

# *The Effects of Environmental Concern and Management Commitment on Green Banking Practices in Saudi Arabia:*

## *An Empirical Study on Islamic Banks*

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# Introduction

- ▶ In the twenty-first century, environmental sustainability has evolved into a crucial concern for human health, shifting societal attention to environmentally friendly behaviour.
- ▶ The commitment to enhance banking operations through green banking practices has been further sparked by the problems of environmental degradation, pollution, and climate change.
- ▶ Green banking refers to banking activities that prioritize economic, social, and environmental factors in order to protect the environment and natural resources (Chowdhury et al.,2013; Rai et al.,2019).
- ▶ The banking industry has been accused of contributing to pollution through its operations.

# Intro. Cont.

- ▶ As Islam emphasizes the preservation of natural resources and environmental protection, Islamic banking, as an ethical and socially responsible banking, has huge potential to contribute to a sustainable financial ecosystem for the green world.
- ▶ It is significant to note that investors are increasingly basing their decisions on a company's environmental commitment (Mir & Bhat, 2022).
- ▶ The world's largest producer of oil is Saudi Arabia. Despite its rapid industrial and economic growth, Saudi Arabia still has a number of serious environmental issues.
- ▶ Therefore, there is an urgent need for the Islamic banking industry in the country to promote green banking practices through Shariah-complaint policies, products and services.

# Theoretical Framework

- The theoretical framework proposed in this study is based on institutional theory and ethical dimension.
- The institutional theory states that pressures from stakeholders cause organizations to change their business operations, ideology or policies to gain economic and social legitimacy.
  - Hence, stakeholder pressure influences organization's development of eco-friendly business policies and practices that act as a self-regulating process (Rui and Lu, 2021).
- The literature on corporate environmental ethics supports the notion of inculcation of green management practices in daily business operations as a result of stakeholder pressure and expectations (Han et al.,2019; Ikegbu and Enyimba, 2020).

# Hypotheses

- H1: Competitor pressure will have a positive and significant influence on green banking practice.
- H2: Customer pressure will have a positive and significant influence on green banking practice.
- H3: Environmental concerns will have a positive and significant influence on green banking practice.
- H4: Top management commitment will have a positive and significant influence on green banking practice.

# Research Methods

- ❖ The managers and employees of Saudi Arabia's Islamic banking industry were the main subject of this study.
- ❖ In order to collect primary data from the managers, senior officers and officers in Islamic banks in Saudi Arabia via an online platform, the study used a structured questionnaire and a convenience sampling method.
- ❖ Only 307 respondents took part in the study, which represents a response rate of 61.4% out of the 500 expected sample size.
- ❖ On a 5-Likert scale, the response rated from 1 (strongly disagree) to 5 (strongly agree). To examine whether Islamic banks in Saudi Arabia practice green banking, four latent constructs – customer pressure, competitor pressure, environmental concern and top management commitment – were specifically used.

# Findings

- ▶ After preliminary tests show the multicollinearity is not an issue in the study (Becker et al., 2015; Hair et al., 2017), the structural model is tested further using a bootstrap re-sample technique with a 5000-iteration sub-sample.
- ▶ The structural relationships among the latent constructs were identified using the SEM, as shown in Figure 1 and Table 1.
- ▶ The empirical results show that every path was significant at the 0.05 level.

Table 1: Result of hypothesis testing

	Std. Beta	Std. Error	t- statistics	p- values	Decision
<u>Competitor Pressure -&gt; Green Banking Practice</u>	0.222	0.080	2.778	0.005	Supported
<u>Customer Pressure -&gt; Green Banking Practice</u>	0.187	0.060	3.114	0.002	Supported
<u>Environmental Concern -&gt; Green Banking Practice</u>	0.271	0.079	3.423	0.001	Supported
<u>Top Management Commitment -&gt; Green Banking Practice</u>	0.197	0.068	2.903	0.004	Supported



