

## FACTORS INFLUENCING THE SUSTAINABILITY OF PRIVATE COMMERCIAL BANKS IN BANGLADESH

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### ABSTRACT

Sustainability becomes a prime concern for banks to avoid experiencing risks. To some extent, it is now regulatory requirement to be sustainable in terms of financial, economic and environmental issues. The motivation for the study was the increasing competition induces by the increasing number of banks in Bangladesh which makes the sustainability of the existing banks more questionable along with other issues. In this study, we have tried to explore the factors influencing the sustainability of the private commercial banks in Bangladesh. From the literature and focused group discussions, we have selected 40 variables. 400 mid-level and top level employees have been chosen as the sample based on a bare minimum of 10 observations per variable. Factor analysis is used to draw findings. It has been found that nine factors namely Environmental & Social Responsibilities, Customer Gratification, Political & Economic Factor, Financial Performance, Accountability and Transparency are the major influencers of sustainability. From the study researchers could investigate whether the same factors are influential in all other situations.

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**KEYWORDS:** Sustainability, Banking Industry, Economic Factors, Environmental Factors, Financial Factors

### INTRODUCTION

Sustainable development has become one of the major issues which have got the greater importance in the policy making which is previously deemed as developed countries phenomenon. Improved technology and higher growth rate have been identified as the driving force of the economy. Current years have witnessed an escalating move to contemplate sustainability issues in many firms of developing countries irrespective of industries (Belal & Owen, 2007; Rowe & Guthrie, 2010). As a result of demands from international buyers (Belal & Owen, 2007), enticement of national regulators (Khan et al., 2010), corporate governance elements (Khan et al., 2013; Khan, 2010), and desire for maintaining internal legitimacy (Momin & Parker, 2013), there have been growing urge across the globe to evaluate organizational performance not merely from economic perspective, but also from environmental and societal performance perspective. Calls have been also made from external stakeholders to heighten firms' initiatives on corporate sustainability reporting (Sheikh & Beise-Zee, 2011). The declaration by world leaders at the United Nations Conference on Sustainable Development in Rio de Janeiro in June 2012 accentuated the recognition that a sustainable move toward development is needed: 'development which meets the needs of the present without compromising the ability of future generations to meet their needs'. Moreover it is very clear that the accomplishment of sustainable development is dependent on the active

involvement of the private sector as the global accord expected. Each sector confronts sustainability challenges which are specific to the impact they have on the environment and the society in which they operate. Policy makers in Bangladesh are working here persistently for having sustainable growth by keeping inflation rate at a tolerable level, maintaining macroeconomic stability etc.

Banking sector in Bangladesh plays a vital role in the economic context of Bangladesh. It is observed that, by having a well-organized banking industry a country can achieve economic growth rapidly as a consequence of the financial development (Levine, 2005). It has been argued that although banks and other financial institutions do not directly involved in activities detrimental to environment, they are inextricably associated in their lending and investment practices to commercial activity that degrades the natural environment (Sarokin and Schulkin, 1991; Thompson, 1998; Simpson & Kohers, 2002). Being an essential driver and enabler of economic development and growth, the banking industry is considered as responsible for its direct impacts and also the impacts of those they finance. According to Campbell & Slack, (2011) accountability and responsibility of banks towards the society and environments have therefore gained foremost significance in current decades. It is indispensable for banks, without a doubt, adopting sustainable business practices since such practices enable them to build corporate reputation, lowering

employees' turnover, above all ensuring long-term social and environmental development as a whole (Roca & Searcy, 2012). Engaging banking operation in a sustainable manner offer benefits for them as the external environment poses threats and risks to banks (Thompson, 1998a; 1998b). Capitalizing on the issues of sustainability reporting as paramount important for the industry, the global reporting initiative (GRI) has also offered financial sectors specific disclosures requirement applicable only to the banking industry (Khan et al., 2011). So, incorporating sustainability issues in banking activities by the management facilitate stakeholders to rely and comprehend how and to what extent banks execute their responsibilities towards fund providers, society and environment as a whole. The current study, therefore, aims to identify factors influencing the sustainability of private commercial banks in Bangladesh. So the research question is to find out whether there are any factors which could have impact on the sustainability of the banking sector of Bangladesh.

