Merkur Cooperative Bank

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INTRODUCTION

It is a sunny day of September in Denmark and Mr. Pehrson is seating at the conference table in his office in Copenhagen. He is reflecting on Merkur's sustainability journey and what has been accomplished thus far. The first impression one has when meeting Merkur's employees is that they exult a sense of pride of being part of something bigger, something transformative. One does not really know what that is until coffee is poured and the discussion starts. This case study is an attempt to provide the reader with an insight into a Danish bank named Merkur Andelskasse in Danish and Merkur Cooperative Bank in English (Merkur). The case study seeks to explain what it is the bank's employees are so proud of and what are the unique features making their company a recognized[1] sustainable banking leader.

Merkur Cooperative Bank (Merkur) was incorporated in 1982 and had approximately 80 employees, (Merkur Cooperative Bank, 2014, p. 23) 23,742 customers, (Merkur Cooperative Bank, 2014, p. 3) and a balance sheet worth almost DKK 1.4 billion (approximately USD 210[2] million) by the end of 2014 (Merkur Cooperative Bank, 2014, p. 7). The bank offers classic banking services such as deposits and loans but refrains from engaging into speculative activities. Its mission is to **finance the society of the future** (Merkur Cooperative Bank, 2014, p. 43) by ***"giving people, organizations and companies the opportunity to use their money or economic activity to promote a society that will remain sustainable far into the future, for people and the environment alike"***. The bank argues that as a customer of the bank, one can contribute to the sustainable development of society (Merkur Cooperative Bank, 2014, p. 2). That claim and the mechanisms behind it will be discussed in detail further in the case study.

The case study draws on the Business Typology Matrix (BST) proposed by Dyllick and Muff (2015) which is a tool that can be used to assess a company's sustainability level and identify its unique features. In this case study Merkur's sustainability performance is researched and discussed by considering aspects going beyond the traditional approach to embedding sustainable practices into business activities. To do so the case study is divided into 5 sections providing the reader with an in-depth analysis of where Merkur is coming from, where it is today and what it is aspiring to become and contribute to in the future. This research paper aims to contribute to the overall literature on sustainability by discussing the experience Merkur has acquired over the years in its sustainability development process so that others can learn from it and possibly replicate some aspects in their own organizations.

[1] The Nordic Council for Nature and Environment awarded a prize to Merkur in 2010 for their commitment to green values and sustainable principles.
[2] In this case study USD equivalencies are provided for the reader's reference and are calculated using an exchange rate of 1 DKK = 0.15 USD

MERKUR'S SUSTAINABILITY JOURNEY

The following section reviews Merkur's journey towards sustainability with the purpose of identifying the marking events and reasoning leading to the bank becoming the recognized sustainability leader it is today. The review is based on archival studies and interviews and is divided into four distinct time periods reflecting the different stages in the evolution of the bank.

1982 – 1992 The pioneer years

Lars Pehrson never thought that he would ever become the CEO of a sustainable bank one day especially when he was studying music. At the time, his aspirations were to play the flute in a large orchestra. His initial jobs were temporary as he usually played as a replacement for another musician. The young and enthusiastic musician was also an entrepreneur who decided to start the first organic shop in his hometown, located in the northern part of Denmark. Initially the project did not pay a salary but proved to be a great learning experience, as he had to familiarize himself with the aspects associated to running a business such as accounting and other basic business practices. At the time, he often heard the comment that an organic shop was not viable and that it would not last very long. These comments made Lars Pehrson understand that he enjoyed doing things deemed to be impossible and made him discover his vocation. He also realized that he liked doing business (L. Pehrson, personal communication, September 15, 2015). Today he smiles when arguing that the organic shop still exists.

Around that period there was a baker who worked for a bakery located in the vicinity of the organic shop and who thought that there was a market for organic bread. Initially and to test his idea, the baker baked organic bread after his regular work hours and offered it for sale in the organic shop. Rapidly he found out that there was a market for such a product. This confirmation led the baker to enquire about the possibility of attaining financial support to launch his own organic bakery and initiated what is known today as a crowd funding round. The baker attracted approximately 120 investors and worked together with Lars Pehrson and GLS Gemeinschaftsbank (GLS) to structure the process and fund the bakery. Lars Pehrson was impressed and inspired by GLS and the representatives who visited the organic bakery. As a result, Lars Pehrson and his associates decided to create an association composed of a closed circle of persons to fund projects. The association was totally unregulated at the time by the Danish authorities and soon regrouped approximately 15 depositors who committed to lend a total of DKK 200,000 (USD 30,000). The first projects funded by the association were a farmer who wanted to borrow money to buy an additional two cows to support his farming operations and a writer who wanted to publish a book. Lars Pehrson argues that this could be defined as a banking activity without really being one and it constituted fertile grounds for further development (L. Pehrson, personal communication, September 15, 2015).

The association created by Lars Pehrson and his associates was based in the northern part of Denmark and there was another group attempting a similar endeavor in Copenhagen. The two associations thought it would make sense to collaborate and work together to promote their respective activities. Both organizations agreed to working together on the publication of a newsletter whose purpose would be to increase the public's awareness on sustainable banking activities taking place in Denmark and subsequently increase the potential customer base (L. Pehrson, personal communication, September 15, 2015).

Meanwhile the European Union was working on regulating the overall European credit unions and the Danish government took a very pragmatic approach as a response to the demands coming from Brussels. The Danish government offered Lars Pehrson and his associates to transform their informal credit union into a cooperative in order for them to be in compliance with the European regulations. The group thought it was a unique opportunity to transform an association composed of approximately 200 members at the time into a structure that could have a bigger impact on society. As a result, the association reworked its articles of association and wrote a letter to the Danish authorities confirming their interest. This resulted in the association becoming a cooperative bank in 1985 and its capital being open to public investment and subject to the general supervision of the Danish Financial Supervisory Authorities. Lars Pehrson remembers thinking during that period that banking could not be that difficult to learn. Today he argues that banking is simple and this statement goes against the general assumption. Lars Pehrson defines banking as being the connection between people with ideas and people with money. He states that the ultimate purpose of a bank is to enable the creation of value for society as a whole by creating connections between the two groups (L. Pehrson, personal communication, September 15, 2015).

The evolution from a private savings and loan association to a cooperative bank is interesting especially when considered in light of the 2013 United Nations Intergovernmental Panel on Climate Change's report. The assessment concludes by stating that the United Nations see hope in the cooperative model as they have maintained high credit ratings, increased assets and turnover, and expanded their membership base whilst facing numerous challenges including the financial crisis of 2007 (Sustainability Solutions Group, Community Research Connections, International Co-operative Alliance, 2013, p. 5). The report argues that *"there is a clear and direct relationship between sustainability and how cooperatives describe themselves. The linkages to social dimensions of sustainability are stronger than the linkages to environmental and economic dimensions, but all three are present. The results of the crowdsourcing demonstrate that cooperatives embed sustainability into their operating models and values"* (Sustainability Solutions Group, Community Research Connections, International Co-operative Alliance, 2013, p. 5). Merkur argues that a cooperative was the only format they were being offered by the Danish government but that it now results in the bank having a lot of flexibility to raise new capital to finance its growth. Lars Pehrson states that the current ownership structure results in the bank not being governed by the shareholder value creation philosophy but really by a bigger sense of purpose. Lars Pehrson defines the shareholder value creation problem as a force asking companies to deviate from their original purpose that is to provide customers with a solution to a problem and forcing them to simply generate financial returns for the investors (L. Pehrson, personal communication, September 15, 2015).

Merkur limits the power a shareholder has within its organization despite the central role the share capital plays in supporting the bank's growth. One might think that the bank could be eager to attract large shareholders as it would be a rapid way for the bank to expand its business however the article 4 of Merkur's articles of association creates a safeguard. The article 4 states that "*new members' capital will be issued on a continuing basis. The board of directors has authority to have regard on the size of the members' capital from time to time. Any cooperative member has just one vote, regardless of the number of shares owned"* (Merkur Cooperative Bank, 2015, p. 2). This results in the bank attracting the type of shareholders it wants, namely shareholders supporting sustainable business practices. Lars Pehrson is convinced that this is the right approach as he argues that power cannot and should not be bought but earned and therefore the power of a single shareholder should not be determined by his or her financial power (L. Pehrson, personal communication, September 15, 2015). Therefore and regardless of the number of shares owned, a shareholder has and should only have one vote (M. Gunge, personal communication, September 15, 2015).

Merkur's first 10 years of operation were primarily aimed at grounding the bank and its operations. The approach taken was to solve one problem at a time (L. Pehrson, personal communication, September 15, 2015). Over the first decade the bank's customer base grew to 1,773 and its balance sheet grew to approximately DKK 50 million (USD 7.5 million). The bank was also able to generate a profit of DKK 208,000 (USD 31,200) (Merkur Cooperative Bank, 2015, p. 4).

1993 – 2007 The golden years

The period spanning from 1993 to 2007 is referred to internally within Merkur as the golden years because it was very easy to do banking due to high interest rates. Over those 15 years Merkur's balance sheet grew from DKK 50 million (USD 7.5 million) to DKK 991 million (USD 148.65 million); its customer base grew to 12,000 and the bank generated a profit of DKK 37.3 million (USD 5.6 million) (Merkur Cooperative Bank, 2015, p. 4).

