

The impact of green banking practices on environmental, social and economic performance. The case of the albanian banking system.

Krisdela Kaçani

University of Seville, Spain, krikac@alum.us.es

Myriam Luisa González-Limón

University of Seville, Spain, miryam@us.es

Luis Miguel López- Bonilla

University of Seville, Spain, luismi@us.es

Elena Kokthi

Agriculture University of Tirana, ekokthi@ubt.edu.al

Abstract: As environmental degradation threatens our society, the need to create sustainable green banks is becoming increasingly urgent. The main objective of this paper is to identify the impact that the application of green banking has on the environmental, economic and social performance of banks. A questionnaire was completed by the employees of commercial banks in Albania. The employees were asked what impact the application of green practices has had on their bank. In total, 155 questionnaires were collected. The answers of the bank employees show a positive relationship between the application of green practices and economic, social and environmental performance. When banks develop and practice green banking, the impact on environmental protection is obvious. Green banking practices improve banks' compliance with environmental standards and significantly reduce banks' energy consumption and use of paper and other materials. Green banking practices have a positive impact on the bank's image, create better relationships with the community and stakeholders, and increase compliance with applicable social laws and regulations. Green banking practices also have a positive impact on improving the bank's bottom line,

significantly reducing the bank's operating expenses, and improving the efficiency of the bank's resource management.

Key words: Green banking, Environmental Performance, Social Performance, Economic Performance

1 Introduction

Green Banking is a concept that is used all over the world nowadays. The main goal is the prevention of environmental degradation. Green banking includes several aspects from their activity for the protection of the environment to how and where their money is invested (Shakil et al., 2014). The concept of Green Banking is a new development that focuses on banking operations and investments that protect the environment (Mathew, Green banking: an innovative initiative for sustainable financial development, 2021). According to Tara et al., (2015) green banking is considered a sustainable, environmentally friendly bank that protects the environment and encourages clients to take care of the environment. Banks contribute directly to sustainable development through internal processes such as reducing energy consumption, and paper use, and equal and fair treatment of employees. But they also contribute indirectly by performing their function as financial intermediaries. When banks decide to grant loans, they evaluate the economic, environmental, and social effects on individuals, institutions, organizations, or projects that require loans (Araci et al., 2016). Before deciding to finance a project, banks would have to analyze the impact of this project in the environment. Decisions regarding the adaptation of green products must be in accordance with the requests of the interested parties to give them satisfaction from the use of green counter products. This will lead to the successful implementation of green banking initiatives (Choudhury et al., 2013). Banks as financial intermediaries can create sustainability by offering loans with lower interest rates for clients who support environmental protection and higher interest rates for clients who do not protect the environment but damage it. This policy leads to a decrease in the profitability of banks, but it is a situation that does not last for a long time (Jeucken & Bouma, 1999). Banks have highly developed credit management systems. They give a higher price to loans with higher risk. Through price differentiation, banks can promote sustainability (Raluca, 2012). In addition, banks can improve their internal environmental performance. According to (Gulzar et al., 2024) which analyzed the impact of green investments on environmental performance. Through a questionnaire addressed to 500 bank employees in India, it was found that green banking practices had a significant positive impact on the environmental performance of banks. Operational features of green banking practices had the greatest impact, while aspects related to employees, policies and customers did not have a significant impact on environmental performance. Green

banking practices have a positive impact on banks' environmental performance, which has a significant impact on banks' profitability. By investing in green banking, banks reduce the risk of climate change, create sustainability, save costs, enhance their reputation in the face of changing demands, and build trust and loyalty among environmentally conscious customers (Jain & Sharma, 2023).

Based on the literature review, the research questions of the paper are:

1. How do green banking practices affect employees' perceptions of the environmental performance of banks in Albania?
2. How do green banking practices affect employees' perceptions of the economic performance of banks in Albania?
3. How do green banking practices affect employees' perceptions of the social performance of banks in Albania?