#### LITERATURE REVIEW

UNEP director stated, "If financial institutions do not get involved in the stewardship of the environment, sustainable development will lose its power" (Capella, 2002). In today's banking, with high competition and environmental changes, sustainability emerged as one of the biggest issues to focus as Bangladesh belongs to one of the ten countries which are considered as most vulnerable to climate change. Initially sustainability or sustainable development factors are only concentrated on the impact of the operation on the local level. Subsequently these have developed to integrate regional, national and international issues. There are links between sustainable development and corporate social, economic and environmental performance. Warhurst (2002) recommends a theoretical and realistic approach to creating an association between them by using the management tool of Sustainability Performance Indicators within an overall Sustainability Performance Management System. Management has put effort to transform the concept and goals of sustainability into real action and into measures to assess progress towards them considering the growing impetus in the policy-making arena towards developing tools. Wilson (2003) in this esteem argued that growth and profitability for an enterprise are vital within corporate sustainability paradigm. However, enterprises require pursuing societal goals in many ways, for example, sustainable development for environmental safeguard, social well-being, and progress (Wilson, 2003).

Though the bank has late realization about the importance of sustainability, it started to focus on that issue and began to incorporate sustainability into the

decision-making process. This realization intensified by identifying poor environmental performance on the part of their clients implied a threat to their business success. There have been recent trends around the globe that the financial sectors to comply the 'Equator Principles', which hearten private lenders to regard as both social and environmental impact of funding projects (Missbach, 2004; Jane, 2009). Being responsible to the society is also a significant concern for banking in Bangladesh as all are competing for their sustainability. According to Coro Strandberg, Corporate Social Responsibility (CSR) has bloomed as an international trend and become a priority to many business managers all over the world (2005). It has been termed as one of the phenomenal business trend by the Globe and Mail's March 2005 CSR ranking of over 100 brand companies on human rights, the environment, community and society relations among other sustainability issues (Coro, 2005).

For achieving sustainability, according to World Business Council for Sustainable Development, social and environmental aspects need to be considered in financial decision-making. Nowadays financial institutions in developed countries integrated environmental and social issues in their operations as basic pillars for sustainability (Capella, 2002). Along with environmental risk and opportunities of the 'green market', external pressures from the stakeholders are also coming for maintenance of accountability and transparency which are related to reputational risk (Capella, 2002). It is also expected by external stakeholders from banks to take environmental and social issues into account in their credit lending process (Capella, 2002). Changing government requirements, market environment, external conditions, private environmental liability, government sanctions, and criminal prosecution related to environmental offense are becoming the threat to the banks' existence (Jeucken 2001).

Environmental programs (such as recycling programs) and socially responsible initiatives (such as support for cultural events) are taken into consideration for environmentally and socially responsible banking operations to integrate sustainability into banking sector (IISD, 2013). According to IISD (2013) it is also important to incorporate product design, mission policy and strategies in a manner so that environmental and social issues (the integration of environmental criteria into lending and investment strategy, and the development of new products that provide environmental businesses with easier access to capital) will receive proper care from the banking sector and helps banks to be sustainable. So it is expected that banks will involve themselves with the

projects which are environmentally and socially sound.

The business strategy of banks and their corporate clients are influenced by linkage between bank's profitability and the environmental record of its customers. Emphasizing on environmental performance of clients, banks can enhance their risk management as well as lessening their exposure to environmental liability which ultimately mitigate their potential losses. So when banks take their lending and investments decisions, they need to consider clients' environmental performance which acts as an additional driver of sustainability. Exclusively, banks can keep away from experiencing three types of risks such as direct risk, indirect risk, and reputational risk (Thompson & Cowton, 2004; Murray et al., 1997; Campbell & Slack, 2011; Thompson, 1998b). As well, working as a partner tied with inspiring borrowers to execute sustainability practices have potentials for banks to lessen detrimental practices across the banks' supply chain that could otherwise have unfavorable social environmental impacts for banking institutions themselves (Thompson, 1998a; Halabi et al, 2006). World Business Council for Sustainable Development incorporated some issues for achieving sustainability in the finance sector such as more responsible corporate behavior for taking business opportunities, responsible business conduct for maintaining reputation and license to operate, consideration of sustainable issues into overall policies also by improving morale provides a strong and confident long-term relationship with stakeholders, internal transparency to improve external dialogue and internal communications.