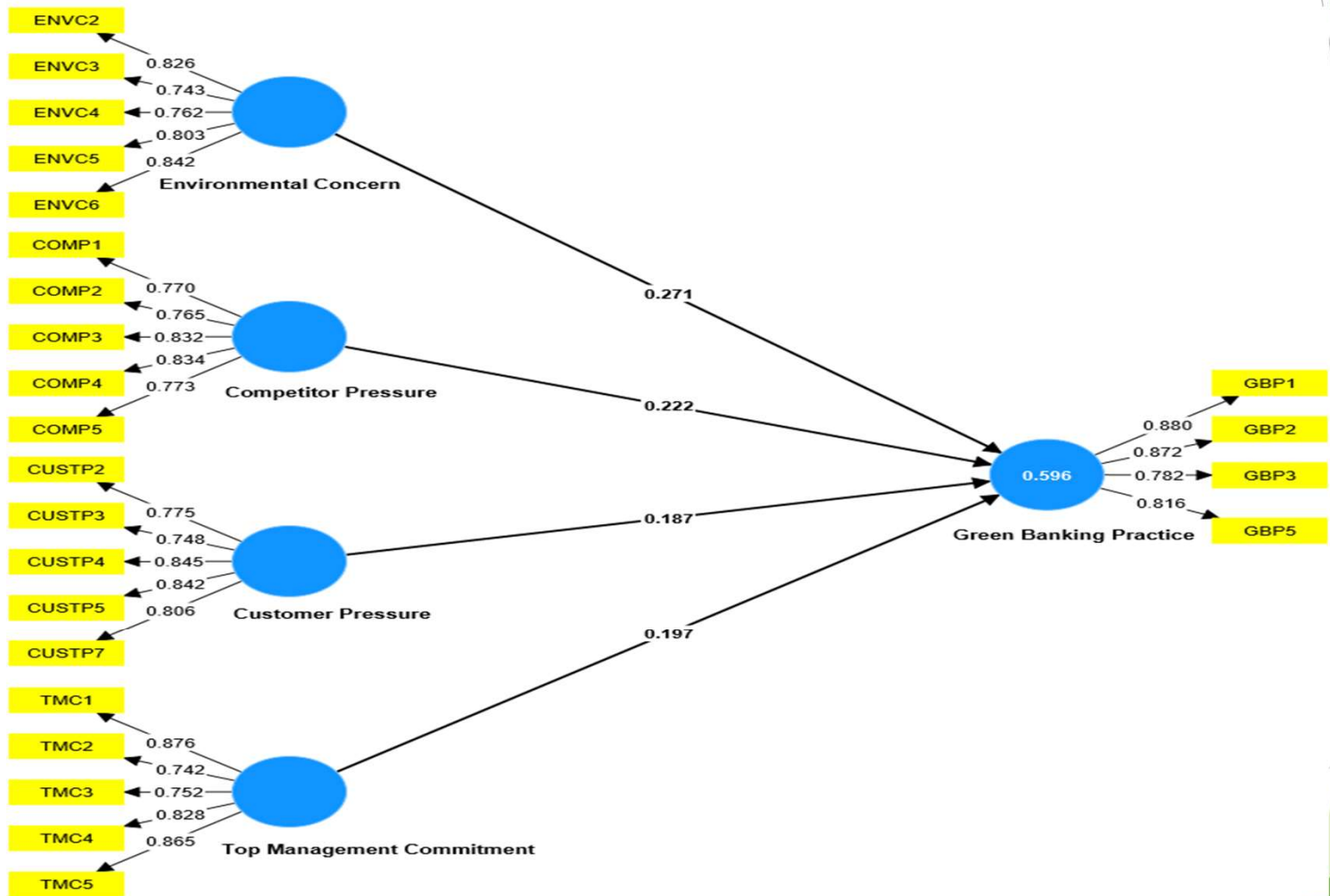


Figure 1: Structural Equation Model

# Conclusion

## ► Managerial Implications

- To increase productivity and strengthen its operations, Islamic banks need to know the type of environmentally friendly products and services that can meet stakeholders' expectations.
- Islamic banks should be more proactive in developing processes, rules and supporting strategies on green banking in order to promote or, at the very least strengthen the Saudi economy.
- Islamic banks should promote internal and external social networking and collaboration among stakeholders.

## ► Theoretical Implications

- The study contributes to the body of knowledge on Islamic banks and how they should address current and upcoming challenges brought on by innovative banking.
- Extends a model based on the institutional theory and integrates additional variables to deepen the literature on Green Banking
- Attempts to empirically enrich the research on green banking from the stakeholder perspectives.

Thank You for your attention.



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