A very important event took place at the beginning of the golden years with Ross Jackson, the founder of the Gaia Trust, donating DKK 4 million (USD 600,000) to Merkur (K. Arup, personal communication, September 15, 2015). The Gaia Trust is a Danish charitable entity supporting sustainability projects (Gaia Trust, 2015). At the time, the Gaia Trust was working on the creation of the Rainbow Bank and had more than enough financial resources to support it. However, the Gaia Trust realized that one of the Danish alternative banks had expanded from its geographic location in northern Denmark and had widened its vision from its original anthroposophic[3] views to values closer to the Rainbow Bank's ideal. Ross Jackson therefore decided to support Merkur with a big capital investment instead of creating the Rainbow Bank (Jackson, 2000, p. 59).

Kirsten Arup (Loan Officer Merkur Development Loans and Senior Advisor on Agriculture) remembers the 1990s as being a period of great skepticism, especially from the German GLS bank's perspective. At the time GLS was worried that Merkur would give a negative image to the overall anthroposophical banking movement. The problem was primarily one of cultural difference between the German bank and the Danish bank as the Germans tended to be extremely formal in their approach to banking whereas the Danish were viewed as a group of people wearing homemade woolies with no real banking experience (K. Arup, personal communication, September 15, 2015). It was only in 2008 that the perception really changed. Claus Skytt (Branch Manager Copenhagen Branch) remembers 2008 as a year during which it became obvious that there was something wrong with the business model used by traditional banks. He says that this conclusion was a big change for alternative banks as they then started to be perceived by the public as being a realistic and viable banking alternative (C. Skytt, personal communication, September 15, 2015).

[3] Anthroposophy is a philosophy founded by Rudolf Steiner. It aims to attain in its study of spiritual experience the precision and clarity attained by the natural sciences in their investigations of the physical world.

Morten Gunge (Chair of the Governing Board) joined the board of Ekobanken[4] in 1996 together with the chairman of a Norwegian alternative bank called Cultura[5] (M. Gunge, personal communication, September 15, 2015). The fact in itself would not be noteworthy if it were not for the logic behind the action. The purpose for the two chairmen joining the board was to help Ekobanken by providing them with advice and share the experience the two chairmen had gained in their own organizations. What they were doing was developing and helping a competitor grow when looked at from a traditional business perspective. When asked about his personal motivation to take on the task Morten Gunge states that *"we are not doing a job because we need to make money. We are doing it to foster collaboration as we need to have more actors enabling society to transform itself into something better"* (M. Gunge, personal communication, September 15, 2015). Of note are the SCALA survey results. 46% of the respondents strongly agreed that Merkur's leaders are personally committed to issues pertaining to sustainability and 34% agreed. These results show that the logic is still the same 20 years later and this paragraph serves as an introduction to the section on collaboration discussed further in the case study.

Merkur then expanded its product offering with the launch of Sustainable Trade Credits offered to producers in developing countries in 2005. The trade credits enable producers and exporters to pre-finance their export contracts with buyers based primarily in Scandinavian countries. The trade credits enable either the producer or the exporter to finance the goods during the production, the harvest and the shipment period at reasonable and transparent interest rate. The Sustainable Trade Credit product offering enables the producer to apply for a credit worth up to 80 % of the total value of the order (Merkur Development Loans Ltd. & Merkur Cooperative Bank, 2015, p. 2).

In 2009 Merkur partnered with the Investment Fund for Developing Countries (IFU) to create Merkur Development Loans Ltd. The newly created entity extends medium and long-term loans to support long-term investments. The purpose of the Sustainable Trade Credits and the Merkur Development loans is the same. Both credit schemes seek to help bring economic development in developing countries through the grant of loans and credits on fair terms to small and medium-sized enterprises and cooperatives relying on sustainable business models (Merkur Development Loans Ltd. & Merkur Cooperative Bank, 2015, p. 2).

An interesting technical aspect took place in 2007. Until then the ratio between the loans and the deposits had been consistent but in 2007 it disconnected for the first time. The disconnect results in what the bank calls an *"enormous liquidity position".* It means that more money is deposited on the bank's accounts than Merkur is able to lend. Lars Pehrson argues that this is a healthy problem, but the challenge really is to find sustainable projects to finance that meet the bank's quality criteria (L. Pehrson, personal communication, September 15, 2015). Today the bank's cash deposits represent more than 50% of the total value of its balance sheet (Merkur Cooperative Bank, 2015, p. 3).

2008 – 2013 The financial crisis

In Lars Pehrson's own words, the period starting in 2008 was terrible as Merkur and the other Danish banks had to pay for the clean-up fees of failed Danish banks with immediate cash payments heavily impacting their balance sheets (L. Pehrson, personal communication, September 15, 2015). The period was also tough because Merkur generated almost no income (DKK 1.2 million, USD 180,000) despite a

[4] https://www.ekobanken.se/en/
[5] https://www.cultura.no/en/

growth of the bank's balance sheet to DKK 2.3 billion (USD 345 million) (Merkur Cooperative Bank, 2015, p. 3). Also 2011 and 2012 were the only years in the bank's history during which it had incurred a loss (Merkur Cooperative Bank, 2015, p. 5) and this was a new experience for Merkur (L. Pehrson, personal communication, September 15, 2015).

In October 2008 Merkur like almost every other Danish bank at the time chose to take part in the Bank Package 1 program. The Bank Package 1 program was established by the Danish government to provide a full state guarantee on all regular deposits for a 2 year period expiring on October 1, 2010. In return for the guarantee the banks had to contribute to a provision of DKK 15 billion (USD 2.25 billion) and cover losses of DKK 10 billion (USD 1.5 billion) totaling contributions of DKK 25 billion (USD 3.75 billion) over the two year period. Merkur's contributions amounted to DKK 15.2 million (USD 2.28 million) and is close to DKK 40 million (USD 6 million) today. All the obligations linked to the Bank Package 1 ceased on December 31, 2010 and were followed by Bank Package 2 consisting of the option for banks to be provided with a hybrid core capital by the Danish state and state guarantees for the capital the banks had lent. Fortunately, no bank has closed since 2012 and therefore no bankruptcy has drawn on the funds in the Deposit Guarantee Fund since then (Merkur Cooperative Bank, 2014, p. 13).

Prior to the financial crisis Merkur was able to cover its losses and the losses of its client defaulting by selling the assets. The financial crisis resulted in a significant and rapid drop in asset value, which meant that Merkur was no longer able to cover its losses by selling assets. Lars Pehrson argues that the Danish real-estate market still has not recovered from the crash and that there are villages in Denmark that are half empty because they were built during the speculative market conditions leading to the global financial crisis of 2007 (L. Pehrson, personal communication, September 15, 2015).

In 2008 the Danish government introduced mandatory CSR reporting for publicly owned companies as a response to the 2007 financial crisis. Hebb et al. argue that an amendment strengthened the reporting requirements with the introduction of mandatory reporting on human rights and climate change mitigation actions in 2012 (2015, p. 319). Kirsten Arup states that the new regulations did not affect Merkur at all. She states that when approached by research organizations one of the first questions Merkur is asked, is to tell them more about its CSR policy. She continues with a blunt statement saying that Merkur does not have a CSR policy nor needs one as either sustainability is anchored in the core values and processes of the bank or it is not (K. Arup, personal communication, September 15, 2015).

In 2009 Merkur cofounded the **Global Alliance for Banking on Values**. The Global Alliance is a network of value-based and society-oriented banks. Today the network has 25 bank-members with balance sheets totaling more than USD 100 billion. The Global Alliance seeks to demonstrate that a strong alternative to the current business models used by banks exists and that the financial crises resulting from obsolete banking business models can be avoided. The Global Alliance also serves as a learning platform for its members as they all are very different from one another.

In 2013 Merkur started collaborating with the Danish pension fund APPension. The objective of the collaboration was to give clients more influence on how their pension savings were invested and give them the possibility to invest to support sustainable projects (INAISE, 2013)

2014 – 20… The new times

2014 was a transformational year for the bank as it has been able to increase its customer base with the addition of 745 new customers bringing the total to 23,742. The increase is the result of the bank streamlining its workflows with the implementation of new IT solutions for example. The streamlining was necessary as the bank states that in the past it was obliged to implement a waiting period for potential new customers to be approved by the bank as it did not have enough employees to match the growth in customer intake. The effort will be continued in 2015 and in the future (Merkur Cooperative Bank, 2014, p. 5).

The current times are a new environment for Merkur to operate in. It is a period of very low interest rates requiring the bank to identify and generate new sources of income (L. Pehrson, personal communication, September 15, 2015). Morten Gunge (Chair of the Governing Board) states that the bank has been able to translate its values and ideals into small achievable steps. Over the years, it has evolved from aspiring to promote sustainability to being able to provide society with value. He says that the bank today is not big nor famous but it is a serious partner for many. This enables the bank to be free to support and promote its values and he is therefore confident Merkur will continue to strive in the future (M. Gunge, personal communication, September 15, 2015).

MERKUR'S APPROACH TO BUSINESS SUSTAINABILITY AND ITS PROPOSED POSITION ON THE BUSINESS SUSTAINABILITY TYPOLOGY MATRIX

The previous section of the case study provides the reader with the necessary background to discuss Merkur's position on the BST matrix proposed by Dyllick & Muff (2015, p. 13). The following section starts with a presentation of Dyllick & Muff's (2015) review of the existing approaches to business sustainability proposed in the literature and is followed by a presentation of their matrix. This section is then concluded by a review of Merkur's approach to business sustainability and a discussion of the bank's proposed positioning on the matrix.

