main purpose of the proposal is to explain the importance of the project as well as our ability to conduct the research. The proposal is not discussed separately, but the main components are covered in Chapter 1 of this research.

The design strategy encompasses the methods used to answer the research question and fulfill our objectives. We elaborate on the techniques, data, and procedures used throughout the thesis in Section 1.4.1.

We are now able to execute the described plans and start to gather the required data. The sub-question under consideration and corresponding research method will largely determine how the data are collected. It ranges from retrieving literature findings to extracting large financial datasets.

Once these data are collected, we aim to generate information from them. By analyzing data, we explore interesting relationships and interpret the findings.

Finally, we translate the findings into meaningful recommendations and action points for the reader. Regulators, researchers, or bankers might use the insights to formulate topic-related advice or as a foundation for further research.

1.4.1 Methodology and data

Our approach requires the use of several methods. In this subsection, we lay out the specific approaches that are utilized throughout the research to answer the research questions.

To formulate a settled definition for purpose-driven banking, we write a literature review. First, we provide an overview of the concepts of purpose and purpose-driven organizations, referring the reader to existing descriptions in the literature. It includes a synthesis of qualitative findings. Then, we explore these concepts in a banking context. We combine our findings to specify a formal definition for purpose-driven banking that can be used in the remainder of the study.

This definition is the starting point for gathering characteristics for the identification and classification phase. Existing studies, trying to identify purpose in organizations, use either qualitative or quantitative assessment methods. K. Oon et al. (2021), for example, created a purpose-driven banking intensity scale to quantitatively examine banks' purpose-driven strategies. We want to capture a broad perspective in measuring purpose in banks, so we aim to integrate both quantitative and qualitative methods. For this purpose, we create our own classification framework. We conduct a literature review to search for variables that contribute to identifying characteristics of purpose-driven banks. It is important that the input variables enable us to make a distinction between purpose-driven banks and non-purpose driven banks.

Once the key concepts are determined, we complete our classification framework and apply it to our sample of banks. The tool is applied to a dataset covering 60 banks from 13 countries in Europe. We have only limited access to relevant databases for the analysis. This implies that we might not be able to use the exact variables that are proposed by our framework to classify banks. For the purpose of our research, we apply the framework using proxy indicators from the available databases. It enables us to still make the classification and conduct a comparative analysis between the two groups of banks. If more data become available in the future, these can be used to make a better, more robust classification. Within this study, we have access to the following data sources:

- *Sustainalitics*: a global provider of ESG risk metrics and data services. It provides data to assess the sustainability of companies (including banks) worldwide.
- *Glassdoor*: provider of insights about jobs and companies. The database provides an overview of employee experience powered by company ratings and reviews.
- *Accenture Global Consumer Study (2020)*: a conducted survey providing insights from more than 47,000 banking customers across different markets. The study looks, among others, at customers' evolving needs.

After applying our framework, we end up with two groups of banks: purpose-driven banks and non-purpose driven banks. We conduct a comparative analysis to highlight important differences in financial performance between the categories. The financial data are extracted from Orbis Bank Focus and the Accenture Value Insights Platform. We then compare the financial performance of the two banking groups using Python.

1.5 Scope

In this section, we explain the limitations and boundaries of our research and express the specific objectives.

Our analysis focuses on European banks of medium to large size. Unfortunately, the available databases do not cover all desired data points for each bank. Hence, we are forced to leave some banks out of consideration for parts of the analysis. We extract data from different data sources, and we work with roughly 60 banks. The data availability constraint implies that there is a number of banks that would classify as purpose-driven but do not have database entries. Consequently, we might exclude interesting banks from the sample. We particularly expect medium-sized, local banking institutions to be omitted in the databases.

Another limitation comes down to the identification and classification of banks. Ideally, we would be able to draw a perfect line between purpose-driven banks and non-purpose-driven banks. Unfortunately, there is no set of comprehensive, easily comparable metrics to measure "purpose-drivenness", and hence we will not be able to make a flawless distinction. However, using available proxy variables, we are still able to make a reliable classification that suits the purpose of this research.

Lastly, due to data availability and time limitations, we are not able to accurately assess "purpose-drivenness" in banks over multiple periods. This implies that the classification of banks is time invariant during our period of analysis. In the comparative analysis, we thus focus on the outcomes observed over one year (namely 2021). We do conduct an extra analysis, examining average outcomes over the years 2017-2021. However, for this period, we have to assume that banks did not change their business model from purpose-driven towards non-purpose-driven, or vice versa. This of course affects the reliability of the obtained outcomes.

The research objectives can be split into two categories: the theoretical objective and the practical objective:

- **Theoretical objective**: create an understanding of the purpose-driven banking concept and gain insight into the implications related to embedding such a business model. With our purpose-driven banking tool, we provide a new, more broad approach to measure the extent to which purpose is manifested in organizations.

- **Practical objective**: obtain strategic advice from the insights obtained by data analysis. We aim to translate the research findings into recommendations that can be used to formulate advice or serve as a starting point for further research.

1.6 Thesis Outline

In this section, we provide an overview of the subjects that we cover in the different chapters throughout the thesis.

Chapter 1: Introduction

In the first chapter, we started with an introduction on the research topic. We identified the problems related to the concept of purpose-driven banking and the key stakeholders involved. We formulated a research goal and several sub-questions, serving as the 'skeleton' of this paper. Additionally, we elaborated on the methods used to answer each of the sub-questions and defined the scope of the research.

Chapter 2: Theoretical Framework

Chapter 2 focuses on the theoretical framework of the research. The chapter provides the theory that we will use to create and apply our own Purpose-Driven Banking framework. First, we set a formal definition for the concept of purpose-driven banking. Next, we conduct an extensive literature review to increase understanding on the main characteristics of purpose-driven banks. We use these insights to search for metrics that help us identify purpose-driven banks, and distinguish them from non-purpose-driven banks.

Chapter 3: PDB Framework

In the third chapter, we use the key findings from Chapter 2 to construct a comprehensive Purpose-Driven Banking framework. The goal of the framework is to provide a tool to identify and classify banks based on their "purpose-drivenness". Using a conceptual model, we provide an overview of how relevant purpose-related concepts relate to achieving the goal of our framework. We elaborate on important decisions and main assumptions in creating the tool.

Chapter 4: PDB Analysis

In Chapter 4, we put the framework into practice. First, we apply it to our sample of 60 banks to make a classification between purpose-driven banks and non-purpose-driven banks. We clearly elaborate on the steps used to derive at the classification. Thereafter, we conduct the comparative analysis on the financial performance of the two groups and discuss the results.

Chapter 5: Evaluation

This chapter focuses on the evaluation of both the Purpose-Driven Banking framework, and the comparative analysis. We provide a discussion on the soundness of the framework and compare the research objectives with the actual results.

Chapter 6: Conclusions

In the last chapter, we provide the conclusions of the research. We provide a general overview of the main results that were obtained, and write a critical discussion on the meaning and relevance of our research and the corresponding outcomes. We also provide recommendations for further research.

Chapter 2

Theoretical Framework

In this chapter, we gain understanding of important topics related to our research. First, we strive to formulate a definition for the concept of purpose-driven banking. We conduct a general literature search on the idea of purpose in an organizational context. Subsequently, we research the work and definitions presented by Accenture on purpose-driven banking specifically, combine them with related as well as more general literature, and summarize the findings into a settled definition. We then review literature to find related concepts, such as purpose manifestation in banks and different purpose drivers, to increase understanding on the identification of purpose-driven banks. The insights are used to establish purpose-driven banking characteristics and metrics in Section 2.3. These serve as input variables for our classification framework. In Section 2.3.2, we elaborate on the approach to classify banks and the method to construct the comprehensive framework.

2.1 Defining Purpose

Conventionally, banks have based their business models on shareholder wealth. This implies that the ultimate purpose of an organization should be to maximize return on equity capital (Windsor, 2010). Pressing events in recent decades have incurred criticism and reassessment of these traditional banking business models. Consequently, several studies suggest alternative practices to overcome the shortcomings of foremost shareholder value maximization. For example, Allio (2011) summarizes various perspectives for change, and describes measures that can be taken, such as adopting sustainable models, focusing on long-term strategies or serving all stakeholders instead of just shareholders.

In literature, an evolving alternative is the adoption of a purpose-driven business model. It relates to the idea that corporations should focus on value creation for stakeholders instead of solely for shareholders. Although purpose-driven business models are often discussed in recent studies, little is said about the specific concept of purpose-driven banking, i.e., purpose-driven business models in the banking sector. Accenture has released a series of purpose-driven banking reports and presented case studies of banks that are embedding purpose. Other articles covering the concept often use different names for the same idea, such as values-based banking (Gyori et al., 2021) or ethical banking (Halamka and Teplý, 2017). We first review literature describing a broader view, namely purpose-driven business in general.

2.1.1 Purpose-driven business

The Oxford Languages Dictionary describes purpose as "the intention, aim or function of something; the thing that something is supposed to achieve". In literature, purpose consistently relates to the 'greater good' and the intention to achieve meaningful goals.

Within our research, we are curious how this purpose concept is used in a business context. The definition, as well as the application of purpose in management research, demonstrates some varieties. Some literature perspectives, for example, do not consider broad societal concerns when expressing corporate purpose (Friedman, 1970). Contrariwise, more recent research explicitly relates the societal responsibilities of the firm to its purpose (Kraatz and Block, 2017). Despite the differences, most papers agree that the purpose of a company goes beyond sole profit maximization. George et al. (2021) reviews different pillars of purpose in for-profit organizations and combines them into the following unifying definition:

"*Purpose in the for-profit firm captures the essence of an organization's existence by explaining what value it seeks to create for its stakeholders. In doing so, purpose provides a clear definition of the firm's intent, creates the ability for stakeholders to identify with, and be inspired by, the firm's mission, vision, and values, and establishes actionable pathways and an aspirational outcome for the firm's actions.*"

The concept of purpose has become increasingly important amongst organizations. A company's purpose is connected to its objectives and needs and should be aligned with all stakeholders, but what does it actually mean to be purpose-driven?

Existing studies mainly take two viewpoints: a purpose-driven organization is either described as an entity that aspires to contribute to our global society, or it is considered to be a business whose actions are guided by their higher purpose, whatever that may be. In the first scenario, focus is on the purpose of an organization in society. Accordingly, purpose-driven entities concentrate on their generic responsibility and how their operations influence society. This idea of higher purpose relates strongly to stakeholder centralization: organizations must provide value to all stakeholders (customers, employees, communities, etc.) in order to survive and thrive in the long run, and to retain legitimacy in society (Parmar et al., 2010). However, in recent literature, this stakeholder perspective is challenged too, as the shortcomings and dangers of stakeholderism - the idea of promoting the interests of the stakeholders of a firm – are addressed (Bebchuk and Tallarity, 2020). Critics argue that this traditional viewpoint directs too much to maximizing stakeholder values instead of shareholder welfare (Gartenberg, 2021), and that purpose should rather be defined based on an organization's social contributions (Mayer, 2020). Opponents of stakeholderism often clarify that shareholder welfare is not interchangeable with market value, and they identify shareholders as people that are not just concerned about money, but also about ethical and social concerns (Hart and Zingales, 2017). Besides, financial success (and shareholder value) is still important for a bank in order to create long term value for all stakeholders.

The second scenario is essentially not directly related to society, and more concentrated around the alignment of the organization to achieve purpose. In accordance, purpose-driven corporations design their core activities and processes with their own purpose in mind (Battilana and Lee, 2014). Conforming to a publication on the definition and application of purpose in management research by George et al. (2021), purpose-driven business involves "the embedding of purpose in organizational routines and practices, the structuring of the company's business model, partnerships, organizational form, and legal status so that these align with the firm's purpose, and the implementation of governance practices that ensure purpose is an integral part of the firm's management control systems and decision-making". The key difference with the first scenario is that the idea of purpose-driven organizations concentrates on the implementation and execution of purpose, rather than the purpose itself.

A recent study by Gartenberg (2021) aligns with these two perspectives. She distinguishes two pillars of purpose-driven organizations: the "corporate purpose" tradition, focusing on the role of purpose in managing an organization, and the "purpose of the corporation" tradition, focused on the objective function of the enterprise firm itself. In literature both terms are often used interchangeably, however, they do have different meanings. Whereas corporate purpose relates to a company's reason for being at an organizational level (Gartenberg et al., 2016), purpose of the corporation focuses on the role of an organization as a generic entity in society (Hart and Zingales, 2017; Mayer, 2020), where purpose is the objective for corporations. Gartenberg (2021) presents an elaborate discussion of purpose and the two parallel treatments of the topic. Although, the ideas of purpose in the firm context appear to be diverse, studies agree that higher purposes must be adopted inside organizations in order to be achieved. Conforming, being purpose-driven seems to lean more towards the concept of corporate purpose. Hence, covering and summarizing existing literature, Gartenberg (2021) provides the following definition for purpose-driven organizations:

"*Purpose-driven companies are those whose members, up and down the hierarchy, have a strong sense of why their company exists, and whose actions are guided by those beliefs.*"

In the remainder of the research, we assent with this definition, as we agree on the idea that purpose is quite general. In an organizational context, purpose relates to a firm's reason for being. Additionally, according to this viewpoint, organizations can do better and achieve their purpose by optimizing the ability of individuals (e.g. investing in the development of employees' skills) and systems (Li, 2019). This perspective enables us to link purpose to the organizational efforts taken to achieve a positive impact.

As discussed, literature generally describes two types of purpose. We have used the idea of 'corporate purpose' to define purpose-driven organizations. On the other hand, the idea of 'purpose of the corporation' is of relevance for our research as well. Understanding the common elements of a firm's purpose is useful for the identification of purpose in banks. Based on existing studies on purpose, we can identify different types of purpose categories across companies. These will be discussed in Section 2.2.3.

2.1.2 Purpose-driven banking

Now that we have a settled definition for purpose-driven companies, we conduct a review of previous studies related to the more specific research area of purpose-driven banking. Accenture has released a series of papers that examine the evolution of the banking industry from different angles, in which purpose-driven banking is a central topic. Although the specific term is under-represented in literature, some studies analyze purpose in the financial industry or refer to related concepts. These are strongly related to the idea of purpose-driven banking and hence considered of relevance for our research.

Accenture banking research

The Accenture research on the evolution of the banking industry starts with two quite general reports about changes in the banking market. The papers focus on quantification and explanation of structural changes. The market is under pressure of emerging customer expectations and technology-driven disruption (Skan et al., 2018). The research notes that new competitors have arrived in the banking industry that begun to take market share. FinTech companies, for example, attract customers by integrating technology into financial services. Not all business models are equally viable in each market, and hence in order to stay competitive, banks must understand the changes in their market to determine the business model that works best for them (McIntyre, Skan, and Caminiti, 2018). It allows them to respond to competitors with clarity.

After exploration of important structural changes, the research shifts to analyzing the best reactions for banks. In these early papers, focus is mainly on digital opportunities. Accenture highlights and proves that digital-focused banks achieve superior economic performance (McIntyre and Skan, 2019). In the latest studies, however, focus concentrates more on the idea of purpose-driven banking. Grounded on a survey of approximately 15,000 customers across markets, Accenture argues that banks can rebuild customer trust by authentically and transparently putting their interests first (McIntyre, Skan, K. K. Oon, et al., 2020). The COVID-19 pandemic is seen as a pivotal moment in time for banks, since the decisions taken by banks now will have a big effect on customers' prospects and will be remembered (McIntyre, Skan, and K. Oon, 2020). According to the research, it is time for banks to reconsider their purpose, use it to win customer trust and as competitive advantage.

The latest Accenture reports show that purpose is about "how banks create win-win relationships between themselves and customers through helping people lead better financial lives" (Kirschfink et al., 2021). It should be applied across every organizational channel. The research findings suggest that banks responding in the right way to their customer needs, by being purpose-driven, will have a competitive advantage. The reports take a customer focus in defining purpose-driven banking and define it as follows McIntyre, Skan, K. K. Oon, et al. (2020):

"Purpose-driven banking is an authentic, transparent effort to help customers manage their finances more wisely and effectively, even if it means offering advice that may not immediately make money for the bank".

The authors believe that if banks succeed in building strong relationships with their customers, they will benefit from customer trust and economic value. In this way, banks earn an economic return that is compatible with doing what is right for their customers (McIntyre, Skan, K. K. Oon, et al., 2020).

Purpose in a banking context

Although the term purpose-driven banking is not frequently used in literature, some interchangeable or related concepts are given attention. We discuss relatable terminology in this section, and explain how it links to our idea on purpose-driven businesses. At the end of the section, we combine our insights into a settled definition for purpose-driven banking.

Bunderson and Thakor (2021) investigate the consequences of higher purpose in a banking context. In their research, they refer to higher purpose as "a contribution goal that transcends the usual business goals like profit maximization, but is intrinsically a part of the business of the organization" (Thakor and R. E. Quinn, 2019). This aligns to our earlier definition for purpose-driven business. The study emphasizes the importance of organizational higher purpose within banks, as it links to bank behavior, and consequently also banking stability.

Gyori et al. (2021) study values-based banking. This concept is based on the six principles of banking on values, published by the Global Alliance for Banking on Values (GABV), see Figure 2.1. Values-based banks promise an alternative to purely profit-oriented banking. The paper describes it as follows (Gyori et al., 2021):

"Values-based banking works sustainability into the core operations of the bank, and this for more than just typical CSR topics such as donations to charity, paper reduction, or equal opportunities for the workforce. Since the core business of a bank is financial intermediation, the sustainability context should define this as well."

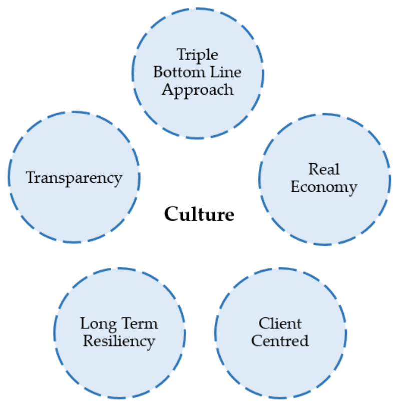


FIGURE 2.1: GABV principles on values-based banking (GABV, 2022).

In values-based banking, focus is on stakeholder value creation, rather than pure shareholder value creation. Additionally, the model is centered around the idea that the core principles are embedded in the culture of the bank. Therefore, this concept relates closely to our point of view.

Other papers describe related banking models, such as ethical banking, responsible banking or sustainability-focused banking (e.g., Halamka and Teplý (2017)). Each term has its own definition, but the main intents are similar. All the models consider their ideas as an alternative to purely shareholder-oriented banking. Besides, the papers agree that although financial returns are considered of importance for banks, achieving them should not be the end purpose of a firm. As George et al. (2021) describes, profit should be seen as a means through which a deeper purpose can materialize. Lastly, each model covers a broad stakeholder-perspective, i.e., including multiple stakeholder groups. In Table 2.1, we summarize the terminology that relates to our definition of purpose in banks. Although the definitions have a slightly different interpretation, the underlying principles do not differ substantially. Hence, we consider the associated articles to be of relevance for our research.

Related term	**Source**	**Definition**
Higher purpose	Bunderson and Thakor (2021)	A contribution goal that transcends the usual business goals like profit maximization, but is intrinsically a part of the business of the organization.
Values-based banking	Gyori et al. (2021)	Values-based banking works sustainability into the core operations of the bank. Since the core business of a bank is financial intermediation, the sustainability context should define this as well.
Ethical banks	Halamka and Teplý (2017)	Banks that use ethical framework throughout their business model and deliberately include moral judgements in decision-making.
Sustainable banking	Aracil et al. (2021)	The delivery of financial products and services, which are developed to meet the needs of people and safeguard the environment while generating profit.

TABLE 2.1: Purpose terminology related to our research.

We have seen that Accenture takes a customer perspective in defining purpose-driven banking. The other articles, using different terminology, take a broader, stakeholder-oriented perspective. Since our definition of purpose in organizations encompasses all stakeholders of a firm, we conform with this broader perspective.

Purpose-driven banking definition

To formulate a settled definition for purpose-driven banking, that can be used throughout the remainder of the research, we summarize the main takeaways of previous sections.

First, we explain purpose as the essence of an organization's existence. Purpose, by definition, goes beyond sole profit maximization, and is about creating value for a company's stakeholders. Secondly, a purpose-driven organization has embedded purpose throughout the entire business, including alignment of processes, systems, and individuals. It must be clear that being purpose-driven is more than having a meaningful purpose statement or mission. Lastly, purpose-driven organizations strive to achieve an economic return that is compatible with achieving the purpose of the corporation. This purpose might contain divergent elements across different organizations. We combine our findings into the following definition:

"*Purpose-driven banks are those whose members, up and down the hierarchy, have a strong sense of why their company exists, and whose actions are guided by those beliefs. They have the incentive* *to earn an economic return that is compatible with achieving the purpose of the corporation, i.e. creating value for its stakeholders."*

In this definition, the concept 'stakeholders' contains all individuals or groups that have an interest in the decisions and actions of a company. They may include consumers, employees, and shareholders, as well as regulators or communities.

2.2 Identifying Purpose

With a settled definition, we shift focus to identification of purpose-driven banking business models. Since our definition emphasizes the importance of embedding purpose throughout the entire business, identification of purpose-driven banks is about understanding how purpose is integrated in a bank. Hence, we review literature to obtain general knowledge on purpose manifestation. In Section 2.3, we use these insights to search for more specific purpose characteristics, indicators and metrics.

Sometimes, we refer to ideas for purpose-driven organizations in general, since literature on this broader perspective is more extensive. As these general insights also apply to banks, we consider them as useful for our research.

2.2.1 Purpose embedding

In this subsection, we explain how a firm's purpose is normally embedded in banks. Joe Garner, CEO of Nationwide Building Society, describes the pyramid of corporate purpose (see Figure 2.2). We use his point of view to discern between goals and purpose within a corporation. Although the model is designed originally for organizations in general, the ideas are applicable to banking institutions.

Typically, goals represent an organization's larger purpose. The purpose of an organization should transcend business goals, but should also intersect with these goals (Thakor, 2019). Every for-profit firm operates with the goal of making money. The pyramid illustrates that nothing is wrong with the incentive to make profit; it should just not be the primary purpose of a company (FCA, 2020). Profit serves as the base layer of the pyramid: without making sufficient profit, a for-profit firm does not exist, and the organizational purpose could never be achieved. However, profit must rather be a consequence, i.e., an outcome of the work in place to achieve the purpose.

