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The Benefits of Sustainability Integration in Banking

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Abstract. *This study investigates the way banks choose to implement sustainability, and shows the advantages and challenges that this integration brings. We used a methodology that combined bibliometric analysis and case studies that included the integration of sustainability in different banking institutions. What was observed as a result of the study is that a correct adoption of the principles of long-term sustainability have multiple benefits: - increasing operational efficiency - improving the image of banks; positive impact on society and the environment. Through this research we hope to add to the specialized literature, coming with clear evidence that the banking environment can contribute with a positive impact on sustainability. The decision-making factors in the management and the board of the banking institutions use these evidences as information that can later be transformed into performance indicators, indicators that will contribute through their results to encouraging the implementation of sustainable development within the banks. We know that the future comes with climatic challenges, or precisely a sustainable banking strategy that includes the analysis of all risks can generate a balance sheet behind anticipated.*

This integration of sustainability in the banking sector encompasses environmental, social and governance (ESG) principles; ESG has gained increasing attention in recent years. "Sustainable economic development has become an important factor on the agenda of various economic and business institutions, so banks and financial institutions are also an essential part of this trend" (Tarkhanova, 2018).

Case studies from real institutions are included to exemplify successful implementations (BNP PARIBAS Personal Finance). Although it faces challenges and obstacles, the banking sector has much to gain by adopting sustainability from a social, corporate governance and economic perspective.

Key words: Sustainability, Banking, Risk, Challenges, CSR

Introduction

The banking system contributes to economic growth both locally and globally. Through the internal programs developed, most of the time banks are also the pioneers in the implementation of sustainable indicators, such as ESG ones. This change, observed since the beginning of the 90s, caused by an awareness of climate and social challenges, responds to the needs of society and the ever-changing regulations. In our study, we show how initiatives in the adoption of sustainability influence bank structures with an impact on increasing efficiency, risk management and relations with different stakeholders (Dyllick, 2002). A correctly implemented governance is decisive in establishing a solid foundation in the bank for sustainable practices, from which serious environmental and business ethics concerns can result (Karkowska, 2019).

DOI: 10.2478/picbe-2024-0081

1. Literature review

The researches that we took into consideration are focused in sustainability strategy in the banking industry BNP PARIBAS Personal Finance - and have made several noteworthy contributions to the existing literature:

1. Typology Development: The studies have developed a typology of sustainability strategy content within the banking industry. "The typology of the content of the sustainability strategy in the banking industry" (Zimmermann, 2019) can be a valuable tool for simplifying the activity in the banking system, used by identifying similarities and differences between cases; this typology leads to the facilitation of measurements and the identification of relationships.
2. Diverse Strategy Content: Speaking of diversity in strategies, we observed the following aspect in our studies: although banks may present structural similarities, the types of sustainability strategies they adopt are significantly different. As a confirmation of what is observed in the vast literature on sustainability strategies, it is clear that companies can approach ESG (environmental, social and governance) (Clementino, 2021) assessments in different ways. There are strategies for both compliance and resistance to these challenges of new regulations. We considered this observation to be essential in understanding sustainability practices in the banking industry for achieving the Sustainable Development Goals. "Sustainable development efforts, initiated by the SDGs and the Paris Agreement on climate change, are bringing banking to the center of the debate, which calls for, among other things, sustainable banking" (Riegler, 2023).
3. Integration of Sustainability into Core Business: Greenwashing is an increasingly widespread phenomenon in bank reporting. In order to have results that are healthy and natural, banks must implement sustainability directly at the center of business activities. "Due to new international banking capital adequacy rules (Basel II), property rating and risk assessment systems are being further developed and implemented by a number of European banks" (Lützkendorf, 2007).
4. Complex Relationship between Motives and Strategy Content: From what we observed in studying the different models, it is obvious that there is no single reason for implementing sustainable strategies in banks (Santana, 2015). We are talking about an accumulation of benefits that leads to the implementation of long-term strategies. 'Knowledge about banks' sustainability strategies allows for the identification of potential for improvement (Mio, 2022).
5. Managerial ImplicationsImplications in the management structure: The adaptation of the organization in the spirit of implementing the sustainability strategy leads to the birth of new stakeholders, such as sustainability managers, board decision-makers and environmental organizations. It offers a means to identify gaps in strategy and suggests measures for improvement; "sustainable development could not be enforced with isolated controls" (Baumgartner, 2017) in the managerial team. All this knowledge brings decision makers what they need to correctly evaluate indicators, adopt or develop sustainability strategies and, last but not least. to improve the communication and differentiation of the bank in the market compared to competitors.
6. Utilizing the SDGs: "Banking organizations themselves engage in sustainable practices that are implemented to achieve an outcome" (Sardianou, 2021). Still, the researches highlight that medium or small banks have not fully embraced the potential of the United Nations' Sustainable Development Goals (SDGs) in their sustainability strategies. These aspects

