IMPACT OF SUSTAINABLE DEVELOPMENT ON FINANCIAL PERFORMANCE

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Abstract - This paper aims to examine the impact of economic, social and environmental dimensions of sustainable development on the financial performance of banks from the perspective of employees. Using a questionnaire, data were collected from employees working in five commercial banks at Dhofar Governorate, Oman. To test the hypotheses, a final sample of 208 questionnaires was analyzed with multiple regression using SPSS 25. The results show that there is a significant and positive impact of economic dimension on the financial performance, whereas there is no significant impact of social and environmental dimensions on the financial performance. Implications and suggestions for future research are discussed.

Indexterms - Sustainable Development, Financial Performance, Banks, Oman.

I. INTRODUCTION

The issue of sustainable development in bank context is, to some extent, a recent theme (Eapen, 2018; Ramnaraina and Pillay, 2016). Banks are interested in sustainable development in order to meet the customers' needs, protecting society and the environment by responsible use of resources and attention to limited or absent resources (Gallagher and Yuan, 2017; Shuang et al., 2015). This reflects the level of awareness of these banks. For the purpose of achieving compatibility between the private interests of the bank with the general interests of society and the environment, banks must also measure their financial performance for any activity they may start and its impact on the environment and the society in which they operate. Many of the interested parties and researchers have tried to identify the main areas of financial performance of banks in profitability, market share and productivity. The process of improving financial performance is one of the most important processes that banks seek to achieve. This has increased their importance in light of the expansion of economic, social and environmental activities. Future plans for banks should identify their financial position before taking any financial decisions. The Omani government has recognized the importance of adopting a national strategy for sustainable development, integrating environmental issues in the development and services sectors, reviewing and approving the national strategy for sustainable development, and providing technical and financial support to all stakeholders to achieve sustainable development, especially for banks.

The question that arises is whether the dimensions of sustainable development maybe affect the financial performance from the perspective of employees in Oman? The attempt of coming up with an answer to the question of the relationship between the sustainable development dimensions and financial performance is a fundamental objective of this study.

II. LITERATURE REVIEW

A. Sustainable Development

Several attempts have been made by researchers to define sustainable development. It was defined by Abu Zant et al. (2009) as "the need to balance development with environmental requirements for the present and future generation". Also, it was defined by Alrefaie (2007) and Badawi (2011) as conscious processes within society that are directed and sustained in accordance with a national will to create structural, economic and social changes that achieve the growing development of the society and the continuous improvement of its standard of living. Based on the above definitions, it can be said that sustainable development meets the needs of both society and individuals and expands opportunities for individuals to satisfy their aspirations to live better lives within the environmental capabilities that society seeks to achieve reasonably. Sustainable development encompasses three dimensions: economic dimension, social dimension and environmental dimension. All these dimensions contain a set of elements that can be explained as follows:

The economic dimension emphasizes that the production of goods and services should meet human needs and achieves prosperity on a continuous basis without harming the surrounding environment of production and consumption. This dimension aims to prevent the waste of natural resources as much as possible and to seek ways and methods of high efficiency in meeting economic needs and requirements without harming the environment from pollution to water and soil and reduce the liquid and solid wastes. Economic development includes

(Haddad, 2006) The long-term increase in real income, suggesting that development is a long-term process, the economic justice in the distribution of wealth among the classes of society to reduce the spread of poverty, and improving the types of products and services provided to consumers.

The main objective of economic development is to increase national income and improve the living conditions of individuals within society while reducing internal gaps while adjusting the structure of the national economy for the benefit of the commercial and industrial sectors.

Thus, the economic dimension of sustainable development depends on the rationalization of fiscal and monetary policies and natural resources, which are the main elements of economic growth by directing them to invest in projects that increase economic growth.

B. Social Development Dimension

All communities need education, health care, water and work. To play their role effectively, organizations must ensure respect for diverse cultural and social heritage, saving workers' rights and empower individuals within society in determining their future (Alghamedi, 2007). Baker (2005) reported that the commitments of social development comprise reduction of the spread of poverty during the dates determined by each country, supporting the workforce as one of the basic objectives of the public policies of the states, achieving social integration based on the promotion and care of all human rights, promoting equality between men and women, and enabling all members of the community to receive education and access to health insurance.