Above profit, companies have the aspiration to serve customers and provide employment (FCA, 2020). Although this ambition is already a more noble cause than making profit, it is not a description of actual purpose. It is rather a business goal that must be aligned with the purpose of a firm. In achieving this goal, organizations must take a position from the customer or employee perspective in order to understand their needs and serve them accordingly. This perspective should be a driver for strategic decision-making, and it can be used to accomplish different sub-outcomes. A company offering services, for instance, should consider the intrinsic value or satisfaction that the service gives to its customers (David et al., 2014). Taking this customer perspective into account, enables firms to attract and retain customers (sub-outcome), and allows marketing teams to help the company gain and sustain its competitive advantage (sub-outcome) (Nwachukwu and Zufan, 2017). Similar examples can obviously be drawn for an employee perspective.

The pyramid's upper layer explains the contribution of a company to society or the environment and how it makes a difference. In the previous section, we defined it as the essence of an organization's existence by explaining what value it seeks to create for its stakeholders (George et al., 2021). The purpose goes beyond the confines of serving customers and employees, but should resonate throughout these processes. The distinction between the uppermost layers is only small: whereas the middle layer is about serving, the upper layer is about improving. The purpose statement should concentrate on improving the world around us. Note that the purpose statement can still be customer- or employee-centric. To illustrate: a bank aspiring to provide financial services might have the purpose to improve financial well-being of its customers.

FIGURE 2.2: Pyramid of corporate purpose (FCA, 2020).

In the book *The Purpose of Banking*, Thakor (2019) investigates how a banking system can be designed to achieve a balance between financial stability and economic growth. He illustrates that articulating a purpose plays an important role in the ability of banks to find this balance. In order to do so, a bank's purpose should be built around the provision of its core economic functions. The book describes three core functions of a bank:

- **Create funding liquidity**: "Banks create funding liquidity and private money by gathering deposits and lending money to borrowers who they screen, monitor, and develop lending relationships with."
- **Provide safekeeping and develop trust**: "Banks provide safekeeping services for valuables, maintain the confidentiality of client's information, and develop trust."
- **Process information to reduce contracting and verification costs**: "Banks process different sorts of information that helps reduce contracting costs and costs of verification of cash flows, asset ownership, and so on."

While business models of a bank change over time in response to developments in the financial environment, the bank's core functions remain unchanged. One might argue that banks do a lot more, for example making loan commitments or acting as counterparties in swap contracts, but Thakor (2019) explains that these three core functions suffice to describe how to achieve growth-friendly banking stability.

Accordingly, the bank's core economic functions help to shape the purpose of banks, i.e., the purpose should be constructed around these banking services. It implies that the purpose of the bank demonstrates on the one hand the intent of providing its core functions, and on the other hand the aim to deliver these services in a pro-social way. To this extent, the purpose of a bank is a pro-social goal that transcends business goals but intersects with these goals (Thakor and R. E. Quinn, 2019). In a purpose-driven bank, decisions are thus in line with both pro-social goals and business goals.

2.2.2 Purpose dimensions

As mentioned, in this study, we understand effective purpose implementation as a process of converting the articulation of the organizational purpose into action. According to related papers (e.g. Lleo et al. (2021), Barby et al. (2021a) or George et al. (2021)), we generally have three dimensions of purpose implementation: motives, operationalization, and impact (note: sometimes literature uses different naming conventions, but the essence is similar).

The first dimension focuses on organizational motives, and how these are articulated through a company's purpose. A firm's purpose must reveal why the organization exists; also referred to as its 'raison d'être'. It reflects the company's higher intent (Bunderson, R. Quinn, et al., 2020).

The operationalization dimension implies the translation of the firm's purpose into actions and measurable variables. As emphasized earlier, an efficient purpose should transcend the usual business of the organization. In other words, decisions must be made at the intersection of business goals and higher purpose (Thakor and R. E. Quinn, 2019), see Figure 2.3. We describe two operationalization steps: (1) establishment of strategic actions and (2) identification of business metrics. The first step is about translating the purpose statement into strategic actions. In the second step, focus shifts to performing these actions. In order to establish purpose effectively, it should be measured and reported (Rey et al., 2019).

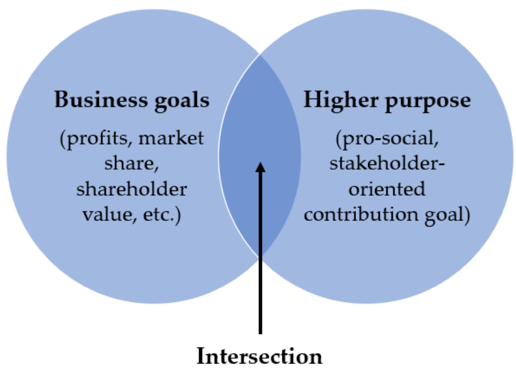


FIGURE 2.3: Purpose transcends usual business (Thakor, 2021).

The last dimension covers the actual impact of organizational purpose. To be effective, a purpose statement should not only be translated into specific actions and metrics; it must also have a considerable impact. Existing studies often relate this impact to the monetization of performance metrics. By monetization we mean the conversion of impact values into monetary terms. The reason for using monetary values derives from the fact that they are fundamental for resource allocations and investment decisions made by companies and investors, and for evaluating social contributions and detriments of organizations by regulators and governance (Barby et al., 2021a).

2.2.3 Purpose drivers in banks

We have learned that a bank with an effective purpose drives its decisions not solely by the usual business goals, but also by the desire to serve a purpose that transcends these usual business goals (Thakor, 2019). But what exactly is this "higher purpose" for existing? We elaborate on the main types of purpose categories discussed in literature.

The emergence of purpose-driven processes originates from different perspectives and is related to both internal and external factors that affect organizations (Ulen, 2010). A bank's purpose can relate to any number of things – it might be social, ethical, consumer-driven, or employee-driven. Additionally, it can be articulated in several ways – through a mission, a vision, or values (FCA, 2020). We aim to identify the main drivers for the purpose of an organization. By drivers, we mean the elements through which purpose is manifested. Based on existing studies on purpose, we identify different elements of purpose categories across organizations.

Thakor and R. E. Quinn (2019) explore how purpose is manifested at several companies. They highlight a variety of ways in which organizations express their purpose. Typically, organizations under consideration have purpose statements that articulate ways in which the business processes of the firm benefit either society in general or specific organizational stakeholders, such as customers and employees. Accordingly, a purpose is always stakeholder-oriented and defined either customer-centric, employee-centric or explicitly pro-social (or as a combination of these perspectives). Bunderson and Thakor (2021) investigate which stakeholders are mentioned most often in purpose statements of firms. The results are summarized in Table 2.2. At first sight, it might seem remarkable that the column percentages do not add up to 100%. However, purpose statements often contain multiple elements, thus presence of one type of stakeholders does not imply exclusion of other stakeholder groups. Note that, although we do not qualify organizations with shareholder-oriented purpose statements as purpose-driven, firms might still emphasize this group of stakeholders in their purpose statement.

Element	**% of organizations with unwritten higher purpose stating this as element of their higher purpose.**	**% of organizations with written higher purpose stating this as element of their higher purpose.**
Shareholders	22%	27%
Employees	60%	62%
Customers	51%	60%
Community	34%	54%
Society	18%	32%
Environment	20%	20%

TABLE 2.2: Elements of purpose statements (Bunderson and Thakor, 2021).

The same study shows that organizational purpose statements are more effective when they emphasize pro-social incentives, customers, and employees than when they emphasize shareholders (Bunderson and Thakor, 2021). We review existing studies on the most common purpose drivers for purpose-driven organizations: customer, employee, and ESG. We discuss our findings in subsequent subsections.

Customer-related purpose

As shown in Table 2.2, one of the main elements of purpose is customers. These purpose statements are focused on improving life for an organization's customers. Taking a customer-oriented position enables companies to understand the needs and thoughts of their customers, and hence to help them better. Firms that have insight in what is important to customers and that are able to respond to customer demand have instigated strategies that put customers central (Barlow et al., 2005). Purpose-driven companies with a customer-oriented purpose have a customer-centric environment and put strategy realization at the frontline. The leading purpose statements can comprise different focus points, such as customer experience, customer well-being or specific customer groups. An example of a customer-oriented purpose is found at Chime, a FinTech company. The organization is founded on the premise that basic banking services should be helpful, easy, and free for their customers. They aspire to "profit with their members, not from them" (Chime, 2022). Using the newest design-led technologies, Chime makes banking accessible to anyone. It enables the company to align its services with people's needs, and integrate finance with their lifestyles.

In Case Example 2.2.3, we summarize the story of the Commonwealth Bank of Australia – an example of a bank focusing on its customers, resulting in advanced performance implications.

Employee-related purpose

Beyond a focus on customers, a firm's purpose can also be related to its employees. It is about providing meaning to the work, life, and values of employees. An employee-oriented purpose should aim to enable and encourage employees to integrate their own purpose with their professional environment and working life (Rey et al., 2019).

Again, focus points vary throughout employee-oriented purpose statements. Purpose may be focused on incentives such as increasing employee motivation, improving worker development or attracting future talent. In most organizations, we see that employee elements in purpose statements are combined with other elements, such as customers. Zingerman's Deli, a food company, has, for example, a higher purpose statement that is (partly) focused on their employees. From the very beginning, the founders aspired to "create an organization where not only people wanted to come to shop, but people wanted to come to work" (Magarrey, 2022). Employee experience is always at the heart of the company's business goals. As a result, a core component of Zingerman's business is employee training and development.

Case example 2.1.1 Commonwealth Bank of Australia

The Commonwealth bank of Australia, or CommBank, is a multinational bank with business across several countries. Their purpose is to improve the financial well-being of their customers and communities. At a recent Sibos conference in 2020, the General Manager of Group Financial Well-being, Mohamed Khalil, explained how embracing purpose helps to grow business.

The underpinning of the bank's purpose derives from an important understanding, namely that the bank's business is fundamentally tight to the success of their customers. Only a few years ago, the company realized that in order to truly improve the well-being of its customers, a new approach was needed to accelerate the purpose of the corporation. The bank established a multidisciplinary team of digital data and behavioral experts that focused on three main outcomes (CommBank, 2020):

- Defining, measuring, and understanding financial well-being;
- Understanding and improving human decision-making through behavioral science;
- Accelerating the delivery of proven solutions at scale.

The research group within the bank has conducted accurate analyses that led to a clear understanding of financial health. It enabled them to create the world's first measures of financial well-being, and by establishing partnerships with leading experts, they were able to create innovative solutions for their customers (Sibos, 2021). Developing these customized solutions, was a difficult process. To illustrate one out of many complications, the project required a deep understanding of customer issues and a clear explanation of their behaviors. One can imagine that these observations result in insights that are counterintuitive to the common knowledge in banks. According to the General Manager of the team, the bank put absolute effort in re-imagining beneficent business models, that drove shared outcomes for the business, the customer, and the community (Sibos, 2021).

Today, the CommonWealth Bank has over 40,000 people, all serving and advancing the bank's customers' well-being. Mohamed Khalil describes a measurable impact to CommBank's customers of hundred-millions of dollars, and dramatic improvements in customer satisfaction. "If you want better customers, make customers better", is the belief of the manager. Even better: the hard work has not only improved customers' lives; it has also created exceptional value for the bank, in terms of advanced performance and bank satisfaction (CommBank, 2020).

ESG-related purpose

The last driver concerns the integration of a firm's environmental, social and corporate governance purpose. An organization with an ESG-oriented purpose should ensure that its ESG commitments deliver on the goals set by the business purpose. Companies nowadays have numerous ESG programs in place, but there might be a pitfall of not tying them together in terms of a central purpose statement (Brown and Nutall, 2022).

ESG-related purpose statements comprise different focus points. Purpose elements such as community, society, and the environment can be grouped under the ESG category. We provide an example of a bank focusing on ESG principles in Case Example 2.2.3.

Basically, environmental-oriented purpose (E) focuses on the role and performance of a company in the environment (Boffo and Patalano, 2020). Environmental concerns include sustainability, the use of natural resources, climate change, carbon emissions, and energy efficiency. Society-related topics (S) in purpose statements cover management of an organization's business relationships with stakeholders, such as employees, customers, suppliers, or communities. Social issues comprise workforce-related concerns, such as health and diversity, as well as broader concerns, like human rights and consumer protection. Reasonably, some of these topics overlap with customer- or employee-related purposes. Lastly, governance-oriented purpose (G) relates to governance factors of decision-making. It is about policymaking, organizational leadership, management compensation, and corporate ethics (Boffo and Patalano, 2020).

Case example 2.2.2 DBS Bank

The Development Bank of Singapore (DBS) is a multinational bank headquartered in Singapore with the purpose to "make banking joyful". The bank describes its strategy around three core pillars (DBS, 2022):

- Responsible banking;
- Responsible business practices;
- Creating social impact.

DBS uses the Sustainable Development Goals (SDGs) to guide their sustainability principles. The SDGs help to set clear sustainability targets and to align their strategic objectives with the core pillars. One of the principles of the bank is translated into the intent to shape a more climate-aligned future. In the 2021 annual report, the bank describes efforts to achieve this goal, such as raising sustainable finance targets, growing its suite of sustainable investments, products and solutions, achieving net-zero operational carbon emissions and encouraging eco-conscious living (DBS, 2021). In a separate sustainability report, DBS elaborates extensively on the related SDG targets, progress, and performance. The report shows clearly that the bank puts effort in resonating its pro-social objectives throughout the business processes.

2.3 Measuring Purpose

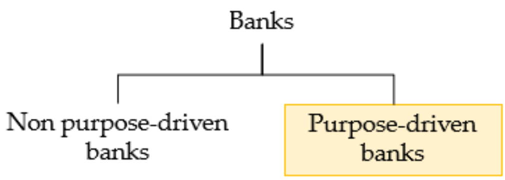


FIGURE 2.4: Classification categories.

Remember that we aim to analyze the performance implications of purpose-driven banks, and hence we need to make a classification, distinguishing purpose-driven banks from non-purpose-driven banks. This categorization (see Figure 2.4) requires identification of purpose-driven banks. In previous sections, we have formulated a settled definition of purpose-driven banking and increased understanding of related concepts that are useful for identification of purpose-driven banks. In this section, we use this knowledge to specify purpose indicators and metrics. Since purpose-driven banking is a quite qualitative idea, it is a difficult concept to measure. Yet, we make an attempt to assess and measure "purpose-drivenness" in banks according to our definition, by creating our own Purpose-Driven Banking (PDB) framework. The actual framework is constructed in Chapter 3. In this section, we first investigate the usability of existing attempts to measure purpose. We then discuss the steps to develop our own sound measurement framework. Afterwards, we review literature to find characteristics that relate to our definition (as formulated in Section 2.1) that can serve as a foundation for our framework.

2.3.1 Existing purpose metrics

The phenomenon 'purpose' is difficult to quantify and objectively assess. Literature provides some interesting attempts to measure or describe purpose in organizations, but we will see that these are not (entirely) in line with our definition or not applicable to our research. In this section, we describe existing methods that make an attempt to measure purpose in organizations, including the advantages as well as the shortcomings of each approach regarding the applicability to our own research. In Table 2.3, we summarize our findings.

Gyori et al. (2021) examine the differences in operations between a purpose-driven bank (in the paper referred to as a values-based bank) and traditional banks. Data is collected by conducting semi-structured interviews and using bank documents. With this information, a business model is created demonstrating the core principles of values-based banking. The principles derive from six pillars of values-based banking, established by the Global Alliance for Banking on Values (GABV). According to the research, a bank that integrates its business processes around the established principles, is a values-based bank, i.e., these operations can help to identify values-based banks. The view of the authors on values-based banking is in line with our thoughts on purpose-driven banking: a bank's core business is financial intermediation, and hence sustainability goals should be integrated with this core economic function. By using data from interviews with different stakeholder groups, the established principles cover a broad perspective. Although the framework defines principles that align with our research goals, we find some disadvantages. First, the study presents one case from one specific country. Hence, the model is based on values-based operations in one bank, incurring generalization issues. Secondly, the authors note that they were not able to capture all stakeholder perspectives. Especially, the viewpoint of customers was not established well. Another limitation is the subjectivity of the model. Although the model allows for a comprehensive and complete overview of values-based processes in the specific bank, it will be difficult to interpret how the principles are reflected in the business model of another bank (e.g. the principle of having community-minded customer segments).

In another study, Halamka and Teplý (2017) research the effect of ethics on banks' financial performance. Ethical banks are described as banks that effectively implement ethics within the organizational structure and embed it in the banking culture. The study's view on ethical banks is in line with values-based banks and with our definition of purpose-driven banks. A list of criteria is created based on the six principles established by the GABV (similar to the previous tool). To identify ethical banks, the criteria are applied to a sample of banks. In total, 69 ethical banks were identified that were thereafter compared to conventional banks. As the authors admit themselves, a serious limitation of the research is the identification of ethical banks. Due to publicly unavailable information that is needed for appropriate assessment of the level of ethics in a bank, the writers use a proxy classification based on expert interviews. More specifically, the established criteria are applied to a predetermined list of ethical banks. Hence, the research does not provide an exhaustive list of all ethical institutions, and interesting banks might be left out of the sample.

Rey et al. (2019) have written a book on purpose-driven organizations. After gaining an understanding of purpose-driven organizations and relevant related concepts, they propose a way to assess whether a business's purpose is truly purpose-driven. For this intent, they develop the Purpose Strength Model. The incentive of the tool is to enable organizations to assess, diagnose and enhance the level of purpose in an organization. The model visualizes how certain variables are articulated around a firm's purpose, covering antecedents, accelerators, and outcomes. Unfortunately, the framework does not suggest specific purpose metrics; rather, it serves as the foundation for the development of actual purpose measuring tools. Another disadvantage of the model is that it is constructed based on purpose-driven organizations in general and not specifically on banks.

Lastly, we describe the Purpose-Driven Banking intensity index, created by a research group within Accenture, to classify purpose-driven banks (K. Oon et al., 2021). The index examines banks' purpose-driven strategy through four pillars: customer, employee, product, and community (note: the latest version of the index is not yet published). With feature selection techniques, the key variables associated with being "purpose-driven" are determined. Using different data sources, individual variable scores are calculated and combined into an index score for each bank. This data-driven approach allows for more objective purpose identification. However, a big disadvantage is that in identifying the key variables that determine purpose-driven banks, they associate with a financial target variable. More specifically, in the analysis they work with two financial outcome variables, namely return on equity and operating income. This is clearly not in line with our definition of purpose-driven organizations. Another disadvantage is that we do not have access to the underlying databases of the research, meaning we would not be able to apply the index to our sample of banks.

Purpose metric	**Main advantages**	**Main disadvantages**
Values-based business model by Gyori et al. (2021).	• Thoughts on values-based banking are in line with our definition on purpose-driven banks. • A broad perspective is used in establishing values-based principles.	• Values-based banking principles are based on the operations of one specific purpose-driven bank in one country. • Principles are obtained by interviews in which the viewpoint of the bank's customers is not well established. • Objective examination of other banks using the principles is difficult/impossible.
Identification criteria for ethical banks by Halamka and Teplý (2017)	• Thoughts on ethical banking are in line with our definition. • Applying the criteria to the proxy classification resulted in 69 identified ethical banks.	• The research did not find comparable metrics to measure the exact level of ethics within a bank, so the study relies on a proxy classification. • The proxy assessment is based on expert interviews, probably providing an incomplete list of ethical banks, and making the research more subjective.
Purpose strength model by Rey et al. (2019)	• Comprehensive model for assessing, diagnosing and enhancing purpose strength in organizations.	• Model serves only as the basis for development of actual purpose measuring tools. • Model is not focused specifically on the banking sector.
Purpose-Driven Banking Index by K. Oon et al. (2021).	• Similar research purpose: classification of purpose-driven banks. • Data-driven approach allows for objective purpose identification.	• "Purpose-drivenness" is linked to high financial performance, i.e., not in line with our definition. • Access to the used data sources is restricted.

TABLE 2.3: Overview of pros and cons of existing purpose identification ideas in literature.

2.3.2 Mixed method

Looking back at the previous section, we conclude that there exists no thorough metric or tool that can be used to measure purpose in consonance with our definition and for which appropriate data is available. Some studies use a qualitative approach to measure the level of purpose in organizations, whereas others try to find quantitative solutions. On the other hand, both qualitative and quantitative tools provide interesting and useful learning points. To capture a broad perspective, we hence integrate both methods and propose an integrative framework. An elaboration for the use of a so-called mixed method is provided in this section.

The overall purpose of mixed methods is that the combined approach may provide a better understanding of complex phenomena than either approach alone (Creswell and Clark, 2007). Considering our complex object of measurement, "purpose-drivenness", conducting a mixed method study is advantageous. As we have seen, existing studies trying to identify purpose in organizations, mainly select one out of two approaches: they either describe what a purpose-driven company looks like, putting emphasis on how purpose is manifested (e.g., George et al. (2021) or Gyori et al. (2021)), or they make an attempt in measuring particular aspects of purpose-driven organizations and propose specific metrics to measure purpose (e.g., Gartenberg et al. (2016) or K. Oon et al. (2021)). The first approach relates to a qualitative method, using qualitative data analysis techniques, whereas the second is related to a quantitative approach. Although both perspectives provide essential knowledge in understanding purpose in organizations, neither method covers the holistic view, encompassing the broad perspective of "purpose-drivenness" in organizations.

Papers describe multiple purposes for using mixed-methods, but the main intent is to enhance understanding of a particular concept (Azorin and Cameron, 2010). This can be obtained, for example, by expanding one set of results with another. A mixed-method with an expansion intent is commonly described as "the use of qualitative methods to assess program processes and by quantitative methods to assess program outcomes" (Greene et al., 1989). The main objective is to extend the scope of inquiry. This purpose suits our research needs, because we want to create a more comprehensive instrument to measure purpose in organizations. Expansion enables us to extend the range of research by combining both qualitative and quantitative ideas from existing studies, using them for different inquiry components.

To ensure quality of the framework, we describe the characteristics of sound measurement in Appendix A. It is about understanding measurement scales so that we select appropriate measures for our intent (Cooper and Schindler, 2014). In literature, several definitions exist to describe the concept of purpose-driven organizations. We elaborated on our preferred definition in Section 2.1. Identification of important aspects of this definition in Section 2.2, is the starting point for our search towards more specific concepts and constructs. Where possible, we use existing scales to measure "purpose-drivenness" that are useful for measuring the identified concepts. If this is not the case, we have to custom our own scale, based on appropriate indicators from literature. The actual framework is created in Chapter 3.

2.3.3 Purpose-driven indicators

We have defined purpose-driven banks as entities that align all business processes to achieve their purpose. This purpose is always stakeholder-oriented, in that sense that the core intent is to create value for a bank's stakeholders. The purpose can never be focused solely on profit or shareholder value maximization – these should rather be possible outcomes of achieving the higher purpose. Using this definition, we can already identify a purpose-driven bank as one that has its processes aligned to achieve a stakeholder-oriented purpose. We review literature to study common characteristics of purpose-driven companies.