Concerns, Organizational Perspective and values created

Dyllick & Muff state that one approach taken by companies to address sustainability issues is to look at the concerns. Concerns are issues that companies choose to consider and address (2015, p. 4). They state that when considering sustainability issues companies need to consider long-term aspects with equal importance to short-term aspects (2015, p. 5). They continue by quoting Dyllick & Hoeckerts (2002) who state that businesses are required to "*live off the income and preserve the capital base*". Finally, they state that a company needs to be held accountable and feel responsible for the impact of the decisions it makes (Dyllick & Muff, 2015, p. 5).

A second approach used by companies to integrate sustainability in their business is to focus on the organizational perspective (Dyllick & Muff, 2015, p. 5). Dyllick & Muff argue that *"business needs to embed sustainability throughout the organization, including strategies and operations, governance and management processes, organizational structures and culture, as well as auditing and reporting systems"* (Dyllick & Muff, 2015, p. 6).

The third approach is for companies to concentrate on the values their business creates or preserves (Dyllick & Muff, 2015, p. 6). Companies concentrating on values created look at the output described in the literature as *"integrating economic, ecological and social value creation", "creating shared value",* and the *"reemergence of the social purpose"* (Dyllick & Muff, 2015, p. 6). Dyllick & Muff argue that these definitions are very suggestive but they are unclear when it comes to measuring and comparing the trade-offs between economic, ecological and social values. They also state that another issue resulting from the approach is corporate green-washing (Dyllick & Muff, 2015, p. 6).

Dyllick & Muff conclude their review of the existing approaches to BST by realizing that there are many different approaches proposed in the literature and used by companies in practice in order to attempt to frame business sustainability in the context of sustainable development. Their concern is that these attempts fall short of achieving their goal. The approaches are based either on partial or incremental improvements of the company's existing strategy instead of proposing an approach embedding the concerns, the organizational perspective and values created. Some approaches are geared towards increasing shareholder value instead of creating sustainable value. Usually the approaches rely on an inside-out perspective showing how a company contributes to protecting the environment or addresses specific sustainability issues. They state that an approach looking at the relationship between a specific business and society in general is seldom found. They argue that a true BST approach should ask how a company can contribute to solving global challenges. They state that *"such an outside-in perspective may be the crucial step needed for business to move to full-fledged or true sustainability* (Dyllick & Muff, 2015, p. 7).

The Dyllick & Muff Business Sustainability Typology Matrix

Dyllick & Muff state that the definition of business sustainability and its demand for integration of social, environmental and economic aspects and what it means for companies is far from clear (2015, p. 7). They say that companies seldom question *"what their contribution to resolving sustainability issues on a regional or global scale could be and should be"* (Dyllick & Muff, 2015, p. 8). Their typology is based on the analysis of the three approaches found in today's literature namely the concerns (inputs), the organization perspective (process) and the values created (outputs). The typology uses the current paradigm as a starting point to identify the differences. This is what they refer to as "business-as-usual". Three increasingly relevant business sustainability types are then developed and are called Business Sustainability Typology 1.0, 2.0, and 3.0. As companies evolve from a BST 1.0; 2.0 and eventually 3.0 position, their relevance and their contribution to resolving sustainability issues pertaining to their business increases. Dyllick & Muff consider a Business Sustainability Typology 3.0 position as a truly sustainable typology and therefore the company to be truly sustainable (Dyllick & Muff, 2015, p. 8).

Dyllick & Muff (2015, p. 12) argue that for banks to qualify as business sustainability typology 3.0 organizations they will need to tackle the challenges arising from financing sustainable infrastructures contributing to the creation of a sustainable world catering to the needs of an ever growing population. They argue that banks have to shift their business practices and move away from financing unsustainable investments and business ventures and concentrate on projects bringing value to local communities that are of regional relevance such as securing drinking water and food sources for example. Dyllick & Muff state that for banks to operate based on an outside-in logic they have to start by evaluating sustainability challenges in their societal contexts. They continue by saying that banks need to assess and decide which challenges they can and want to address based on their capabilities. They state that banks have to address the challenges linked to systemic risks resulting from their collective behavior. Finally, Dyllick & Muff conclude by saying that the effectiveness of the banks' strategies is measured by their contributions and the values they are creating for the various stakeholders and for the company itself.

Merkur's approach to business sustainability and proposed ranking on the Business Sustainability Typology Matrix

The following paragraphs will discuss Merkur's product offering and the specific sustainability issues each one of them is tackling and then look at how Merkur assesses its footprint as an organization. This section concludes with a proposed ranking of the company on the Dyllick & Muff Business Sustainability Typology Matrix (2015).

Merkur does not have a strict process per se to identify sustainability issues and design tools to address them. The bank uses a wait and see strategy. Lars Pehrson argues that the bank has to be realistic. It is small and therefore always needs to take a pragmatic approach. The bank always takes time to learn about a specific project before making a decision to finance it or not. Usually customers come to the bank with a project and then the bank identifies whether it is in line with its values. This process exemplifies how Merkur differs from traditional banks in its design (L. Pehrson, personal communication, September 15, 2015). Claus Skytt (Branch Manager Copenhagen Branch) further confirms the approach and states that he bases his decisions on whether the project is economically viable and whether the values supported by the project are similar to Merkur's. He uses a coffee shop as an example. He states that if an entrepreneur schedules a meeting with Merkur to ask for a bank loan and states that he wants to open an organic coffee shop because there is demand for it, he would not necessarily be inclined to finance the project. On the other hand, if an entrepreneur explains that he wants to open an organic coffee shop because it will help promote fair trade in a specific region of the world or in order to create jobs for disabled people, then he is more inclined to approve the financing the project. He argues that it is of importance for the bank to feel that the customers live their values and that they are willing to fight for them. Claus Skytt says that someone engaging into sustainable business activities only to generate a financial return is very likely to walk away from the project as soon as the first difficulties arise (C. Skytt, personal communication, September 15, 2015).

The article 2 of Merkur's articles of association defines Merkur as a cooperative bank whose purpose is to offer banking services facilitating the grant of loans supporting free initiatives benefiting society in general. The bank's services are to be based on the principle of mutual support and should not be driven by the goal of generating economic gain (Merkur Cooperative Bank, 2015, p. 2). The bank has translated this purpose into what it calls its **cohesive core values** setting the framework for its employees. (Merkur Cooperative Bank, 2014, p. 2). There are three cohesive core values: 1) the bank seeks to provide individuals with the optimum conditions to enable them to develop their abilities freely thus allowing them to make decisions based on their own insights. Merkur finances independent school, educational institutions and cultural initiatives including initiatives for groups at risk. 2) Merkur and its employees are to treat people equally and with dignity. To do so Merkur finances new and contemporary types of ownership and social communities such as agricultural, production, trade and housing settlements, projects for socially disadvantaged youths and children or projects for physically challenged people. 3) Merkur finances organic and biodynamic farming, renewable and sustainable production and trade projects whose production and consumption matches the real needs of society and individuals (Merkur Cooperative Bank, 2014, p. 2). The SCALA survey results are interesting with 33% of the respondents strongly agreeing that the leaders of the company have a clear business case for pursuing the goals of sustainability and 60% agreeing. The results corroborate the claims made in this paragraph.

In practice Merkur is organized around four pillars of activities that are loans, deposits, pension and investment, and the Merkur foundation (Merkur Cooperative Bank, 2014, pp. 22-39). The four pillars are discussed in details in the following paragraphs.

Loans. The bank seeks to contribute to shifting investments towards sustainable projects through lending which constitutes its primary activity. Merkur proposes 10 sustainable value-added loan categories to that effect. Today the bank has sufficient resources to meet new customers' demands for loans in 2015 whether they are companies, social institutions or private customers. The potential for new lending is driven by the strong increase in deposits the bank witnessed in 2014. (Merkur Cooperative Bank, 2014, p. 22).

1. **Loans to private customers.** The bank offers its private customers numerous options to make a difference and empowers them to support sustainable initiatives of their liking. (Merkur Cooperative Bank, 2014, p. 22). For example, Merkur and its customers support the Thise Dairy. It is an organic dairy farm located in Northern Denmark. Merkur identified potential in the project both from an economic and an environmental perspective and decided to finance the farm in 1988. Today the farm is the second largest in Denmark and the largest organic dairy farm in the country. Interestingly the farm has become the biggest employer in its region creating 155 jobs (L. Pehrson, personal communication, September 15, 2015).
2. **Loans to schools and kindergartens.** Merkur finances educational centers as the bank believes that developing abilities, ideas and creativity is the driving force leading to the development of society in the long-term in terms of economic and sustainable development. The bank therefore wants to foster the development of educational content and the generation of new ideas through this loan category. Merkur argues that business interests and detailed government instructions should be excluded from the curriculum (Merkur Cooperative Bank, 2014, pp. 22-23).
3. **Loans to social Institutions and projects.** Merkur thinks that everyone should be treated with dignity and equally. Physically challenged, substance abusers and other marginalized groups need to be granted options for housing, working and education supporting their individual needs. Merkur therefore finances cohousing schemes for mentally challenged people, socio-educational institutions and workshops for example (Merkur Cooperative Bank, 2014, p. 23).
4. **Loans to folk high schools, training colleges and student loans.** The bank finances folk high schools and other adult educational institutions, as the bank perceives that this allows individuals to develop their abilities. Merkur argues that Universities and research projects are fields that the bank does not have opportunities to finance but which they follow and collaborate with closely (Merkur Cooperative Bank, 2014, p. 23).
5. **Loans to culture and health.** Merkur wants to help small and experimental cultural initiatives to be further developed. This is why the bank finances a vast selection of cultural projects such as artists, theaters, etc. When it comes to health, Merkur thinks that it is fundamental for individuals to be free to choose the care they wish to receive and this is the reason why the bank finances serious alternative practitioners and the development of their methods (Merkur Cooperative Bank, 2014, p. 23).
6. **Loans to Agriculture and food.** The bank seeks to promote the adoption of long-term sustainable and high quality agricultural production practices. Merkur therefore finances organic and biodynamic farming. Merkur sees the future of the Danish agriculture in the production of good

quality food and not as an attempt to compete against foreign producers (Merkur Cooperative Bank, 2014, p. 23).

