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Examining Environmental Performance of Islamic Banks Through Green Banking Practices: Mediating Role of Employees Commitment

Hina Saleem[1], Muhammad Raza Zafar[2] & Maria Aslam[3]

[1]Lecturer National University of Modern languages Multan campus, Pakistan
[2]PhD Scholar Institute of Banking and Finance Bahauddin Zakariya University Multan, Pakistan
[3rd] Lecturer Government College university Faisalabad Sahiwal campus

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ABSTRACT

This study aims to investigate the substantial impact of green banking practices on the environmental performance of banks, concurrently exploring the mediating influence of employees' commitment. To achieve these objectives, a comprehensive empirical inquiry was conducted. Data was collected through a structured questionnaire survey method from a diverse selection of banks operating within the Lahore region. The study employed statistical techniques, including regression analysis and Structural Equation Modeling (SEM), to analyze associations and moderating influences within the conceptual framework. The findings of the study indicated that there is a significant effect of green banking practices on the environmental performance of Islamic banks operating in Pakistan. Further, the research indicated that there is a significant mediating effect of the employee's commitment between the observed variables. The primary novelty of this research is its comprehensive examination of the intricate interplay between green banking practices and environmental performance within the Islamic banking industry. The primary limitations of the study include a small sample size and considering only Islamic bank managers as the population of the study.

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Introduction

In an era characterized by escalating concerns about environmental sustainability and responsible financial practices, the role of banking institutions in fostering ecological responsibility has gained unprecedented significance. Islamic banks, operating under the principles of Sharia-compliance, offer a unique perspective in the broader landscape of green banking practices. The convergence of Islamic finance with the growing global emphasis on environmental preservation has led to a compelling examination of the environmental performance of Islamic banks and their endeavors in implementing green banking practices. This study seeks to delve into the intricate interplay between green banking initiatives and the environmental performance of Islamic banks, with a particular focus on the mediating role of employee commitment. By exploring the extent to which employee commitment mediates the relationship between green banking practices and environmental performance, this research aims to contribute to the evolving discourse on sustainable banking practices within the Islamic banking industry.

Banks have adopted a range of strategies, policies, and procedures often referred to as "green banking practices" to integrate environmental concerns into their business operations and lending practices. The aforementioned practices aim to promote sustainable finance and mitigate the negative environmental impacts associated with banking activities. The banking industry has increasingly recognized the significance of green banking practices in response to the growing emphasis on sustainable financing and environmental responsibility. These practices may be categorized into four main perspectives: practices related to employees, practices related to operations, practices related to customers, and practices connected to policies (Zhang et al., 2022).

The implementation of sustainable practices and fostering a sense of environmental responsibility inside the organization are among the strategies used by banks to engage their workers. This may include the implementation of training and awareness initiatives for employees on environmental issues, the promotion of ecologically conscientious behavior, and the integration of environmental performance evaluations into employee assessments (Chen, 2022). The operational practices used by banks include the mitigation of the environmental footprint generated by the organization (Taneja & Özen, 2023).

The current corpus of scholarly work pertaining to environmental performance in the banking industry has mostly concentrated on conventional financial institutions, resulting in a significant knowledge gap on the environmental performance of Islamic banks. The worldwide rise of Islamic banks has not been well explored in terms of their green banking practices and their potential contributions to environmental sustainability within academic literature. The primary objective of this research is to fill the existing gap in the literature by investigating the Islamic banks performance. This will be accomplished by analyzing their green banking practices, which will provide insights into the distinctive characteristics of these institutions and their role in promoting environmental sustainability.

The existing knowledge gap within the realm of green banking research pertains to the insufficient understanding of the role played by employee dedication as a mediator in the connection between green banking practices and environmental performance. Although there has been a growing global adoption of green banking efforts by banks, there is a lack of comprehensive research on the exact ways in which these activities lead to enhanced environmental results, particularly via the dedication of workers. It is essential to address this practical disparity in order to provide implementable insights for Islamic banks and other financial organizations aiming to successfully improve their environmental performance.