In Section 2.2, we discussed three dimensions of purpose implementation: motives, operationalization, and impact. Characteristics of purpose-driven organizations can be categorized into these main groups and are described in subsequent paragraphs. A summary is provided in Table 2.4, at the end of the section. We use these findings in Chapter 3 to construct our Purpose-Driven Banking framework.

Dimension 1: Motives

The first dimension focuses on an organization's motives, and how these are articulated through a company's purpose. The purpose statement reflects the company's higher intent (Bunderson, R. Quinn, et al., 2020). Gyori et al. (2021) describe the major differences between traditional and values-based banks. Regarding the motives, values-based banks focus on stakeholders, whereas traditional banks focus on shareholders. Additionally, values-based banks aim to repurpose finance based on SDGs, creating environmental, social and economic value, while traditional banks focus purely on achieving economic value (i.e., profit) (Gyori et al., 2021). During an online Business Research conference on higher purpose in banks, Anjan Thakor explains the characteristics of purpose-driven statements. According to him, a higher purpose should be pro-social, inclusive, inspiring, authentic, constant, different, and a covenant (Thakor, 2021). Related studies use similar terms to describe the characteristics of a purpose statement. George et al. (2021) for example, refer to purpose as goal-based, duty-based, clear, and stakeholder-oriented. Nearly all studies on corporate purpose relate higher purpose to pro-social (explicit and implicit) contribution goals (Bunderson and Thakor, 2021). Put simply, this implies that the purpose of an organization can be anything but purely maximizing its profits and shareholder monetary value (Gartenberg, 2021).

Dimension 2: Operationalization

The operationalization dimension implies the translation of the firm's purpose into actions and measurable variables. As explained, we describe two operationalization steps: (1) establishment of strategic actions and (2) identification of business metrics. The first step is about translating the purpose statement into strategic actions. A standalone statement goes nowhere; only when it is aligned with the strategic intent or mission of a firm can it be effective (Barby et al., 2021b). The purpose should guide strategic decisions (in literature, purpose is sometimes referred to as the North Star) that can be translated into specific actions.

Secondly, to establish purpose effectively, it should be measured and reported. A purpose-driven company must identify business performance metrics that flow from the purpose statement and mission (Barby et al., 2021a). A successful strategy is based on a clearly defined purpose and requires an evolution from reporting practices that rely substantially on financial metrics. According to Rey et al. (2019), purpose metrics should be dynamic and helping to express purpose based on both external realities of markets and the internal conditions of a firm. Gyori et al. (2021) describe differences in the criteria of banking practices' evaluation: values-based banks use ESG criteria for contributing to sustainable development, whereas traditional banks focus purely on annual revenue, profitability, and shareholder value. Achieving incorporation of non-financial measures in current reports, requires organizations to include measurements that recognize a firm's investment in their workers, societies and natural assets both within and outside the firm (Stroehle et al., 2020). Several studies propose using specific non-financial metrics. Gyori et al. (2021), for example, suggest to use ESG metrics, such as labor practices or diversity and inclusion. The considerable number of distinct purpose indicators emphasized the fact that purpose is a broad concept, covering a wide range of topics. Research agrees on the intent of these metrics: they need to actively link the firm's incentives to wider, purpose-led goals (Barby et al., 2021b), and go beyond narrow financial metrics (Lleo et al., 2021). We identify some key characteristics/aspects of these metrics for assessment purposes later in the research:

- Purpose-led indicators should account for the organization's success in **delivering benefits to stakeholders beyond its shareholders** (Barby et al., 2021b);
- Purpose metrics relate to **reporting on pro-social, non-financial performance**. Literature often refers to pro-social reporting in annual reports (e.g., on ESG performance (Baier et al., 2020) or SDG achievements (Jimenez et al., 2021));
- Purpose-aligned metrics should be **treated with the same importance** as profit or sales metrics in performance reviews (Barby et al., 2021b).

Dimension 3: Impact

The third dimension covers the actual impact of organizational purpose. As explained, existing studies often relate this impact to the monetization of the earlier set metrics. In this case, the distinction between the second operationalization step and the impact dimension is only small: whereas the operationalization dimension is about translating the purpose statement into non-financial actions and indicators, the impact dimension covers the monetization of these metrics.

We observe that purpose-related concepts are sometimes quite difficult to monetize, and hence we have to be careful with using it as decisive indicator. Put more generally, a purpose-driven firm presents its positive impact in relation to pro-social, stakeholder-oriented goals. According to Rey et al. (2019), it is related to how organizations measure success beyond pure economic or financial results. Literature describes the following aspects of impact metrics:

- Impact metrics should aim to reflect the organization's success in **delivering on its purpose** (Barby et al., 2021b);
- Purpose-aligned impact metrics should be **treated with the same importance** as profit or sales impact metrics in performance reviews (Barby et al., 2021b).

As we think that using monetization of variables as indicator might cause classification errors, we search for other ways to identify impact. With the use of a more general view on impact (not monetized per se), purpose-related impact can be presented in numerous ways, depending on the specific purpose type. Gartenberg et al. (2016) for example, link the impact of corporate purpose to employee satisfaction (through employee ratings), Mahoney and Thorn (2006) relate it to executive compensation, and Brown and Nutall (2022) associate ESG performance.

Accenture suggests a way to quantitatively measure purpose impact, namely the Purpose-Driven Banking Index (K. Oon et al., 2021). The index examines the intensity of "purpose-drivenness" in a bank through four pillars: customer, employee, product, and community. Literature supports the use of three of these perspectives, excluding the product pillar (e.g., Thakor and R. E. Quinn (2019)). As discussed, our definition of purpose is not in line with the financial target variable for purpose of K. Oon et al. (2021), and hence we conform with the triple perspective view, i.e., not using the product pillar. In an unpublished article, Accenture defines variables for the three perspectives (see Figure 2.5).

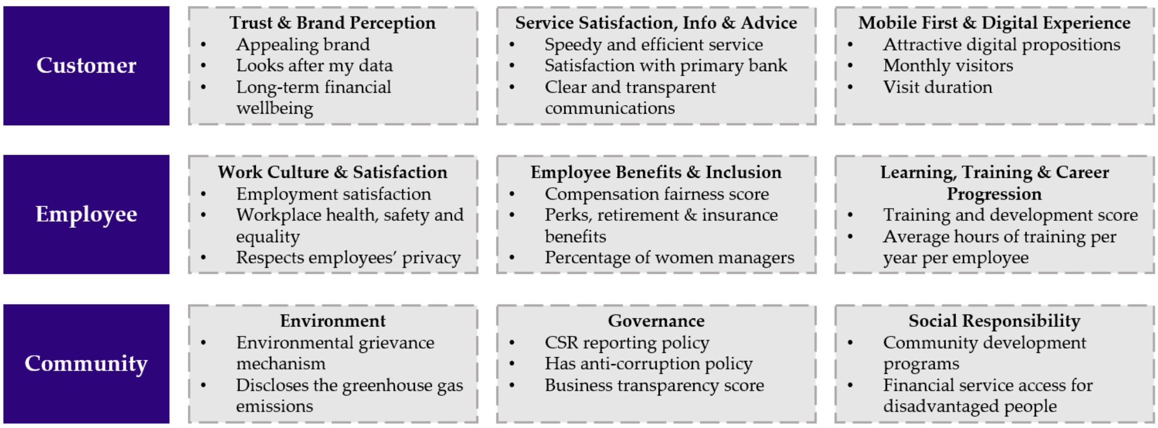


FIGURE 2.5: Purpose-Driven Banking Intensity Index variables by Accenture (2022), according to the three main purpose perspectives.

Using these three perspectives enables us to evaluate the key aspects of purpose impact. We elaborate on suggested indicators from literature for the three perspectives:

- ***Customer perspective***: a first perspective of purpose relates to customers. One of the indicators for measuring impact from a customer perspective is customer focus, expressing the extent to which companies understand and react to the satisfaction of customer requirements and expectations (Metz et al., 2020). For banks, it implies that they focus on developing customer-centric products and services (Sciglimpaglia and Ely, 2002). A second indicant described in literature is customer trust, concerning the belief in a business. Agyei et al. (2020) demonstrate that trust in various dimensions (e.g., brand trust, information-based trust, etc.) significantly influences customer engagement, and subsequently enriches customer loyalty. Secondly, papers describe customer satisfaction, closely related to customer experience. It turns out that expectations can increase customer loyalty, sales, and their level of satisfaction (Sheth and Mittal, 1996). Satisfaction is the key factor in making customers come back for future purchase (Mosahab et al., 2010).

- ***Employee perspective***: the second perspective is about the engagement of an organization's employees and its culture and values (K. Oon et al., 2021). Thakor (2016) describes culture as "the collective assumptions, expectations, and values that reflect the explicit and implicit rules determining how employees think and behave within the organizations". Thakor (2019) explains that a bank's purpose has a huge impact on its culture. A bank articulating a clear purpose, i.e., one that is embedded in the firm's culture, can inspire employees, attract and retain talent, and produce powerful results (Thakor, 2019). A study by Gartenberg et al. (2016) relates employee engagement to purpose impact. The article suggests that organizations with employees maintaining beliefs in the meaning of their work experience better performance. Imandin et al. (2014) identify employee engagement constructs and develop a model to measure them. Another indicator that is often described in relation to purpose-driven companies is employee satisfaction. A study by Ahsen and Gauch (2021) describes that purpose-driven firms have more satisfied employees than non-purpose-driven companies.
- ***Community perspective***: the last perspective refers to activities that support the community. This pillar focuses on the integration of ESG practices in the core business (Jimenez et al., 2021). Existing research shows that the integration of shared purpose with business practices, leads to increased sustainable behavior (Ficapal-cusí et al., 2021). In other words, an integrated purpose contributes to achieving social, environmental and economic organizational goals (Lleo et al., 2021). Therefore, literature often relates ESG metrics to measure impact from a community or sustainability perspective.

Dimension	**Description**	**Characteristics / Identifier**	**Related Literature**
Motives	The extent to which an organization has established a **higher** purpose (i.e., not focused on sole profit or shareholder value maximization).	Pro-social/stakeholder-oriented, **not** profit- or shareholder-oriented, specific/concise, realistic, durable.	Barby et al. (2021b); Gyori et al. (2021); Bunderson, R. Quinn, et al. (2020); George et al. (2021); Thakor (2021).
Operationalization	The degree to which the organization articulates its purpose through strategy and actions.	Strategy alignment with mission/purpose, purpose north star.	George et al. (2021); Rey et al. (2019).
	The degree to which the organization articulates its purpose metrics and reporting	Purpose-led/pro-social performance indicators, purpose-led/pro-social reporting, non-financial metrics, ESG criteria.	Barby et al. (2021b); Gyori et al. (2021); Stroehle et al. (2020).
Impact	Initiatives attempting to show actual purpose impact.	Monetization of purpose impact, reporting on positive pro-social impact.	Bunderson, R. Quinn, et al. (2020); George et al. (2021).
	Purpose score representing impact based on different stakeholder perspectives.	Quantification of purpose perspectives: employee, customer, community.	Thakor and R. E. Quinn (2019); K. Oon et al. (2021).

TABLE 2.4: Overview of purpose dimensions and its characteristics in purpose-driven organizations.

Chapter 3

PDB Framework

In Chapter 2 we elaborated on the key concepts related to purpose embedded in organizations. In this chapter, we use these findings to construct a comprehensive Purpose-Driven Banking framework. The goal of the framework is to provide a tool to identify and classify banks based on their “purpose-drivenness”. Using a conceptual model, we first provide an overview of how the relevant concepts relate to achieving the goal of our framework. We elaborate on important decisions and main assumptions. We then focus on the separate parts of the tool and construct the actual framework. Since the information needed to draw a ‘perfect’ line between purpose-driven banks and non-purpose-driven banks is, to a large extent, publicly unavailable, we search for reliable proxy variables. These will be used for making the classification in this study.

3.1 Conceptual Model

Once again, we clarify the goal of our framework: it should serve as a purpose measurement tool, enabling the identification and classification of purpose-driven banks versus non-purpose-driven banks. The literature review in Section 2.2 has pointed out three dimensions of purpose implementation in organizations: motives, operationalization, and impact. These categories serve as the foundation of the framework. In Section 2.3.3, we identified characteristics to express concepts within each category (see Table 2.4 for a summary). Some of them are better measurable than others. In particular, variables from the first two dimensions are difficult to quantify, while on the other hand, variables from the impact dimension are difficult to qualitatively assess.

We have seen that existing studies, trying to identify purpose in organizations, mainly select one out of two approaches: either qualitative or quantitative (see Table 2.3 in previous chapter). Accenture has used a quantitative approach to develop a Purpose-Driven Banking index with a similar purpose, namely classification of banks. It is a data-driven approach that examines banks’ purpose-driven strategy (K. Oon et al., 2021). Although the research makes use of theory and pillars that overlap with our ideas, their index is not in line with our definition of purpose. The main reason for this is that Accenture makes use of a financial target variable in determining purpose-driven banks. As emphasized throughout the research, we deter the use of financial aspects when referring to purpose in organizations. We focus on embedding and aligning purpose with a company’s core business processes and relate purpose to pro-social, stakeholder-oriented, non-financial aspects. Although we strongly believe this is a better way to define purpose, it is more difficult to quantify than financial variables and metrics. From our point of view, purpose-driven banking is a quite qualitative concept, and thus challenging to identify only quantitatively. On the other hand, papers have used purely qualitative approaches to identify purpose-driven companies (e.g., Gyori et al. (2021) and Halamka and Teplý (2017)). The suggested models are more in line with our definition of purpose, but less applicable to our research needs (for details, we refer to Section 2.3.1). A main disadvantage is that qualitative assessments of banks often remains subjective.

As we have seen, each approach has its strengths and weaknesses, focusing on different aspects of purpose. Since we consider all three dimensions of purpose implementation to be of importance for classification, we integrate both qualitative and quantitative ideas. The use of a mixed method enables us to enhance understanding of purpose manifestation in banks, allowing us to create a comprehensive instrument.

With a mixed method, the framework will consist of two parts: a qualitative and a quantitative part. In part 1, we use a qualitative identification approach to make a classification between purpose-driven banks and non-purpose driven banks. We adopt the characteristics and identifiers defined in Section 2.3.3 and translate them into classification criteria by which banks are assessed. By analyzing available information on banks based on the established criteria, we are able to make a first classification. Emphasis for part 1 is on the first two purpose dimensions (motives and operationalization), since qualitative assessment for the third dimension is more difficult, as we did not identify (many) qualitatively measurable characteristics for purpose impact. In the quantitative part (part 2), we shift focus purely to the impact dimension. Using existing data points related to purpose, we establish a purpose impact score for banks. The aim is to measure purpose impact of a bank based on three lenses as described in literature (Thakor and R. E. Quinn, 2019) and by Accenture (K. Oon et al., 2021): customer, employee, and community. We gather scores for the three perspectives and combine them into an integrated score for each bank in the sample. By setting a threshold value, we can distinguish high-scoring banks from low-scoring banks, based on their individual scores.

The main idea of integrating both approaches is that the two parts complement each other. We use part 1, the qualitative assessment approach, to make a first rough classification. The goal is to filter out banks that are clearly not purpose-driven. These banks will be excluded from the sample of purpose-driven banks. Subsequently, part 2 serves to make a better classification. The left-over sample of purpose-driven banks (or actually: the sample without obvious non-purpose-driven banks) is analyzed quantitatively. Based on the assigned impact scores, derived from three perspectives, we distinguish between high-purpose-driven banks and low-purpose-driven banks. The high-purpose-driven banks represent our category of purpose-driven banks, whereas the low-purpose-driven banks, as well as the clearly non-purpose-driven banks from part 1, are considered to be part of the non-purpose-driven category.

We illustrate this idea in Figure 3.1. We refer to part 1 and 2 as the *purpose assessment tool* and the *purpose impact index*, respectively. In subsequent sections, we elaborate on the different parts of the framework.

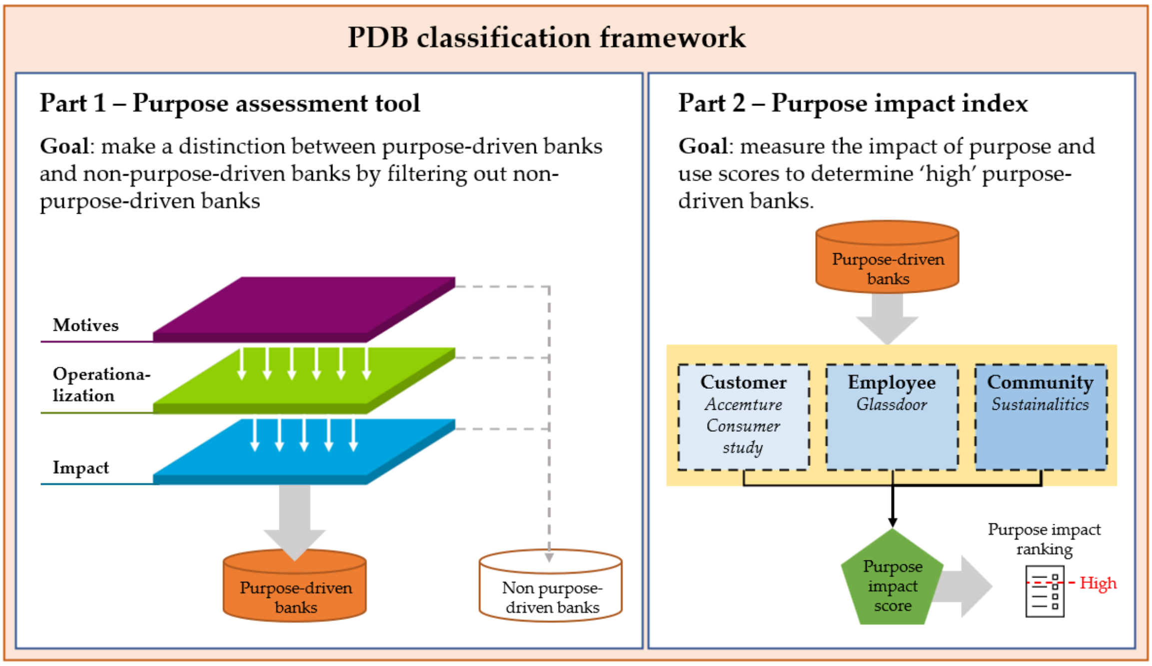


FIGURE 3.1: Conceptual model of PDB classification framework (own source).

3.2 Purpose Assessment Tool (Part 1)

The purpose of the assessment tool is to make a first rough classification between purpose-driven banks and non-purpose-driven banks. We examine available banks' information to assess whether a bank can be classified as purpose-driven or not. In this first part, we refer to 'rough' classification, as we focus only on filtering out banks that are definitely not considered to be purpose-driven. A more specific classification is made in part 2.

We decide to obtain the required information from annual reports of banks. This choice for using annual reports derives from a couple of reasons. First, annual reports summarize the bank's strategy, activities, and performance during the preceding year. Hence, this information is suitable for assessing our described purpose dimensions. Secondly, annual reports are publicly available for a large sample of banks in Europe. Regulatory requirements impose banks to report on their performance and main activities (EU, 2022a; BIS, 2022). Thirdly, regulations require organizations to prepare their reports in accordance with international standards (EU, 2022b), making the reports both understandable and comparable across different regions. Lastly, existing studies also make use of annual reports and suggest that these are reliable sources for analysis (e.g., Baier et al. (2020)). Therefore, considering these arguments, annual reports are a suitable source of information for the purpose assessment tool of the framework.

Consequently, there are a few remarks to keep in mind when establishing the criteria for assessment of annual reports. First, the criteria have to be concrete in order to lower subjectivity. This also implies that the criteria should be unambiguous and understandable. On the other hand, the criteria should not be too specific, because annual reports usually consist of hundreds of pages. More specifically, given the large sample of banks in our study, the criteria must be relatively easy to detect. Lastly, the criteria should be measurable in all annual reports to ensure consistency across the assessments.

Before constructing the assessment criteria, we discuss one more important consideration: classification errors. Since we have a binary classification problem, we deal with two primary types of errors: type I errors (false positives) and type II errors (false negatives). Decreasing one error results in increasing the other, so we must decide which error type is more acceptable. For the purpose of our research, we aim to reduce errors of type II. This relates to the situation in which purpose-driven banks are unintentionally classified to the group of non-purpose-driven banks. As the group of non-purpose-driven banks is filtered out and excluded from further analysis, false negative scenarios are highly unwanted. Errors of type I on the other hand, false positives, are less harmful, since they will undergo some other classification assessments. Therefore, if any doubt occurs in classifying a particular bank as purpose-driven or not, we categorize it as purpose-driven, to reduce type II errors. Further assessment of the "purpose-drivenness" of the bank should then indicate the final category.

To conduct qualitative assessment on the "purpose-drivenness" of banks, we establish four assessment criteria. These are based on the identified characteristics for each of the three key dimensions described in Chapter 2. We judge if a bank is purpose-driven or not based on each criterion. This process is sequential, meaning that there will be multiple classification steps. The criteria are as follows:

1. **Purpose statement** (*motives* dimension): is the purpose statement considered to be purpose-driven? A main characteristic of a purpose-driven statement is that it focuses on an organization's stakeholders. We exclude banks with purpose statements that are solely focused on profit- or shareholder value maximization, since these are definitely not considered to be purpose-driven.

2. **Alignment of strategy and actions** (*operationalization* dimension): are the strategy and actions aligned with the defined purpose? As explained, the purpose should guide strategic decisions that are translated into specific actions. A bank whose strategy and actions have nothing to do with the purpose statement are clearly not purpose-driven.

3. **Purpose metrics** (*operationalization* dimension): does the bank have purpose-led metrics in place, i.e., does it report on non-financial performance? If not, purpose does not transcend the usual business of the organization and hence the bank is not purpose-driven.

4. **Purpose impact** (*impact* dimension): is the purpose impact monetized? Earlier, we expressed our concern about using monetization of purpose metrics as criterion, as it

might cause classification errors, particularly of type II. As we want to avoid making these errors, we decide not to use purpose impact as classification criterion in the assessment tool. However, we are curious to learn about the usability of a monetization criterion. We therefore do assess the monetization of metrics in annual reports. We propose to give banks a label "Strong" if purpose metrics are monetized, and "Weak" if not monetized. In this way, we are able to compare the labeled outcomes with the impact scores that will be derived in part 2, and reflect on it later on. The results are not relevant for our classification, but might be of relevance for future research.

We depict the assessment process in a process flow, see Figure 3.2.

