

FINANCIAL PERFORMANCE AND SUSTAINABLE DEVELOPMENT – AN ANALYTICAL STUDY ON GREEN BANKING IN INDIA

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Abstract

In today's twenty first century environmental issues like global warming and climate change have become a reality. Environmental efforts therefore no longer focus on prevention but mitigation. The concept of sustainable development has gained in importance as it has been foreseen that economic growth without considering its impact on the natural environment will reduce the quality of life in the near future. Business houses have the financial resources necessary to facilitate sustainable development. Green Banking refers to every green initiative adopted by a bank either in its policy framing or in its day-to-day operations. This paper is based on secondary data. The main objectives of this study are to analyse the impact of Green Banking initiatives on Return on Equity, to analyse the impact of these initiatives on financial performance of the bank and to understand the impact of Green Banking on sustainable. Statistical tools like multiple regression and correlation analysis have been used in order to study the impact of Green Banking initiatives on financial performance. A qualitative model of the DuPont Analysis has been used to study the impact of Green Banking initiatives on Return on Equity. The findings of this study conclude that Green Banking initiatives have a definite positive impact on the financial performance of banks, Return on Equity of banks and on sustainable development.

Key Words – Sustainable development, Green Banking, Climate Change, Corporate Sustainability

Introduction

In today's day and age, our environment is in a state of rapid deterioration. Global pollution levels are on the rise, consumerism and an increasing population have contributed to resource depletion, more waste (non-biodegradable and toxic) is being generated, global biodiversity is shrinking, more diseases are cropping up and global warming has now become a reality.

All or most of these factors have heralded in one of the biggest and most talked about worries of the twenty first century – Climate Change.

Climate change causes a host of other weather related issues. Many areas have witnessed changes in rainfall patterns that caused more floods, droughts or intense rain not to mention increased occurrences of heat waves. Society will be faced with many challenges. Fresh water contamination by salt water, storms and eroding shorelines would only be the tip of the iceberg.

In his speech on climate change delivered in Georgetown in June 2013, President Barack Obama of the United States of America said, “So the question is not whether we need to act. The overwhelming judgment of science – of chemistry and physics and millions of measurements – has put all that to rest.... So the question now is whether we will have the courage to act before it’s too late.”

Sustainable Development

Economic growth and development is vital for creating a better standard of living for citizens. A high rate of economic development or growth means that there will be an increase in the consumption rate of resources (food, water energy, minerals, metals) and also there will be an increased amount of pollution. This kind of growth can be potentially damaging on a global perspective in the long run. On the converse side, low rate of development would create poor standard of living and poverty. People who are hungry and poor will often destroy the environment around them in order to survive. Keeping in mind environmental considerations, a balance has to be made between ensuring a good quality of life for future generations and at the same time achieving progress in the present. This realisation has led to the emergence of the concept of sustainable development with respect to environmental conservation.

In 1987, the United National World Commission on Environment and Development published the report, “Our Common Future” (Brundtland Report), which defines sustainable development as, “ development that meets the needs of the present without compromising the ability of the future generations to meet their own needs”

Corporate Sustainability

A business cannot succeed when the society around them fails. Business houses amass their profits and resources from society. Without a society, there would be no business venture. Companies are therefore integrated members of society and so must also contribute to the growth of that very same society. This idea forms the basis for corporate sustainability.

Corporate sustainability refers to value creation by a business entity towards its stakeholders by maximizing economic efficiency via a ‘green’ strategy.

Businesses are given this charge as their activities have an impact on the environment. This impact could be negative if there is inefficient use of resources, toxic and non-biodegradable waste, discharge of fumes or smoke and so on. It is therefore the duty of business houses to ensure that the impact made by business activities on the environment is positive in nature.

Green Banking

According to the Institute for Development and Research in Banking Technology (IDBRT), “Green Banking is an umbrella term referring to practices and guidelines that make banks sustainable in economic, environment and social dimensions.”

This meaning in truth is only part of what Green Banking actually encompasses. Green Banking also covers every initiative that increases the efficiency of banks thereby reducing resource consumption.

Green Banking initiatives can be broadly classified into the following heads:

Green Products – this includes products like, Green Credit Cards, Green Loans Mobile and Net Banking.

Carbon footprint reduction – these initiatives include paperless banking, waste management, use of renewable energy and so on.

Social Responsibility - Banks can also undertake various social responsibility initiatives geared towards environmental protection and sustainable development. This includes tree plantation drives, provision of solar lamps to rural areas and so on.