7. **Loans to other business activities.** The bank aims to develop and promote business communities meeting the real needs of its members and which develop future-oriented solutions to overcome the current sustainability challenges faced by society. To that end, Merkur supports recycling, sustainable construction, fair-trade shops and advisers for example (Merkur Cooperative Bank, 2014, p. 23).
8. **Loans to renewable energy.** Merkur states that energy supply is an area illustrating the difference between short-term and long-term thinking. The bank says that renewable energy is the most viable source when looked at from a holistic perspective but with its utilization comes the responsibility to care for the environment. As such, the bank wants to be an active player supporting the development of the sector (Merkur Cooperative Bank, 2014, pp. 24-25).
9. **Loans to village communities, eco construction and energy optimization.** Merkur states that houses constitute a large part of society's resource and energy consumption but also provide a physical framework for life. The bank wants to be on the forefront of sustainable settlements and construction and therefore helps lead the way for both construction and financial companies by granting loans supporting that purpose (Merkur Cooperative Bank, 2014, p. 25).
10. **Loans to NGOs.** The bank seeks to promote a dynamic civil society constituting an alternative to the current economic and political forces at play. The bank sees itself as a pioneer and therefore supports groups and organizations seeking to represent smaller interest groups (Merkur Cooperative Bank, 2014, p. 26).

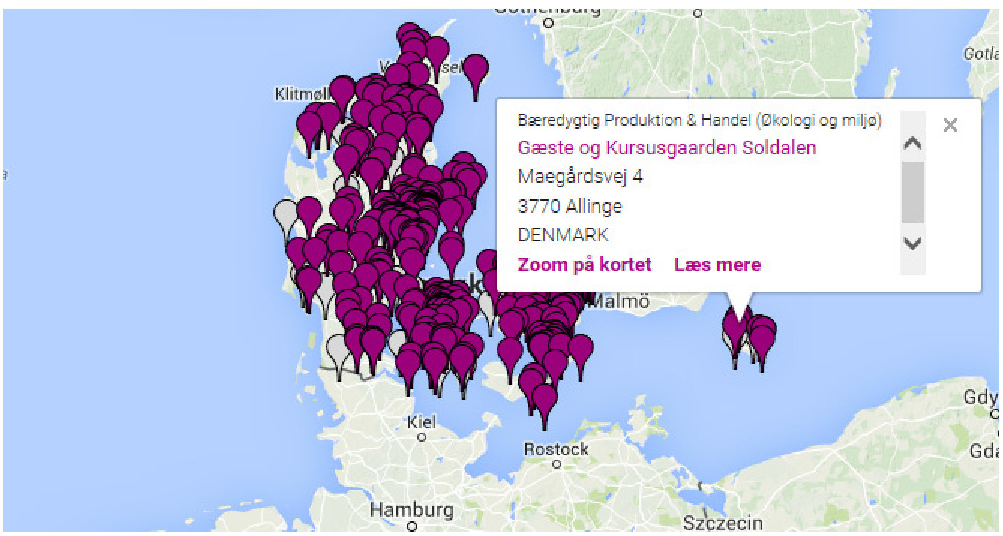
Deposits. Merkur's ability to finance projects is partially linked to its customers making their deposited funds available for investment. The bank has decided since its creation to base its loans on its own customers' deposits as it does not want to be financed by capital markets nor does the bank want to rely on attracting depositors who are not supporting the bank's goals and values. Merkur argues that this strategy has resulted in stability during the 2007 financial crisis for example (Merkur Cooperative Bank, 2014, p. 28). Today the bank offers its depositors six different types of accounts supporting various goals:

1. **The aid accounts** allow depositors to save while at the same time support an organization of their choice. The aid accounts support eight organizations that are: a) **WWF** which is an international organization working on protecting the environment; b) **Save the Children** which is one of Denmark's largest humanitarian organization focusing on children's conditions in developing countries; c) **Sustainable Energy** which is an organization seeking to promote the use and development of renewable energy; d) **Action Aid Denmark** which is an aid organization working with and helping people considered to be at risk and provide them with the support necessary to become self-sufficient; e) **Forests of the World** is an organization promoting the conservation and sustainable exploitation of the world's forests; f) **The Ecological Council** is an independent organization submitting surveys and proposals to fuel the international debate on sustainability; g) **Amnesty International** which is one of the world's largest networks of human rights advocates (Merkur Cooperative Bank, 2014, p. 30).
2. **Operation Dagsværk.** Claus Skytt explains that these accounts are standard deposits accounts for teenagers but that Merkur makes a financial contribution of DKK 120 (USD 18) per year per account to Dagsværk until the account owner turns 24. He explains the purpose of the accounts being to

educate teenagers on the charitable activities carried out by Dagsværk while at the same time attract teenagers that care for charitable work to become a customer of Merkur's (C. Skytt personal communication, September 15, 2015). Dagsværk is a fundraiser seeking to create solidarity between teenagers in Denmark and underprivileged teenagers in poor parts of the world (Merkur Cooperative Bank, 2014, p. 30).

3. **Merkur's CO2-savings accounts** generate three types of returns. Firstly, they generate financial returns for the depositor. Secondly, they generate returns for society because Merkur's loans are geared towards projects supporting societal or environmental value such as; organic farming or eco-building for example. Thirdly, the deposits enable the bank to support renewable energy projects in Africa. An example of the triple value creation is the recent loan Merkur has granted for the installation of solar panels in schools in Burkina Faso. The solar panels grant students access to electricity allowing them to do their homework in the evening. The electricity generated also enables the schools to use computers to download teaching materials. This then benefits the village where the schools are based as the overall teaching quality improves creating new opportunities for its inhabitants. Merkur therefore states that a well-prepared investment in renewable energy can generate significantly more value than simply reducing the carbon footprint of a specific project (Merkur Cooperative Bank, 2014, p. 28).
4. **Sustainable trade accounts** are a special type of account aiming at financing and supporting Fair Trade. In practice, sustainable trade accounts are deposit accounts that are bound for a period of time carrying part of the risk associated to a specific loan. The following practical example illustrates how this account category works. Merkur has granted a loan to Ingemann Food Nicaragua S.A. Ingemann is a company producing organic honey. It trains Nicaraguans in establishing their own bee-keeping businesses and helps them export their production. This type of projects generates value for society as they create jobs in developing countries and help people help themselves. At the same time the project creates environmental value as bees play a key role in the development of plants through pollination (Merkur Cooperative Bank, 2014, p. 29). Merkur argues that in practice it is difficult to lend money in developing countries but the bank feels it can play a role as usually the local banking services are inexistent or too expensive for developing sustainable businesses to use. The credits Merkur extends allow small businesses to grow and hire more employees and in some cases the credit offered by Merkur is the first step leading to credit approval in a local bank (Merkur Cooperative Bank, 2014, p. 30).
5. **Earmarked deposits** offer Merkur's customers the possibility of earmarking their deposits to form the basis of loans to support either one specific project or a specific type of projects. In practice this category is used to support the financing of schools, village communities or organic farming (Merkur Cooperative Bank, 2014, p. 30).
6. **Waived interest accounts** offer Merkur's customer the option to waive all or part of the interest their account is entitled to. This provides Merkur with the possibility of lending money at very low interest rates and therefore support nonprofit borrowers. This support is targeted to specific initiatives selected by Merkur's board. In 2014, Merkur's board decided to offer lower interest rates to 5 customers that are a social enterprise, two socio-educational initiatives, one independent school and one institution for mentally challenged patients.

The bank is transparent on its activities and informs its customers and the general public about the projects it finances. Supporting the claim are the SCALA survey results in which 54% of the respondents strongly agreed and 40% agreed that the bank sends a clear and consistent message to external stakeholders about its commitment to sustainability. To do so the bank relies on a website[6] called **Mine Penge Gør Gavn** (my money does good). The website allows the user to see every project financed by Merkur and then click on a specific project to learn more about it. Figure 1 is proposed as an example. By using the website one can have access to a brief introduction on the project financed by Merkur, its location and attain contact information in case more information is needed (Merkur Cooperative Bank, 2014, p. 27). Claus Skytt (Branch Manager Copenhagen Branch) says that the second purpose the interactive tool serves is to allow Merkur's customers to judge of the quality of the projects financed by the bank. This creates a tool for both customers and shareholders to provide feedback to the bank (C. Skytt, personal communication, September 15, 2015). He also states that Merkur has a very broad customer base and that it is impossible to make everyone happy. What the bank can do on the other hand is to be transparent and offer an alternative. Merkur's business model is based on growth driven by the addition of customers. The challenge resulting from it, is to make sure the bank's values are maintained. He uses the example of organic farming versus urban farming as an illustration and explains that urban farming is not always perceived as a sustainable alternative as it is a question of definition. The bank needs to able to talk about this kind of problematic and this is why the tool is necessary (C. Skytt, personal communication, September 15, 2015).