suggest that the Sustainable Development Goals can be used to develop different special financial products, obviously leading to a better turnover. "The United Nations Global Compact presents specific industry examples and ideas for every industry in relation to the SDGs" (Aguilera, 2015).

2.1 Methodology

We chose to use bibliometric research methods for several compelling reasons. We use bibliometrics to analyze the scientific literature in the field that interests us. this bibliometrics facilitates the measurement and visualization of knowledge and research trends in a given field. The bibliometric approach is useful for the study of academic publications, of various informational databases in different disciplines.

In our research, we identified that bibliometrics offers the image that has been discovered so far in this field; the retrieved literature can help identify key authors and relevant papers and reveal current trends in a particular area of interest.

Among the tools available for bibliometric analysis, VOSviewer stood out as a scientifically reliable choice. VOSviewer is an intuitive tool, with an easy-to-use interface and offers the necessary support in the in-depth analysis of various bibliographic data.

VOSviewer is a more than useful tool, but it was necessary to use together for interpretation the "Web of Science" database, necessary to gather high-quality bibliographic data for our analysis. The enormous base of Web of Science combined with the data from the BNP PARIBAS PERSONAL FINANCE research guaranteed a comprehensive analysis of the study potential. Moreover, the use of these two work tools (Web of Science and VosViewer) helped us to graphically present the result of the academic analysis.

However, an unexpected result as a result of using these two study tools is that there is no relevant base as well as a rich history of articles on the implementation of sustainable development management in banks or large companies. As we see in the graph below, a greater extent of the study of this field is observed starting from the years 2020-2021 (Figure 1).

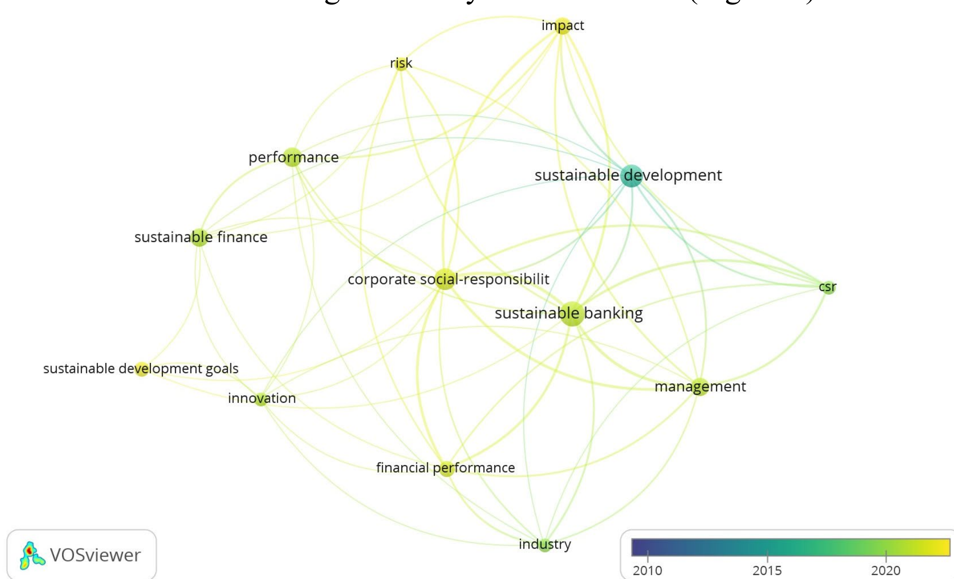

Figure 1: The link between scientific documents written on the "Sustainable Banking" subjects by foreign authors

Source: Map generated in VOSviewer, based on the data available in the Wen of Science database.

