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Sustainability Practices In Indian Commercial Banks: A Comparison Of SBI And HDFC

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Abstract

Sustainability means meeting the present needs with keeping in mind the needs of a future generation, which is an epitome of development. The banking industry is an important aspect of the economy, and incorporating sustainability practises into its core operations can help achieve the objective of sustainable development. This study compares and analyses the sustainability practices of two public sector banks, SBI and HDFC. The study spans 11 years, from 2011-12 through 2021-2022. Furthermore, the Global Responsibility Initiative (GRI) framework was reviewed to quantify sustainable practices, and data was gathered through content analysis from Yearly Reports, Business Responsibility Reports (BRR), and sustainable Reports. A statistical technique is then used to compare the banks' sustainability practices. The findings indicate a considerable variation in the governance component of sustainability practices.

***Keywords**: Sustainability, GRI, BRR, Content Analysis, Banks.*

Introduction

At present, sustainability integration in strategy formulation is a vital aspect for the growth of the corporate world. The integration of three components is required for sustainability: nature[1], the community, and the economy as a whole. The World Commission on Environment and Development was established by the United Nations in 1983 to explore the links between economic, environmentally-related, and community issues. The aforementioned group defined sustainable development as meeting current demands without interfering with future generations' ability to meet their own. Global economies and stakeholders are bringing attention to the need for corporations to adhere to and report on their sustainable practices. The vitality of sustainable development is recognised in many studies and government regulations (Dyllick & Hockerts, 2002; Salzmann et al., 2005).

The financial sector is the backbone of an economy, acting as a source of finance for almost every business. Therefore, it is indispensable for banks to move on from traditional banking to sustainable practices (Hermes & Meesters, 2015). Banks must build their own environmental risk management system and societal behavior policy in order to incorporate sustainability into their core plan.

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There are numerous codes of conduct developed for sustainability that are extensively used by organisations (Isaksson & Steimle, 2009; Mitra & Schmidpeter, 2017).

Complementing the global scenario, the Indian government has taken significant steps to encourage corporate houses to incorporate sustainability practices. In India, the journey of sustainable development started in 2009 with the issuance of voluntary CSR guidelines for mainstream business responsibility by the Ministry of Corporate Affairs (MCA). Furthermore, in 2011, the MCA modified CSR optional standards on enterprises' environmental, social, and economic obligations, known as the National Voluntary Guidelines (NVGs). Later in 2012, the Securities and Exchange Board of India (SEBI) mandated that the top 100 listed companies in India by market values submit corporate responsibility reports in order to demonstrate compliance with the National Voluntary Guidelines, ushering in voluntary sustainability practices in India. Furthermore, in 2013, the Companies Act came into effect to promote social, economic, and environmental responsibility, as outlined in Sections 135 and 136, respectively, on mandated CSR and directors' fiduciary duties. Business responsibility reports were extended to the top 500 corporations for the fiscal year 2015-16 once again in 2015. The NVGs were renamed the National Guidelines for Responsible Business Conduct (NGRBC) in 2019. Later, the top 1000 publicly traded corporations based on their market values were required to comply with the NGRBC.

Literature Review

Spangenberg (2004) created a relationship between the four elements of sustainability (economic and ESG) and demonstrated a German study based on sustainability practices that identifies five critical action plans that may be utilised as a benchmark for early stage policy proposals. Mishra and Suar (2010) studied the relation between social responsiblity towards core stakeholders and corporate financial and non-financial performance. To quantify CSR towards stakeholder groups (workers, consumers, investors, community, natural environment, and suppliers), a questionnaire method was utilised. The study indicated that listed firms enjoy better firm performance and show responsible business attitude in comparison to non-listed firms. Goss and Roberts (2011) explored the new view-point with regard to the association between CSR and corporate performance by examining the lenders' view. The authors had established two – step method to study CSR i.e. CSR concerns and CSR strength. According to the findings, lenders are more attentive to CSR concerns because they must pay 7 to 18 basis points more than corporate socially responsible enterprises. Thomas and Kumar (2016) investigated the association between Indian Non-Banking Micro Finance Institutions' social performance and sustainability. It was concluded that social performance has been considered as integral part of sustainability of micro finance institutions. Sassen et al. (2016) examined how corporate social performance (CSP), as measured by environmental, social, and governance factors, affected firm risk, including systematic, idiosyncratic, and total risk between 2002 and 2014. According to the study, boosting a firm's ESG score reduces total and idiosyncratic risk, which is more responsive to industry-specific than firm-specific features; thus, a cautious CSP risk-management strategy is required. Hummel and Schlick (2016) contributed to the works by strengthening the connection between sustainability concept and sustainability reporting by utilising the voluntarism and legitimacy theories. The voluntary theory advocates a positive relationship, whereas the legitimacy theory advocates