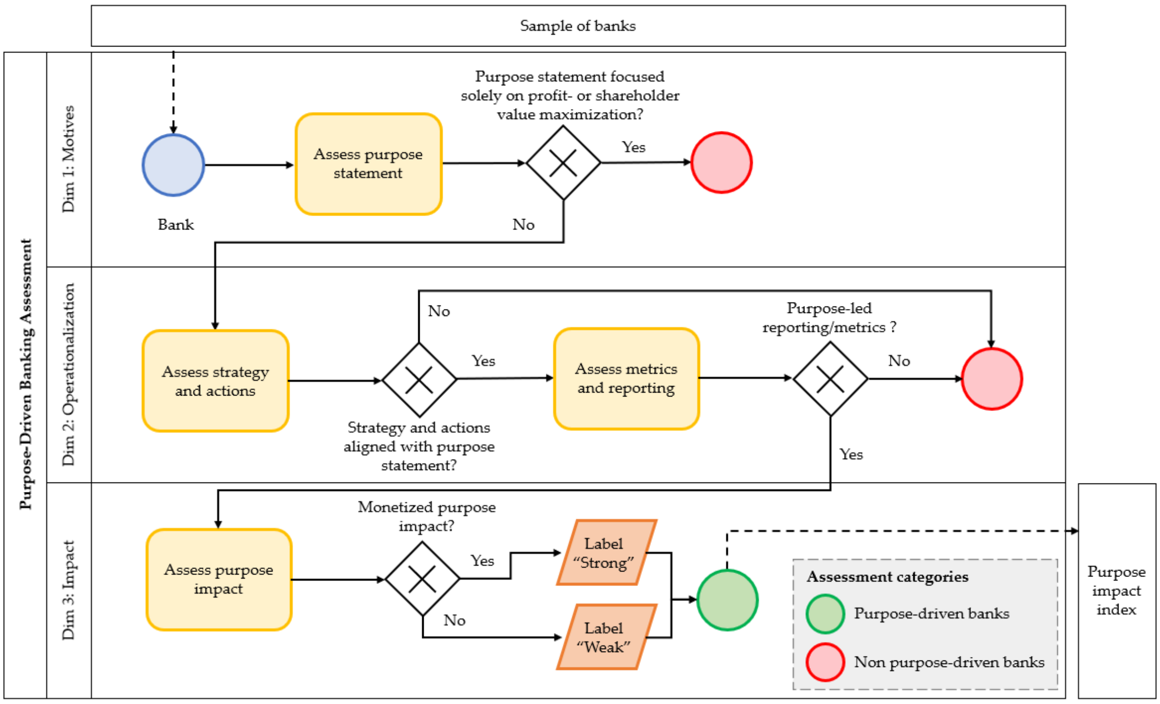


FIGURE 3.2: Purpose assessment tool (own source).

3.3 Purpose Impact Index (Part 2)

After qualitative analysis of the banks' annual reports, we have two categories of banks: one class of banks that definitely did not embed purpose into their business activities, classified as non-purpose-driven, and one class of 'left-over-banks' that still stand a chance of being classified as purpose-driven. The latter sample moves to part 2 of the framework, the purpose impact index.

The goal of the second part of the framework is to measure purpose impact in banks using quantitative data points. In the previous chapter, we elaborated on the Purpose-Driven Banking index, developed by Accenture. Although we discussed that their outcomes represent a different definition of purpose-driven banks than ours, the idea of creating an index is useful for our study. It enables us to quantify the quite complex concept of "purpose-drivenness" in banks. Similar to the Accenture approach, we combine performance scores from different perspectives into an integrated impact score for banks. To construct the scores, we gather data from three perspectives: customer, employee and community (see elaboration in Section 2.3.3). We use Multi-Criteria Analysis (MCA) to establish an integrated score and to rank the banks in our sample. This method (also referred to as multi-attribute decision-making) enables us to evaluate multiple attributes from different perspectives and integrate them into a total purpose impact value for a bank. We map the information into a single dimension, allowing us to properly compare the integrated bank scores. This also implies that the values of the chosen criteria must be converted to a common measurement scale (Sullivan and Koeling, 2015). Such MCA models are in literature referred to as compensatory models.

In the book *Engineering Economy*, Sullivan and Koeling (2015) elaborate on the steps included in MCA for compensatory models with nondimensional attributes:

1. **Choice of attributes**: selection of the list of attributes used to discriminate among alternatives. We base the list of criteria on the described characteristics for purpose-driven banks in Section 2.3.3.

2. **Selection of a measurement scale**: develop metrics that permit various states of each attribute to be represented. Since we have limited access to databases, we search for proxy variables, providing us with indicative scores for each attribute.

3. **Conversion to nondimensional form**: convert the values of all attributes into a common measurement scale, from which it must be possible to construct an overall purpose impact index for each alternative. We describe the nondimensional scaling procedure as follows:

   - First, we gather and store values for the selected attributes. The attributes represent the three purpose impact perspectives. These original data derive from several databases.
   - We then remove the dimension from each attribute. We want to rate each attribute in terms of its fractional accomplishment of the best attainable value. Hence, we convert the original values for the chosen criteria to its dimensionless rating, using the following formula:

$$Rating = \frac{Worst\ outcome - Outcome\ being\ made\ dimensionless}{Worst\ outcome - Best\ outcome} \tag{3.1}$$

4. **Calculation of scores**: find the total score for each bank by summing up the dimensionless values of each attribute. In calculating the final scores for the banks, we give each perspective (customer, employee, and community) equal weight, i.e., we consider them to be of equal importance. Based on the total score, we determine the highest scoring banks.

In Section 2.3.3, we have described characteristics for each impact perspective. Based on these, we first create a general overview of relevant indicators for the different purpose impact aspects. In this way, we enable future researchers to apply our framework to their own study. Based on the context of their research and the data availability, they can define sub-variables and determine measurement scales, according to their own preferences. We summarize the relevant indicators for measuring customer, employee, and community impact of a bank in Figure 3.3.

FIGURE 3.3: Indicators for purpose impact perspectives (own source).

In this research, we are limited to using databases that are available to us. Hence, to measure purpose impact, we search for proxy variables that serve as indicating scores for the perspectives. In the following sections, we describe the established variables based on the available information.

3.3.1 Customer score

To construct a customer score, we make use of the Accenture Global Consumer Study (2020). It contains a survey providing insights from more than 47,000 banking customers across different markets and regions. The study focuses specifically on customers' evolving needs within the banking industry. Some questions relate to our idea of purpose-driven banking and hence the results give us understanding on the customer impact perspective. We have determined three indicators for the customer perspective, namely trust, satisfaction and customer-centric services. For each attribute, we search for related questions from the survey. We summarize the selected questions, i.e., the ones that we consider to be of relevance for our research, in Appendix B.

Consumers participating in the survey fill in their answers through a response scale. For a number of statements on banking services and products, they have to indicate to what extent they agree or disagree. To give an illustration, we provide an example of the responses to one of the questions for a particular bank in Figure 3.4. The percentages indicate the fraction of respondents that chose the specific scale option.

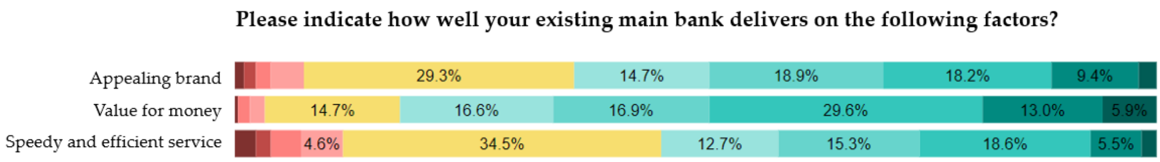


FIGURE 3.4: Example of response scale for a question in the Accenture consumer study.

However, different questions make use different scales. Hence, to construct a total score for the customer perspective, we must remove the dimension for each sub-value, using equation 3.1.

3.3.2 Employee score

For the employee perspective, we use data from Glassdoor. It is a platform providing insights about jobs and companies, based on employee experiences and reviews. For every organization, a set of standard company ratings is available, namely, an overall score and several specific workplace factor ratings. We have defined three attributes corresponding to the employee perspective: culture & values, employee engagement, and employee satisfaction. In the database, we search for ratings that can serve as proxy variables. We find appropriate ratings for two of the three attributes:

- *Culture & values score*: obviously, this rating relates to the culture & values attribute.
- *Total score*: we link the total rating for each company to the employee satisfaction attribute. The total score is calculated separate from the workplace factor ratings. In other words, the factor ratings do not influence the overall company score.

Unfortunately, we find no proper proxy variable for the employee engagement attribute. In Section 2.3.3, we mentioned the study by Imandin et al. (2014), investigating employee engagement constructs. However, none of the identified constructs in the study is reflected by the ratings in Glassdoor. Hence, we are not able to measure employee engagement, and leave the attribute out of consideration in the employee perspective.

This implies that our total employee score includes two attributes: culture & values and employee satisfaction. In Glassdoor, the corresponding ratings are based on a five-point scale, so we do not have to apply any translations to compose a total employee score.

3.3.3 Community score

As discussed, the community impact score relates to ESG ratings. For this perspective, we use the publicly available Sustainalytics platform. The company provides ESG risk ratings for several companies across the world. The ratings provide insights in the magnitude of ESG risks, i.e., the degree to which ESG issues are putting a firm's enterprise value at risk.

We briefly discuss how the ratings are constructed. The ESG score consists of two components: exposure and management. First, exposure is the vulnerability of an organization to ESG risks. Second, management relates to a company's actions to manage ESG issues. A distinction is made between risks that are manageable and risks that are not. Combining insights from both the exposure and the management component, results in a measure for a firm's unmanaged ESG risk for each ESG issue. The overall score is the aggregate of the calculated, unmanaged ESG risks for a company. The total scores represent an absolute measure of risk, meaning that they are comparable across different organizations and industries. The lower the overall rating, the lower the company's ESG risk.

The big disadvantage of the described proxy variables and indicators, is that we do not know their representativeness of the concept "purpose-drivenness". Based on the obtained knowledge on purpose-driven banks, we have used our own (subjective) opinion to determine proxy variables that relate to the defined attributes for each perspective.

As mentioned, we combine scores for the three perspective into a total impact rating. In this way, we can rank each bank in the sample. We classify the highest scoring banks as purpose-driven. It is difficult to determine an exact threshold value for classification, since no data exists on the percentage of purpose-driven banks compared to non-purpose-driven or traditional banks. Existing studies do suggest that purpose-driven banks are in minority compared to non-purpose-driven banks. A survey by Dhingra et al. (2021), for example, demonstrates that only 21% and 11% of purpose statements mention a contribution to society and creating meaningful work, respectively. Note that these are just the statements, implying that the number of effective purposes will even be lower. Accenture has defined the top 25% of the purpose intensity scale as purpose-driven banking leaders. In this research, we consent with this viewpoint, and classify the top quartile in our sample as purpose-driven.

Chapter 4

PDB Analysis

In the previous chapter, we developed an integrative framework to measure "purpose-drivenness" in organizations. We now apply our framework in practice and use it to make the actual classification. This chapter consists of two parts: (1) the classification of purpose-driven banks versus non-purpose-driven banks, and (2) the comparative analysis on the financial performance of the two groups.

4.1 Classification of Banks

Our integrative framework consists of two parts: the purpose assessment tool and the purpose impact index. The idea of integrating both approaches is that the separate parts complement each other. We use part 1 to make a first rough classification and part 2 to make a final classification. In this section, we describe both classification processes and provide several examples to illustrate the application of the framework. At the end, we have two categories of banks: a purpose-driven banking group and a non-purpose-driven one.

4.1.1 Purpose assessment tool

The goal of the first part, the qualitative assessment approach, is to make a first classification between purpose-driven banks and non-purpose-driven banks. We examine banks' annual reports and evaluate them based on several criteria. We conduct the assessment manually, meaning that we extensively review the documents ourselves, instead of using automatic techniques (such as text mining processes) to assess the criteria. Although these automatic processes can save a lot of time, manual assessment of the purpose criteria will result in better accuracy. We use reports from 2020, since these are the latest published versions available for all banks. A few banks have no integrated annual report, but publish two separate documents: financial and non-financial statements. In these (rare) cases, we use the non-financial report, since these include the bank's purpose, strategy, and performance. We evaluate the reports based on four criteria (see Section 3.2 for more details):

1. Purpose statement
2. Alignment of strategy and actions
3. Purpose metrics
4. Purpose impact

We discuss assessment of the four criteria separately in the subsequent subsections. In Section 3.2, we explained that we aim to reduce errors of type II, i.e., the situation in which purpose-driven banks are unintentionally classified to the group of non-purpose-driven banks. That is why, if any doubt occurs, we categorize the bank as purpose-driven. We take this into account during the assessment.

Criterion 1: purpose statement

With the first criterion, we assess if the purpose statement can be considered to be purpose-driven. We exclude banks that are clearly non-purpose-driven. More specifically, purpose statements that focus purely on profits or shareholder value maximization are removed from the sample (see Figure 4.1). During the assessment, we observe that some banks have no written or implicit purpose statement, but do have an explicit mission statement. In these cases, we assess the mission statement on its "purpose-drivenness". Although the concepts differ slightly in interpretation, they are closely related (Thakor and R. E. Quinn, 2019). Hence, to determine the bank's higher intent, assessing mission statements is correct.

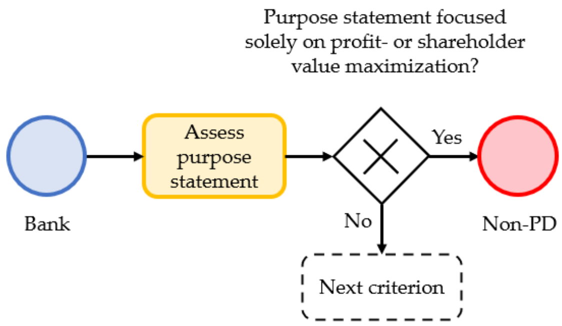


FIGURE 4.1: Criterion 1: purpose statement.

We find some banks with a partial shareholder value maximization purpose statement. We classify these banks as purpose-driven, since the purpose statements are not solely focused on profits. Besides, we argued that pursuing purpose does not preclude shareholder value creation; it should just not be the (only) ultimate goal. An example of a bank's purpose statement that we classify as non-purpose-driven is the following:

"Offer shareholders long-term, high growth in value, with increasing earnings per share over a business cycle."

Criterion 2: alignment of strategy and actions

Using the second criterion, we assess the "purpose-drivenness" of banks against the alignment of strategy and actions. To be purpose-driven, a bank should align its strategy and goals with the defined purpose. The purpose statement must serve as a guideline for strategic decisions that can be translated into clear actions. Again, we filter out clearly non-purpose-driven banks. We consider banks whose strategy,

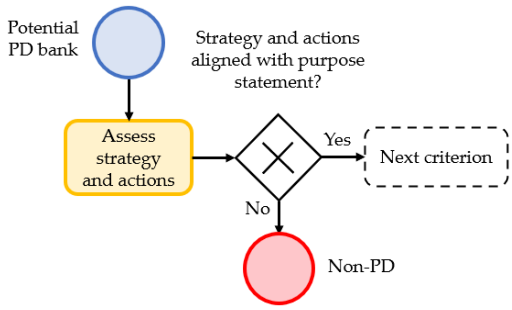


FIGURE 4.2: Criterion 2: strategy and actions.

actions, and goals have nothing to do with the purpose statement, as non-purpose-driven (see Figure 4.2).

We notice that most banks with a purpose-driven purpose statement also have an aligned strategy. Only in a few cases, banks did not link their actions and goals to their purpose. Of course, certain banks perform better than others in aligning strategic goals, but since we deal with a binary classification (i.e., either Yes or No), we do not distinguish between these differences. An example of a bank that clearly aligns its strategy with the purpose statement is Rabobank. The bank defines its purpose as follows: "*Growing a better world together.*" In the annual report, the bank explains its aspiration to make a substantial contribution to feeding the world sustainably and to well-being and prosperity in the communities in which it is active (Rabobank, 2020). To achieve this vision, the bank divides its strategy into four pillars. Figure 4.3 shows a visualization from the annual report, summarizing the mission story of Rabobank.

FIGURE 4.3: Example of Rabobank's strategy alignment with its mission (Rabobank, 2020).

Banks that do not have their strategy and actions aligned with their purpose are removed from the sample, ending up in the non-purpose-driven banking group. The other banks move to the next criterion.

Criterion 3: purpose metrics

The next criterion, against which we assess each bank in the remaining sample, is the presence of purpose-driven metrics. We evaluate if banks have purpose-led metrics in place, i.e., if they report on non-financial performance. Moreover, these metrics should align with the defined purpose, strategy, and goals of the bank.

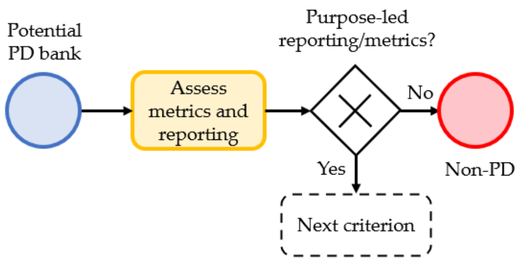


FIGURE 4.4: Criterion 3: purpose metrics.

If a bank does not meet these reporting requirements, we classify it as non-purpose-driven (see Figure 4.4).

Many banks make use of similar reporting methods. Common measurements are ESG ratings, SDG performance, sustainability target achievement, and customer satisfaction rates. After the assessment, we notice that all banks in the 'potential'-purpose-driven-sample, report to some extent on their purpose performance. We do see a big difference in the number of metrics that are presented. Whereas some banks only have three or four metrics in place, others fill pages with non-financial performance descriptions. However, since we decided to distinguish only two groups, none of the banks are removed in this step.

Criterion 4: purpose impact

The fourth criterion is about purpose impact. Recall that we do not use the latter criterion, purpose impact, as a decisive classification attribute in the assessment part of the framework. The main reason is that the actual impact is difficult to qualitatively assess. With the purpose impact index (part 2 of the framework), we take the impact dimension into account, by determining quantitative scores for banks.

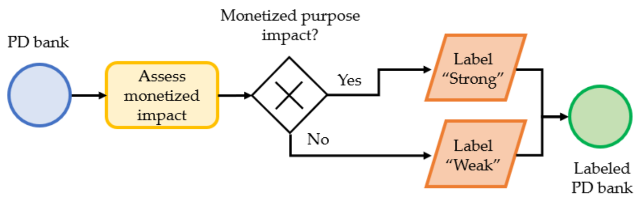


FIGURE 4.5: Criterion 3: purpose impact.

In Section 2.3.3, we explained that studies sometimes relate impact to the monetization of performance metrics. We also argued that using monetization of variables as a criterion might cause classification errors, because purpose-related concepts are often difficult to monetize. We do not use the monetization of purpose metrics as a classification criterion, but are curious to learn about the usability of the criterion for further research. Therefore, we investigate if banks present monetized purpose performance metrics in their reports. If so, the bank receives the label "Strong". If no single metric is monetized, the bank receives the label "Weak". We visualize this process in Figure 4.5.

During the assessment, we encounter several problems in labeling the banks. First, we find it difficult to identify monetized values. Whereas the purpose statement, the aligned strategy and the purpose metrics are often easy to determine in the annual reports, the monetized values are more hidden and hard to detect. Especially when reports comprise hundreds of pages, the search can be time-consuming. Second, we notice that we cannot always draw a perfect line between monetized values and performance metrics with monetary values. Several banks, for example, report on their total investments in societal or environmental projects. While these numbers have a currency unit, they are not monetized per se. An example of a bank that has monetized values in place is Nationwide Building Society. According to its annual report, one of the achievements is the protection of its members and communities against fraud. The bank monetizes the achievement: "we prevent at least £3.6 million in attempted frauds on members which might otherwise have cost a member their life's savings" (Nationwide, 2020). We compare the labels to the impact scores at the end of Section 4.1.2.

With the purpose assessment tool, we are able to remove 12 banks from the sample. The 51 'left-over' banks move to the second part of the framework. In Section D.1 of Appendix D, we present the list of banks that we exclude from the sample based on this first part of the framework.

4.1.2 Purpose impact index

With the purpose impact index, we make the final classification of banks. Based on different purpose perspectives, we quantitatively assess purpose impact. In this part, we collect existing data points and perform the necessary computations in Excel. As explained, we define three perspectives of purpose impact:

1. Customers
2. Employees
3. Community

In Sections 3.3.1 to 3.3.3, we have defined proxy variables for each of the three perspectives. For each of them, we gather data from different data sources (see elaboration in Section 3.2). We extract the relevant data points and translate them into applicable scores. The goal is to combine the single perspective scores into an aggregated total score (see Figure 4.6).

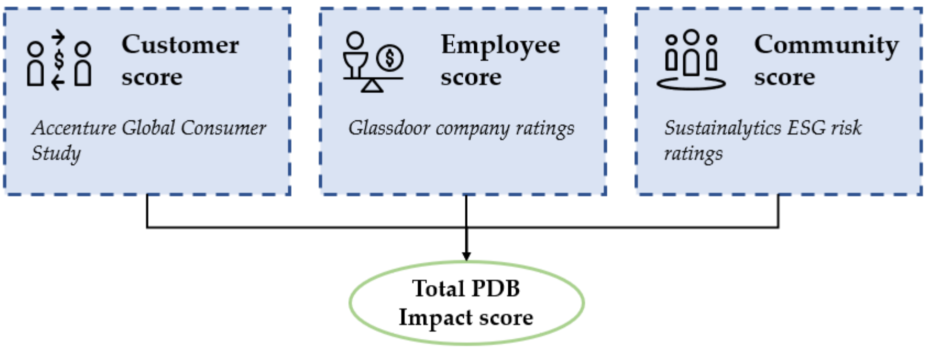


FIGURE 4.6: Combining perspective scores into a total purpose impact score.

We highlight the most important data collection and manipulation steps for each of the perspectives in the following subsections.

Perspective 1: customers

For the customer perspective, we have selected three questions from the Accenture Global Consumer study, including several sub-questions (see Appendix B). Each question serves as an indicator for the customer perspective attributes: customer trust, customer satisfaction, and customer-centric services. As mentioned in Section 3.3.1, different questions use different scales. The first question, relating to customer trust, asks for an indication how well a consumer's bank delivers on specific factors. Consumers provide answers for each factor based on an interval scale, ranging from 1 to 10. Here, a score of '1' corresponds to poor delivery on the factor under consideration, and '10' relates to excellent delivery. Per factor, the dataset contains the number of respondents that select a specific scale option. To obtain a measure of central tendency for each factor, we calculate the weighted arithmetic mean for each sub-question. We calculate the weights by dividing the number of respondents that select the specific scale option by the total number of respondents for the particular bank. To illustrate, we provide an example for one of the banks in our sample for one specific factor:

Scale option	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
# of respondents	1	1	3	6	71	31	57	81	42	14	**307**

We calculate the weights by dividing the number of respondents per scale option by the total number of respondents. For example, the weight corresponding to scale option 5 in this example is $\frac{71}{307} = 0.2313$. Now, to obtain a total measure for this factor, we calculate the weighted average. For the particular bank in our example, we calculate the factor score as follows:

$$Weighted\ factor\ score = \left(\frac{1}{307} \cdot 1\right) + \left(\frac{1}{307} \cdot 2\right) + \cdots + \left(\frac{42}{307} \cdot 9\right) + \left(\frac{14}{307} \cdot 10\right) = 6.98$$

The other two questions, linked to customer satisfaction and customer-centric services, use ordinal scales. Therefore, we first assign numerical values to the ordinal scale options. Each question contains a five-point scale, so we assign values 1 to 5 to the order indications. Logically, '5' represents the most positive scale option and '1' the most negative scale option. In this way, the factor scores follow the same trend with respect to desirability as the factor scores for the other questions; the most preferred values are large, whereas the least preferred values are small. Using the numerical values, we can again calculate the weighted averages for each factor.