Moreover, the benefits of the implementation of ESG indicators in banks and large companies took shape in specialized articles starting with the year 2022, as we can see from Figure 2:

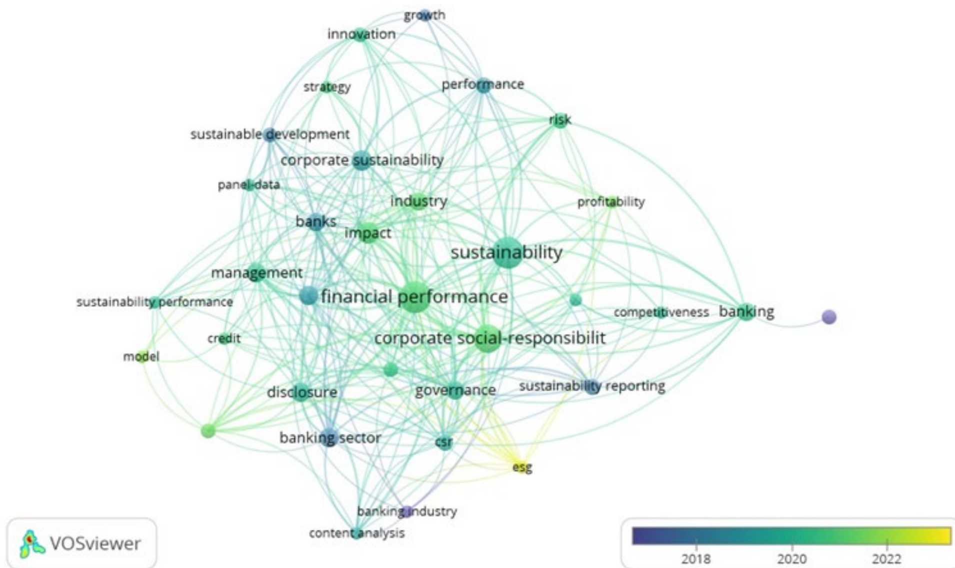

Figure 2: The link between scientific documents written on the "Sustainable Banking" subjects by foreign authors

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2.2 Results and discussions

In a recent annual report, BNP PARIBAS Personal Finance successfully published the implemented sustainable development management results, achieving noteworthy ambitions in various aspects of their operations.

As we have observed in other studies in the banking field (Table 1), the top orientation of these institutions is in the direction of 4-5 Sustainable Development Objectives, as is the case of BNP PARIBAS Personal Finance:

- Gender Equality
- Decent work and Economic
- Reduced Inequalities
- Climate actions
- Partnerships for the Goals

Measures for action on all 17 SDGs for each of the 12 banking entities.

SDG	ABA	BKIA	BKT	BBVA	CABK	CMAR	IBER	KUX	LBK	SAB	SAN	UNI	TOTAL
1. No poverty				✓	✓	✓		✓		✓	✓		6
2. Zero hunger					✓	✓							2
3. Good health and well-being	✓			✓	✓	✓	✓		✓	✓		✓	8
4. Quality Education	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
5. Gender Equality	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	10
6. Clean water and sanitation					✓	✓				✓			3
7. Affordable and clean energy	✓	✓		✓	✓	✓				✓	✓	✓	8
8. Decent work and economic growth	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
9. Industry, innovation and infrastructure	✓	✓		✓	✓	✓	✓			✓		✓	8
10. Reduced inequalities	✓	✓	✓	✓	✓	✓			✓	✓	✓	✓	10
11. Sustainable cities and communities		✓		✓	✓	✓				✓	✓	✓	7
12. Responsible consumption and production	✓			✓	✓	✓		✓	✓	✓		✓	8
13. Climate action	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
14. Life below water	✓				✓								2
15. Life on land	✓				✓	✓		✓					4
16. Peace, justice and strong institutions					✓	✓			✓	✓	✓	✓	6
17. Partnerships for the goals	✓	✓	✓		✓	✓	✓		✓	✓	✓	✓	10
TOTAL	12	9	5	10	17	11	7	7	9	14	10	12	

✓: Priority ✓: Secondary ✓: Complementary

Table 1: Measures for action on all 17 SDGs for each of the 12 banking entities

Source: Evaluation of non-financial information and its contribution to advancing the sustainable development goals within the Spanish banking sector, European Research o Management and Business Economics.