Descriptive analysis will be used based on the results of the questionnaire addressed to bank employees. In previous works, the investments and efforts of banks in Albania to adopt green banking practices have been analyzed. This paper will analyze how green banking practices affect environmental, economic, and social performance. The analysis will be an initial analysis. In future papers, a more in-depth study will introduce new factors such as social capital as a strategic resource for banks in their transition toward a greener and more sustainable economy.

2 Literature Review

According to Sangisetti & Kumari (2023) green banking contributes not only to environmental protection but also to economic growth. Banks should focus on financing businesses and sectors that, in their activity, make efforts to protect the environment. This would affect the prevention of pollution but also the creation of a stable banking system. Green banking applied by banks affects the creation of a sustainable environment, but also banks increase their image and the number of clients by attracting customers who are willing to contribute to the protection of the environment. Green banking practices not only contribute to environmental protection (Shameem & Haleem, 2021). According to (Malsha & Arulrajah, 2020) in order to have a sustainable performance, banks should focus on promoting green attitudes of employees. The factors that influence the behavior of bank employees towards the adaptation of green banking practices are management support, corporate social responsibility, potential for profit, and image improvement. Also, the more information employees have, the easier it will be for banks to adapt green practices (Jamal et al., 2020).

Banks play an important role in lending to individuals and businesses, influencing the economic development of the country. Therefore, they have an impact on the promotion of a sustainable environment (Nath, Nayak, & Goel, 2014). Also from the study done by (Shaumya & Anton Arulrajah, 2017) it was identified that green banking practices affect the bank's environmental performance. Daily operations and green practices followed by employees also affected the environmental performance of banks. However, it was observed that customer-related green practices did not have a significant impact on environmental performance. According to (Zhang et al., 2021) green banking activities have a positive effect on the environmental performance of banks. According to their study, this positive relationship is mediated by the financing of green products. The government should encourage banks to develop and offer green products. But on the other hand, the banks themselves have to finance projects and businesses that are concerned about the environment (Miah et al., 2018). According to (Tu & Dung, 2017) the main factor that influences the willingness of banks to offer green banking products is the recognition of green practices by senior managers. If senior bank managers recognize the importance of green practices, they will make it an important part of their business and promote green banking. Also, the staff should be trained to have the ability to evaluate environmental projects and use new technologies to identify the effects of these projects on environmental protection. Also in the study done in Ghana (Kwakye & Nor, 2021) the same result was evidenced that the support of the top management of banks is a main factor that affects the decision of banks to adopt green banking. Due to the fact that the application of green banking requires high capital, it definitely needs the support of the management to be implemented successfully. Another study in Pakistan by (Rehman A. et al., 2021) found that the Central Bank should create strategies for green banking that will be implemented by banks. The government, on the other hand, should make its efforts by drafting clauses for the application of green banking practices in corporate governance. Also, the study done by analyzes the factors that influence the development of green practices such as the rules of the central bank, the support of management. In their analysis Shafique & Majeed (2020) found that the factors that influence the development of green banking practices are the central bank's regulations, the support of high consumption, but also other factors such as Policy Guidelines, Attitude towards usage. Green banking initiatives not only contribute to the financial performance of banks, but also increase customer confidence and competitiveness by differentiating banks in a competitive marketplace (Chandrasekaran & Narayanan, 2024). When employees perceive that their organization contributes to social welfare, they are more likely to engage in green activities. Bamberg et al. (2015) demonstrated that awareness of a company's social impact encourages employees to take actions that reflect the company's social values, including environmental responsibility.

3 Methodology

3.1 Survey instrument

To return answers to research questions, a questionnaire was addressed to the employees of commercial banks in Albania. The questionnaire contains questions related to demographic data and green banking practices and their impact on the environmental, social, and economic performance of banks in Albania.

3.2 Sampling and Data Collection

The questionnaire was addressed to the bank's employees to capture their perceptions of the banks' efforts to adopt green practices and the impact of these practices on the banks' environmental, social, and economic performance. In total, 155 questionnaires were collected. Table 1 shows the demographics of the employees. 73% of the employees are women and 26.5% are men. The predominant age group is 31-40 years, which represents half of the employees surveyed. The 20-30 age group represents 35.5% of the selected population. The age groups 41-50 years and over 50 years are very small with 5.2% and 9.7% respectively. The dominant level of education is a scientific master's degree, or 74%, the rest 24.5% have a bachelor's degree and a very small number, only 1.3% have a PhD. Most of the respondents, 74%, have more than 6 years of experience, 26.5% have 1-3 years of experience, 13% have 4-6 years of experience.