In recent time, Bangladesh has experienced some irregularities in the banking sector such as Taka 3.0 billion in 2002 through the transfer from five banks, Tk. 5.96 billion through withdrawal without cheques by the owners of the Oriental Bank in 2006, and Tk. 6.22 billion in 2007 through fake letter of credit (L/Cs) and illegal distribution of Tk. 36.48 billion (US\$460 million) loans between 2010 and 2012 by the state-owned Sonali Bank at Ruposhi Bangla Hotel Branch, Basic Bank loan scam Tk. 45 billion over. For these scandals, people lose trust in the banking system, and sustainability issue has obtained a greater significance for the regulatory authority as well as for the participants in the financial system. Political stability, role of ministry, role of Bangladesh Bank, board independence, independent internal auditor, timely financial reporting, accountability and transparency at all level, adequate ethical responsibility of the stakeholders, - all these are necessary for sound and ethical banking. Day by day competitions are getting intensified in the banking sectors as new banks have initiated, multinational banks are improving their expertise with new and

innovative products in the banking system. Compatibility of job holding and knowledge at all level are now essential issues for withholding of competitiveness. Satisfaction of the bankers in terms of job environment, perquisites is also essential for ensuring sustainability of the banking sector as a vital stakeholder. At the same time, banking services in the competitive banking practices are getting prime concern to the customers as they want to have easier banking. Online banking solutions with secured transactions, privacy and confidentiality, SMS banking, utility bill and other auxiliary services, availability of ATM booth, variety of loan facilities, variety of deposit mix, Islamic banking facilities all are not extravagant facilities, rather significant to be sustainable and competitive. Now-a-days, personalized banking, statements/E-statements service; prompt service; well-behaved customer services are prioritized by the customers for efficient banking and so by the banks. To achieve operational efficiency at all level, banks now want to have the capability get acquainted with the dynamic changes. Better financial performances are also a crucial matter of attaining sustainability which can be achieved by maintaining benchmark in terms of debt ratio, debt-equity ratio, liquidity ratio, and capital adequacy ratio.

#### **METHODOLOGY OF THE STUDY**

This research is inferential in nature and is presented in a descriptive manner. Convenience dictates that data are collected from the different branches of 12 private commercial banks around the city centers. A structured questionnaire is used for the data collection purpose of the study. 5-point Likert scale technique has been used to form the questionnaire in which data measurement scale was ordinal. Primary data were collected from the sample unit by personal interviewing method. Likert scale technique is used to rate the importance of related factors of the study where categories have been used ranging from 5 (maximum) to 1 (minimum). The label of these five response categories are like 5= most important, 4= more important, 3= important, 2= less important and 1= least important. As this study focused on the importance of related sustainability factors, questionnaire is designed in such five categories. Sustainability of banks is the focal point of the research. For the collection of primary data, mid-level and upper-level employees of all commercial banks operated in Bangladesh were the target population irrespective of the geographical concern. The totals of 400 samples were chosen for the data collection purpose. By going through literatures, newspapers, from focus group discussions, and other relevant study materials 40 variables related to the sustainability have been included in the questionnaire. These variables have been initially mentioned in the literature review part. Among 400 respondents, 270 employees are male and rests 130

are female employees of different branches of the private commercial banks. In the whole sample, 22.5% of the respondents fall in the age range below 30 years, 40.0% decline in the 30-39 years range, 27.5% go down in the 40-49 years range, and 10% fall in the category of above 49 years. The respondents are included from different organizational hierarchical levels and are selected from various departments, such as general banking, treasury, foreign exchange, investment, credit, human resource, information technology, cards.