The following key results illustrate the bank's commitment to sustainability and its impact in various areas:

1. Exemplary Corporate and Employer Status:

A corporation that proves to be an exemplary employer has a multitude of factors; these may be a better reputation in the market or the ability to demonstrate to potential employees that they offer desirable jobs. Going further, a banking company's commitment to sustainable activities such as inclusion, social responsibility and employee relations requires specific actions and objectives such as:

- Transparency and Accountability - Companies that practice transparency in their operations and are accountable to their stakeholders tend to gain trust and respect in the industry;
- Ethical Standards - Maintaining high ethical standards in all dealings, including complying with laws and regulations and maintaining integrity in financial reporting (Adams, 2009).

BNP PARIBAS Personal Finance significantly reduced greenhouse gas emissions per employee, achieving 901 kg in 2022; this reduction can be attributed to the bank's focus on two major contributors:

- Building energy consumption decreased emissions by 445 kg;
- Business travel accounted for 455 kg of the reduction, and notably, emissions from business travel have decreased by 27% since 2019.

2. Gender Equality:

BNP PARIBAS Personal Finance illustrates how banks can leverage diversity for broader success. Here’s an exploration of why gender equality is crucial in this industry:

Reflecting Societal Values and Boosting Reputation

- Social Equity: Gender equality resonates with the values of fairness and justice prevalent in society. Banks that champion this cause not only boost their reputation but also strengthen trust among their customers and the broader community;
- Brand Differentiation: In a market conscious of social responsibilities, banks prioritizing gender equality can stand out, attracting clients who value ethical considerations in their financial affiliations.

Improves Financial Performance and Innovation

- Diverse Perspectives: Teams diverse in gender provide a range of perspectives that enhance creativity and decision-making—crucial advantages in the complex world of finance;
- Enhanced Performance: We observed in our studies that gender diverse leadership contributes in turn to positive results in the company: greater profitability and global added value (Bear, 2010).

Attracts and Retains Talent

- Expanding Talent Pools: A commitment to gender equality widens a bank's appeal to a diverse workforce, crucial for fostering a dynamic corporate environment;
- Employee Engagement: Inclusive workplaces see higher satisfaction rates, which can reduce turnover and associated costs.

Meets Regulatory and Investor Expectations

- Governments and international bodies often set diversity benchmarks that banks need to meet. Proactive gender equality practices position banks favorably in regulatory environments;
- Investor Demand: With a growing emphasis on ESG criteria, banks that excel in social components, like gender equality, are likely to attract more investment.

Enhances Decision-Making and Risk Management

- Balanced Leadership: Gender-balanced boards tend to make more prudent decisions, avoiding high-risk pitfalls and enhancing overall governance. This is crucial in the banking sector, where risk management is a core function (Sachs, 2019);
- Customer-Centric Products: The results of the indicators revealed that the society with developed diversity has the ability to adapt more easily, to respond more quickly and better to various changes in processes, services offered to clients and to innovate in general.

Gender equality is not just a social or ethical concern; gender equality for the banking system represents a strategic asset, essential for stimulating resilience. For BNP PARIBAS Personal Finance means trust and reputation, essential pillars in the financial sector.

BNP PARIBAS Personal Finance managed to reach considerable figures regarding the proportion of women in management positions, from 28.6% in 2021 to 35%. This kind of results come as a crowning of what the bank has chosen to develop in the area of diversity.

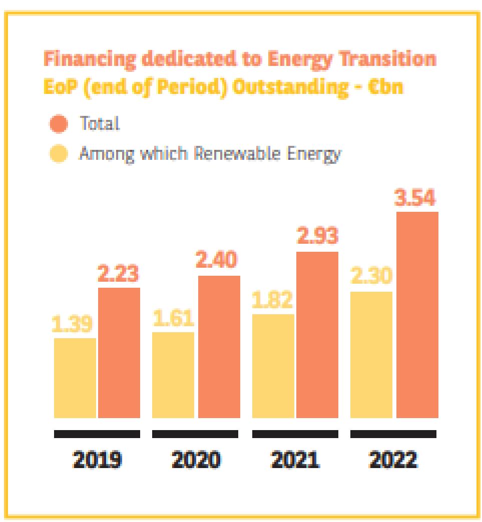
3. Transforming Business Models and Offerings:

In an ever-advancing world, the banking sector continues to evolve and BNP PARIBAS Personal Finance is committed to aligning its business practices with the Sustainable Development Goals (SDGs). "It is necessary for financial institutions to support the energy transition and sustainable development" (Harter, 2002).