Demographics	Value	Frequency	Frequency percentage
Gender	Male	41	26.5%
	Female	114	73.5%
Age	20-30	55	35.5%
	31-40	77	49.7%
	41-50	8	5.2%
	Over 50	15	9.7%
Educational Level	Bachelor	38	24.5%
	Master	115	74.2%
	PhD	2	1.3%
Experience	1-3 years	41	26.5%
	4-6 years	20	12.9%
	Over 6 years	94	60.6%

Table 1.
Demographics
Source: Authors elaboration

4 Results

Descriptive analysis is used to determine employees' perceptions of the impact of green banking practices on their bank's environmental, economic, and social performance. The questions regarding the environmental, economic and social performance of the banks were developed by (Malsha et al., Mediating role of employee green behaviour towards sustainability performance of banks, 2020)

Table 2 shows the results in % for 5 categories from strongly disagree to strongly agree. For each project included in the analysis, employees were asked 3 questions.

Tellers perceive that Green Banking practices have a high level of impact on environmental performance. 86% of employees perceive that green banking practices improve banks' compliance with environmental standards, 80% of employees perceive that green banking practices significantly reduce their bank's energy consumption, and 85% of employees perceive that green banking practices significantly reduce their bank's use of paper and other materials. This shows a strong link between green banking practices and banks' environmental performance.

The impact of green banking on environmental performance is also high. 82% of respondents perceive that green banking practices have a positive impact on the image of our bank, 64% of bank employees perceive that green banking practices lead to better relations with the community and stakeholders, and 63% of employees respond that green banking practices lead to increased compliance with applicable social laws and regulations.

		Strongly Disagree	Disagree	NA/D	Agree	Strongly Agree
Environmental Performance	Green banking practices improve banks compliance to environmental standard.	0.00%	2.58%	11.61%	45.16%	40.65%
	Green banking practices significantly reduce energy consumption in your bank	0.00%	1.94%	17.42	50.32%	30.32
	Green banking practices significantly reduce paper usage and other materials	0.00%	1.94%	11.61%	34.84%	51.61%
Social Performance	Green banking practices have positive effect on the image of our bank	0.00	0.65%	7.74%	43.87%	47.74%
	Green banking practices results in better relationship between community and stakeholders	0.00%	0.65%	35.48%	47.10%	16.77%
	Green banking practices results in increase compliance with applicable social laws and regulations	0.65%	0.65%	36.13%	42.58%	20.00%
Economic performance	Green banking practices significantly improve revenue and market share of our bank.	0.00%	3.87%	26.45%	36.13%	33.55%
	Green banking practices significantly decrease operational expenditure of our bank	0.00%	3.87%	22.58%	45.16%	28.39%
	Green banking practices significantly improve resource management efficiency in our bank	0.00%	0.00%	9.03%	32.90%	58.06%

Table 2.
Environmental, Social and Economic Performance
Source: Authors elaboration

Conclusion

Based on the literature review, numerous studies have shown that the implementation of green operations in the banking sector leads to significant improvements in the environmental, economic and social performance of banks. Regional studies and those specifically conducted in emerging markets such as Albania can reveal the unique nuances of the impact of green operations in a context where environmental awareness and sustainable practices are still evolving. The above analysis shows a strong correlation between green banking practices and the positive impact they have on the environmental, social and economic reputation of banks. More than 80% of employees perceive that green banking practices improve banks' compliance with environmental standards, that green banking practices significantly reduce energy consumption in their bank, and that green banking practices significantly reduce the use of paper and other materials. 82% of surveyed employees perceive that Green Banking practices have a positive impact on the image of their bank, 64% of bank employees perceive that Green Banking practices result in better relationships with the community and stakeholders, and 63% of employees answer that Green Banking practices result in increased compliance with applicable social laws and regulations. Also, over 70% of employees perceive that Green Banking practices significantly improve their bank's revenue and market share, Green Banking practices significantly reduce their bank's operational expenses, Green Banking practices significantly improve their bank's resource management efficiency. A high level of employees' perception of the positive effects created by the application of green banking practices affects the increase of awareness of the importance and necessity of these practices by their bank and will make them more aware in their work and take more actions to promote these practices.