Extensive research has been conducted on the environmental performance of conventional banks and multinational organizations. However, there is a notable void in the literature about the environmental performance of the Islamic banking industry. Islamic banks are characterized by their adherence to certain ethical and Sharia-compliant norms. This distinctive aspect of their operations has generated considerable attention in the realm of green banking practices and their relationship with employee dedication. This research aims to address the existing disparity in the field by analyzing the environmental performance of Islamic banks and their dedicated green banking efforts. This analysis will contribute to a more thorough comprehension of sustainability practices across various sectors of the financial industry.

2.0 Literature Review

The idea of "green banking practices" refers to the incorporation of environmentally sensitive practices into the banking industry as a whole. According to Miah et al. (2023), one of the most important contributors to environmental deterioration is the banking business. This industry is a significant user of both energy and resources. Recent studies have thrown light on certain eco-conscious banking practices that offer the potential to lower the industry's environmental impact and support a transition towards an economic framework that is more sustainable. Green finance is a frequent component of green banking. This component entails the provision of loans and credit facilities that are specifically customized for ecologically responsible projects, along with the execution of green financing methods (Prabhu & Aithal, 2023).

Zhang et al. (2022) performed study that showed a favorable correlation between the implementation of Enterprise Risk Management (ESRM) laws in banks and their tendency to embrace sustainable business practices, which eventually enhanced sustainability performance. The employment of digital technology is yet another component of environmentally responsible banking. Internet banking and mobile banking, among others, have the potential to mitigate the environmental impact of the banking industry by reducing the need for physical branches and paper-based transactions. This potential was brought to light by Hasan et al. (2022), who demonstrated that digital banking technologies can reduce carbon emissions and enhance energy efficiency.

Research was carried out in Bangladesh by Islam et al. (2022) with the objective of determining how the adoption of environmentally responsible banking practices influences the environmental performance of financial institutions. Their research investigated a sample of ten different banks and revealed that the application of environmentally aware banking practices favorably improved the environmental performance of these institutions. According to the findings, financial institutions that engage in environmentally responsible banking practices are more likely to minimize carbon emissions and support the funding of sustainable projects, which ultimately results in environmental advantages for the institution.

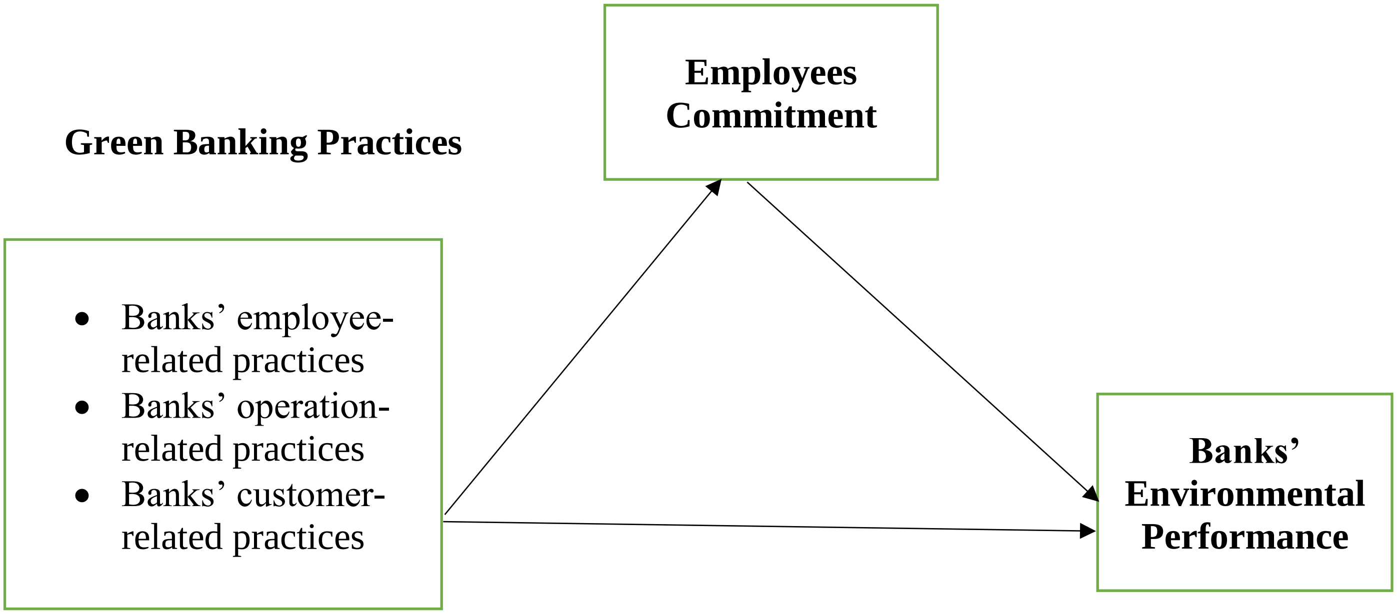
Iftikhar et al. (2021), in a study that was similar to the one that was discussed before, investigated the impact that "green banking practices" had on the environmental performance of banks in Pakistan. They looked at six different banks and found that implementing "green banking practices" has a significant and positive influence on the environmental performance of financial institutions. This was discovered using a sample of six different banks. Their findings show that financial organizations that embrace ecologically sound banking practices are more likely to support programs that seek to mitigate carbon emissions and advance renewable energy ventures.