7. 

8. Figure 1: Projects financed by Merkur (Source: http://minepengegoergavn.dk/organisation/?ll=56.051304,6.866455)

Pension and Investment. This pillar of activity is subdivided into five different product offerings. This case study looks at three of them as one is currently being discontinued (PFA and LETPension) and the other one (Sparinvest) is a hybrid pension scheme offering Merkur's customers the possibility to invest in bonds in addition to investing in the Triodos products that are discussed further in this section.

1. **The Ansvarlig pension** (responsible pension) is an instrument Merkur developed in 2013 as a response to the changes proposed by the Danish governments encouraging citizens to prepare their retirement by investing in pension schemes generating annuities. To do so Merkur has partnered with a customer-owned pension fund called APPension. APPension is an independent

[6] www.minepengegørgavn.dk

and democratically led fund. The fund belongs to its customers and its roots can be traced back to the cooperative movement. Together with APPension Merkur is able to offer annuities to its customers while at the same time offer its customers the possibility to invest their savings in compliance with ethical guidelines (Merkur Cooperative Bank, 2014, p. 34).

2. **Merkur shares.** Merkur offers its customers the possibility to compose part of their pension fund with Merkur shares. Merkur states that as a shareholder one can help accelerate the bank's sustainable development as share capital constitutes part of the bank's ability to lend out the deposits to support initiatives benefiting society. For every Kroner invested in Merkur's shares the bank is able to lend between 6-7 Kroner to sustainable projects. This product offering enables the customer to save his or her money while at the same time contribute to the promotion of sustainable business practices (Merkur Cooperative Bank, 2014, p. 34).
3. **Triodos Investment funds.** Merkur has entered into a partnership with Triodos bank in the Netherlands to sell its investment fund certificates to Danish customers. Two funds proposed by Triodos enable Merkur's customers to invest either in renewable energy production or into micro-finance projects. Merkur argues that they had to partner with a foreign bank to offer this type of instruments to its customers because the Danish market for ethical investments is not as mature and developed when compared to what is offered to investors elsewhere in Europe. One of the challenges faced by Merkur is that the screening methods used in Denmark to identify sustainable companies to invest in rely on very limited screening processes based primarily on exclusion criteria (Merkur Cooperative Bank, 2014, pp. 35-36).

The Merkur Foundation is an independent foundation and a separate legal entity whose purpose is to provide a structure to manage gifts and donations. The foundation was created because it is possible in Denmark to deduct a maximum of DKK 14,800 (USD 2,200) from ones' taxable income per year. The purpose of the foundation is defined broadly in order to provide it with the necessary flexibility to support a broad spectrum of social, cultural research and environmental projects. In the future the foundation will concentrate on supporting development projects in Africa and Latin America and will partner with Danish organizations in that endeavor (Merkur Cooperative Bank, 2014, p. 38). The donation the Merkur Foundation made to the Association for ADHD[7] can be used as an illustration of the projects it supports. The association was created in 1982 and seeks to disseminate knowledge on ADHD to patients and the general public. The association concentrates on providing educational information and does so through classes, the translation and publication of books, pamphlets and talks (Merkur Cooperative Bank, 2014, p. 39).

The previous paragraphs discuss the tools Merkur has developed over the years to address specific sustainability issues however the bank argues that it can only be a credible driver for the adoption of sustainable business practices if it assesses its own performance and makes the results available to the public in a transparent way. To do so the bank has been publishing what it calls its **Green Accounts** and **Social Accounts** in its annual report since 2004. The two sets of accounts enable the bank to communicate with both its internal and external stakeholders in order to build trust. Supporting the claim are the SCALA survey results in which 80% of the respondents agree that the level of trust within Merkur is high.

[7] Attention deficit hyperactivity disorder

The **Green Accounts** are a summary of what the bank's overall energy consumption is today and serves as a source of motivation to improve its performance in the future (Merkur Cooperative Bank, 2014, p. 44). The Green Accounts are organized around seven pillars that are the bank's concerns for the environment, investments in energy production; energy consumption; transportation – business trips; commuting to and from work; compensation for CO_2 emissions and paper consumption. The next paragraphs discuss the three pillars more in details.

Merkur states that because of its core business the bank has great concerns for the environment and it is reflected in the organization's resource consumption. An example is the bank's procurement policy requiring the environment to be considered when making a procurement decision. That claim is confirmed with the SCALA survey results in which 74% of the respondents agreed that the bank encourages sustainability in its supply chain. This policy requires the bank to purchase goods that are produced in an environmentally-friendly way using certified raw materials and this as often as possible. The bank argues that showing consideration for the environment enables the organization to foster a culture in which it becomes natural for its employees to prioritize the environment when making decisions. The bank makes sure the topic remains in focus within the company by addressing the issue during daily management meetings for example (Merkur Cooperative Bank, 2014, p. 44). Of interest are the SCALA survey results in which 40% of the respondents strongly agreed that the leaders of the company integrate sustainability into their decision-making and 60% agreed.

The second pillar considered by Merkur are investments in energy production. The bank states that it seeks to compensate its own energy consumption to the largest possible extent by investing in environmentally friendly energy production plants. At the end of 2014, Merkur owned shares in two windmill plants and one solar plant. The third pillar considered by the bank is closely related to the second one as it looks at the company's energy consumption. The company shares its consumption in its annual report (Merkur Cooperative Bank, 2014, p. 45).

The fourth pillar is transportation associated to business trips. Merkur has issued a travel policy asking its employees to show consideration for the environment when choosing their mode of transportation. As an illustration when the author was talking with the CEO of the bank on the possibility of working together on a case study on the company, one of the first question he asked was whether the collaboration would require him to travel (L. Pehrson, personal communication, August 10, 2015). Merkur tries when possible to use video conferences instead of physical meetings and is tracking the number of flights its employees take during the year and reports them in its annual report. Merkur's employees flew 97 times in 2014 which is a slight increase when compared to the 84 flights taken in 2013 (Merkur Cooperative Bank, 2014, p. 47). Merkur focuses on air transport as it states that it has the greatest impact on the company's overall CO_2 emissions (Merkur Cooperative Bank, 2014, p. 47).

Commuting to and from work represents the fifth pillar. Merkur relies on its employees to conduct day-to-day activities and most of them have to meet with customers at the company's various offices thus making it difficult to implement a home office policy. The company however encourages its employees to walk to the office or use bicycles when possible. The bank states in its 2014 annual report that the number of employees using either one of the two methods of transportation has increased (Merkur Cooperative Bank, 2014, p. 47).

The sixth pillar was initiated in 2006 with the implementation of a CO_2 compensation scheme. The scheme seeks to enable the company to neutralize its emissions by purchasing Climate Clearing units that are traded by the Climate Neutral Group based in the Netherlands. The Climate Neutral Group either plants new forests or establishes renewable energy plants to offset its customers' CO_2 emissions and is recognized by organizations such as the WWF. In 2014, Merkur has worked with the Climate Neutral Group to offset 115,000 kg of CO_2 (Merkur Cooperative Bank, 2014, p. 47).

The final pillar is paper consumption. The bank has to use paper for its communication with its customers and for legal documents for example. The paper used for internal purposes is shredded and recycled after use and the bank sends a reminder to its customers asking to do the same with the paper they are using. The bank has been able to digitalize some of the documents it uses for the communication with its customers which enables it to reduce its paper consumption and the bank will keep on investing in its online banking platform in order to support its goal of reducing its overall paper consumption moving forward (Merkur Cooperative Bank, 2014, p. 47).

The second aspect the bank uses to assess its overall sustainability performance are the **Social Accounts**. The Social Accounts rely on 7 pillars that are employee welfare; composition of Merkur's staff; seniority; salary / remuneration; remuneration for the board of directors, competency development and Merkur and the society.

Employee welfare. The bank states that it needs its employees to thrive especially during times of change. Merkur states that 2014 resulted in many departments being exposed to pressure resulting from the various change initiatives implemented at the level of the organization. To overcome and address the issues pertaining to change the bank organized communication courses throughout the company to ensure that the broad consensus prevailing within the organization was preserved. Another aspect of the employee welfare is the company's family policy, which tries when it is possible to account for the employee's personal needs. To that effect, the bank has constituted a social fund whose purpose is to provide financial support to employees who have to deal with difficulties in their lives. This fund can be used for example to cover for health expenses (Merkur Cooperative Bank, 2014, p. 50).

The second pillar is the **composition of Merkur's staff**. At the end of 2014 the company had 76 employees and the workforce was composed evenly of both genders. The bank argues however that there is a large gap when it comes to managerial positions especially when looking at executive positions. Merkur has identified target numbers and issued policies to increase the gender equality within the organization in the future (Merkur Cooperative Bank, 2014, p. 50). In practice it is a very complex task to implement. For example, the bank is currently looking to hire a loan officer for one of its branches. The Danish law makes it illegal for the bank to advertise the position as being only open to women which constitutes the first problem. The real issue comes from the fact that the bank has had no female candidate apply for the position (K. Arup, personal communication, September 15, 2015).

