

The Impact of Sustainability on the Financial Performance of Private Sector Banks in India

Dr. Meena Sharma¹ | Dr. Jyoti Yuvraj Singh Gaur^{2*} | Dr. Manisha³

^{1,2}Assistant Professor, Mody University Science and Technology, Laxmangarh, Sikar, Rajasthan, India.

³Assistant Professor, Department of Commerce, Shyam Lal College, University of Delhi, Delhi, India

*Corresponding Author: jyotigaur.sob@modyuniversity.ac.in

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ABSTRACT

This study investigates the relationship among sustainability practices and the financial performance of private sector banks in India, focusing on ICICI Bank and HDFC Bank from 2011 to 2023. The research analyzes three key sustainability dimensions—economic, environmental, and social—and their influence on financial performance measures, viz. ROA, ROE, and EPS. A descriptive and analytical approach is adopted, utilizing information extracted from published annual reports and sustainability disclosures. The findings shows that while both banks demonstrate commitment to sustainable banking, HDFC Bank exhibits higher financial performance across all measures, whereas ICICI Bank leads in sustainability disclosures. Regression analysis attempt that the economic and social dimensions significantly impact financial performance, whereas environmental initiatives have a weaker association. The study concludes that a balanced integration of sustainability strategies contributes to long-term financial stability and corporate reputation within India's banking sector.

Keywords: Sustainability, Financial Performance, Economic Dimension, Environmental Responsibility, Social Responsibility, HDFC Bank, ICICI Bank, Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), ESG, Indian Banking Sector.

Introduction

In the evolving global financial landscape, sustainability has emerged as a strategic imperative rather than a peripheral responsibility. The increasing pressure from regulators, investors, and society has compelled financial institutions to line up their transactions with sustainable development goals (SDGs) and ESG criteria. In India, the banking sector have an important role in achieving national sustainability objectives by financing green projects, promoting social inclusion, and maintaining transparent governance mechanisms.

Private sector banks such as ICICI Bank and HDFC Bank have demonstrated leadership in adopting sustainability practices. However, the extent to which these initiatives translate into measurable financial performance remains a crucial question. Previous studies (e.g., Ameer & Othman, 2012; Goyal, 2019) suggest a relatively significant correlation between sustainability reporting and profitability, but empirical evidence from India's private banking sector remains limited.

This research explores the dynamic interplay between sustainability practices—categorized into economic, environmental, and social dimensions—and financial performance indicators (ROA, ROE, and EPS). The selected timeframe, 2011–2023, encapsulates significant regulatory and technological transformations in the banking system in India, including the RBI focus on responsible lending and digital sustainability.

By analyzing two leading private sector banks, this study aims to:

- Examine the extent of sustainability practices in Indian private sector banks.
- Evaluate the financial performance of HDFC and ICICI Banks over time.
- Determine the impact of economic, environmental, and social sustainability dimensions on financial performance indicators.

The study emphasizes that sustainable practices can enhance ethical standards and the financial viability and competitiveness of banks.

Literature Review

Sustainability and Corporate Financial Performance

The nexus between financial performance and sustainability has been discussed in global literature. Scholars such as Eccles, Ioannou, and Serafeim (2014) show that firms with higher sustainability ratings outperform their peers financially over the long term. Similarly, Friede, Busch, and Bassen (2015) conducted a meta-analysis of over 2,000 studies, revealing a significant relationship between ESG practices and corporate profitability.

In the banking context, sustainability encompasses responsible financing, stakeholder engagement, green lending, and social responsibility initiatives. According to Scholtens (2017), banks integrating sustainability into their core operations mitigate reputational risks and attract long-term investors. These practices enhance customer loyalty, improve operational efficiency, and foster innovation.

Banking Sector in India and Sustainability Adoption

The banking sector in India has witnessed a gradual yet significant transformation in sustainability integration. The RBI has emphasized green banking through initiatives promoting renewable energy financing and environmental risk assessment (RBI, 2021). Research by Bihari and Pradhan (2011) highlighted that Indian banks adopting CSR and sustainability frameworks improved stakeholder trust and long-term value creation.