The responses are analyzed with IBM SPSS Statistics 20. The central view and the diversity among the views of the respondents are observed in case of the each item individually. Data are checked for reliability with the help of Cronbach Alpha's value. Principal Component Analysis (PCA) with varimax rotation is conducted for exploratory factor analysis. Besides, descriptive statistics is used to explore the importance of those variables for sustainability of the private commercial banks in Bangladesh. We use factor analysis as a tool for analyzing the collected data to achieve our objectives which is to find out the factors that influence the sustainability of private commercial banks operated in Bangladesh mostly.

## ANALYSIS & FINDINGS

### Reliability

The Cronbach alpha value of at least 0.70 is the basis of reliability (Cronbach, 1951). Thus, the 0.70 alpha value demonstrates that all attributes are internally consistent (Fujun, Hutchinson, Li, & Bai, 2007). The Cronbach alpha value for this study is 0.885 that meets the criteria of cut off point. Reliability statistics also explores that all the item statements in the questionnaire fulfils the criteria of reliability test as the Cronbach alpha value for each item is greater than 0.80. Thus, all the attributes of the study are reliable.

Table 1: Reliability statistics for the study

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.885	.883	40

### Descriptive Statistics

The first output from the analysis is the descriptive statistics for all the variables under investigation. With the highest mean of 4.58 each it can be concluded that variety of loan facilities and taking opportunities of the green market, both are the most important variables that influence sustainability of private commercial banks in Bangladesh.

### Factor Analysis

By conducting factor analysis, we have tried to identify the factors influencing the sustainability of private commercial banks operated in Bangladesh. The first step in this analysis has been to measure the

appropriateness of factor analysis, and the following results here have been produced to make the decision.

Table 2: Result of KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.823
Bartlett's Test of Sphericity	Approx. Chi-Square	13614.696
	df	780
	Sig.	.000

Kaiser-Meyer-Olkin Measure of Sampling Adequacy is an important method to determine the appropriateness of factor analysis. For the KMO statistic Kaiser (1974) recommends a bare minimum of 0.5. And KMO values between 0.5 and 0.7 are mediocre, values between 0.5 and 0.7 are good, values between 0.8 and 0.9 are great and value above 0.9 are superb (Hutcheson & Sofroniou, 1999). Here the result is .823 which is positive and is a sign of the appropriateness of sample size for factor analysis. Bartlett's Test of Sphericity is also found significant because ( $\chi^2 = 13614.696$ ,  $df = 780$ ,  $p = 0.000$ ). As a result it can be said that factor analysis is an appropriate technique where all the variables are correlated in the population.

### Communalities

The next item from the output is communalities which show how much of the variance in the variables has been accounted for by the extracted factors. For instance over 97.8% of the variance in debt equity ratio is accounted for while 30.7% of the variance in variety of loan facilities is accounted for.

### Total Variance Explained

The next item shows all the factors extractable from the analysis along with their eigenvalues, the percent of variance attributable to each factor, and the cumulative variance of the factor and the previous factors. The total 40 components have 100% variance power. Notice that the first factor accounts for 20.526% of the variance, the second 11.618%, the third 8.844%, the fourth 7.101%, the fifth 6.144% and so on.

Finally, the Rotated Component Matrix shows factor loadings for each variable. Principal Component Analysis is used for extracting the elements. From the below rotated factor matrix, it will be possible to interpret the extracted factors with the percentage of variance explained and also the variables to be included in each factor. Looking at the table above, it can be seen that reduction of greenhouse gas emission, green banking, environmental risk management expertise, support for cultural events, waste management, CSR for disaster management, mapping banks carbon footprint and efficient energy use, SMEs involvement with environmental activities, CSR to the educational arena are substantially loaded on factor (Component) 1; prompt service to clients, SMS banking, online banking solutions with secured transactions, personalized