The bank values loyalty and therefore measures its employees' **seniority** within the organization as its third pillar. At the end of 2014 18.4% of the workforce had been with the bank for 11 years or more and 23% had been with the bank for less than 3 years (Merkur Cooperative Bank, 2014, p. 51). The bank states that loyalty is important for its success as with experience comes stability and a stronger company culture (Merkur Cooperative Bank, 2014, p. 50). Supporting the bank's claim are the SCALA survey results in which 60% of the respondents agreed that most employees believe the organization values them and their contribution and 7% strongly agreed.

Salary / remuneration compose the fourth pillar of the social accounts. Initially when the bank started its operations every single employee was paid the same salary regardless of their skills or responsibilities. The philosophy was that employees should be compensated for their time and not based on the tasks performed (L. Pehrson, personal communication, September 15, 2015). Merkur argues that the difference between the lowest paying position within the bank and the highest paying position is small compared to the salaries offered in the financial industry. The bank argues that the small pay gap is the reflection of the fundamental principle discussed earlier. As such, Merkur does not pay performance based bonuses nor bonuses based on seniority. Kirsten Arup (Loan Officer Merkur Development Loans and Senior Advisor on Agriculture) makes an interesting comment when talking about bonuses as to her getting a bonus would equate to betraying the bank's customers (K. Arup, personal communication, September 15, 2015). The salaries (excluding managerial positions) span from an entry-level salary (trainee) of DKK 21,990 per month (USD 3,300) to DKK 41,399 per month (USD 6,200) for an experienced advisor (Merkur Cooperative Bank, 2014, p. 52). The 2 highest paying jobs within the bank are Executive Board positions paying DKK 57,604 per month (USD 8,640). The pay gap ratio between the lowest paying position and the highest paying position within the organization is 2.62. A pay gap ratio of 2.62 represents an extremely small gap compared to the average of 124 measured by the Wall Street Journal in 2014 in US banks (Rudegeair, 2015).

The **remuneration of the board of directors** constitutes the fifth pillar. At Merkur every board member is remunerated equally with a fixed annual compensation of DKK 77,872 (USD 11,680) except for the chairman who gets an annual fixed compensation of DKK 124,744 (USD 18,700). The board members are then paid DKK 410 (USD 60) per hour of effective work on top of the previously discussed annual fixed compensations (Merkur Cooperative Bank, 2014, p. 52).

Competency development will remain a key area of focus for the bank moving forward because of the complexity resulting from the banking industry regulations. On top of that, Merkur's business model seeking to offer value-based banking services to its customers. The bank therefore has to develop both hard and soft skills amongst its employees allowing them to provide their customers with a service level in line with their expectations. Merkur essentially relies on external resources to provide its employees with courses developing their hard skills while the soft-skills development courses are usually facilitated in-house. Merkur also offers its employees the possibility to develop their competencies with the use of the e-learning courses offered by the financial sector's education centers (Merkur Cooperative Bank, 2014, p. 52).

Merkur and society constitutes the seventh and final pillar of the social accounts. Merkur through its activities seeks to contribute to creating positive societal developments by granting loans to social, environmental and cultural projects. Moreover, Merkur is committed to disseminating knowledge on ecological economy and sustainable banking. To that purpose Merkur regularly engages with decision makers to foster dialogue resulting in growing interest in the bank and its activities exemplified by more frequent request for interviews, invitations to events and participation in projects. 2014 has been a very active year for the bank as it continued to engage with the Danish government's Committee on Social Economics and participated in various projects initiated by the European Union focusing on the development of financing models for social enterprises (Merkur Cooperative Bank, 2014, p. 52). It is of interest to note that 54% of the respondents to SCALA strongly agreed that most people within Merkur believe that a commitment to sustainability is essential to the company's success in the long-term and

40% agreed. These results underline a general agreement within the bank that the activities undertaken in the Merkur and Society pillar are essential for the bank's future.

Based on the discussion of the bank's activities proposed in the previous paragraphs and given the lens offered by the Dyllick & Muff Business Sustainability Typology Matrix (2015) one can conclude that Merkur can be considered as a company qualifying as a truly sustainable organization. The bank's vision explained as "***seeking to give people, organizations and companies the opportunity to use their money or economic activity to promote a society that will remain sustainable far into the future, for people and the environment alike"*** has been translated into practical tools allowing for its implementation. It is clear that the tools offered to the bank's customers empowers them to become active contributors and supporters of a sustainable society and therefore one can conclude that the bank's ultimate goal goes beyond the triple bottom line value creation. The SCALA survey results in which 80% of the respondents strongly agreed that the leaders of the bank have a clear vision for sustainability and 20% agreed, confirm this. The example of Merkur financing solar panels in African schools generating significantly more than green electricity is an outstanding example of value generation for the common good. It is a very good illustration of what Dyllick & Muff (2015, p. 7) describe as an approach looking at the relationship between a specific business and society in general with Merkur asking itself how it can contribute to solving global challenges. Therefore and in terms of the typology described, we may conclude that Merkur qualifies as a Business Sustainability 3.0 organization. This is also reflected in the SCALA survey results in which 58% of the respondents stated that in their opinion Merkur is trying to create economic, social and environmental value by addressing sustainability issues and 36% of the respondents stated that they believe their company is trying to make a positive contribution to solving critical societal challenges.

COLLABORATION AS A MEAN TO PROMOTE BUSINESS SUSTAINABILITY

The previous section looked at Merkur and its approach to supporting the creation of a sustainable society. It looked primarily at the bank as a single player. The following section looks at the role Merkur seeks to play at the industry level.

Networks

Since the beginning Merkur has been part of a movement seeking to create a modern and responsible banking culture. Initially Merkur's founders were following the example of the German Bank GLS Gemeinschaftsbank as it was at the time one of the first actors in the field of sustainable banking. Later on Merkur became part of informal and then formal networks of sustainable banks and financial companies (Merkur Cooperative Bank, 2014, p. 31). Today Merkur continues to be an active member of several international networks of sustainable banks and financial institutions including **the Global Alliance for Banking on Values**, the **International Association of Investors in the Social Economy** and **the European Federation of Ethical and Alternative Banks**.

Merkur cofounded the **Global Alliance for Banking on Values** in 2009. The Global Alliance is a network of value-based and society-oriented banks. Today the network has 25 bank-members with balance sheets totaling more than USD 100 billion. The Global Alliance seeks to demonstrate that a strong alternative to the current business models used by banks exists and that the financial crises resulting from obsolete banking business models can be avoided. The Global Alliance also serves as a learning platform for its members as they all are very different from one another. Kirsten Arup says that it is exciting to be with other colleagues even if they are not working for the same bank. She says that the meetings allow for the transfer of best practices as most sustainable banks share similar values and aspire to the same common goal however, the execution usually is very different from one bank to another. She says that collaboration is important as the banks do not compete for a market share but collaborate to achieve common goals as there is so much to do (K. Arup, personal communication, September 15, 2015). The Global Alliance initiated a joint project to develop a standardized set of non-financial benchmarks allowing banks to measure some of the effects their banking activities have on society (Merkur Cooperative Bank, 2014, p. 32).

Merkur is an active member of the **International Association of Investors in the Social Economy** (INAISE) which is a global network consisting of banks, microfinance institutions and local community development organizations amongst others. Its aim is to create contacts and foster communication amongst its members. To do so the association organizes an annual conference emphasizing the development of financial instruments from which its members can benefit. A practical example of the collaboration between INAISE's members and Merkur is the participation three banks have taken by investing in Merkur's share capital in 2008. Another example is the creation of the **Institute for Social Banking,** which Merkur worked on together with other INAISE members. The Institute organizes educational and training opportunities both for its employees and for Universities and Business School students. The trainings are meant to increase the participants' knowledge on sustainable banking by using case studies resulting from the practical experience of the Institute's members (Merkur Cooperative Bank, 2014, p. 33).

Partnership with other banks

Merkur enjoys a close partnership with two other Scandinavian banks that are Cultura Sparebank based in Norway and Ekobanken based in Sweden with whom Merkur finances large projects. Merkur and Cultura banks also collaborate on the publication of a journal titled Pengevirke which addresses important social issues and talks about what concerns people working on practical projects and who are seeking to make tangible contributions to build a better future. Merkur has also established strong ties over the years with GLS Bank in Germany and Triodos Bank in The Netherlands who have helped Merkur finance some of its largest customers. Today Merkur handles most of its activities on its own but the bank still has to service loans resulting from its partnership with GLS and Triodos (Merkur Cooperative Bank, 2014, p. 32).

MERKUR TODAY AND TOMORROW

There are various forces at play in the current market environment the bank has to deal with. Some forces are the result of changing regulations and some result from society modifying its habits when it comes to gaining access to capital. Both sets of forces are discussed in the following paragraphs. This section is then concluded by a discussion on the future of the bank and the actions it has taken to position itself to deal with the changing environment.