Ali and Oudat (2020) looked at the effect that green banking practices have on the environmental performance of banks in the United Arab Emirates. This research was conducted farther afield. Their assessment of data from eight different banks found that the implementation of environmentally responsible banking practices has a favorable influence on the environmental performance of financial organizations. According to their results, firms that give environmental sustainability a higher priority in their banking operations are more likely to establish environmental management systems and initiatives to cut carbon emissions.

Furthermore, Zhang et al. (2022) performed study in Bangladesh, proving that the application of green banking practices has a considerable and favorable effect on the environmental performance of commercial banks. In addition, they discovered that when it came to environmental efficiency, banks that had a greater level of adherence to green banking standards outperformed their competitors who had lower levels of such practices. These results highlight the significant and beneficial effect that adopting green banking practices may have on environmental performance, highlighting the superiority of institutions that emphasize eco-conscious banking efforts.

The hypothesis positing the mediating function of employee commitment in the relationship between green banking practices and environmental performance is based on the reasoning that the impact of green banking on environmental outcomes may not be immediate, but instead operates through the motivation and behaviors of employees within the banking organization. The implementation and sustainability of green banking practices are dependent on a variety of sustainability efforts. Employee dedication plays a crucial role in mediating these activities, serving as a fundamental connection in understanding how they are put into action and maintained. Employees that have a strong dedication to green banking are more inclined to participate in activities aimed at mitigating environmental effects. These activities include advocating for responsible lending and investment choices, adopting energy-efficient measures, and supporting policies that are environmentally sustainable. Consequently, the objective of this hypothesis is to elucidate the fundamental mechanisms by which green banking practices can effectively contribute to the improvement of environmental performance. This will be achieved by leveraging the mediating impact of employee commitment, thereby offering valuable insights for banks that aspire to enhance their sustainability endeavors.

Theoretical Model



The present study adopts a quantitative methodology, using a comprehensive examination of pertinent existing literature and administering surveys to the chosen unit of analysis. The study's population comprises persons who occupy management positions in Islamic banks operating inside Pakistan. Based on the State Bank of Pakistan (SBP), the number of Islamic banks currently in operation inside Pakistan is six. The researcher opted for the Lahore division as the chosen location for data collection from the respondents. The study's sample consists of personnel in management positions, such as bank managers, operations managers, and other individuals with significant responsibilities inside banks. The research used random sampling to account for the large population under investigation. The study's sample included managers engaged at Islamic banks operating in Lahore. The sample was chosen due to the presence of almost all major commercial banks operating in that particular area. The study focused on all Islamic banks and their respective branches that are currently operational in the city of Lahore. Given the knowledge of the population, researchers have used probability sampling techniques to determine the appropriate sample size.