We end up with several factor scores for each of the consumer questions. To construct a total consumer score, we first sum up all factor scores per question. As we want to compare the different attribute scores, we have to remove the dimension. We make the attributes dimensionless using equation 3.1. We calculate the total consumer score by merely summing the nondimensional values of the consumer attributes.

Perspective 2: employees

We have identified three attributes for the employee perspective: culture & values, employee engagement, and employee satisfaction. Using the Glassdoor company reviews, we are able to determine proxy variables for two of the three attributes (excluding employee engagement). We extract the employee ratings for the relevant attributes from the Glassdoor dataset.

While gathering data for each perspective, we noticed that some banks in the dataset have only few respondents. We decide to filter out banks having less than 10 employee reviews. We are aware that this number is not a statistically significant sample size. However, we do not want to filter out too many banks from the sample, since purpose-related data points are scarce. This can be taken into account for further research. Applying the 'minimum of 10' rule of thumb, we remove three banks from our sample.

Fortunately, both ratings use a five-point scale, so we do not have to apply any nondimensional scaling to construct a total employee score. We calculate the perspective score by simply summing up the values of the two attributes for each bank.

Perspective 3: community

Lastly, we construct a score for the community perspective. We have defined three attributes: Environment, Social, and Governance. Although we are not able to gather individual scores for each attribute, we have access to integrated ESG scores. More specifically, we extract ESG risk ratings from the Sustainalytics database.

We elaborated on the risk ratings in Section 3.3.3. They measure a bank's exposure to ESG risks and how well the bank is managing these risks. For every bank, we extract the corresponding ESG rating. As we only have one variable for this perspective, we do not have to apply nondimensional scaling. Hence, the bank's total score for the community perspective is just the ESG risk rating.

Focusing on the separate perspectives, each database uses different scales. Hence, we have to normalize the retrieved values, before we can aggregate the scores. We conduct the normalization process in Excel, using Equation 3.1. We end up with three values, one for each perspective, for every bank. We can now calculate a purpose impact score by summing the normalized values. Since we consider all perspectives to be of equal importance, we do not assign specific weights. Based on the total scores, we rank the banks and determine the highest scoring banks. We classify the top quartile as purpose-driven. With a total of 60 banks (63 minus 3 removed banks), this implies that the top 15 banks are purpose-driven. We merge the other banks with the 12 non-purpose-driven banks from part 1, resulting in a non-purpose-driven banking group of 45 banks. In Section D.2 in Appendix D, we present the eventual classification.

Lastly, and as promised, we compare the outcomes from the qualitative purpose impact assessment with the quantitative impact scores. Unfortunately, we see no relationship between the impact labels and the impact scores. More specifically, the purpose-driven group has a proportion of 33% "weak"-labeled banks, whereas the group of non-purpose-driven banks has a proportion of 35%. We already indicated the impediments in assessing the monetization of metrics. Hence, we do not advice to use the monetization criteria as decisive indicator for qualitative assessment of purpose impact.

4.2 Financial Performance Comparison

In the second part of this chapter, we analyze the financial performance implications of both groups and compare the results. We try to understand whether banks in different business models, purpose-driven models versus non-purpose-driven models, differ in financial terms. First, we select interesting variables to conduct the analysis. We base them on commonly used variables for financial analysis. We extract the related datapoints from BankFocus, a banking database containing banks worldwide. These data serve as input variables for the financial performance analysis. Where needed, we perform some additional calculations to compute interesting ratios. We compare the results for different financial variables for the two banking groups.

4.2.1 Financial variables

Financial performance is a measure of a firm's overall financial situation over a specified period of time. We use it to compare purpose-driven banks with non-purpose-driven banks. Several studies conducted comparative analyses on financial performance. Santis et al. (2016), for example, investigate whether sustainable companies have a better financial performance than their industry peers, and Mergaerts and Vennet (2015) examine the effects of banks business models on performance. The main intent of a financial performance analysis is to get an indication of a company's viability, stability, and profitability. Existing literature suggests several indicators, but in general they relate to (one of) the following performance categories: size, efficiency, risk, and profitability (Roengpitya et al., 2017). Although, size is not an actual performance metric (i.e., it does not tell us anything about the performance of a bank), we believe it is a relevant characteristic to measure, and hence we include it in the analysis. In this research, we aim to cover each of the categories in the comparative analysis, and search for specific indicators to measure them.

We first consider implications in terms of size. As suggested by Roengpitya et al. (2017), we measure size by total assets. Another interesting indicator used to measure a firm's size is the number of employees (Becker-Blease et al., 2010). Second, we measure the risk profiles of the banks. One common metric to capture this category is the Tier 1 Capital Ratio. The ratio is an indication of the financial strength of a bank, and is calculated as the ratio of a bank's core equity capital to its total risk-weighted assets. Another, risk metric is the Risk-Weighted-Assets (RWA) density, expressing the ratio of risk-weighted assets to total assets (Kishore, 2018). It is a measure of the riskiness of a bank's assets. Third, we consider bank efficiency. Roengpitya et al. (2017) use the cost-to-income ratio as an indicator, also referred to as the efficiency ratio. It is calculated by dividing a bank's operating expenses by its total income. Lastly, we measure the profitability of both banking groups. Usually, literature captures profitability by three indicators: Return On Equity (ROE), Return On Assets (ROA), and Net Interest Margin (NIM) (Mergaerts and Vennet, 2015). Respectively, these indicators are calculated as net income divided by shareholder's equity, net income divided by total assets, and net interest income divided by earning assets. We provide an overview of the four financial implications categories and the corresponding indicators we use for analysis in Table 4.1.

Size	**Risk**	**Efficiency**	**Profitability**
Total assets	Tier 1 Capital ratio	Cost-to-income	Return on Equity
Number of employees	Risk-Weighted-Assets		Return on Assets
			Net Interest Margin

TABLE 4.1: Financial implications indicators.

4.2.2 Data processing

We analyze differences in the banking groups in terms of size, risk, efficiency, and profitability, using the indicators of Table 4.1. We extract these data from BankFocus, a banking database, covering financial metrics for numerous banks around the globe. To measure the suggested performance indicators, we search for the corresponding metrics in the database. In Appendix C, we summarize the formulas and items that are used to calculate values for the indicators.

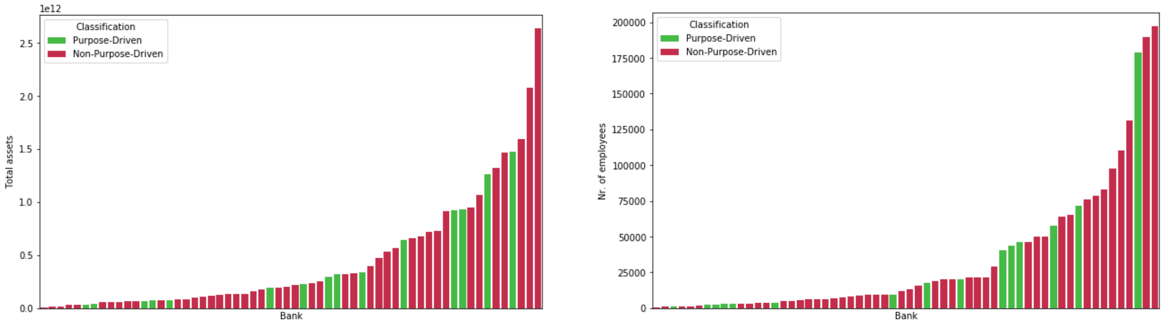
For the 60 banks in our sample, we export the financials of interest to Excel. We divide the banks into two groups, purpose-driven banks and non-purpose-driven banks, based on the conducted classification. In this way, each bank receives a label, either "purpose-driven" or "non-purpose-driven". Some data points have missing values for specific indicators. In these rare cases, we leave the corresponding bank out of consideration in the comparative analysis on the particular indicator.

We import our Excel file into Python to make the comparative analysis easier. To compare both banking groups, we make visualizations for each suggested indicator. In the next section, we conduct the actual analysis and discuss the results.

4.2.3 Comparative analysis

We compare both banking groups on the four performance variables: size, risk, efficiency, and profitability. We plot the results of each indicator in a graph and reflect on the results.

We first consider size, calculated in terms of total assets and number of employees. Figure 4.7 shows the comparison in size: graph 4.7a based on total assets and graph 4.7b on



(A) Size indicator: total assets. (B) Size indicator: number of employees.

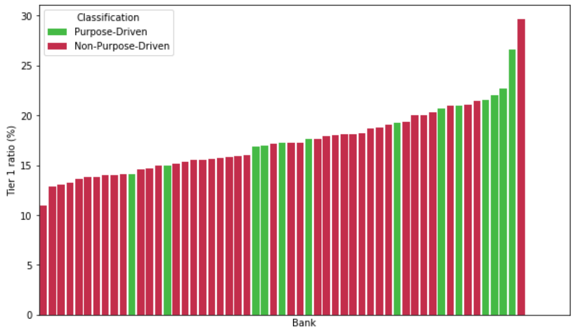
FIGURE 4.7: Size profile of banks measured by two different indicators.

the number of employees. For both variables of interest, we do not observe a clear difference between the two groups. Although there is no clear academic evidence that purpose-driven banks differ significantly in size from non-purpose-driven banks, we would have expected a slight tendency toward the smaller sized banks for the purpose-driven category. The reason is that smaller banks are more recognized to stand by their customers. For many small banks, like local banks, it seems easier to provide customized services, for example by offering community-oriented products and services. This behavior is in line with the idea of purpose-driven banking. Big banks generally offer more uniform and standard services across their network. On the other hand, one can argue that big banks put focus on the provision of stable and innovative services (such as mobile banking), potentially leading to higher customer satisfaction and thus higher purpose impact scores.

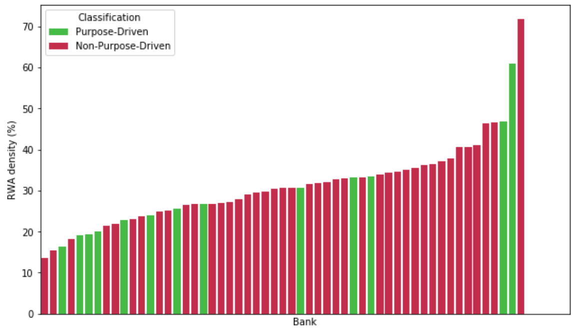
An important remark to keep in mind is that most local and smaller banks were in advance not included in our sample (because most of them are excluded by the databases used), and hence the comparison is not entirely representative.

We then move to the banks' risk performance. Some existing studies have examined the relationship between "alternative banks" and their riskiness. With alternative banks, literature refers to the broad range of environmentally- and socially-friendly banks, including, for example, ethical and sustainable banks. Research by Karl (2015) demonstrate that alternative banks are significantly more stable than conventional banks. They argue that in general, alternative banks are relatively risk-averse, primarily serving the real economy. In most cases, these banks avoid risky activities (such as trading activities) and hold larger capital buffers. Alternative banks often live up to certain principles that make them engage in little risk taking. Since we believe that this reasoning also applies to the concept of purpose-driven banking, we expect to see similar outcomes. In Figure 4.8, we show the risk profiles of both groups, measured by the Tier 1 ratio (graph 4.8a) and the RWA density (graph 4.8b).

We start with a reflection on the tier 1 ratio. Recall that the tier 1 ratio compares a bank's core capital to its total risk-weighted assets. A high ratio indicates that a bank can absorb a reasonable amount of losses without the risk of failure, thus corresponding to a less risky bank profile. According to our reasoning, we expect the tier 1 ratio to be higher for purpose-driven banks than for non-purpose-driven banks. Graph 4.8a reveals that we can indeed



(A) Risk indicator: tier 1 ratio.



(B) Risk indicator: RWA density.

FIGURE 4.8: Risk profile of banks measured by two different indicators.

observe a tendency to high tier 1 ratios for purpose-driven banks.

Next, we observe the RWA density, expressing the ratio of risk-weighted assets to total assets. The higher the ratio for a bank, the more risky its balance sheet. This implies that we expect purpose-driven banks to have a low RWA density compared to non-purpose-driven banks. Graph 4.8b seems to agree with our reasoning: the purpose-driven classified banks tend to have (somewhat) lower RWA densities.

As the graphs suggest a difference between the purpose-driven group and the non-purpose-driven group, we examine the relation between the two risk metrics in more detail by making a scatterplot (see Figure 4.9). The y-axis represents the average RWA density, and the x-axis shows the average tier 1 ratio for each bank. Looking at the plot, we observe a relationship in the data points. The purpose-driven banks (green-colored) seem to have more points at the lower right side of the graph than the non-purpose-driven banks (red-colored). Data points in this spectrum correspond to banks having both a low RWA density and a high tier 1 ratio.

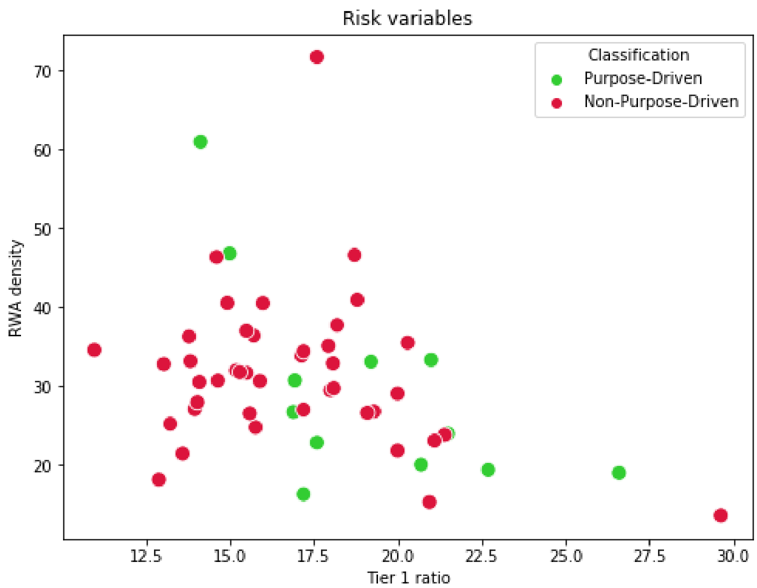


FIGURE 4.9: Scatterplot of the risk indicators.

The findings seem to point to a lower risk profile for purpose-driven banks. However, when interpreting the results, one must remember that our sample of banks is only small, and hence not reflecting the larger group of purpose-driven banks versus non-purpose-driven banks.

Third, we consider performance based on efficiency, in our research captured by the cost-to-income ratio. Figure 4.10 shows the outcomes for the two banking groups.

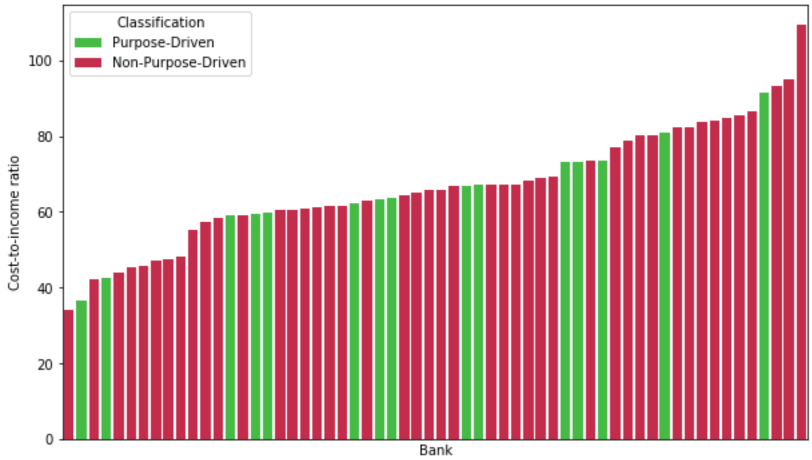
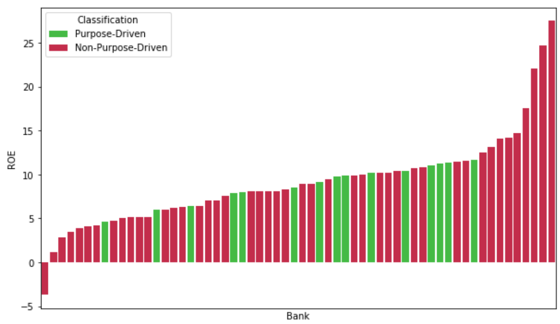


FIGURE 4.10: Efficiency profile of a bank measured by the cost-to-income ratio.

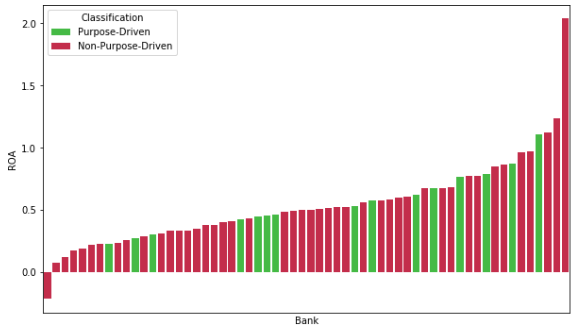
The lower the cost-to-income ratio, the better the bank's performance. In literature, it is ambiguous whether purpose-driven banks or non-purpose-driven banks are more efficient. On the one hand, research shows that wholesale-funded and trading banks are less efficient than retail-funded banks (Roengpitya et al., 2017). As the latter business model fits the profile of purpose-driven banking best, we could defend expecting better efficiency within this group. On the other hand, higher complexities of customized banking services might result in higher costs, and thus a higher cost-to-income ratio. Additionally, larger banks might be more cost-efficient due to scale economies (Beck et al., 2013). The graph in Figure 4.10 shows no clear pattern, so we cannot argue that there is a difference in efficiency.

An argument supporting the indifference between the efficiency ratios might be that differences in efficiency appear to be large between European countries, according to the research of Bikker and Bos (2005). Since we assess purpose-driven banks across several European countries, the efficiency performances might therefore vary widely. Additionally, we argue that the cost-to-income ratio might not be a meaningful indicator of efficiency for a given purpose-driven bank if it does not aim to generate income.

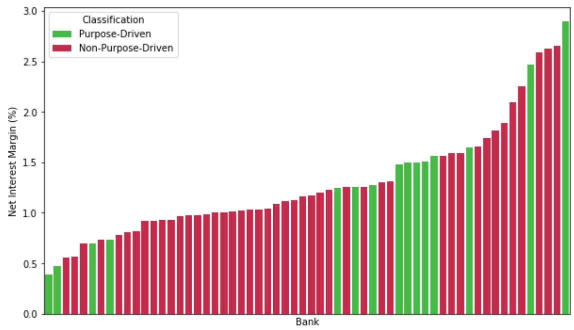
Lastly, we compare the two groups based on their profitability. We have suggested three indicators for profitability, namely ROE, ROA, and NIM. The interpretation of the three ratios is similar: the higher the number, the better the performance. Figure 4.11 shows the outcomes for our sample of banks.
Again, we observe no significant differences between the two banking groups. The NIM graph (subfigure 4.11c) seems to show high profitability for some non-purpose-driven banks, but it is no obvious distinction.



(A) Profitability indicator: ROE.



(B) Profitability indicator: ROA.



(C) Profitability indicator: NIM.

FIGURE 4.11: Profitability profile of banks measured by three different indicators.

Existing research suggests higher profitability for purpose-driven banks. The Accenture research, for example, demonstrates strong profitability performance for purpose-driven banks compared to non-purpose-driven banks (K. Oon et al., 2021). Based on these studies, we would expect to see different outcomes. On the other hand, we have argued that Accenture uses a different definition of purpose-driven banks, so it is no surprise that the results are dissimilar. Besides, as profit maximization is not the core interest for purpose-driven banks in our sample, it makes sense that these banks are not excelling in terms of profitability.

Summarized, we observe no remarkable differences between the classified groups. Only the risk indicators, tend to point out that the purpose-driven category has a lower risk profile. To test whether these results are statistically significant, we apply a Mann Whitney U test. This is a non-parametric test to compare outcomes between two independent groups. The test examines whether two samples are likely to originate from the same underlying population.

We want to test if the outcomes of the comparative analysis differ by business model. In other words, do we observe a significant difference in performance in purpose-driven banks as compared to non-purpose-driven banks? We conduct a two-sided test, stating the following hypotheses:

- H_0: The two populations under consideration are equal;
- H_1: The two populations under consideration are not equal.

We conduct the test to determine whether the observed outcomes prove that there is a statistically significant difference in both business models. We find this especially interesting for the risk indicators, as these seemed to indicate a difference. We run the test in Python, at a significance level of 5%. In other words, we reject the null hypothesis if the p-value is lower than 0.05. We summarize the output, i.e. the resulting p-values, in Table 4.2.

Variable	**P-value**
Total assets	0.682013
Nr. of employees	0.732779
Tier 1 ratio	0.019389
RWA intensity	0.145368
Cost-to-income	0.644847
ROE	0.533205
ROA	0.422336
NIM	0.422342

TABLE 4.2: P-values Mann Whitney U test.

Looking at the results, we see that we have statistically significant evidence (at a 5% level of significance) to argue that the two banking groups are not equal with regard to the tier 1 ratio. This is in line with the observed outcomes, presented in Figure 4.8a. These results are quite interesting, as they suggest that purpose-driven banks have better risk profiles. In other words, according to the outcomes, purpose-driven banks can absorb a more reasonable amount of losses without the risk of failure, as compared to non-purpose-driven banks. In general, tier 1 ratios are used as a measure of a bank's financial strength. Banks with high tier 1 ratios better withstand financial distress before they become insolvent. The results thus tend to be positive for purpose-driven banks. We would have expected a significant difference for the Risk-weighted Assets intensity indicator, however, we are not able to reject the null hypothesis for this indicator. Some other data points suggest some difference, but it is not enough to assume it is significant.