Kirsten Arup (Loan Officer Merkur Development Loans and Senior Advisor on Agriculture) describes her experience of working with her colleagues at Merkur since 1992 as a privilege. She feels privileged as Merkur is generally looked upon as a noteworthy and genuinely different bank when compared to other Danish banks (K. Arup, personal communication, September 15, 2015). One of the key differentiating factor are the bank's values which have remained untouched over the past 3 decades. Kirsten Arup argues that the bank has been good at identifying how to perform its tasks and support its purpose (K. Arup, personal communication, September 15, 2015). The bank's approach to doing banking has changed however because of Merkur's growth. More collaborators have joined the bank and a back office has been created for example. Kirsten Arup mentions that this is a source of concern for her as the employees working in the back office are not exposed to the bank's customers and are therefore not necessarily able to relate to what the bank is all about (K. Arup, personal communication, September 15, 2015). This has led the bank to create a group composed of 6 employees whose role is to tie the organization's values to practical tasks so that *"what we do expresses the values of the organization"* (K. Arup, personal communication, September 15, 2015). The group of 6 employees also trains new hires on the organization's values to make sure there is continuity within the bank. Another example of Merkur's focus on maintaining its core values are the meetings it organizes on every Tuesday. For example, the bank sometimes invites one of its customers to talk about their specific projects and why they are a customer of Merkur's. Claus Skytt (Branch Manager Copenhagen Branch) states that this serves as an external source of inspiration and also strengthens the sense of purpose an employee feels (C. Skytt, personal communication, September 15, 2015). This corresponds to the SCALA survey results in which 67% of the respondents agreed and 13% strongly agreed that the people in the organization are encouraged to learn more about sustainability from external sources. The final step Merkur has taken to protect its values was the creation of a Value Ambassador position. The role is primarily looking at Merkur with an insider perspective and seeks to maintain the company's values. To do so the Ambassador organizes internal and external initiatives during which the employees are challenged to think in an alternative way. For example, the employees are asked to think about what they are doing for society and how they can contribute to make it more sustainable. Mette Thyssen (Executive Assistant and Values Ambassador) argues that there is a fine line for her to walk as Value Ambassador as her role is not to control her colleagues' mind. Merkur insists as an organization that its stakeholders have to be free to have their own opinion thus making it a challenge and allowing for some very interesting debates to ensure continuity in the bank's values (M. Thyssen, personal communication, September 25, 2015).

In 2015 it takes significantly more work to be a viable bank because of the very low interest rates being offered on the market. For that reason Merkur has to be more conservative when assessing risk (K. Arup, personal communication, September 15, 2015). Also, the regulations have become a hassle distracting the workforce from its core tasks. This is helping bigger banks as they have more resources to allocate to banking compliance (K. Arup, personal communication, September 15, 2015). For example, the European Union has started to implement the BASEL III regulations also known as the CRDIV/CRR in January 2014. These regulations are the European Union's response to the financial crisis of 2007 and will be fully implemented in 2019. Merkur argues that the BASEL III regulations do represent a tightening when compared to the BASEL II regulations but they do not solve the root cause leading to the last financial crisis. Merkur points out the weakness of the new regulations as being directly related to large banks being permitted to determine the risks they are exposed to by themselves as they are allowed to use their own internal rating models. Merkur states that this means that large banks can continue to calculate their solvency with less accuracy than small and medium-sized banks as they can artificially inflate their solvency by tweaking the rating models they use. For smaller players like Merkur the new regulations mean that the amount of new capital they have to accumulate is significant. One of the problems is that smaller players have to attain their new capital in the form of "real money" as opposed to large banks who can overcome the problem by adjusting their internal rating models. In practice and to accommodate the new regulations, Merkur has implemented a capital plan that runs until 2019 enabling the bank to fulfill the new capital requirements. The plan will also enable the bank to grow at a moderate pace through the period. The forecast is for the bank to attract between DKK 10 and 25 million (USD 1.5 to USD 3.75million) per annum (Merkur Cooperative Bank, 2014, pp. 15-16).

Another change in regulation affecting Merkur is a ratio called Capital Adequacy Assessment (ICAAP). The Internal Capital Adequacy Assessment Process ratio relies on a bank's own assessment of how much capital is necessary to sustain its operations. It is a key metric for a bank as failing to meet the ICAAP requirements can result in the bank being forced to close. The ICAAP rules have changed in 2013. Since then the ICAAP ratio is used as a "soft-requirement" which means that a bank not meeting the ICAAP ratio but which still has at least 8% solvency (constituting the "hard-requirement") will be granted a reasonable timeline to restore its capital base. The second change affects the method used to calculate the ICAAP ratio which evolved from a stress test to a model adding to the minimum requirements now known as the 8+ model. Merkur argues that the new model leads to slightly higher ICAAP ratios which it finds positive. Merkur also states that they perceive the new model to be more objective as the methodological freedom has been restricted. Merkur says that the change results in making a comparison of bank's ICAAP ratios easier. Applied to Merkur the new regulations result in the bank exceeding the minimum 8% ratio by 5% which is satisfactory and illustrates that the moderate growth approach pursued by the bank can be sustained and has been a healthy business model thus far. The bank will however keep on focusing on raising new capital in the future to remain in compliance with the ICAAP ratio (Merkur Cooperative Bank, 2014, pp. 17-18).

Looking at its market Merkur identifies a change in society it thinks will affect its business. The bank labels it as **emerging sharing economy**. At the moment the bank argues that there is only a small minority using crowd funding, crowd equity or peer-to-peer lending services to gain access to capital. The bank expects the trend to gain momentum in the future. Merkur states that the trend has many names and different formats but there is one common denominator regrouping them all. At its core is the emerging sharing economy that is based online and bypasses traditional banks and financial institutions. It creates a direct connection between the lender and the borrower. The closer relations are what Merkur has been seeking to achieve and create since its creation and therefore sees the trend as an opportunity despite the fact that banks are no longer necessary in the new paradigm in their current format. In practice Merkur will work together with the Global Alliance for Banking on Values to find an approach enabling the bank to be an active player in the new realm. Merkur is convinced that there will always be a need for managing money transfers in a transparent manner contributing to building a sustainable society for the future and will therefore seek to transform itself to serve that purpose (Merkur Cooperative Bank, 2014, p. 11). The SCALA survey results support that claim with 85% of the respondents strongly agreeing that their company is very engaged when asked about Merkur's level of engagement with sustainability. These results show a strong internal support for the bank to focus on sustainability and this regardless of the future format of their organization.

Merkur's management states that they are prepared for the new banking market conditions. To do so the bank has adopted an action plan mapping the way and identifying actions that need to be taken between now and 2019 when the new European capital requirements will be fully implemented. The action plan requires the bank to focus on two pillars that are 1) the growth in subscription of share capital and 2) increase its earnings by growing the loans it grants. The bank will also concentrate on creating a closer relationship with its customers in order to provide them with the necessary confidence to grow the portion of business they do with the bank (Merkur Cooperative Bank, 2014, p. 5). To do so the bank will concentrate on its customers' experience and will provide them with relevant counselling services (Merkur Cooperative Bank, 2014, p. 20). The need for a closer relationship with the customer has also been highlighted in the SCALA survey with respondents stating that Merkur should better explain what the relationship between a sustainability problem and the proposed solution is.

Merkur's current strategy provides the necessary framework to develop the bank's retail banking activities and make it evolve into a customer experience in which Merkur's values are clearer. The bank's goal is to make it easier for its customers to understand how they are contributing to the development and the adoption of sustainable business practices (Merkur Cooperative Bank, 2014, p. 20). In parallel Merkur as an organization will need to remain financially sustainable in order to contribute to the development of sustainability in the future. Reflecting on the year 2014 the bank's assessment is very positive as it has been able to attract 488 new shareholders. Together with previously existing shareholders the new comers have collectively subscribed to a share capital of DKK 15.9 million (USD 2.385 million). The bank sees this support as encouraging and as a confirmation that its activities are perceived as bringing value (Merkur Cooperative Bank, 2014, p. 5). Value in this case is not only meant as financial value even if, and since its creation in 1982, Merkur's shares have increased in value by 69.3% (Merkur Cooperative Bank, 2014, p. 18).

The bank argues that the combination of the activities identified in its action plan will contribute to the consolidation of the bank and states that having solid foundations will make it possible for Merkur to identify and develop product offerings addressing current and future sustainable issues. The bank wants to remain an actor offering loans supporting new technologies and new ideas that are in line with its values (Merkur Cooperative Bank, 2014, p. 20). For example, Lars Pehrson mentions that in its history Merkur has limited itself by using a specific narrative such as organic farming. He argues that this might have alienated potential customers because they did not recognize themselves in the bank's approach to promoting sustainable business values. He argues that the bank will need to work on and develop a new narrative in the future to allow for a broader customer base to recognize itself in Merkur's activities (L. Pehrson, personal communication, September 15, 2015). The bank clarifies that growth is not its ultimate goal but is a mean for the company to have access to more resources allowing it to create more opportunities to support the development of a sustainable society (Merkur Cooperative Bank, 2014, p. 20). In this context the SCALA survey results are relevant as 33% of the respondents strongly agreed that the leaders of the company are able to inspire others about sustainability-focused issues and initiatives and 53 % agreed.

Morten Gunge (Chair of the Governing Board) perceives that sustainable finance and sustainable banking are now being perceived by traditional banks as a possible source of profit. This is a risk for the sustainable banking industry altogether. He argues that Merkur has a role to play in educating the market and explaining what sustainable banking is all about. Another risk he perceives is that sustainability as a theme is growing too rapidly in popularity and he asks himself where the quality is in such a rapid evolution.