the opposite, but the authors observed that the empirical studies showed mixed results and therefore concluded that both theories are not contradictory but rather two sides of the same action. It is the quality of disclosure, not the quantity of disclosure that is to be given more stress. Halamka and Teply (2017) explored the ethics in sixty-nine banks from both theoretical and empirical angle for a period of ten years (2003-2013). The authors concluded that the practical application of ethics can be proved to be a competitive advantage for banks. The empirical results reported the low volatility in Return on Equity of ethical banks in comparison to conventional banks, attracting patient investors seeking for long – term investments. Dell'Atti et al. (2017) For the years 2008 to 2012, researchers looked into the connections between sustainable behavior, corporate image, and economic growth in the banking sector, and they concluded that improvement in the reputation of banks is not due to an increase in bank size but rather to a focus on more important factors like socially responsible behaviour. Conducting the business sustainably leads to higher reputation and profitability. A balanced approach with respect to reputation, profitability, and environmental issues helps construct a sustainable firm. Kaur (2018) Over a five-year span (2011–12 to 2015–16); the researcher looked into the association between CSR and the financial effect in the Indian service sector, particularly in IT, banking, and telecom. The findings showed that the promotion of education dominated all other CSR activities. CSR was also identified as a substantial reflector of the net wealth of the India's service industry. Miralles-Quiros et al. (2019) examine fifty-five commercial banks in industrialised nations to determine how sustainability indicators affected stock values both before and after the financial crisis. The analysis discovered that while social indicators had a considerable negative influence on stock prices, environmental and corporate governance indicators had a big beneficial impact. It also added that countries with effective shareholder protection enjoy higher ESG performance. Lee et al. (2020) study conducted a study of over forty countries (OECD and non-OECD) covering the period from 1989 to 2011 to examine the association between financial innovation and the growth rate of banks. The findings were different for developed and emerging economies; the positive association in developed countries indicated bank fragility in the case of emerging nations.

Objectives of the Study

The present study has the following objectives:

1. To measure the sustainability practices of SBI and HDFC Bank.
2. To compare the sustainability practices of SBI and HDFC Bank.

Hypothesis of the Study

The following is the hypothesis of the study:

1. $H_o : \mu_1 = \mu_2$

i.e. There is no significant difference between the sustainability practices of SBI and HDFC.

$H_1 : \mu_1 \neq \mu_2$

i.e. There is a significant difference between the sustainability practices of SBI and HDFC.

Research Methodology

The sustainability practices of the banks under consideration, SBI, and HDFC, were examined over an 11-year period, from 2011-12 to 2021-22. To measure sustainability practices, the globally accepted GRI index is used, which is as follows:

Table1: GRI Index Framework

Parameters	Heads
Environment	1. Materials
	2. Energy
	3. Water
	4. Biodiversity
	5. Emissions
	6. Effluents and Waste
	7. Environmental Compliance
	8. Supplier Environmental Assessment
	9. Management Approach
Social	1. Labour
	2. Human Resource
	3. Society
	4. Product Responsibility
	5. Product and Service Labelling
	6. Product Portfolio
	7. Audit
	8. Active Ownership
Governance	1. Higher Management
	2. Remuneration

(Source: GRI (G4) Reporting Guidelines)

Table 1 shows that there are 19 heads covering ESG parameters on which content analysis have been done. Each parameter has heads, and further heads have sub-heads. For instance, there are 9 heads under the environment parameter covering 31 sub-heads, 8 heads under the social parameter covering 48 sub-heads, and 2 heads under the governance parameter covering 22 sub-heads.

Further, manual content analysis has been done to convert qualitative data to quantitative data. To assess sustainable practices, a 6-point scale is devised, with "0" denoting no evidence, "1" denoting little evidence, "2" denoting some evidence, "3" denoting moderate evidence, "4" denoting significant evidence, and "5" denoting full conformity with the GRI standard. Later, to compare the sustainability practices of SBI and HDFC, the statistical technique of independent T-test was considered.