Extra comparison: larger time span

Due to data availability and time limitations, our classification of banks is momentary. This means that we have assessed "purpose-drivenness" in banks for a specific point in time. For this reason, we conducted the comparative analysis only for the corresponding year. Outcomes would, however, be more reliable if we had examined a larger time span. It allows for elimination of coincidental observations in the data. As we are curious to compare results of both banking groups over time, we conduct an extra analysis. We are not able to make the classification time variant, but we compare both groups based on the assumption that banks did not change their business model from purpose-driven towards non-purpose-driven, or vice versa. Although this is a quite hard assumption, the results give us an indication of the bank performance over the past years.

We retrieve data from the years 2017 to 2020 from BankFocus (data for 2021 was already collected). For each of the suggested indicators, we calculate the averages over the time period. We then compare the results similarly as before, using bar plots. We demonstrate the outcomes in Appendix E.

We do not discuss the results into much detail and only reflect on the most relevant results. Again, we do not observe clear difference between the two banking groups for the performance variables size, efficiency, and profitability. Regarding the risk indicators, we recognize generally high tier 1 ratios and low RWA densities for the purpose-driven banking category. In other words, both risk graphs tend to show that purpose-driven banks have a lower risk profile on average than non-purpose-driven banks. We again examine this relation in more detail by making a scatterplot of the two risk metrics (see Figure 4.12).

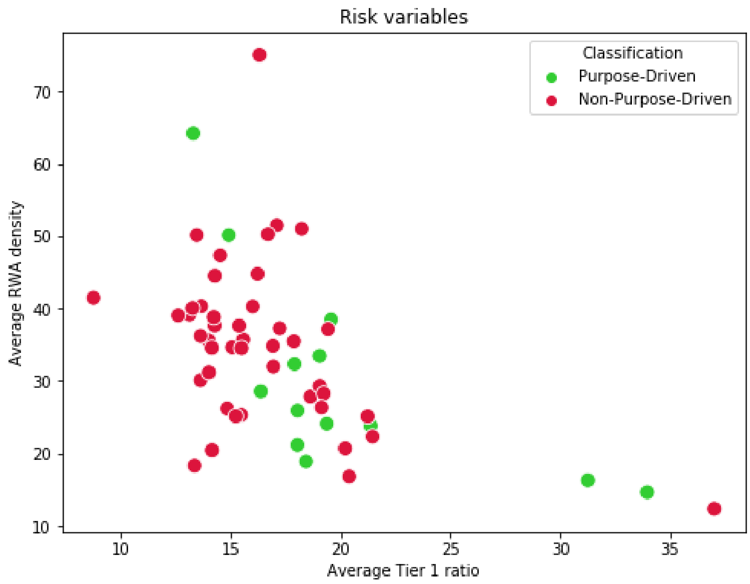


FIGURE 4.12: Scatterplot of the average risk indicators.

Looking at the plot, we observe a relationship: the purpose-driven banks seem to have a relatively low RWA density and a high tier 1 ratio, compared to the non-purpose-driven banks. Hence, the graph suggests that purpose-driven banks indeed have better risk profiles than non-purpose-driven banks, based on the two risk indicators.

For each of the years 2017 to 2021, we have conducted a Mann Whitney U test. We present the resulting p-values at the end of Appendix E. We observe that the p-values of the tier 1 ratios again suggest a statistically significant difference between both groups.

Extra comparison: multiple purpose categories

In this research, we have made a distinction between two categories: purpose-driven banks versus non-purpose-driven banks. In reality, however, it might be interesting to research multiple categories, each representing another level of "purpose-drivenness". In this extra comparison, we suggest dividing our sample of 60 banks into three equal groups: low-purpose-driven, medium-purpose-driven, high-purpose-driven. Obviously, the low-purpose-driven group represents the 20 lowest scoring banks, the medium-purpose-driven group the 20 medium scoring banks, and the high-purpose-driven group the 20 highest scoring banks.

We present the results in Appendix F. Over all, we observe no new insights using three purpose categories. The size, efficiency, and profitability variables show no clear differences between the groups. The trend for the risk profile still exists using three purpose classes: higher purpose-driven banks tend to have lower risk profiles than lower purpose-driven banks.

4.3 Sensitivity Analysis

Since we made several assumptions to construct the classification model, we conduct a sensitivity analysis. The assumptions influence the results of both the classification and the comparative analysis. Hence, we examine how some uncertainty factors can be allocated to the assumptions in the inputs. We cannot cover all factors, but address two effects. First, we adjust the percentage of banks that we categorize as purpose-driven. Second, we assign different weights to the purpose impact perspectives in the multi-criteria analysis.

4.3.1 Classification threshold

We start with a sensitivity analysis on the classification level. We determine how the outcomes of the comparative analysis are affected by changing the percentage of banks that we classify as purpose-driven. Currently, this classification level is set at 25%, i.e., we categorize the top quartile of banks as purpose-driven. However, this threshold value is not based on strong evidence and is hence not per se optimal. Therefore, we adjust the classification levels to examine the effect on the outcomes of the comparative analysis.

We compare classification thresholds at four different levels: 10%, 25% (original), 40%, and 50%. For each situation, we conduct the Mann Whitney U test, to check if the categories differ significantly. We summarize the P-values in Table 4.3. We highlight the p-values lower than 0.05 in red, i.e., the values indicating a significant difference.

Threshold levels of 40% and 50% result in similar outcomes as the original classification level of 25%. In these scenarios, we again have statistically significant evidence to argue that the two banking groups are not equal with regard to the tier 1 ratio. These results are interesting, since they confirm an actual difference between the two banking groups. At a threshold of 10%, the tier 1 ratio shows no significant inequality. Here, purpose-driven banks differ significantly from non-purpose-driven banks with respect to the Net Interest Margin, as a measure of profitability. In this case, the classified purpose-driven banks show higher net interest margins than non-purpose-driven banks. All the other values present no

Variable	**level: 10%**	**level: 25%**	**level: 40%**	**level: 50%**
Total assets	0.970516	0.682013	0.592187	0.145319
Nr. of employees	0.77689	0.732779	0.945864	0.599689
Tier 1 ratio	0.326640	0.019389	0.014920	0.016658
RWA intensity	0.692666	0.145368	0.538554	0.595396
Cost-to-income	0.562551	0.644847	0.482896	0.264326
ROE	0.872750	0.533205	1.000000	0.178496
ROA	0.294987	0.422336	0.571491	0.149443
NIM	0.011548	0.422342	0.446055	0.520145

TABLE 4.3: P-values Mann Whitney U test at different threshold classification levels.

significant difference between both groups. Hence, we conclude that changing the classification threshold has only minor impact on our outcomes.

4.3.2 Purpose impact weights

In the second part of our framework, the purpose impact index, we construct an impact score for each bank based on three perspectives. In the multi-criteria analysis, we assigned equal weights to the perspectives. However, this might not be representative in reality. A purpose-driven bank with a purpose statement focusing on customers might show high performance on the customer perspective, and lower on the other two. As a result, the total score of the bank decreases, while this does not necessarily imply that the bank is less purpose-driven. Hence, we examine if changes in the weights affect the classification outcomes.

As mentioned, in this research, we have given each perspective equal weight, i.e., the individual perspective scores contribute equally to the total score. We experiment with several weights and observe how this affects the composition of the group of purpose-driven banks. More specifically, we rotate three different weights (0.4, 0.5, and 0.6) between each of the perspectives. The total weights always sum to 100%, so we allocate the remaining weights equally among the other perspectives. To illustrate, we provide an example below. In this scenario, we allocate 50% of the weight to the customer perspective, and thus 25% to each of the other two perspectives.

Individual perspective scores

Customer	Employee	Community
0.426	0.706	0.989

MCA total score

Original weight	New weight (example: 0,5)
= (0.426 + 0.706 + 0.989)/3 = 0.707	= (0.5 · 0.426) + (0.25 · 0.706) + (0.25 · 0.989) = 0.637

In the example, we observe that the original score is different from the new score, in which we assigned different weights. However, these numbers are not per se relevant for our analysis. We are more interested in changes to the composition of purpose-driven banks versus non-purpose-driven banks. It might, for example, be the case that all total scores of the banks change, but as long as the same banks are classified as purpose-driven, the new weights have no effect on the results. We therefore provide an overview of the number of banks that have a different label compared to the original classification (see Table 4.4).

	Customer	Employee	Community
Weight: 0.4	0	1	1
Weight: 0.5	1	2	2
Weight: 0.6	1	2	3

TABLE 4.4: Number of banks differentiating from the original composition.

The table demonstrates that allocating unequal weights to the perspectives has little effect on the group composition. The maximum number of bank changes occurs if we assign 0.6 weight to the community perspective. In this most 'extreme' scenario, we observe only three differences in the composition of bank groups.

In Figure 4.13, we look more specifically at the similarities within the purpose-driven banking group. In other words, we observe the originally classified purpose-driven banks and examine what happens if we assign different weights to the perspectives. Particularly, we look at the situation in which we alternately allocate 50% weight to each perspective. In the original classification, referred to as the benchmark, we have selected 15 banks to be purpose-driven. The diagram in the figure presents these selected purpose-driven banks for the different weighting schemes. The labels (customer, employee, and community) correspond to the perspectives that are given extra weight in the index calculation. We illustrate this idea by looking at number '2' in circle C, representing the community perspective. In the specific situation in which we would allocate 50% weight to the community perspective (and 25% to each of the other two perspectives), we observe that 2 banks deviate from the benchmark classification.

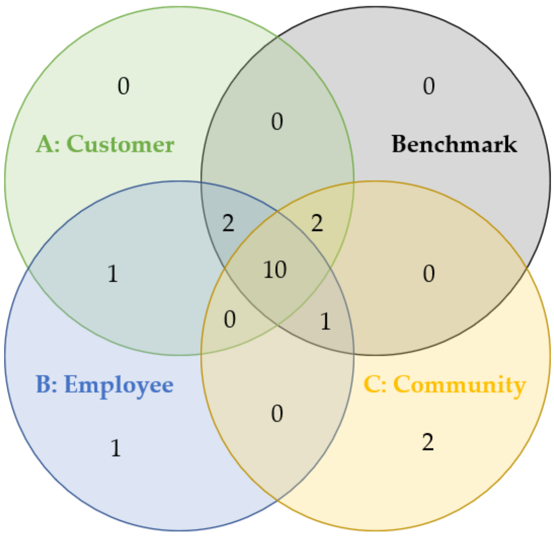


FIGURE 4.13: Venn Diagram of the sensitivity analysis, presenting the classified purpose-driven banks using different weighting schemes.

Each circle contains the selected 15 purpose-driven banks. At the middle intersection, we see that 10 out of the 15 originally classified purpose-driven banks overlap with all perspectives. This implies that if we apply the 50% weighting scheme to either one of the perspectives, and compare the overlapping purpose-driven banks, 10 out of the 15 originally selected purpose-driven banks are present in each scenario. As the classification will largely remain the same, assigning different weights will only have a minor impact on the results.

If one is interested in assigning different weights to the perspectives, further research must be conducted on the purpose focus of the banks. Based on the purpose type, one can decide to assign more weight to the corresponding perspective. To illustrate, if a bank has an employee-oriented purpose statement, it might be interesting to assign higher weights to the employee perspective, since it represents the true effectiveness of the bank's purpose.

Chapter 5

Evaluation

In the previous chapter, we have applied our integrative framework to make a binary classification of banks. We thereafter compared the two banking groups, looking at their financial performance. In this chapter, we evaluate the classification tool as well as the comparative analysis. We provide a discussion on the soundness of the framework and compare the research objectives with the actual results.

5.1 Framework Evaluation

There exist many ways to quantitatively measure classification performance. However, these evaluation methods require a test set - data that we did not use in our analysis and for which the true classification is known. We do not have a test set for our research, since there is no overview of the true classification of purpose-driven banks versus non-purpose-driven banks. Therefore, we evaluate the tool qualitatively.

We judge the quality of the framework, based on the characteristics of a good measurement tool, as described by Cooper and Schindler (2014), see Appendix A. According to them, we can basically describe three criteria for evaluating a measurement tool:

- *Validity*: the extent to which the framework measures what we actually wish to measure.
- *Reliability*: the accuracy and precision of a measurement procedure.
- *Practicality*: concerned with economy, convenience, and interpretability.

We discuss the evaluation on each criteria in subsequent sections. We recall once more the intent of the PDB framework: it should serve as a purpose measurement tool, enabling the identification and classification of purpose-driven banks versus non-purpose-driven banks.

5.1.1 Validity

First, we consider the validity of the framework, referring to the process in which we discuss the ability of the classification tool to measure what it purports to measure. In other words, can we really measure "purpose-drivenness" in banks using the framework, and does it enable us to identify and classify banks? Literature describes many forms of validity, but we only consider the forms that are most related to our research: content validity, criterion-related validity, and construct validity,

The content validity of a measuring instrument is the extent to which it provides adequate coverage of the investigative questions guiding the study (Cooper and Schindler, 2014). In other words, we evaluate to what extent the selected items are representative of the entire domain of items under study. Since we assess purpose in banks, we assess content validity by evaluating if we cover all aspects of purpose in our framework. Based on an extensive literature review, we determined several dimensions of purpose: motives, operationalization, and impact. Throughout the framework development process, we have used these dimensions as a guideline in establishing measurement constructs. Since we believe that these dimensions constitute adequate coverage of purpose, the content validity of the research is good. Additionally, we used a mixed method to combine both qualitative and quantitative existing approaches to measure purpose. We argued that the first two dimensions were better qualitatively assessable, whereas the last dimension required a quantitative approach. Hence, by integrating both methods, we were able to improve representativity of the different aspects of purpose, allowing for the development of a comprehensive tool.

Criterion-related validity reflects the success of measures used for prediction (Cooper and Schindler, 2014). In this study, we made an attempt to 'predict' the existence of purpose in banks. Based on the three purpose dimensions, we have defined several criteria to estimate purpose. Although we believe that these dimensions correctly represent our definition of purpose, it is difficult to establish unambiguous criteria. To determine the validity of the criteria, we evaluate them in terms of relevance, freedom from bias, reliability, and availability. First, since each criterion is based on an extensive literature review and categorized under one of the purpose dimensions, we argue that the constructs are, at least to some extent, relevant. Due to limited data availability, we searched for proxy variables, serving as indicators for the purpose impact dimension. Based on the available data, we were able to select variables that, according to our judgement, appropriately measure the established impact indicators. Although we were able to cover all perspectives (customer, employee, and community), we did not check for significance of the variables in predicting the "purpose-drivenness" of banks. Besides, we found no appropriate proxy variable to measure employee engagement, and hence the sub-criterion is excluded from the classification process. Second, unfortunately, our criteria are not free from bias. The most obvious cause for this bias, is the data availability, especially influencing the validity of the quantitative part of the framework. Our databases do not cover information for all banks in Europe, and mostly present data for listed companies. For this reason, we are forced to exclude many interesting banks from our sample, ignoring them in the outcomes of our study. Additionally, in the quantitative part of the framework, it might be the case that scores for the proxy variables are unconsciously biased. This happens if, for example, no adjustments were made for differences in particular conditions of a given criterion (e.g., differences in culture, or size), or if customers felt pressure to provide answers that are socially acceptable, while filling in the consumer survey. Another form of research bias happens in the first part of the framework. The criteria assessment contains some subjectivity, as we judge the criteria on qualitative grounds. Hence, the outcomes of the first part depend, unintentionally, on our personal choices and preferences. Third, we assess reliability of the criteria. Using our proxy variables, we are confident that repeated, or equivalent assessments will provide consistent results. By applying our framework to numerous banks, and obtaining stable classification results, we have shown that the chosen criteria are reproducible. However, if one selects different indicators to replace our proposed proxy variables, results are likely to diverge. If the proxy variables turn out to differ systematically from the actual variables of interest, the results of our research are not reliable. Lastly, the information to measure each criterion must be available. For the first part of the framework, we use publicly available annual reports of banks to assess performance on each criterion, and in the second part, we ensured availability by defining proxy variables based on accessible databases. As mentioned, we were not able to select an appropriate variable indicating employee engagement. If more purpose-related data become available in the future, one can define better proxy variables.

To evaluate construct validity, we discuss to what extent our constructs measure what they have to measure. All constructs in the framework are based on existing purpose literature. To ensure that the specific criteria and items of the tool cover the full range of the defined constructs, we implemented all the purpose dimensions and perspectives. We tried to operationalize the constructs into concrete characteristics, based on our perception of purpose and its dimensions. This process has been most difficult for the first part of the framework. The main reason is that it is hard to translate qualitative characteristics into measurable criteria. However, we put effort in making the criteria as concrete as possible – this was one of the reasons for excluding the monetization criteria as decisive indicator. Moreover, by combining the qualitative assessment with the quantitative part of the framework, we were able to create comprehensive measurements for our constructs.

5.1.2 Reliability

Reliability is concerned with estimates of the degree to which a measurement is free of random or unstable error (Cooper and Schindler, 2014). In the previous section, we already discussed the reliability of the framework criteria. We now focus on the reliability of the whole PDB framework. Our framework is 100% reliable if it meets stability, equivalence, and internal consistency requirements.

First, we consider the framework to be stable if we can secure consistent results with repeated measurements. We argue that the second part of the framework ensures more stable results than the first part. Although we tried to decrease the level of subjectivity as much as possible, the assessment still depends to some extent on personal judgement. Therefore, we cannot guarantee stability for the qualitative assessment of purpose. On the other hand, by setting up the first assessment in such a way that only obviously non-purpose-driven banks are filtered out, we aimed to improve stability. In this way, we move questionable situations to part 2, where they undergo more reliable assessment. Stability for the quantitative part of the framework is better: the scoring procedures will give the same results for a particular bank when repeated. When there is much time between measurements, there is a chance for situational factors to change, thereby affecting observations (Cooper and Schindler, 2014). Therefore, the classification outcomes are only stable for a specific time period.

We then evaluate the equivalence of the measurement tool, concerned with variations at one point in time. We are confident that applying our framework to a different sample will lead to equivalent results. Our set of criteria, both for the qualitative and the quantitative part, enables us to categorize banks similarly. However, since we are the only observer in this study and as we have only limited data available, we are not able to test for exact equivalence of measurements.

Lastly, we discuss the internal consistency of the framework, i.e., we assess homogeneity among the defined criteria. Unfortunately, we cannot say that the established proxy variables lead to a perfectly consistent classification. Since we had to deal with limited data availability, criteria values derive from different years: we extract data from the consumer study and annual reports from 2020, whereas Sustainalytics and Glassdoor data derive from 2021. This means that our assessment of "purpose-drivenness" of a bank, is based on different time periods, instead of a particular point in time.

5.1.3 Practicality

Besides pure scientific requirements of a measurement tool, we want the framework to be practical. Based on a literature review, we argued that there existed no proper metric to measure "purpose-drivenness" in firms. Hence, we constructed a Purpose-Driven Banking framework, enabling identification and classification of purpose-driven banks versus non-purpose-driven banks. To that extent, we have definitely created a practical measurement tool, since we enable thorough classification of banks based on their "purpose-drivenness".

Although the development of the tool required quite some research, we think that the framework is relatively convenient to use. The qualitative assessment part is time-consuming, but we have provided a set of clear instructions, with examples, to properly complete the process. To improve convenience of the first part, one can research the usability of even more concrete criteria. In the second part, once the desired scores for each perspective are obtained, multi-criteria analysis can be applied easily. Here, convenience could be improved even more by automating the data collection process.

Lastly, we consider our tool to be practical in terms of interpretability. In this thesis, we provide an extensive review of important existing purpose aspects. This information contributes to understanding of the framework and the decisions made to construct it. These explanations also ensure interpretability of the results, i.e., the classification between purpose-driven banks and non-purpose-driven banks.

As purpose-driven banking is an innovative topic in literature, we have no clear standards against which to assess the quality of our framework. Our research is quite explorative, and hence constructing a perfect valid and reliable measurement tool is challenging. Overall, we are satisfied with our comprehensive PDB framework. We argued that existing studies were not able to provide thorough metrics to measure purpose (in consonance with our definition), and hence our framework should be seen as a first attempt to capture an integrative understanding of purpose in a measurement tool. However, as discussed in previous subsections, the framework is far from perfect. To consider the PDB framework as a sound measurement instrument, focus should be placed on improving both model validity and reliability.

5.2 Comparative Analysis Evaluation

In Section 4.2, we conducted the comparative analysis. For most of the indicators, we were not able to observe a difference in performance between both banking groups. However, with regard to the tier 1 ratio, we see statistically significant differences between the purpose-driven group and the non-purpose-driven group. In this section, we evaluate the analysis and reflect on the validity of the outcomes. The validity of the analysis highly depends on the quality of the final classification. We assess two important validity concepts: internal validity and external validity.

5.2.1 Internal validity

By evaluating internal validity of the analysis, we examine if the conclusions we draw about a demonstrated relationship truly imply cause (Cooper and Schindler, 2014). We discuss the following threats to internal validity: history, instrumentation, and selection.

First, we consider the threat of historic events on the analysis. We conduct our main comparative analysis over the year 2021. During the time that the analysis takes place, some events may occur that affect the outcomes. In this specific year, a newspaper article might have appeared about a bank's malfunctioning, or specific bank decisions may have misleadingly affected the performance indicators. Additionally, in 2021, the world was still dealing with the COVID-19 pandemic. This significant event has resulted in great change for numerous organizations, including banks. As we did not include any control measurement, we realize that our outcomes may be biased. To eliminate the effect of coincidental observations in the data, we have conducted an extra comparison, measuring the performance of banks over a larger time span (2017 to 2021). For each indicator, we compared the average values, calculated over the selected time period. Moreover, we compared the p-values for each year, obtained by performing a Mann Whitney U test. In both cases, the results turned out to be similar: purpose-driven banks are significantly different from non-purpose-driven banks with regard to the tier 1 ratio. As the outcomes seem to be relatively stable, we conclude that coincidental observations have minor impact on the results. Note that this comparison is based on the strong assumption that the "purpose-drivenness" of banks is time-invariant for the period under consideration. We have to take this in mind when interpreting the results.

Another important threat to internal validity is instrumentation. This threat results from changes between observations in either the measuring instrument or the observer (Cooper and Schindler, 2014). At the beginning of the comparative analysis, we have selected several indicators to compare the performance implications of the two bank groups. In the analysis, for each indicator, we created bar plots and conducted Mann Whitney U tests, in order to consistently assess the performance of banks. These tests enabled us to provide a quantitative substantiation of the results. Note that we have no influence on the reliability of the data retrieved from BankFocus. However, since many financial institutions, as well as researchers, use this database, we consider the data to be representative for our study.