CONCLUSIONS AND DISCUSSION

Understanding sustainability and sustainable banking was relatively simple for Merkur as the bank had sustainable values embedded in its organizational purpose since its creation. However, the evolution towards true sustainability will be harder for traditional banks to engage into as their values are anchored in expired business models. The future challenge for the sustainable banking industry will be to find ways allowing for traditional banks to initiate their own sustainability journeys and become ethical. This will allow traditional banks to come on the market without the existing sustainable banks being judgmental. First and foremost traditional bankers will have to understand what sustainability is. What needs to be clear is that sustainability is not a toolbox that can be implemented. On the contrary sustainability is a philosophy guiding the day-to-day business activities of an organization. The evolution of traditional banks towards sustainable banking will be similar to the one of a super tanker. It will take a long time before they can change their course. It will take one captain to be at the helm and give the impulse for change. The SCALA survey results support that claim with 72% of the respondents choosing the CEO as the person overseeing sustainability and being the primary driving force. Merkur can play a role in supporting that evolution by allowing traditional banks to tackle the task and support them in their journey. Merkur can contribute to the overall discussion because of its 30 years of experience in the field but also because of its understanding of what sustainable banking is all about. This conclusion is supported by the SCALA survey results in which 40% of respondents strongly agreed that Merkur's leaders are knowledgeable of the issues pertaining to sustainability and 60% agreed. It will take humility for the various players to accept each other's differences.

The case study identifies a risk coming from sustainable finance and sustainable banking now being perceived by traditional banks as a possible source of profit. This is a risk for the sustainable banking industry altogether as some of the products offered by traditional banks do not support sustainability objectives and therefore might create confusion or skepticism amongst investors. Merkur has a role to play in educating the market and explaining what sustainable banking is all about.

Another risk identified in the case study comes from sustainability growing too rapidly in popularity as a theme. The question to be asked is where the quality is in such a rapid evolution. A possible answer lies in the partnerships Merkur is engaged into. For example the Global Alliance for Banking on Values and its scorecard can play a role in ensuring the quality and comparability of both traditional and sustainable banks as it provides a tool allowing for a bank to find ways to improve its sustainability performance. The scorecard proposed by the Global Alliance for Banking on Values can potentially become a global standard for determining the sustainability focus of any bank.

In the past Merkur has always been at the forefront of change making it possible for the bank and its customers to realize new initiatives. Over time the technical solutions offered to customers have changed and the speed of change has become frantic. Change is happening so rapidly that it is difficult for Merkur to differentiate the blind alleys from the fruitful ones. The bank has a proven track record, a solid experience in sustainable banking, a dedicated team and very clear values guiding the company. The real question therefore is to figure out how the bank of the future looks like and how it will contribute to transforming our society and making it more sustainable. The role Merkur will play will be important especially in terms of implementing tools allowing for customers to make informed choices. It will be critical for Merkur to continue to contribute to the overall discussion on sustainable banking in order to design and implement tools allowing for transparency and comparability between banks to be created. Merkur has earned the credibility it needs to be a leader in this endeavor as it has proven over the years that its business model works.

APPENDIX 1 – CASE STUDY RESEARCH PROTOCOL

Sample selection

Three validity criteria were used in order to screen and approve Merkur for the case study. 1) Merkur had to be recognized and verified as sustainability leaders with criteria including proofs of third-party screening. To do so the researcher looked at whether Merkur had been nominated for, or whether it had received an award for its work or engagement for sustainable business practices. 2) Merkur had to be pursuing significant initiatives in addressing and contributing to resolve important societal and or environmental issues. To do so the researcher ranked the company on a scale of Business Sustainability 1.0 to 3.0 as defined by Dyllick and Muff in their paper (2015). For Merkur to be qualified it either had to rank as a Business Sustainability 2.0 company defined by Savitz & Weber (2006) as taking the triple bottom-line into consideration or as a Business Sustainability 3.0 company defined as truly a sustainable business. 3) Merkur had to share similar characteristics with Alternative Bank Schweiz to allow for a comparison.

SCALA Survey

Once Merkur had been identified and agreed to participate in the research (Mette Thyssen, personal communication, August 15, 2015), the researcher used the SCALA™ (Sustainability Culture and Leadership Assessment) survey in order to assess the company's current capacity for executing its sustainability strategy[8]. The SCALA™ survey *"is an assessment instrument composed of items pertaining to culture and leadership. The assessment contains both sustainability-specific content as well as more general organizational climate content that has been demonstrated or asserted in other research to impact the execution of sustainability strategy"* (Miller Consultants, 2013).

The SCALA™ survey used in this case study is a questionnaire consisting of 30 questions to which the Business School Lausanne and the research cohort added 10 additional questions specifically aimed at gaining more insight for the specific research needs.

The assessment was conducted over a 4 week period of time (September 4 – September 30, 2015) in the form of an online survey amongst Merkur's employees. The employees were identified by Merkur as being relevant and representing the organization as a whole and not only a specific organizational level. The case study is based on 15 full responses and 2 partial responses out of 23 surveys sent (M. Thyssen, personal communication, September 3, 2015) representing a response rate of 65%. As a comparison, the average response rate to the general SCALA survey is approximately 40% (K. Miller Perkins, personal communication, July 23, 2014). The Merkur respondents were: 2 C-level executive, 4 senior managers, 4 middle managers, 5 from other positions; 62% were male and 38% were female. The sample size was limited to 23 employees as the other employees did not possess the necessary English skills to take the survey.

[8] The SCALA™ survey and its results have been administered by the researcher and processed by Miller Consultants in Kentucky, USA

Qualitative research

In this paper, the researcher used three data gathering techniques which were the study of archives available to the public, interviews of internal and external stakeholders as well as a survey (see SCALA™ methodology). The researchers also had access to Merkur' Articles of Association.

APPENDIX 2 – BUSINESS SUSTAINABILITY TYPOLOGY MATRIX

In their paper, Dyllick & Muff (2015) propose a Business Sustainability Typology Matrix. The matrix is the summary of "*the different approaches to business sustainability"* allowing for the differentiation between different types and their particular contributions to solving sustainability challenges. The three types of business sustainability models developed in their paper and the principle characteristics are summarized in Figure 2.

BUSINESS SUSTAINABILITY TYPOLOGY (BST)	Concerns (What?)	Values created (What for?)	Organizational perspective (How?)
Business-as-usual	Economic concerns	Shareholder value	Inside-out
Business Sustainability 1.0	Three-dimensional concerns	Refined shareholder value	Inside-out
Business Sustainability 2.0	Three-dimensional concerns	Triple bottom line	Inside-out
Business Sustainability 3.0	Starting with sustainability challenges	Creating value for the common good	Outside-in
The key shifts involved:	1st shift: broadening the business concern	2nd shift: expanding the value created	3rd shift: changing the perspective

Figure 2: Typology of Business Sustainability and their key characteristics in (Source: Dyllick & Muff 2015)

The following paragraphs provide the reader with a brief explanation on Dyllick & Muff's (2015) business sustainability vision applied to banking. They create the necessary background to understand our assessment of Merkur's position.

<u>Business Sustainability 1.0</u>

Dyllick & Muff (2015, p. 9) argue that when applied to banking "*and looking at issues of governance first, BST 1.0 means introducing new rules for compliance in areas like corruption or money laundering, in dealing with politically exposed persons or regimes, ethical codes, compensation schemes for management in the long-term or pursuing stakeholder dialogues. New or integrated banking processes may be introduced for energy and climate management, sustainable purchasing, green IT, building and infrastructure, diversity, old age employment, or home office solutions. In the area of products and services sustainability concerns may be integrated into project finance, asset and credit management, into increasing fee transparency or by introducing new products in areas like microfinance or student loans".*

Business Sustainability 2.0

Dyllick & Muff (2015, p. 10) argue that when *"applied to banking BST 2.0 means contributing sustainability values through programs and actions taken in the areas of governance, processes, and products/services. Instead of positive side-effects resulting from actions addressed at specific concerns in these fields, results are the outcomes of purposeful action. Not only fighting corruption, money laundering, or tax evasion but also stakeholder dialogues are pursued deliberately with the goal of making measurable contributions in these areas. Objectives are defined and their achievements are managed, measured, and reported. Programs and activities with regard to banking processes are pursued not only with the goal of making measurable contributions, for example, to reduce the CO2-footprint or to improve diversity across all levels of employees but also by voluntarily limiting top management compensation as well as the variable part of the compensation of hedge-fund managers. The activities are typically embedded into the organizational and management structures. Banking products and services are created and offered around specific objectives in areas such as financing sustainable construction, healthy living, regional and urban development, or financing business projects for markets and entrepreneurs where new forms of collaboration and financing (e.g., microfinance) are needed. Also, responsible investment products are not only developed but also actively marketed and promoted by trained customer service representatives to achieve defined market objectives".*

Business Sustainability 3.0

Dyllick & Muff (2015, p. 12) argue that *"Banks need to address the enormous challenges to finance sustainable infrastructures for a world populated by 9 billion people of which an ever-increasing number live in mega-cities. They will have to shift funding from unsustainable investments to strategic projects of regional relevance (securing of water, food, etc.). According to the outside-in logic, banks start out evaluating relevant sustainability challenges in their societal contexts. They then evaluate and decide what challenges they can and want to contribute to. The choice will be among such issues as wealth and income inequalities, youth unemployment, old age assurance, climate change, energy efficiency and renewable energies, sustainable construction and living, new models of sustainable tourism, old-age provisions, assisted living, financing public health, education, or integrating of foreigners and migrant workers. Products and services will include packages of information and consultation, new forms of collaboration, public–private partnerships, new forms of financing and collaterals like microfinance, crowd financing, or people funds Also, banks will have to address the challenges of systemic risks created by their collective behavior for societal groups and whole countries. The effectiveness of their strategies is measured by the contributions they make and the values thereby created for the different stakeholders and for the business itself".*

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