ICICI Bank and HDFC Bank are frontrunners in sustainability disclosure. HDFC Bank's "Parivartan" program and ICICI's "Sustainable India Finance Facility" have embedded environmental and social commitments within their operational frameworks. However, as noted by Kaur and Sandhu (2020), the degree to which such initiatives translate into enhanced financial metrics remains context-specific, often influenced by governance quality and resource allocation.

Economic Dimension and Financial Outcomes

The economic dimension reflects profitability, productivity, and value generation through ethical and transparent financial practices. Studies by Ameer and Othman (2012) and Gupta and Aggarwal (2021) demonstrate that the economic sustainability of banks—through responsible investment, governance, and efficiency—positively correlates with ROA and ROE. A robust economic dimension indicates sound financial management and sustainable value creation.

Environmental Dimension and Financial Outcomes

The environmental dimension pertains to initiatives like green lending, carbon footprint reduction, and energy-efficient operations. Weber (2017) argues that environmental performance directly influences a bank's cost structure and risk exposure. However, Indian evidence remains mixed. Research by Bhattacharyya and Rahman (2020) revealed that although Indian banks increasingly report environmental metrics, the financial payoff of such initiatives often manifests in the long term, making short-term statistical significance weak or inconsistent.

Social Dimension and Financial Outcomes

The social dimension encompasses employee welfare, community development, and inclusive banking. Khan, Muttakin, and Siddiqui (2013) found that societal accountable practices improve brand equity and customer retention, indirectly enhancing financial outcomes. In India, banks like ICICI have pioneered social inclusion through rural banking and microcredit programs. These attempts not only highlight the societal needs but also expand the customer base, thereby improving long-term financial resilience.

Research Gap and Conceptual Framework

While international literature establishes the positive link between financial performance and sustainability, empirical research in the Indian context, particularly concerning private sector banks, remains limited. Existing studies often analyze CSR expenditures rather than integrated sustainability dimensions. This research fills that gap by evaluating the three sustainability pillars—economic, environmental, and social—and their individual impacts on financial performance indicators.

Methodology

Research Design

The work employs a descriptive and analytical research design, combining qualitative insights from sustainability reports and quantitative evaluation of financial data. It aims to assess how sustainability dimensions influence financial performance across two leading Indian private sector banks—HDFC Bank and ICICI Bank—over the 13-year period from 2011 to 2023.

Collection of Data

Data were sourced from published annual reports, financial statements, and sustainability disclosures of both banks. Financial performance indicators include:

ROA — indicating profitability relative to total assets,

ROE— measuring shareholders' returns, and

EPS — reflecting profitability per share.

Sustainability dimensions were operationalized as:

- Economic dimension: covering governance, efficiency, and responsible investment indicators,
- Environmental dimension: covering energy usage, waste management, and green finance initiatives, and
- Social dimension — covering employee welfare, community programs, and inclusion policies.

Each dimension was quantified through a content analysis of disclosed sustainability metrics, standardized on a percentage scale.

Descriptive Analysis of the Variables

Table 1 and Table 2 reiterate the descriptive statistics of financial performance and sustainability practices for both banks. The results indicate notable contrasts between HDFC and ICICI in profitability and sustainability engagement.

Table 1: Statistical description of financial performance indicators (2011–2023)

Indicator	Bank	Mean	St. dev	Max	Min
Return on Assets (ROA)	HDFC Bank	1.202	0.293	1.901	0.977
	ICICI Bank	0.794	0.300	1.171	0.249
Return on Equity (ROE)	HDFC Bank	16.557	2.610	21.828	13.691
	ICICI Bank	1.367	0.501	1.911	0.413
Earnings per Share (EPS)	HDFC Bank	0.320	0.057	0.433	0.279
	ICICI Bank	0.102	0.043	0.157	0.026

Table 1 shows HDFC Bank outperforming ICICI Bank across all financial indicators, suggesting stronger profitability and asset utilization efficiency.