Most people find it difficult to grasp the importance of paperless banking as it is assumed that such initiatives would not contribute much to saving trees. According to Dr. K C. Chakrabarty, Deputy Governor of the RBI, “Estimates for US suggests if every household were able to switch to paperless bank billing, this would save an estimated 1,65,00,000 trees per year.” From this fact it can be understood that even the simplest of Green Banking initiatives does have quite a large positive impact on the natural environment.

Green Banking initiatives are done on a purely voluntary basis by the banking industry in India, as there is no specific framework guiding the same. Most banks in the country follow their own separate green initiatives either as part of their CSR activities or even as Green Banking practices. There is still huge scope for Green Banking in the country.

Green Banking will definitely become the ‘mantra’ of all banks in the world as we are living in a society that with becoming more environmentally conscious in its outlook and functioning.

Review of Literature.

There are many contradicting views on the topic of whether environmental initiatives have a positive impact on the financial performance. In articles like Wally et al. (1994) and Palmer et al. (1995), both state that any such view that environmental regulations within companies can contribute towards better financial performance is delusionary as such regulations have large costs attached to it. Later research on this topic argues the contrary. Poter et al (1995) states that there is no trade off between being green and being profitable. Srivastava(1995b) examines the role of environmental technologies creating a competitive advantage. Hart and Ahuja

(1996) in their paper empirically conclude that it does indeed “pay to be green”. Klassen et al. (1996), verifies the linkage between environment management and company performance empirically using financial event methodology combined with data from company-level financial and environmental performance. Russo et al. (1997), explain the importance of corporate environmental performance using a resource-based view.

Reinhardt (1998) puts forth the idea that differentiating products along environmental lines can benefit the company. Both Dowell et al. (2000) and Konar et al (2001) link environmental policies and a firms reputation. King et al. (2001) further delve into the question of whether environmental performance is connected to financial performance. The paper concludes that while it is apparent that there persists a relationship between financial performance and environmental initiatives, no causal relationship can be established.

Past research on Green Banking has highlighted the impact of Green Banking on Sustainable development. Yadav et al. (2013) study the various approaches to Green Banking adopted by both public and private sector banks in the Indian banking industry. Meena (2013) highlights Green Banking as an initiative promoting sustainable development. An IRDBT Report (2013) and Biswas (2011) look into the strategies of implementing Green Banking strategies in India. Finacle (2012) gives an overview of Green Banking in India and Singh (2013) highlights the benefits of Green Financing.

Research Design

Objectives

1. To study the impact of Green Banking on the Return on Equity (ROE) of banks.
2. To understand the impact of Green Banking on sustainable development

Research Methodology

This paper is based on secondary data and is descriptive in nature. The entire population of scheduled public and private sector banks in India have been analyzed for the same.