C. Environmental Development Dimension

With a world that is moving towards a range of environmental and human disasters, such as global warming, population growth, biodiversity loss, desertification and other serious environmental problems, there has been a significant global interest in sustainable development. This relationship between environment and development led to the emergence of the term sustainable development (Makhoul and Ghanem, 2009).

D. Financial Performance

Financial performance is one of the important areas used to measure performance of commercial banks, as it is stable and helps to guide the bank towards the best (Eccles, 1991). Gladstone, (2002) defined the concept of financial performance as: "a description of the current bank situation and carefully define the means and methods used to reach the objectives by examining a group of operations (sales, revenue, assets, liabilities and net wealth". Al-Husseini and Al-Duri (2000) defined the financial performance as the result of the impact of the financing structure in banks and a reflection of the efficiency and effectiveness of the finance banks' policy. Ratnovski, (2007) suggested that the Bank's performance is reflected in a range of financial indicators, such as profitability, which represent the main pillar of the Bank's business and diversified activities.

E. Sustainable Development and Financial Performance

Previous studies have attempted to investigate the link between the sustainable development dimensions with financial performance. Lassala et al.(2017) found that social and environmental development variables have an impact on the financial performance of firms, namely return on assets and return on capital; Several studies have found that the company's investment in socially responsible activities, such as pollution reduction efforts or energy-saving technology, has a significant impact on its financial performance positively (Santis et al. 2016; Margolis & Walsh, 2003); Garriga and Mele (2004) suggests that the explanatory theories of social responsibility leads to higher levels of financial performance. However, the experimental relationship between them has not yet been proven (Garcia, et al., 2010).

Shenof (2013) revealed that the institution's adoption of environmental management and the environment system had a negative impact on the financial performance of enterprises by increasing the need for working capital and low financial and economic profitability; and with regard to environmental dimension; Vijfvinkel et al. (2011), concluded a positive correlation between environmental sustainability and the performance of small and medium-sized enterprises, when the organization follows a policy of material reuse, the level of profit increases improves, and when the institution pursues a policy of reducing pollution rates, its financial returns are increased; Adams et al. (2012) explained that companies can build brand loyalty and good reputation in the long term by sustainability efforts, which is associated positively to maximize the wealth of owners. Based on the aforementioned review, the following hypotheses have been formulated:

H_1: There is a significant effect of economic development on the financial performance.

H_2: There is a significant effect of social developmenton the financial performance.

H_3: There is a significant effect of environmental developmenton the financial performance.

III. METHODOLOGY

A. Population and Sample Description

Population of the study comprised employees in five commercial banks (Muscat bank, Dhofar bank, Oman Arab bank, National Oman bank and Suhar bank) in

Dhofar Governorate, Oman. Out of 208 questionnaires distributed, 164 ones were valid for statistical analysis. The percentages of male and female were 50% and 68%, respectively. The respondents' age range laid between 30 to 40 years old, and most of the respondents had experience more than 5 years.

B. Procedures

The questionnaire was distributed by personal contact during formal working hours at the banks' branches, by inviting the respondents to fill the questionnaire on a voluntary basis and maintaining their privacy.

C. Measures

The questionnaire was developed with reference to previous literature. The study included three main sections. The first section is related to demographic data of respondents. The second section examined Sustainable Development (21 items) as an independent variable with three dimensions namely economic dimension (8 items), social dimension (8 items) and environmental dimension (5 items), based on the studies of Abdul Rahman (2011), Adams et al. (2012) and Abdel Rahim (2015). The third section tested the Financial Performance (7 items) as dependent variable, based on Mohamed and Ismail (2015).