Table 2: Statistical description of sustainability dimensions (2011–2023)

%	Bank	Mean	St. dev	Max	Min
Economic dimension	HDFC Bank	81.55	16.80	91.48	60.57
	ICICI Bank	90.03	14.11	98.77	80.77
Environmental dimension	HDFC Bank	34.61	30.18	64.23	10.87
	ICICI Bank	87.74	7.39	91.76	79.50
Social dimension	HDFC Bank	73.72	18.42	85.40	59.51
	ICICI Bank	77.24	15.59	93.92	62.74
Total	HDFC Bank	66.27	20.77	81.62	49.02
	ICICI Bank	81.34	13.59	94.13	68.94

Table 2 indicates ICICI Bank's higher engagement in sustainability, particularly in environmental initiatives, while HDFC Bank's strength lies in economic and social programs.

ICICI Bank recorded higher overall scores across all dimensions, totaling 81.34 (economic: 90.03, environmental: 87.74, social: 77.24), whereas HDFC Bank scored 66.27 (economic: 81.55, environmental: 34.61, social: 73.72). This disparity may be attributed to ICICI Bank's adherence to SDG goals and its consistent publication of annual sustainability reports since 2011, reflecting the bank's strong commitment to economic, environmental, and social sustainability practices.

Results

Hypothesis Testing and Regression Results

To evaluate the impact of sustainability dimensions (economic, environmental, and social) on financial performance indicators (ROA, ROE, EPS), multiple regression analysis was applied.

Table 3: Regression Analysis Results (2011–2023)

Independent Variables	EPS	ROE	ROA	VIF
Economic Dimension	0.541 (12.725)**	3.494 (4.089)**	1.122 (3.180)**	2.323
Environmental Dimension	0.222 (3.721)**	-0.217 (-0.822)	0.178 (0.637)	1.714
Social Dimension	0.764 (6.679)**	-1.780 (-1.173)	0.404 (2.117)*	2.958
R ²	0.326	0.083	0.195	
F-value	(6.812)**	(0.906)	(2.993)*	
D-W	1.878	1.793	1.811	

(*Significant at 0.05; **Significant at 0.01)

The results of regression analysis indicate that the economic and social dimensions exert a statistically significant consequence on EPS and ROA, but the environmental dimension shows no significant effect on ROE. The relatively low R² value for ROE (0.083) suggests that shareholder returns are less sensitive to sustainability-related factors and more affected by other financial determinants such as dividend policy or capital structure.

These findings align with the conclusions of Ameer & Othman (2012) and Lo & Sheu (2007), who also ascertained that while sustainability improves profitability and market valuation, its immediate reflection on equity-based returns tends to be delayed.

Interpretation of the Findings

• Economic Dimension

The results show a evidential relationship between the economic dimension and all three financial indicators. This implies that strong governance, ethical investment, and responsible financial management translate directly into better financial performance.

This results supports with Gupta & Aggarwal (2021), who found that Indian banks demonstrating higher levels of economic disclosure and ethical finance practices exhibit better profitability ratios. HDFC Bank's consistent focus on efficient capital allocation and prudent risk management, as reflected in its "Sustainable Banking" initiatives, supports this conclusion.

• Environmental Dimension

The environmental dimension shows a weak and statistically non significant relationship with ROE and ROA. This indicates that although banks are integrating green initiatives—like paperless banking, renewable energy projects, and carbon neutrality—such practices does not yield instant financial benefits.

This finding corresponds with Weber (2017) and Bhattacharyya & Rahman (2020), who highlighted that the financial payoffs of environmental sustainability often accrue in the long term through improved brand perception and reduced regulatory risks rather than short-term profitability.

ICICI Bank's higher environmental score (mean 87.74%) demonstrates its proactive engagement in green financing and SDG-linked lending, yet its financial returns lag behind HDFC's, underscoring this time-lag effect.

- **Social Dimension**

The social dimension—covering CSR activities, employee welfare, and inclusive banking—has a momentous affirmative relationship with EPS and ROA. Social responsibility enhances brand loyalty, customer trust, and market reputation, leading to stronger performance outcomes.