References

- [1] Araci, H., Yüksel, F., & Ispirli, D. (2016). Sustainability And Accountability In Turkish Banking Sector. *Journal of Accounting, Finance and Auditing Studies* , 2(3), pp. 232-254 .
- [2] Chandrasekaran, S., & Narayanan, M. (2024). Green banking initiatives – an empirical study on performance of private sector banks. *Indian Journal of Psychology* , 03, pp. 75-81.
- [3] Gulzar, R., Bhat, A. A., Mir, A. A., Athari, S. A., & Al-Adwan, A. S. (2024). Green banking practices and environmental performance: navigating sustainability in banks. *Environmental Science and Pollution Research*, 31, 23211–23226. <https://doi.org/doi.org/10.1007/s11356-024-32418->
- [4] Jeucken, M., & Bouma, J. (1999). The Changing Environment of Banks. *Greener Management International*, 27, pp. 21-35. <https://doi.org/https://doi.org/greemanainte.27.21>

[5] Kwakye, E., & Nor, K. (2021). The intention of banks to adopt green banking in an emerging market: the employees' perspective. *Economic and Political Studies*, 1-8. <https://doi.org/10.1080/20954816.2021.1899621>

[6] Malsha, K., & Arulrajah, A. (2020). Mediating role of employee green behaviour towards sustainability performance of banks. *Journal of Governance and Regulation*, 9(2), pp. 92-102. <https://doi.org/doi.org/10.22495/jgrv9i2art7>

[7] Malsha, K., Arulrajah, A., & Senthilnathan, S. (2020). Mediating role of employee green behaviour towards sustainability performance of banks. *Journal of Governance and Regulation*, 9(2), pp. 92-102. <https://doi.org/https://doi.org/10.22495/jgrv9i2art7>

[8] Mathew, A. (2021). Green banking: an innovative initiative for sustainable financial development. *EPRA International Journal of Multidisciplinary Research*, 7(12), pp. 2455-3662.

[9] Miah, M., Rahman, S., & Haque, M. (2018). Factors affecting environmental performance: evidence from banking sector in Bangladesh. *Int. J. Financial Services Management*, 9(1), pp. 22-38.

[10] Raluca, D. (2012). Pathways to Sustainable Banking Management. *The Journal of the Faculty of Economics*, 1(2), pp. 545-550.

[11] Rehman, A., Ullah, I., Afridi, F.-e.-A., Ullah, Z., Zeeshan, M., Hussain, A., & Rahman, H. (2021). Adoption of green banking practices and environmental performance in Pakistan: a demonstration of structural. *Environment, Development and Sustainability*. <https://doi.org/https://doi.org/10.1007/s10668-020-01206-x>

[12] Shakil, M., Azam, K., & Raju, M. (2014). An Evaluation of Green Banking Practices in Bangladesh. *European Journal of Business and Management*, 6(31), pp. 8-16.

[13] Shameem, A., & Haleem, A. (2021). A Study On Green Banking Practices In Banking Industry: Sri Lankan Context. *Journal of Contemporary Issues in Business and Government* 27(1), pp. 490-505.

[14] Shaumya, K., & Anton Arulrajah, A. (2017). The Impact of Green Banking Practices on Bank's Environmental Performance: Evidence from Sri Lanka. *Journal of Finance and Bank Management*, 5(1), pp. 77-90.

[15] Tu, T. T., & Dung, N. T. (2017). Factors affecting green banking practices: Exploratory factor analysis on Vietnamese banks. *Journal of Economic Development*, 24(2), pp. 4-30.