Table-3: Rotated Component Matrix

<b>Rotated Component Matrix<sup>a</sup></b>									
	Component								
	1	2	3	4	5	6	7	8	9
Reduction of greenhouse gas emission	.803								
Green Banking	.790								
Environmental risk management expertise	.787								
Support for cultural events	.785								
Waste Management	.773								
CSR for disaster management	.772								
Mapping banks carbon footprint and efficient energy use	.714								
SMEs involvement with environmental activities	.690								
CSR to the educational arena	.586								
Prompt service to clients		.910							
SMS banking		.811							
Online banking solutions with secured transactions		.808							
Personalized banking		.798							
Mobile banking		.738							
Islamic banking		.704							
Availability of ATM booth		.660							
Debt equity ratio			.957						
Liquidity Ratio			.948						
Profit margin ratio			.933						
Capital adequacy ratio			.931						
Political stability of the Country				.870					
Role of ministry of finance				.854					
Corruption level of the country				.792					
Role of Bangladesh Bank				.781					
Timely Financial Reporting as per requirement					.935				
Fulfillment of responsibility towards shareholders					.915				
Accountability Transparency at all level					.866				
Geographical Expansion						.881			
Innovative technologies in banking						.868			
Brand Awareness						.743			
Preferential pricing charges and commission						.601			
Variety of Deposit Mix							.827		
Taking opportunities of the greenmarket							.810		
Diversification of income sources							.763		
Variety of Loan Facilities							.536		
Perquisites to the employees								.866	
Competitive salary to the employees								.847	
Congenial working environment								.827	
Compliance with rules and regulation									.910
Board Independence									.899
<b>Extraction Method: Principal Component Analysis.</b>									
<b>Rotation Method: Varimax with Kaiser Normalization.</b>									
a. Rotation converged in 6 iterations.									

banking, mobile banking, Islamic banking, availability of ATM booth are loaded on factor 2; debt equity ratio, liquidity ratio, profit margin ratio, capital adequacy ratio are loaded on factor 3; political stability of the country, role of ministry of finance, corruption level of the country, role of Bangladesh bank are loaded on Factor 4; timely financial

reporting as per requirement, fulfillment of responsibility towards shareholders, accountability transparency at all level are loaded on Factor 5; geographical expansion, innovative technologies in banking, brand awareness, preferential pricing charges and commission are loaded on factor 6; variety of deposit mix, taking opportunities of the

greenmarket, diversification of income sources, variety of loan facilities are loaded on factor 7; perquisites to the employees, competitive salary to the employees, congenial working environment are loaded on factor 8; compliance with rules and regulation and board independence are loaded on factor 9. These factors can be used as variables for further analysis. 20.526% variance explained by Factor 1 which is named as environmental & social responsibilities. Factor 2 is named as the customer gratification which can explain 11.618% variance. Factor 3 and factor 4 are called as financial performance and political & economic factor with variance explained of 8.844% and 7.101% respectively. Accountability & transparency, with 6.144% variance explained, and sensible competitiveness, with 5.853% variance explained, are the factor 5 and factor 6 respectively which contains several variable of sustainability. Operational efficiency, employee contentment, and legal factor are the factor 7, factor 8 and factor 9 respectively with variance explained 4.953%, 4.414%, and 3.357%.

#### LIMITATIONS AND FUTURE RESEARCH DIRECTION

The results of this study need to be viewed and acknowledged in lights of its limitations. First, the data are collected only from selective banks based on the convenience of the researchers. Thus, the findings cannot be generalized. Therefore, future research should be conducted on a larger scale by considering more banks to authenticate the results of the study. Second, to determine the sample size and respondents statistically accepted techniques should be utilized. It is not possible for the current researchers to adapt the statistically accepted techniques as it requires a lot of monetary and non-monetary resources. Third, Exploratory Factor Analysis (EFA) has been used to explore the dimensionality of a measurement instrument by finding the smallest number of interpretable factors needed to explain the correlations among a set of variables. Confirmatory Factor Analysis (CFA) can be done to study how well a hypothesized factor model fits a new sample from the same population or a sample from a different population. Finally, the inferences drawn from this study are limited by self-report data and cross-sectional characteristics of the data.

#### CONCLUSION

Development is worthwhile when it is sustainable. Sustainable banking in today's Bangladesh is highly appreciated in the form of regulatory compliance or to be socially responsible to the implicit and explicit stakeholders. This study can be assumed as valuable because the findings drawn from the study may contribute to the literature for further studies. And the scale may also be applied to examine the relationship among the variables with the sustainable banking.

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