Lastly, we discuss the threat of selection bias. There is a distinction between selection as a threat to internal validity and external validity. Selection bias occurring during bank sample selection relates to external validity (see Section 5.2.2), whereas selection bias occurring during the analysis is known as a threat to internal validity. Selection bias to internal validity would imply that we did not select the purpose-driven banks in the same way as the non-purpose-driven banks. This would obviously affect reliability of the outcomes of the comparative analysis. Although our bank sample selection may be biased (external validity), the two groups under comparison were composed similarly. We have applied the framework to all the banks in our sample, resulting in a consistent classification between purpose-driven banks and non-purpose-driven banks. However, selection bias might affect internal validity in less obvious ways. It might be, for example, that the method for obtaining employee ratings, to construct the employee score, differs per country. This might lead to banking groups that do not reflect the same underlying population. Unfortunately, we have no insight into whether these factors play a role in the classification, as we do not manage the databases ourselves.

5.2.2 External validity

External validity is about evaluating if an observed causal relationship is generalizable across persons, settings, and times (Cooper and Schindler, 2014). We discuss the two major threats to external validity, namely interaction of selection and experimental settings.

A first threat to discuss is the interaction of selection. This relates to selection bias on external validity of the analysis. Ideally, the banks in our research should be similar to one another and to the larger population from which they are drawn. As mentioned before, we are limited to using banks for which data is available. The databases we use for both making the classification and conducting the comparative analysis do not contain all existing banks in Europe, and mainly cover only listed banks. In particular, smaller and local banking institutions do not have entries in our databases, and hence we are forced to leave these banks out of consideration. We consider this to be a serious constraint, because we expect to observe many purpose-driven banks among the group of local, community banks. Therefore, the sample of banks that we study is not the same as the population to which we wish to generalize results. Hence, the outcomes of the analysis are not entirely representative. The results are better generalizable to the total population of medium and large-sized banks.

Lastly, we discuss the effect of experimental settings on the outcomes. This threat occurs if the observed outcome is attributable to the experimental arrangement of our analysis. A reactive effect might occur when the measuring process itself leads to differences between the two groups, rather than the group characteristics. We have based our classification on several assumptions that could influence the outcomes. However, in the sensitivity analysis, we examined the impact of the main assumptions, and observed that most changes only have a minor impact on the results.

Overall, it is clear that one must conduct further research to improve the validity of the analysis. At this point in time, we deal with several, unsolvable constraints that definitely affect the validity of the outcomes. We have made a first attempt to measure the financial performance implications of purpose-driven banks versus non-purpose-driven banks. We believe that the set-up of our analysis is appropriate for the purpose of this study. However, to improve the quality of the research and acquire more accurate results, one must broaden the sample of banks, and increase the data availability.

Chapter 6

Conclusion

By means of this study, we have investigated the emerging topic of purpose-driven banking. In this chapter, we provide the conclusions of the research. First, we provide a general overview of the main results that were obtained. Thereafter, we provide a critical discussion on the meaning and relevance of our research and the corresponding outcomes. We discuss important remarks that one should bear in mind, and the limitations of the thesis. Lastly, we close the chapter by providing recommendations for further research by interested parties.

6.1 Key findings

In previous chapters, we have exploited the purpose-driven banking concept, finding answers to our research questions. Remember that the goal of this thesis is twofold:

1. provide understanding on the concept of purpose-driven banking and its main consequences;
2. provide insight in the financial performance implications of embedding a purpose-driven business model.

To achieve these goals, we first formulated a settled definition for the concept of purpose-driven banking:

"Purpose-driven banks are those whose members, up and down the hierarchy, have a strong sense of why their company exists, and whose actions are guided by those beliefs. They have the incentive to earn an economic return that is compatible with achieving the purpose of the corporation, i.e. creating value for its stakeholders."

Using this definition, we conducted an extensive literature review to broaden our understanding on the topic. Specifically, we investigated how purpose is manifested in banks, and found the main characteristics that describe purpose-driven banks. We then used this knowledge to construct a Purpose-Driven Banking framework that distinguishes purpose-driven banks from non-purpose-driven banks. The framework enables us to assess and measure "purpose-drivenness" in banks based on the identified characteristics of the particular business model. Compared to existing purpose measurement tools, our framework comprehensively covers a broad perspective of purpose, in that sense that we integrate both qualitative and quantitative aspects. To make a binary classification, we established several proxy variables serving as a replacement for the proposed purpose impact indicators. We applied the framework to a sample of 60 banks, resulting in a classification of 15 purpose-driven banks versus 45 non-purpose-driven banks.

Having made this distinction, we conducted a comparative analysis to learn about the differences in financial performance implications between the two categories. We examined the implications of purpose-driven banking versus non-purpose-driven banking in terms of size, risk, efficiency, and profitability. The outcomes of the analysis show a significant difference between the two banking groups, with regard to the tier 1 ratio. This result suggests that purpose-driven banks have a better risk profile than non-purpose-driven banks, and are hence more resilient to systemic risk.

Although these findings are quite interesting, we have to be careful with the interpretation. To arrive at the results, we have made several assumptions and dealt with considerable limitations. In the next section, we cover the most important remarks to bear in mind when reading this research.

6.2 Discussion

Our research covers an extensive review on the concept of purpose-driven banking. Discussing the main characteristics of purpose in banks improves understanding of the ambiguous, underexplored concept. Our PDB tool provides a comprehensive approach to identify purpose-driven banks and distinguish them from non-purpose-driven banks. Additionally, the comparative analysis suggests that purpose-driven banks have significantly higher tier 1 ratios. However, there are a number of caveats which concern the validity of the research. In this section, we reflect critically on our research findings and discuss the significance and relevance of this study. We divide the discussion into three parts: bias of the PDB framework, data availability limitations, and the most important comparative analysis results.

PDB framework bias

Logically, we start with a discussion on part 1 of the framework, the purpose assessment tool. In constructing the tool, we established several criteria to conduct a qualitative assessment on the "purpose-drivenness" of banks. Although we tried to make each criterion as concrete as possible by using the identified characteristics of purpose-driven banks, **we are not able to eliminate all subjectivity of the assessment**. This implies that we cannot guarantee that the exact same group of non-purpose-driven banks would have been removed if someone else had conducted the assessment. One way to figure this out, is to let others investigate the annual reports based on the established criteria, and compare the classification outcomes on similarity. Since this process is extremely time-consuming, we left it out of the scope of this research. Note that we do believe that we defined a strong set of understandable criteria that are relatively easy to detect in annual reports. At this point, we can just not assure 100% accuracy of the assessment criteria, which is a noteworthy comment that the reader should keep in mind.

Another remark is that **we cannot completely prevent "purpose washing"**. In other words, there is a chance that we do not filter out banks that pretend to be purpose-driven. Although our criteria require us to look at the underlying strategies and goals to back up purpose statements, banks might still overclaim their "purpose-drivenness". A well-known example in the banking industry is the idea of greenwashing – referring to the situation in which banks overstate their sustainability efforts. We think that our definition of purpose (focusing on the alignment of a purpose statement throughout the business) helps to prevent these "purpose washing" cases. Also, the purpose impact tool (part 2 of the framework), finding quantitative evidence of purpose levels in banks, helps to filter out these banks. The main takeaway is that one must realize that there exists banks that, unfortunately, have "purpose washing" intentions.

Additionally, we make a specific remark on the first criteria, related to purpose motivation. Although we heavily base this criterion on literature, we want to stress that **some banks really believe that creating shareholder value should be the core purpose of the organization, as it, according to them, ensures the creation of stakeholder value.** We argue that these banks are not necessarily non-purpose-driven. If the bank's strategy explains the underlying connection with stakeholder value creation, and the report presents clear goals and metrics to achieve stakeholder targets, the bank seems to have the same intent as a purpose-driven bank. We note that we found only one bank in our sample that was excluded by its shareholder-oriented purpose statement, while it was at the same time paying much attention to stakeholders in the remainder of the report. Therefore, the point of discussion has minor impact on the findings of our study. However, if one agrees that these banks should indeed be considered as purpose-driven, the remark should definitely be taken into account in future research, since it will otherwise cause classification errors.

Next, we reflect on the selected purpose impact variables in part 2 of the framework. By far, the biggest limitation comes down to the significance of these variables. In constructing the purpose impact index, we combine performance scores from three different perspectives (customer, employee, and community) into an integrated purpose impact score for banks. Based on a literature review, we defined relevant indicators for measuring the impact of a bank. However, **we did not test for significance of these variables.** In other words, we are not sure if the selected indicators actually have a relationship with the "purpose-drivenness" of a bank. In this thesis, we could not examine this correlation, since there exists no indicative list of banks that are purpose-driven and banks that are not. Hence, we cannot guarantee that the established indicators can significantly predict the class of a bank. This is a serious limitation of the research, because if it turns out that there is no statistically significant relationship between the indicators and the "purpose-drivenness" of a bank, our classification outcomes, as well as the comparative analysis results, are useless.

Due to data availability reasons, we were limited to using databases that were available to us. We therefore determined several proxy variables that serve as indicating scores for the perspective indicators. Assuming that these indicators indeed relate to purpose impact, we reflect on the proxy variables. As we are talking about proxies, we are already aware that these variables themselves are not directly relevant. We did not statistically examine the quality of the proxies, i.e., if they are actually correlated with the indicators of interest. Interested parties can assess this relationship or select other proxy variables. In particular, we want to discuss the use of ESG ratings as an indicator. Recently, **there has been debate on the use of ESG ratings as a sustainability metric**. Research argues that ESG ratings from different providers differ substantially (Chatterji et al., 2009). This finding is confirmed by Berg et al. (2022), demonstrating that the correlations between ESG ratings from six different providers range from 0.38 to 0.71. Given this divergence, it is difficult to properly evaluate ESG performance of organizations, including banks. Critics complain about the lack of transparency in the ESG rating methods used by the rating agencies, and hence argue that these sources are not always reliable (Stubbs and Rogers, 2013). ESG ratings might not replicate with the ESG ratings of another rating agency, so one should be careful in selecting data for ESG studies. If one is interested in extending this study, the researcher should be aware of possible bias by ESG ratings.

In reading these remarks, one should remember that purpose is a quite qualitative idea, and hence difficult to measure. Existing attempts to measure purpose in organizations are not in line with our definition or not applicable to the research. We made a first attempt to thoroughly assess "purpose-drivenness" in banks according to our definition. Therefore, the tool is definitely relevant when considering this scientific gap. However, to put the framework into practice, one must conduct further research to improve the tool.

Data availability

The outcomes of this thesis rest on several assumptions and constraints. We start with a discussion on the data points that were used. Currently, not many studies focus on purpose measurement and hence significant data points are scarce. For the purpose of this research, we hence have to deal with limited data availability. Although we were able to find data points for all the purpose aspects, **we could not collect data for one single moment in time**. More specifically, data for the annual reports and consumer perspective derives from 2020, whereas the employee and community data are from 2021. We made the assumption that banks did not change their business model from purpose-driven towards non-purpose-driven, or vice versa, in this period. For a time span of 2 years, this assumption seems plausible, since business models of banks do not change very often. On the other hand, this assumption might certainly cause some error. Especially in an era where purpose is an emerging topic in organizations, one should avoid such assumptions as much as possible.

Another point of discussion concerns the participation rate of the Glassdoor platform. **For a bank to be included in the sample, we set a minimum response rate at 10 participants**, i.e., 10 employees that provided a rating on their bank. The main reason for this low limit, is that we do not want to filter out too many banks from our sample, since purpose-related data points are scarce. We are aware that this number of respondents is not a significant indication. Fortunately, most of the banks in our sample have over 100 employee ratings. Hence, especially in combination with the scores on the other perspectives, we think that the impact of these low response rates is limited.

The last data specific point we would like to address is about the scope of the databases and consequently the selection of banks. As mentioned throughout the thesis, **most of the data sources that we use do not contain all existing banks in Europe, and mainly cover only listed companies.** Particularly, smaller and local banking institutions do not have entries in our databases, and hence we are forced to leave these banks out of consideration. We view this as a serious limitation, because we expect to observe many purpose-driven banks among the group of local, community banks. The constraint affects the representativity of the outcomes. Although the size of our final sample is large enough to allow for statistical analysis, there is definitely a number of banks that would fit the criteria of a purpose-driven bank, but do not have an entry on the databases used.

Again, one should remember that at this point in time, we are dealing with several insurmountable limitations and constrains regarding purpose-related data. Although these definitely influence the reliability of the research, we present an interesting way to study purpose-driven banking business models and their main characteristics.

Comparative analysis results

Taking the aforementioned points into consideration, we discuss the outcomes obtained by the comparative analysis. The most important, significant result is the observation that purpose-driven banks tend to have higher tier 1 ratios than non-purpose-driven banks. Recall that the tier 1 capital ratio is the ratio of a bank's core tier 1 capital (equity capital and disclosed reserves) to its total risk-weighted assets (i.e., assets that are systematically weighted for credit risk). A high tier 1 ratio implies that a bank has high capital buffers to absorb losses. **The result of higher tier 1 ratios for purpose-driven banks versus non-purpose-driven banks suggests that the former group is more likely to withstand financial distress, as they have more capital to remain liquid.** Although the reliability of the outcomes depend heavily on the plausibility of several assumptions, we find the results quite interesting. Banks with high tier 1 ratios are considered to be strong, and hence our results can positively affect the opinion on purpose-driven banking business models.

Despite the limitations, constraints, and assumptions, we have contributed to the literature by developing a comprehensive purpose measurement tool. It enables us to assess purpose in banks based on the main characteristics of purpose-driven banking. Additionally, the outcomes of the comparative analysis provide a first step for further analysis on the actual implications of purpose-driven banking. In the next section, we discuss the points for further research.

6.3 Further Research

In this section, we elaborate on our main recommendations for further research. First, we discuss further research in terms of improvements, covering assumptions or limitations that need more attention. Second, we provide some more general suggestions for further research.

Further research: improvements to PDB framework

The most essential suggestion for improvement is the advancement of the validity and reliability of the PDB framework. We summarize our main recommendations:

- To assure quality of the framework, one must first assess the significance of the identified variables. For the validity of the research, it is highly important that the suggested variables are associated with the level of "purpose-drivenness" of a bank. To test for significance, more research must be conducted on the precise classification of purpose-driven banks versus non-purpose-driven banks. More specifically, one needs to define a target variable, presenting the category of a bank (purpose-driven or non-purpose-driven). Using regression models, one can then find out which variables have impact on the target variable. In future research, one can also identify new features that might be related to purpose, and use feature selection methods to determine which features are really relevant. In this way, one can identify significant variables that can accurately predict a bank class (purpose-driven or not).
- Another, maybe somewhat trivial, idea for further research is to increase data points. As many limitations of this research derive from data constraints, the framework can definitely be upgraded with the availability of more data. It would for example be interesting if one is able to collect trustworthy data over multiple years. In this way, the classification outcomes can be made time variant. This also enables other researchers to examine interesting trends, such as transitions from purpose-driven business models to non-purpose-driven business models (or vice versa). It is also interesting to collect data points for a bigger scope of banks. In this way, one would have a more representative sample of reality.
- Future research might also focus on lowering subjectivity of the purpose assessment tool. We provide several suggestions to achieve this. First, one can include more quantitative techniques to assess the annual reports. There exist, for example, text mining tools to quickly extract valuable insights from text data. Using such a technique, one could perhaps compare the number of times that 'stakeholders' versus 'shareholders' are mentioned in the reports. However, given the current knowledge on the complex idea of purpose, we think that human judgement at this point provides more accurate results. Hence, further research must be conducted if one is interested in correctly applying automatic tools. Second, the annual report assessment can be conducted by multiple people. Discussing and combining the results can help to reduce personal judgements. Third, one can establish a fourth criterion to qualitatively assess purpose

impact. We argued that monetization is not a good criterion. An alternative would be to assess to what extent a bank reports on the actual impact it makes. Suppose, for example, that a purpose statement of a particular bank focuses on improving customer well-being. One can then assess purpose impact by checking if the lives of the bank's customers are indeed improved. Creating a fourth criterion, covering purpose impact, can also reduce the number of "purpose washing" cases.

- Regarding the second part of the framework, the purpose impact index, one can investigate the usefulness of assigning different weights to the purpose perspectives. In this research, we assigned equal weights to the perspectives in the multi-criteria analysis. However, this might not accurately represent reality. A purpose-driven bank with a purpose statement focusing on employees might show high performance on the employee perspective, and lower on the other two. As a result, the total score of the bank decreases, while this does not necessarily imply that the bank is less purpose-driven. Hence, it is interesting to examine the usability of different, case-specific weighting schemes. Another interesting point for improvement is the dataset used for calculating the customer score. As we have conducted this thesis in cooperation with Accenture, we used data from their Global Consumer Study as indicators for the consumer perspective. However, in future research, it is better to use data from an independent party. This can reduce biases, such as higher response rates of Accenture clients.
- Lastly, we suggest investigating the 'perfect' classification level. Currently, the argument for a 25% threshold is not strongly substantiated. Although our sensitivity analysis suggests that changing the threshold does not cause big differences in the outcomes, it is relevant to examine the actual ratio of purpose-driven banks versus non-purpose-driven banks.

Further research: general recommendations

We now focus on more general recommendations for future research. Up to this point, there has not been much research on the application of purpose-driven banking, and hence there are several opportunities for further research.

- First, one should further examine the practicality of the measurement tool. Our PDB framework is a first attempt to extensively assess purpose in banks. We have already provided suggestions for improvement of the validity and reliability of the framework. However, to be able to judge on the practicality, one must put the tool into practice and experience whether it is applicable in purpose-related contexts.
- Although we analyzed some main performance metrics, there are many other variables which could give new insights in the implications of embedding a purpose-driven business model. It is also interesting to examine more purpose-related performance metrics. Suggestions comprise, for example, workforce engagement, referring to the level of enthusiasm and dedication employees feel toward their job.

- It might also be interesting to look at the application opportunities in a broader context. We have specifically focused on the banking industry, but most of the purpose concepts used for the development of the framework are definitely applicable in a broader context.

6.4 Recommendations Accenture

Based on the outcomes and conclusions of our research, we have some specific recommendations for Accenture.

First, we suggest that Accenture compares and contrasts the findings of this thesis with their internal research and knowledge base. The Financial Services department of the company has published several papers on the purpose-driven banking topic. In this thesis, we have used a different, broader perspective to describe the idea of purpose-driven banking. Especially with regard to the Accenture Purpose-Driven Banking index, our interpretation of the concept highly contradicts with theirs. We think it is interesting to identify the main differences and similarities between both studies and discuss how the findings can be combined and eventually can reinforce each other.

Second, we advise the consultancy firm to use its enormous network of banks to further exploit the topic. Accenture can use its worldwide connections to gather more data. The Global Consumer Study from 2020 already provides valuable insights for purpose-related research. The company can extend this study by, for example, expanding the time period, so that examination and comparison of data points over time is possible. The firm might also collect data on the other purpose impact perspectives, for instance employees of the banks. Besides broadening the scope of banks, Accenture might obtain relevant insights by collecting case-specific information. The organization can arrange conversations with client banks that claim to be purpose-driven. Within this bank, they can then highlight how the company integrates purpose-driven banking principles into its core business. These specific insights can further increase understanding of the actual manifestation of purpose in a bank.

Lastly, our study suggests higher tier 1 ratios for purpose-driven banks than for non-purpose-driven banks. Although the outcomes need to be further verified and tested, they can be highly relevant for the consulting firm. As the idea of purpose-driven banking is pushed by several stakeholder groups, it is interesting to build advice around it. Accenture should examine how they can establish professional advice based on the findings. The company can, for instance, advise purpose-driven banks to use the label in their marketing, as it implicates, according to the high tier 1 ratio, financial strength and stability. For different situations, Accenture can determine how to leverage the findings and use them to deliver tailor-made advice and guidance.

Appendix A

Sound Measurement

To be able to identify and classify banks, we construct a framework to measure "purpose-drivenness" in banks. In step 2 (criteria selection) of the framework development process, we identify indicators to describe this construct. However, "purpose-drivenness" is a complex idea, thus to ensure quality of the measurement tool, choosing appropriate variables and indicators is essential. We use insights from the book *Business Research Methods*, describing the characteristics of sound measurement. Figure A.1 describes the process of developing a robust measurement tool. We will not discuss all steps in detail, but summarize the most important guidelines in this appendix.

Creating a sound measurement tool is about understanding measurement scales so that we select appropriate measures for our intent. Measurement in our case consists of assigning numbers to empirical events in compliance with a set of rules. We define some important concepts (Cooper and Schindler, 2014):

- *Concepts* - objects of measurement.
- *Constructs* - higher-level concepts that are not directly observable (theoretical).
- *Variables* - varying numerals or values for the purpose of testing and measurement (empirical).
- *Properties* - characteristics of an object.

We aim to measure "purpose-drivenness" in banks. We review literature to find concepts, as well as constructs. In order to properly measure them, we require an operational definition - a description in terms of specific criteria for testing or measurement (Cooper and Schindler, 2014). Concepts and constructs are terms that are used at a theoretical level, whereas variables are used at empirical levels. A variable can be seen as a synonym for the construct or property that is being studied. The variable is an identified characteristic that we aim to measure and to which we assign values. The specific value is based on the variable's properties. It might for example be binary (only two possible values), discrete (certain categories of values are possible), or continuous (a range of values). In research, it is not the actual property that is measured, but researchers rather measure indicators of the properties. As constructs like "purpose-drivenness" are difficult to measure, we must infer the absence or presence by observing indicator values. The challenge is to select the right indicants, as the quality of the research depends on them.