The survey comprised of a series of questions, where participants assessed each question using a five-point Likert scale that ranged from "1: strongly disagree" to "5: strongly agree". The selection of the questionnaire was based on the existing literature. The present study employed partial least squares–structural equation modelling (PLS-SEM) as a statistical software tool for data analysis and hypothesis testing. The choice to employ Partial Least Squares Structural Equation Modelling (PLS-SEM) was motivated by its capacity to efficiently analyse limited sample sizes and its robustness in investigating mediating variables and indirect relationships. SmartPLS can also be utilized for the direct assessment of convergent validity, discriminant validity, and reliability. The software features an intuitive interface that enhances user-friendliness and promotes ease of use. Furthermore, it presents visually captivating graphical outcomes. The software programme exhibits a notable level of versatility in its output, surpassing that of other software products of similar nature.

4.0 Results

4.1 Reliability Analysis

	Cronbach's Alpha	rho_A	Composite Reliability	(AVE)
EC	0.832	0.849	0.862	0.592
EP	0.931	0.922	0.9601	0.610
GBCRP	0.844	0.848	0.852	0.522
GBERP	0.821	0.803	0.886	0.617
GBOR	0.844	0.827	0.815	0.531

The analysis of the constructs inside the study reveals a significant degree of internal coherence. All constructs in this research have Cronbach's Alpha coefficients that exceed the minimum threshold of 0.7. Additionally, it is important to mention that the Average Variance Extracted (AVE) values for each construct are considered satisfactory. The observed range indicates that the constructs adequately explain a substantial proportion of the variability seen in their respective items. Overall, the findings of this study suggest that the assessment instruments used exhibit satisfactory levels of reliability and validity when assessing the specified constructs.

4.2 Validity Analysis (HTMT)

	EP	GBCRP	GBERP	GBORP	EC
EP					
GBCRP	0.21				
GBERP	0.62	0.384			
GBORP	0.28	0.444	0.335		
EC	0.60	0.443	0.410	0.429	

The examination of validity, as assessed by the Heterotrait-Monotrait (HTMT) ratio of correlations, provides insights into the associations among the parts investigated in the research. A HTMT score below 1 is generally regarded as satisfactory for evaluating discriminant validity. The study reveals that all values are significantly below 1, indicating that the constructs exhibit clear differentiation from one another and possess sufficient discriminant validity. This suggests that the measurement model effectively differentiates between the constructs and provides evidence for their use in further studies.

4.3 Regression Analysis

Direct Effect	**Original Sample (O)**	**T Statistics (|O/STDEV|)**	**P Values**
GBCRP -> EP	0.4253	8.785	0.000
GBERP -> EP	0.5432	5.436	0.000
GBOPR -> EP	0.3164	4.992	0.000
EC -> EP	0.3946	5.231	0.000
Mediation Effect			
GBCRP -> EC -> EP	0.1015	4.9608	0.000
GBERP -> EC -> EP	0.1203	4.9315	0.000
GBORP -> EC -> EP	0.0811	4.1823	0.000

Within the "Direct Effect" section, the examination presents the coefficients pertaining to the direct associations between observed variables and their influence on environmental performance. The coefficients serve as indicators of the magnitude and directionality of these associations. For example, a coefficient with a positive sign indicates a positive correlation, implying that a rise in the component is associated with a corresponding improvement in environmental performance. Each coefficient is accompanied by its respective T-statistic and P-value. T-statistics serve as a metric for assessing the statistical significance of coefficients, while P-values provide an indication of the likelihood of obtaining such outcomes purely by random chance. In this particular instance, it is noteworthy that all of the direct associations exhibit statistical significance, as seen by the low P-values, which approach zero.

The "Mediation Effect" part of the study investigates the role of employee commitment (EC) as a mediator between GBCRP, GBERP, GBORP and EP. The coefficients have a positive sign, suggesting favorable associations. The T-statistics demonstrate statistical significance, whereas the P-values indicate a value of zero, indicating that the mediation impact of staff dedication in the links between green banking practices and environmental performance is statistically significant.