IV. RESULTS

Table I shows that the means of both the economic and social dimensions of sustainable development were high (4.21) and (3.98) with standard deviations (.785) and (.836), respectively, whereas the mean of the environmental dimension was at average level (3.26) with standard deviation (1.116). It is also clear that the financial performance's mean reached 4.27 with standard deviation (.698), that indicates a high concern of the financial performance from the perspective of employees. Table I reports that the used scale in this study is reliable as Economic Development has α= 84%, Social Development has α= 89.2%, Environmental Development has α= 93.6% and Financial Performance has α= 88.9%. Table II reports that the model presented in this study is significant (F = 16.152, p = .000). It means that independent dimensions (Economic, Social and Environmental) explain the dependent variable (Financial performance) well. The value of R-Square (.383) shows that 38.3% of the variation was explained by the independent variables.

Table II also shows that Economic development dimension is positively related to Financial performance (B = .641, T = 4.994; p = .000). Therefore, H_1 is accepted. The results in Table II also show that there is no impact of Social development dimension on financial performance (B = - .035; T = -.297; p > 0.05), thus, H_2 is rejected. It is also shown that there is no impact of environmental development dimension on financial performance (B =.019; T = .356; p > 0.05). So, H_3 is rejected, too.

Table I: Mean, Standard Deviation, Items No., and Cronbach's Alpha.

No	Variables	M	SD	Items No.	Cronbach Alpha
1	Economic Development	4.21	.785	8	.840
2	Social Development	3.98	.836	8	.892
3	Environmental Development	3.26	1.116	5	.936
4	Financial Performance	4.27	.698	7	.889

Table II: Multiple Regression Analysis

Independent Variables	B	T	R	R^2	F
Economic development	.641***	4.994***			
Social development	-.035	-.297			
Environmenta development	.019	.356			
			.619	.383	16.152***

*p< 0.05, **p< 0.01, ***p< 0.001, n=164

DISCUSSION

The results of this study showed that the commercial banks in Oman have adopted the economic and social dimensions of sustainable development at high levels, whereas the environmental dimension was at an average level. This high level in the economic development could be due to the capital that plays a crucial role in achieving economic development. Thus, these Banks seek to find efficient means and methods to meet economic needs and requirements. This is consistent with the findings of the study (Abdel Rahim, 2015), which found that the level of economic development dimension was at high rates. The high level of social development dimension in the banks could be due to promoting equality between men and women and supporting the labor force as one of the objectives of the public policies of Oman and enhancing cooperation for social development. This result meets with findings of the study of Abdel Rahim (2015).

The environmental dimension of sustainable development of the examined banks was at an average level. This result can be justified due to low levels of industrial products and processes at the selected banks, as bank's activities focus on banking services, it is limited to some investments of banks in projects within the investment portfolios. This result is inconsistent with previous studies (Hassan, 2014; Shenof, 2013) where environmental dimension has shown a high level.

The high level of financial performance of the banks is attributed to the Bank's interest in profitability as an indicator of the end result of all efforts and activities of the Bank. This result is consistent with the findings of Al-Barami's study (2014). The results of this study also found a statistically significant impact of the economic development dimension in improving the financial performance of the surveyed banks and this result is consistent with the study of Lassala et al. (2017).

However, results show no significant impact of both social and environmental dimensions of sustainable development on financial performance. These results are consistent with the study of Hassan (2014) and inconsistent with the study of Vijfvinkel et al. (2011) which support a positive impact of environmental development on financial performance. However, Aggarwal (2013) found that there was a negative impact of environmental development dimension on the financial performance of enterprises.

IMPLICATIONS

The current study reveals that the examined commercial banks in Oman should promote the social solidarity and accelerate the pace of development, by 1) supporting employees with training programs and sound relationships that ensure an appropriate working environment, 2) participation in social responsibility and community development programs and activities. In addition, commercial banks need to focus on investments in clean and safe environmental aspects and clarify the role of banks in supporting environmental conservation through media.

FUTURE RESEARCHES

Future researchers may investigate additional dimensions of sustainable development such as cultural dimension; also they could examine the sustainable development impact on other variables related to organizational performance like employees' performance, or employees' loyalty and satisfaction. Moreover, future researchers can apply the same study on other service sectors such as hospitals and restaurants and even industrial organizations as they are more related to environmental aspects.

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