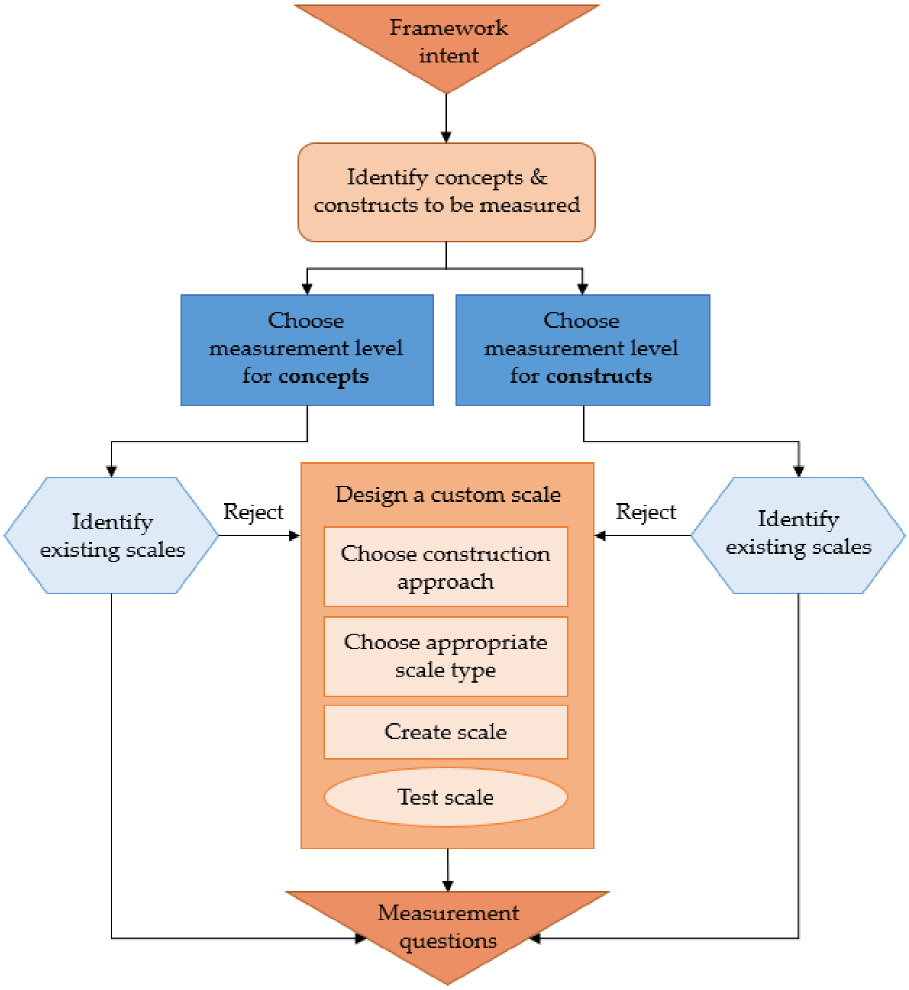


FIGURE A.1: Process to create a sound measurement tool (Cooper and Schindler, 2014)

To measure properties of variables, several types or levels of measurement are possible, referred to as measurement scales. Scaling is explained as "the procedure for the assignment of numbers (or other symbols) to a property of objects in order to impart some of the characteristics of numbers to the properties in question" (Cooper and Schindler, 2014). We identify four types of scales: nominal, ordinal, interval, and ratio scales. To select an appropriate scale type, we consider what we want to measure and what we plan to do with it. We then choose the type of scale that suits our research, taking into account factors that influence the quality of the measurement (e.g. factors such as data properties or response types).

We want the framework to be an accurate indicator of what we are interested in measuring. Cooper and Schindler (2014) discuss characteristics of a good measurement tool. According to them, we can basically describe three criteria for evaluating a measurement tool:

- *Validity*: the extent to which the framework measures what we actually wish to measure.

- *Reliability*: the accuracy and precision of a measurement procedure.
- *Practicality*: concerned with economy, convenience, and interpretability.

The authors discuss these qualities, and provide several guidelines to achieve them. We will not explain them in detail in this appendix and refer to the book *Business Research Methods* for more details.

We discuss one more important consideration in measurement: the possibility for errors. In an ideal world, we are able to create a precise and unambiguous measurement tool. Unfortunately, as we deal with both the complex and intangible idea of "purpose-drivenness", as well as inaccessibility of data, achieving this ideal is (at this moment) infeasible. Hence, errors will occur. Much of them are systematic (resulting from bias) and some are random (unpredictable). Errors come from different sources and it is important to be aware of them and where possible avoid them. Examples of error sources are respondents, situational factors, procedures or instruments.

Appendix B

Consumer Study Criteria

Accenture has conducted a Global Consumer Study among banks' consumers. For the purpose of our research, we only use results from purpose-related questions. The specific questions are included in this appendix.

Customer trust

- Please indicate how well your existing main bank delivers on the following factors?
  - Appealing brand.
  - Attractive customer loyalty program.
  - Broad range of flexible, high-quality products.
  - Clear and transparent communications.
  - Ethical & sustainable business practices.
  - Able to contact my bank when I want.
  - Able to manage my account in the way I want.
  - Personalized services (e.g. offers, savings tips).
  - Recommendations of appropriate products/services.
  - Speedy and efficient service.
  - Value for money.
  - Fast resolution to any issues I may have.

Customer-centric services

- To what extent do you feel the following about your main bank?
  - I am able to get support and/or advice from my bank when I need it.
  - The advice from my bank has my best interests in mind.
  - The advice from my bank is smart, personalized and well-informed.

Customer satisfaction

- Please indicate to what extent you agree or disagree with the following statements in relation to your bank or insurer?

- Communicating with bank by any channel.
- Seamless interaction with a bank as per my convenience.
- Visiting bank is always a good experience.

Appendix C

Performance Indicator Formulas

In Chapter 4 (Section 4.2), we determined the performance indicators that we use for the comparative analysis. We use them to assess the financial performance of two groups: purpose-driven banks and non-purpose-driven banks. In this appendix, we summarize the financial ratios and items used to calculate the indicator values.

Size

- $Total\ assets = Sum\ of\ all\ on\text{-}balance\ sheet\ assets$
- $Number\ of\ employees = Total\ number\ of\ employees$

Risk profile

- $Tier\ 1\ ratio = \frac{Core\ tier\ 1\ capital}{Total\ Risk\text{-}Weighted\ Assets}$
- $Risk\ density = \frac{Risk\text{-}Weighted\ Assets}{Total\ assets}$

Efficiency

- $Efficiency\ ratio = Cost\text{-}to\text{-}income\ ratio = \frac{Total\ operating\ expenses}{Operating\ revenues}$

Profitability

- $Return\ On\ Assets = \frac{Net\ income}{Total\ assets}$
- $Return\ On\ Equity = \frac{Net\ income}{Shareholder\ funds}$
- $Net\ Interest\ Margin\ (NIM) = \frac{Net\ interest\ income}{Earning\ assets}$

Appendix D

Classification Outcomes

We have constructed a PDB framework to classify purpose-driven banks versus non-purpose-driven banks. The tool consists of two parts: a purpose assessment tool and a purpose impact index. We apply the separate parts sequentially. In this appendix, we present the outcomes of the two classification steps.

D.1 Outcomes Purpose Assessment Tool

By assessment of the annual reports of the banks, we are able to remove 12 banks from our sample. We classify these banks as non-purpose-driven. Table D.1 below summarizes the 12 excluded banks.

Bank
Banca Monte dei Paschi di Siena (BPMS)
Banca Popolare di Milano (BPM)
Banco de Sabadell
Bankinter
BPER Banca
Commerzbank
Credit Suisse Group
Deutsche Bank
Kutxabank
Unicaja Banco
Rinkjøbing Landbobank
Svenska Handelsbanken

TABLE D.1: List of non-purpose-driven banks after applying the purpose assessment tool.

D.2 Outcomes Purpose Impact Index

After calculation of the purpose impact scores, and selecting the top 25% highest performing banks, we obtain the final classification. In total, we have 15 purpose-driven banks and

45 non-purpose-driven banks. Table D.2 presents the final classification.

Purpose-Driven	**Non-Purpose-Driven**	**Non-Purpose-Driven**
Argenta Spaarbank	ABANCA Corporación Bancaria	Credito Emiliano
Barclays Bank	ABN AMRO Bank	Danske Bank
Citibank	Allied Irish Banks	Deutsche Bank
De Volksbank	Aktia Bank	Deutsche Kreditbank
DNB ASA	Banca Mediolanum	FinecoBank
KBC Bank	Banca Monte dei Paschi di Siena (BPMS)	HSBC Continental Europe
Länsförsäkringar Bank	Banca Popolare di Milano (BPM)	Ibercaja Banco
Nationwide Building Society	Banca Popolare di Sondrio	ING Groep
NatWest Group	Banco Bilbao Vizcaya Argentaria	Intesa Sanpaolo
Nykrediet Realkredit	Banco de Sabadell	Jyske Bank
The Co-operative Bank	Banco Santander	Kutxabank
Rabobank	Bankinter	La Banque Postale
Raiffeisen Bank International	Bank of Ireland	Lloyds Banking Group
UBS Group	Banque Cantonale Vaudoise	Nordea Bank
Yorkshire Building Society	Belfius Bank	OP Financial Group
	BNP Paribas	Rinkjøbing Landbobank
	BPER Banca	Skandinaviska Enskilda Banken (SEB)
	CaixaBank	Société Générale
	Caja Rural de Navarra	Svenska Handelsbanken
	Clydesdale Bank	Unicaja Banco
	Commerzbank	UniCredit
	Crédit Agricole	Valiant Bank
	Credit Suisse Group	

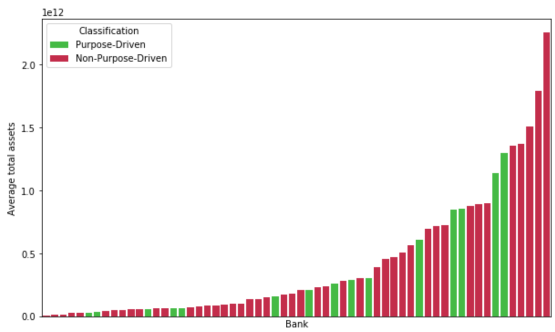
TABLE D.2: Final classification of purpose-driven banks versus non-purpose-driven banks.

Appendix E

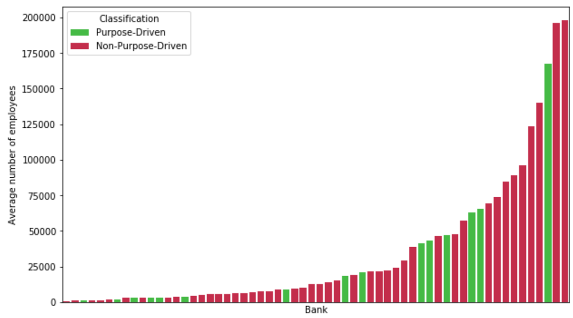
Outcomes Extra Comparative Analysis - Larger Time Span

In Section 4.2.3, we compare the performance implications of purpose-driven banks versus non-purpose-driven banks. We compare performance in terms of size, risk, efficiency, and profitability. We conduct two extra analyses: observing a larger time span and using multiple classification levels. In this appendix, we show the corresponding visualizations of the outcomes.

We observe the average outcomes for each of the performance indicators over the time period 2017 to 2021. In this section, we demonstrate the corresponding graphs.

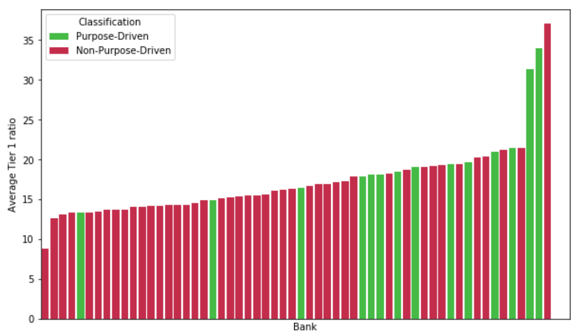


(A) Size indicator: average total assets.

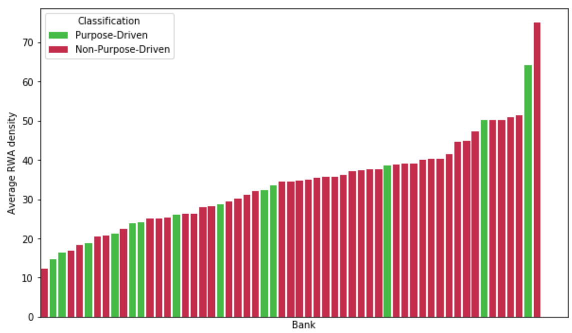


(B) Size indicator: average number of employees.

FIGURE E.1: Average size profile of banks in the period 2017-2021.



(A) Risk indicator: average Tier 1 capital.



(B) Risk indicator: average RWA density.

FIGURE E.2: Average risk profile of banks in the period 2017-2021.

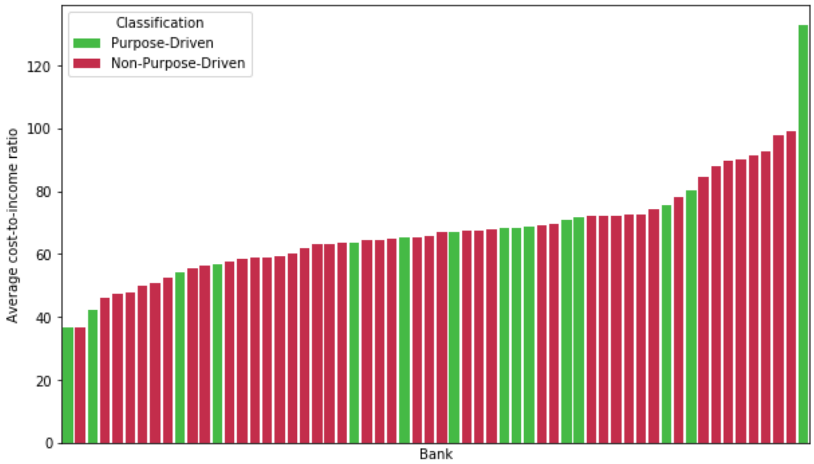
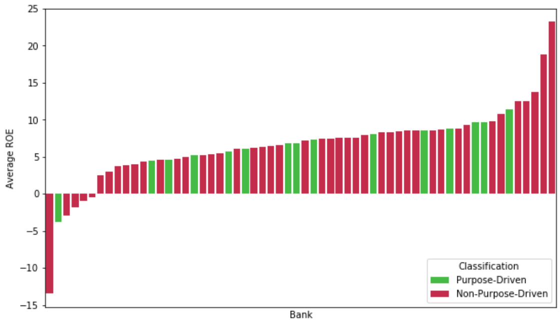
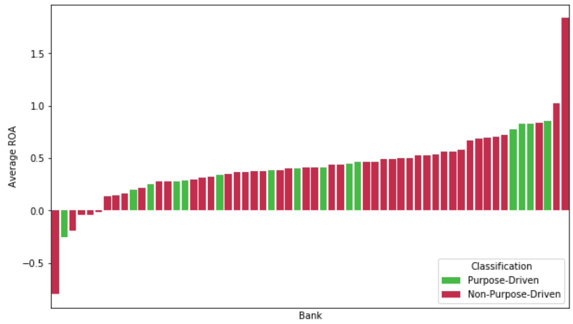


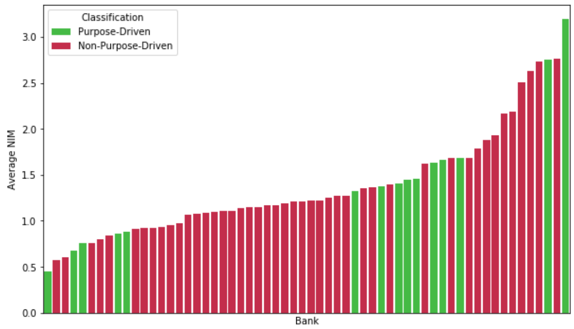
FIGURE E.3: Average efficiency profile of banks in the period 2017-2021.



(A) Profitability indicator: average ROE.



(B) Profitability indicator: average ROA.



(C) Profitability indicator: average NIM.

FIGURE E.4: Average profitability profile of banks in the period 2017-2021.

Mann Whitney U test 2017-2021

We conduct a Mann Whitney U test for all performance variables in 2017 to 2021. Table E.1 (next page) demonstrates the resulting p-values.

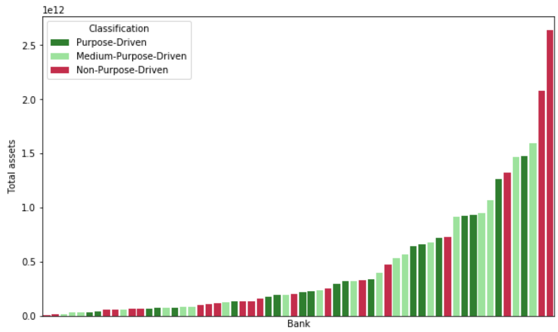
Variable	Year	P-value
Total assets	2017	0.657143
Total assets	2018	0.682013
Total assets	2019	0.694581
Total assets	2020	0.719967
Total assets	2021	0.682013
Nr. of employees	2017	0.823755
Nr. of employees	2018	0.893695
Nr. of employees	2019	1.000000
Nr. of employees	2020	0.864447
Nr. of employees	2021	0.732779
Tier 1 ratio	2017	0.008759
Tier 1 ratio	2018	0.00402
Tier 1 ratio	2019	0.007836
Tier 1 ratio	2020	0.007613
Tier 1 ratio	2021	0.019389
RWA density	2017	0.076219
RWA density	2018	0.066878
RWA density	2019	0.06812
RWA density	2020	0.076219
RWA density	2021	0.145368
Cost-to-income ratio	2017	0.707233
Cost-to-income ratio	2018	0.784741
Cost-to-income ratio	2019	0.694581
Cost-to-income ratio	2020	0.758624
Cost-to-income ratio	2021	0.644847
ROE	2017	0.483968
ROE	2018	0.596653
ROE	2019	0.379294
ROE	2020	0.142062
ROE	2021	0.533205
ROA	2017	0.313827
ROA	2018	0.632638
ROA	2019	0.745662
ROA	2020	0.206463
ROA	2021	0.422336
NIM	2017	0.87789
NIM	2018	0.657143
NIM	2019	0.657143
NIM	2020	0.745665
NIM	2021	0.422342

TABLE E.1: P-values Mann Whitney U test for 2017-2021.

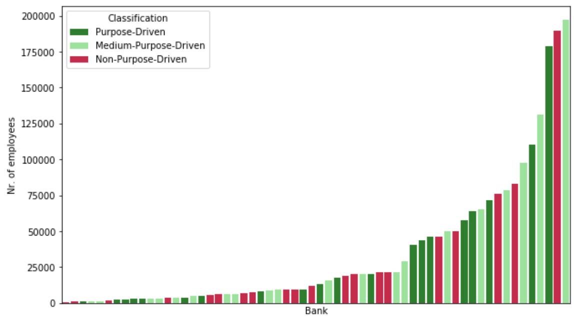
Appendix F

Outcomes Extra Comparative Analysis - Multiple Purpose Categories

We performed an extra analysis using multiple purpose categories: high-purpose-driven, medium-purpose-driven, and low-purpose-driven. In this appendix we present the outcomes.

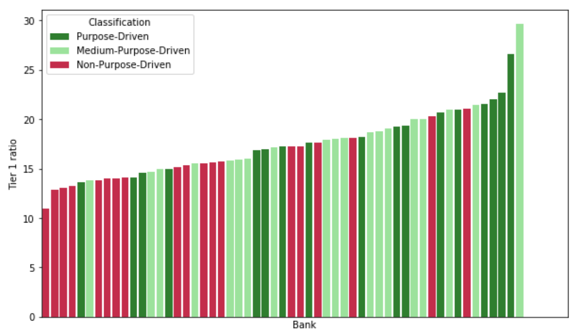


(A) Size indicator: total assets.

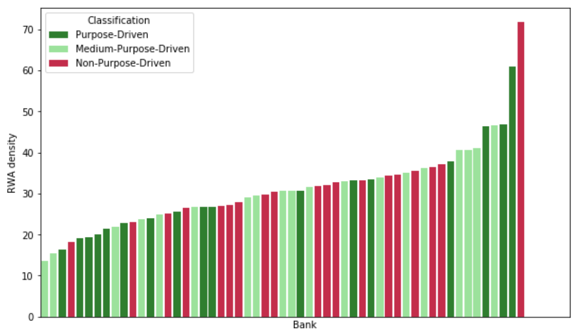


(B) Size indicator: number of employees.

FIGURE F.1: Size profile for three purpose categories.



(A) Risk indicator: Tier 1 capital.



(B) Risk indicator: RWA density.

FIGURE F.2: Risk profile for three purpose categories.

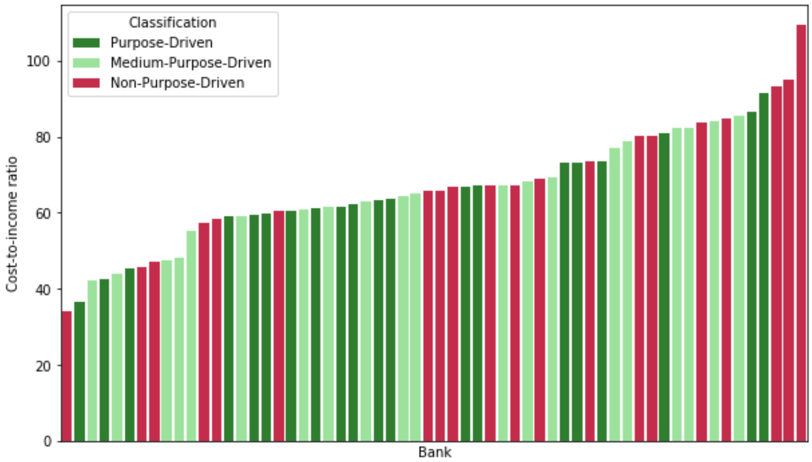
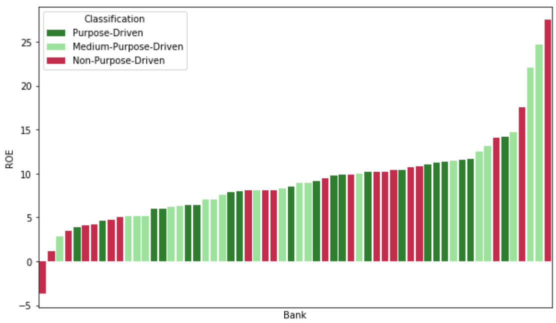
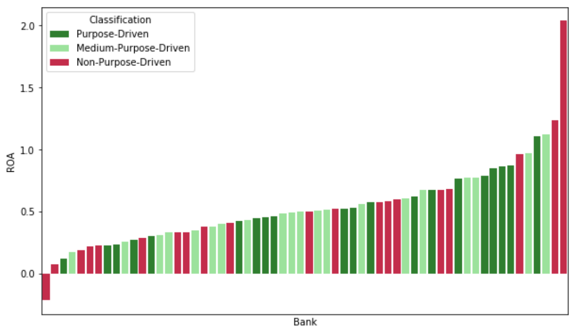


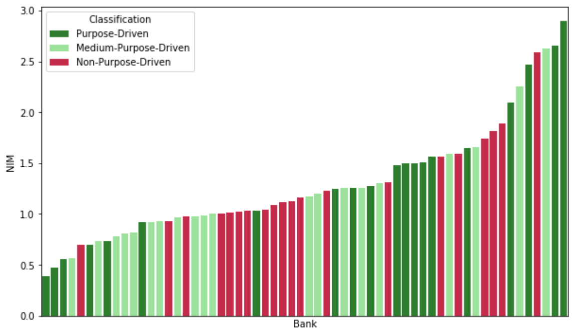
FIGURE F.3: Efficiency profile for three purpose categories.



(A) Profitability indicator: ROE.



(B) Profitability indicator: ROA.



(C) Profitability indicator: NIM.

FIGURE F.4: Profitability profile for three purpose categories.

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