Results

To measure the sustainability practices of SBI and HDFC, sustainability practices scores have been calculated through content analysis of the sustainability index, which is as follows:

Table 2: Sustainability Practices Score

Years / Banks		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
SBI												
	E	1.4	2.0	2.3	2.5	4.1	5.0	6.2	7.7	9.2	9.6	10.5
	S	1.8	2.1	2.1	3.1	3.6	5.5	7.2	9.8	10.8	12.2	14.5
	G	1.7	1.7	1.7	2.0	2.0	2.4	2.6	2.8	2.9	3.1	3.1
HDFC												
	E	1.3	1.7	3.3	4.3	5.7	6.8	7.4	7.4	8.5	9.2	9.2
	S	1.0	4.6	6.6	6.8	10.3	10.3	11.9	12.2	12.2	12.5	13.5
	G	1.6	3.3	3.8	3.8	4.1	5.3	5.3	2.1	5.4	5.5	5.7

(Source: Author's compilation)

Table 2 depicts the total of the averages of sub-head items. Firstly, averages of items under sub-heads are calculated, and then the total of the averages is done to get the final score.

Furthermore, the independent sample T-test statistical approach was employed to compare bank sustainability practises, the results of which are shown in Table 3 below:

Table 3: Independent Sample T-test

(Source: Author's compilation)

		Levene's Test for Equality of Variances				
		F	Sig.	t	df	Sig. (2-tailed)
Environment	Equal variances assumed	.578	.456	-.295	20	.771
	Equal variances not assumed			-.295	19.550	.771
Social	Equal variances assumed	.525	.477	-1.455	20	.161
	Equal variances not assumed			-1.455	19.633	.161
Governance	Equal variances assumed	7.907	.011	-3.930	20	.001
	Equal variances not assumed			-3.930	13.110	.002

Levene's Test for Equality of Variance is used to first determine whether the variance is homogeneous. Table 3 above demonstrates the substantial difference for the governance

component (p-value of.011, less than 0.05), indicating that variances are not equal. The variances are equal for the environment and social components, however, where there is no statistically significant difference (p-values of.456 and.477, respectively). As a result, for T-test analysis, "equal variances assumed" will be used for the model's environmental and social components, whereas "equal variances not assumed" will be used for the governance component.

Second, the T-test for equality of means in Table 3 shows no significant differences in the environment or social component, as demonstrated by P values of.771 and.161, respectively, both greater than 0.05, supporting the null hypothesis. The governance component, on the other hand, showed a significant difference, as demonstrated by the P value (0.002) being less than 0.05, rejecting the null hypothesis.

Interpretation

Sustainable growth is an important challenge for progress. The banking industry serves as an economic hub, facilitating long-term development. However, according to the study's findings, HDFC, a private sector bank, outperforms SBI, a public sector bank, in one of the components of sustainability, namely governance, with a mean of 9.2, which is significantly higher than SBI's mean value of 2.3. The computation of compensation ratios from 2016-17 onwards is the key reason driving HDFC governance practices. According to the results of the content analysis, SBI received a score of zero because they do not disclose information about their annual total compensation ratio or the percentage increase in that ratio. HDFC, on the other hand, received a score of 15 each for both their annual total compensation ratio and the percentage increase in that ratio. In terms of remuneration policy, the method for deciding remuneration, and the involvement of stakeholders in remuneration, HDFC receives scores of 38, 37, and 19, respectively, whereas SBI receives scores of 28, 13, and 16.

Additionally, there hasn't been much of a difference in environmental and social practices between SBI and HDFC throughout time. Because the mean values of the aforementioned components do not differ noticeably, the mean values for the environmental and social criteria for SBI and HDFC, respectively, are 5.5 and 5.8 and 6.6 and 9.2, respectively.

Conclusion

This study makes an effort to gauge sustainable banking practices and is based on information from non-financial reports of banks are publicly available. This research will provide chances for advancing sustainable banking practices and will help banks and all stakeholders understand the shortcomings of adopting sustainable banking. To summarise the above study, HDFC is moving more towards sustainable practices than SBI, although there are many more avenues of sustainable practices that these global-level banks should pursue. Furthermore, banks must be more focused on incorporating these practices into their basic beliefs than simply disclosing and complying with rules.

Limitations and Future Directions

Despite its limitations, this study presents an awareness of the range and extent of India's sustainable banks. The research only looked at two banks; SBI and HDFC, from the public and private sectors, and the analysis rested on the amount of data the banks have publicly provided.

To enable future development of the study, the extent and impact of the banks' sustainable practices and banking performance can be studied. Financial performance measurements can also be added to the current study.

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