As supported by Khan et al. (2013) and Goyal (2019), firms piquant in societal liable banking generate intangible benefits such as stakeholder reliance and community goodwill, which indirectly strengthen financial health. HDFC Bank's "Parivartan" initiative and ICICI's rural empowerment projects exemplify these socially inclusive strategies that reinforce business sustainability.

Comparative Insights: HDFC vs. ICICI Bank (2011–2023)

Criteria	HDFC Bank	ICICI Bank
Financial Performance (ROA, ROE, EPS)	Superior and consistent	Moderate and fluctuating
Sustainability Practice Strength	Economic and social focus	Environmental and economic focus
Strategic Integration	Sustainability embedded in operations	Sustainability integrated in reporting
Outcome	Higher profitability and resilience	Stronger sustainability compliance but lower returns

While ICICI Bank excels in disclosure and environmental commitment, HDFC Bank's superior financial performance can be attributed to its balanced integration of all three sustainability pillars.

These patterns reaffirm the arguments of Eccles et al. (2014) that genuine integration—rather than symbolic reporting—of sustainability into core strategy yields higher returns.

Discussion in the Context of Global and Indian Literature

The results are pursuant with global empirical studies confirming the positive association between financial performance and sustainability.

For instance:

Friede, Busch, and Bassen (2015) found that 90% of ESG studies reported a non-negative correlation between sustainability and financial returns.

Waddock & Graves (1997) earlier established that socially responsible behavior strengthens overall firm performance.

Goyal (2019) emphasized that Indian private banks achieving alignment between sustainability and profitability outperform those treating CSR as compliance.

Even so, the relationship is not significant between environmental sustainability and ROE in this research supports Clark, Feiner, & Viehs (2015), who argued that environmental benefits often take longer to be reflected in equity-based metrics.

The research emphasizes the importance of "strategic sustainability"—where economic prudence, stakeholder inclusivity, and environmental stewardship are balanced rather than treated as independent silos.

Conclusions and Recommendations

Conclusions

This study concludes that sustainability dimensions significantly impact the performance of Indian Private Banks. The findings show:

- Economic and social sustainability have strong positive correlations with ROA and EPS.
- Environmental sustainability, while crucial for long-term resilience, does not show immediate financial benefits in ROE terms.

- HDFC Bank consistently outperformed ICICI Bank financially despite the latter's higher sustainability disclosure scores—highlighting that the quality and strategic integration of sustainability, rather than quantity of reporting, drive profitability.
- Sustainability, therefore, should not be viewed merely as a compliance or image-building exercise but as a financial and strategic necessity.

Policy and Managerial Recommendations

- **Strategic Integration:** Banks must embed sustainability into corporate governance, risk management, and financial planning to create long-term value.
- **Balanced Sustainability Focus:** Excessive emphasis on environmental reporting without measurable economic or social strategies may dilute financial effectiveness.
- **Enhanced Sustainability Reporting Standards:** The RBI and SEBI should promote standardized disclosure frameworks (aligned with GRI, TCFD, and SDG indicators) to ensure comparability and transparency.
- **Stakeholder Engagement:** Regular stakeholder consultations and community feedback can align sustainability practices with real social impact.
- **Capacity Building:** Continuous training for finance and risk officers on sustainability metrics, impact assessment, and ESG integration can strengthen implementation quality.
- **Future Research:** Future studies should expand to include more banks (public, cooperative, and foreign), additional indicators like Net Interest Margin (NIM) and Non-Performing Assets (NPA), and a longitudinal assessment of post-2023 regulatory impacts such as RBI's "Green Deposit Framework (2023)".

Limitations

- The research is restricted to two private sector banks, which may not fully represent the entire Indian banking sector.
- The analysis relies on secondary data, and disclosure variations may have influenced accuracy.
- Environmental impact assessments depend on reported data rather than actual emission or energy use audits.
- The period (2011–2023) includes macroeconomic fluctuations, which might indirectly affect financial ratios.

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