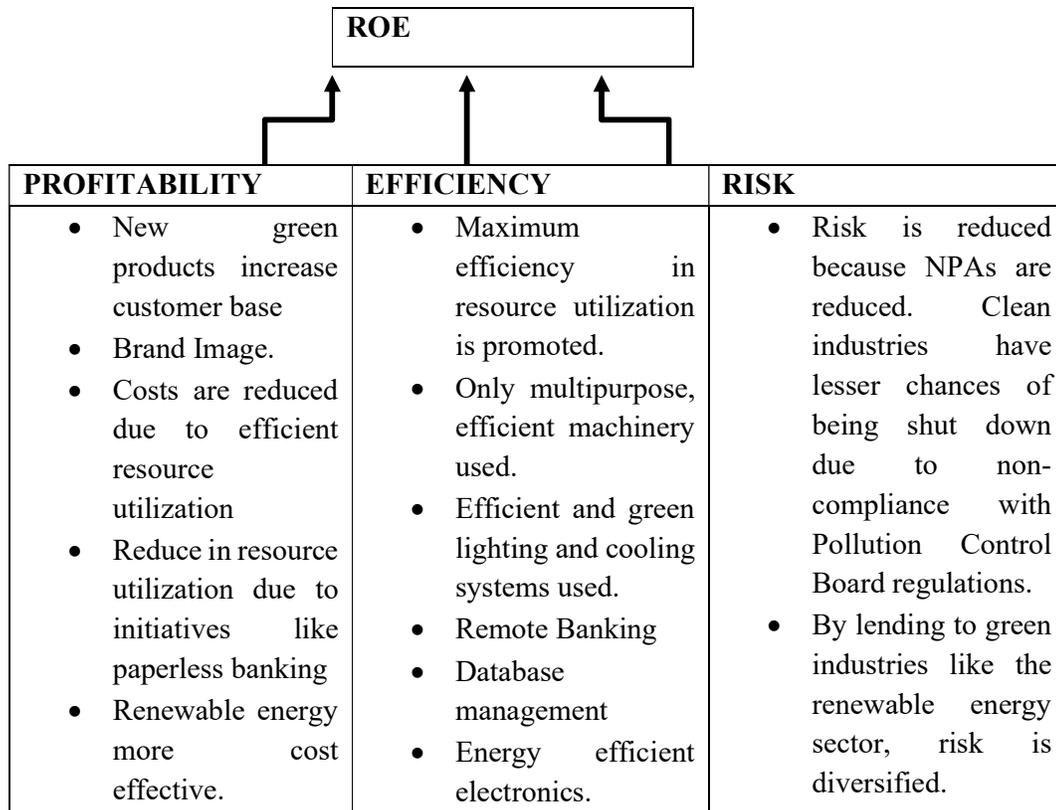
3.3 Limitations

1. This study has been done using secondary data
2. Non-availability of data has caused certain banks to be removed, due to which the universe is not properly represented.
3. Non-disclosure of actual state of affairs on the internet is a limitation

Analysis and Interpretation

Green Banking and ROE

According to the DuPont analysis ROE can be split into three main heads that contribute to it – Profitability, Efficiency and Risk. By applying a qualitative DuPont analysis model, the contribution of Green Banking towards ROE can be assessed.



It can be observed that Green Banking initiatives have a definite impact on ROE. This is due to the fact that these initiatives are able to contribute to the profitability and efficiency of banks and at the same time reduce its risk. This means that Green Banking initiatives are also beneficial to shareholders as it increases their returns.

Green Banking and Sustainable Development

Green Banking practices of the Indian Banking Industry contribute to the sustainable development in a number of ways.

Firstly, Banks cut down on their own resource utilization and try and reduce their carbon footprint. This goes a long way in creating sustainability as lesser resources used today ensures more for the generations to come and reduction of carbon footprint means that the Bank is looking into greener energy sources, greener operations and promoting the same.

Secondly, Banks have a very special place in the economy as they help fund economic activities. By factoring in environmental concerns in loan decisions, these banks are able to control the flow of funds to dirty industries and channel the same to cleaner, greener industries. Therefore, Green Banking activities of banks can make other industries more environmentally conscious.

Thirdly, from the above iterated practices it becomes clear that another way in which Green Banking contributes towards sustainable development is via educating and informing internal

as well as external parties. Certain Banks are sensitizing staff towards the concept environment protection while others are creating platforms to address environmental issues and come up with solutions to the same. This helps create responsible citizens who are geared towards creating sustainability.

Lastly, these initiatives strike at the very heart of sustainable development with certain products. Kissan Credit Cards or Biometric ATMs in rural areas for example help propagate financial inclusion and at the same time is environment friendly as it facilitates remote banking. Therefore the living standards on the present generation is being increased in an environment friendly way.

Findings

Green Banking initiatives increase the profitability of banks as these initiatives not only increase revenues on one hand but also cut costs on the other hand. This is achieved through introducing innovative products, cutting down on resource utilisation and effectively using resources.

Green Banking initiatives in India include resource reduction and efficient utilization of the same, paperless banking, spreading environmental awareness, channelizing funds towards greener, cleaner industries and adopting initiatives to reduce their carbon footprint.

Suggestions

The Indian Banking industry must integrate employee participation in their Green Banking initiatives. A more informed and participative employee will not only give better thrust to these green initiatives but also be in a position to communicate the banks policy to external parties.

All banks should adopt a comprehensive reporting strategy with respect to Green Banking initiatives. They should include both in quantitative and qualitative terms the costs and benefits that accrue due to Green Banking.

The RBI should frame guidelines on Green Banking practices and reporting to bring about uniformity.

Banks in addition to a Green Banking policy can also create a special committee that looks into and frames these policies.

Conclusion

Green Banking initiatives have a definitive impact on ROE as it not only contributes to profitability and efficiency but also reduces risks. It can therefore be analysed that such initiatives are indeed beneficial to shareholders as they increase the ROE. Good corporate governance requires a company to protect and promote the interests of shareholders. Therefore, Green Banking is vital in today's banking scenario.

Green Banking definitely contributes to sustainable development. This is because of the important position of banks occupy as a driver of sustainable development as they finance economic activities. Thus, a bank with a greener outlook would definitely have an impact on the environmental policies of the companies or industries to which they extend loans and other credit facilities. Banks are in a position to integrate financial inclusion measures with Green Banking, thereby contributing in a more comprehensive manner towards sustainable development.

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