Discussion

The results of the research shed light on a significant connection that exists between environmentally responsible banking practices, green finance, and the environmental performance of financial organizations. These findings highlight how important it is to acknowledge and investigate the consequences of the study. According to the findings of this study, the adoption of employee-related policies by financial institutions is associated with a significant improvement in the environmental performance of such institutions. This demonstrates how important it is for workers to be committed to and engaged in environmentally friendly activities in order for a firm to reduce its ecological footprint. Due to the fact that these initiatives are of the utmost relevance, financial institutions should continue to allot resources to training and awareness programs with the goal of cultivating a corporate culture that is centered on environmental stewardship. The findings of these more recent studies are consistent with those of research done in the past.

In addition, the research demonstrates the necessity of implementing environmentally responsible business practices within the banking industry by showing the beneficial influence that these policies have on the environmental performance of the institution. It is possible that concentrated efforts to lower energy consumption, maximize the use of available resources, and cut down on waste output may not only improve operating efficiency but also significantly contribute to the goals of environmental sustainability that banks have set for themselves. In addition, the study provides empirical evidence to support the concept that customer-centric practices in the banking business have a significant effect on environmental performance. This concept is supported by the research presented in the study. This shows that banks have the ability to encourage environmentally aware behavior among their customers via customer engagement and instructional initiatives that are oriented toward environmentally responsible financial goods and services. These results are consistent with those found in previous studies (Bouteraa et al., 2020).

In conclusion, the research highlights the significant role that staff dedication plays as a mediator between environmentally responsible banking practices and environmental performance. The findings of this study are in line with those of previous research (Sharma et al., 2022; Singh & Zaheer, 2023), lending credence to the notion that the dedication of employees is of utmost importance when it comes to improving the environmental performance of financial institutions through the implementation of green banking initiatives.

Conclusion

In summary, this study has effectively shown the notable impact of green banking practices on the environmental performance of financial institutions, with specific emphasis on the Islamic banking sector in Pakistan. The empirical inquiry conducted in this study used a standardized questionnaire survey to get significant insights into the interrelationships between green banking activities, employee commitment, and environmental sustainability. The results of the study clearly demonstrate that the adoption of environmentally friendly practices in the banking sector, including measures targeting employees, operations, and customers, has a notable and meaningful influence on the environmental performance of Islamic banks in the city of Lahore.

The research has several implications. The study emphasizes the significance of implementing and advocating for environmentally sustainable banking practices within the Islamic banking sector. The directive establishes a clear mandate for banks to engage in environmentally responsible activities, driven not just by ethical reasons but also by the proven beneficial effects on their environmental performance. The aforementioned findings have substantial significance for policymakers and regulatory authorities, who may contemplate the implementation of incentives and regulations to promote and oversee environmentally sustainable banking practices within the business. Furthermore, the recognition of the mediating function of employee commitment in the correlation between green banking practices and environmental performance implies that it is imperative for banks to prioritize the cultivation of a culture of commitment among their workforce. The implementation of employee training and engagement programs aimed at strengthening their dedication to green initiatives has the potential to augment the favorable impacts on environmental performance.

The study, while offering significant insights, is not free of limitations. The primary limitation of this research is to the very small sample size used for the purpose of data collection. A broader and more diverse sample may have resulted in a more comprehensive understanding of the intricate dynamics inherent in the Islamic banking industry. Additionally, it is crucial to acknowledge that the study was confined to managers working in Islamic banks, which may have resulted in the exclusion of perspectives from employees in other industries and the omission of views from persons at different organizational levels.

Hina Saleem: Problem Identification and Model Devolpement
Muhammad Raza Zafar: Data Collection, Results and Analysis
Maria Aslam: Drafting and Literature Review

Conflict of Interests/Disclosures

The authors declared no potential conflicts of interest in this article's research,authorship, and/or publication.

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