BNP PARIBAS Personal Finance registers significant progress in terms of investments in sustainable energy and mobility (from 4.2% in 2021 to 6.2% in 2022). The new assumed target is to reach 15% by 2025).

Beyond substantial progress in reducing its carbon footprint, BNP PARIBAS Personal Finance has also achieved in increasing competitiveness through innovative green financial products.

The energy transition was perhaps the most accessible initiative when certain financial products were revised. The results were above expectations, reaching impressive figures in the outstanding total of BNP PARIBAS personal finance (Figure 3).



*Outstanding/Production reported at 50% on PF Inside perimeter.

Figure 3: Financial results for Energy Transition in total Outstanding

Source: BNP Paribas Personal Finance Yearly Engagement Report – 2022.

In addition to the previously mentioned achievements, the implementation of sustainable development management BNP PARIBAS Personal Finance has led to further positive contributions through awareness campaigns and voluntary activities:

a) Enhanced Awareness and Employee Engagement:

In financial sectors such as banking or insurance, employee involvement in the company's strategy is essential and is not a simple indicator that can be measured. A well-constructed strategy takes into account from the very beginning the fact that customer satisfaction is closely related to the satisfaction of the company's employees; the achievement of strategic and sustainable objectives is closely related to this employee satisfaction and their involvement in the phenomena. It is already a reality observed through various studies and results that employees who feel satisfied at their workplace contribute to a healthier and more productive environment in society. Harter, Schmidt, and Hayes' meta-analysis demonstrates the strong correlation between employee engagement, satisfaction, and business outcomes, including productivity and customer loyalty, which are critical metrics for banks (Joecks, 2013).

The bank has decided to launch and develop several initiatives with the aim of promoting the workplace as one that supports sustainability. A remarkable 70% of employees now recognize significant progress in the bank's diversity, equity and inclusion efforts.

b) Gender Diversity:

Human resources policies include and measure indicators regarding diversity within companies; the banking system is a pioneer in the adoption of these policies, and the boards of directors are responsible for the correct rotation of these implementations. The sustainable indicators implemented in the bank also include the measured results regarding the number of women in management positions. "Boardroom Gender Diversity and Firm Performance: What Exactly Constitutes a 'Critical Mass?' (Lins, 2017).

BNP PARIBAS Personal Finance is also setting a standard for gender diversity. The bank encouraged the practices by which they promote women within what they call the "talents team". This activity guarantees for the future that the generations of competent financial employees will be diversified in a sustainable direction.

c) Sustainable Program Awareness:

The bank's ambition to build sustainability programs has borne fruit, and the internal results are encouraging; most of the company's employees are prepared, have gone through the training programs and actively participated in the workshop sessions. At the level of the top management team, it was agreed that this awareness among bank employees is essential for the integration of sustainable practices in everyday operations.

BNP PARIBAS Personal Finance sought to, through sustainability integration programs, not only encourage these practices in the bank, but also establish a reference in this industry.

To make sure of the success of the exercise, the bank finally measured the percentage of employees who were trained in the direction of sustainability. the result of 75% showed that the efforts taken by all departments and the strong turn of the management team was crucial.

Conclusions

In this article we tried to examine in detail the multiple advantages of the integration of sustainable development objectives in the banking sector, especially through environmental, social and governance (ESG) principles. We have also shown that by adopting sustainability we finally get to talk about a bank's better reputation, risk optimizations, strict compliance with ever-changing regulations. The detailed case study of BNP PARIBAS Personal Finance proves that such implementations However, transitioning to sustainable banking is not without its obstacles. The substantial initial investments required, the intricacies of implementing comprehensive ESG criteria, and the ever-evolving regulatory frameworks pose significant challenges.

Social capital and CSR have a crucial role in enhancing firm performance, with implications for how banks can leverage technology and innovation in their sustainability strategies (Francisco Aguado-Correaa, 2023)can be a real success.

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