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Role of Leadership Behaviour in Sustainability: Financial Services Sector Players

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Abstract
The financial and economic crises that have been witnessed in many parts of the globe over the last two decades coupled with climatic and environmental changes, have necessitated new and innovative approaches by financial services sector players to create a better future. This paper addresses the missing link between economic, social and environmental sustainability on the one hand; and corporate social responsibility, green internal processes and green product development on the other. The paper reviews extant literature on progress already achieved in this area and proposes a new conceptual framework to guide modeling and measurement of sustainability and its predictor variables, going forward. It introduces leadership behaviour as a moderator of the mediated relationship between corporate social responsibility, green internal processes and green product development; and sustainability. In conclusion, the paper discusses the impact of leadership behaviour and recommends that empirical studies be carried out in order to escalate the sustainability agenda from a mere theoretical concept, to a practical level.
Keywords: Corporate Social Responsibility, Green Internal Processes, Green Product Development, Green Finance, Economic Sustainability, Social Sustainability, Environmental Sustainability, Leadership Behaviour

1. Introduction
Economists view sustainability as a way of defending economic efficiency (Sundar, 2006). Their view is guided by the belief that due to their scarcity, resources can be allocated or reallocated efficiently to maximize utility. They also suggest that operations and activities of an organization contribute to a nation's overall economic growth and stability, with minimal negative impact on the environment or society. Economic sustainability therefore entails the adoption of risk management guidelines on determining the types of risk and level of appetite that organizations get involved in (Van Greuning, 2009). In order to boost the sustainability agenda, many developed and emerging economies are now focusing on, and increasingly investing in, their financial services sectors through fiscal and monetary policies, infrastructure and enhancing leadership quality.

1.1 Financial services
The financial services sector is crucial in driving Gross Domestic Product (GDP) and development of an economy through enhancing financial intermediation, promoting financial inclusion, employment creation and payment of taxes to the state (Jeucken, 2010). Economic sustainability requires financial sector players to adopt best practices on transparency and accountability. Besides, they have to keep stakeholders well informed on costs of their operations. Financial institutions avoid undertaking ventures that expose them to unnecessary financial risks. They also take proactive steps to protect client deposits and to retain adequate capital for trading purposes. Besides this economic course for survival, they invest in community development projects through corporate social investment (CSI). This is because some of these institutions are conscious of the social and environmental risks they face, besides credit, reputational and compliance risks. They operate within a web of complex and competing interests of various stakeholders that present diverse expectations (Kariuki, 2015). This has prompted the urgent need for a well balanced view, between the diverse expectations by different stakeholders and the viability of the economic decisions organizations reach. Sustainability is therefore not an option for this sector because the services and products extended by financial institutions could have adverse effects on the environment, human rights, society and the economy (Van Gelder, 2006). The financial and economic crises witnessed in many parts of the globe over the last two decades, coupled with climatic and environmental changes, have all necessitated new practices and innovative approaches, so as to create a better future (San-Jose *et al*, 2009).

1.2 The Banking Subsector
Financial services sectors in emerging economies are bank-led, explaining reasons why the banking subsectors are in the forefront in pursuing implementation of sustainable finance (Kariuki, 2015). One of the main reasons why banks must pursue this agenda is because besides deposit-taking and lending to clients, they deal in investment, insurance, microfinance, custodial services, private equity ventures (Mugo *et al*, 2012) and engagement with the capital markets, to raise long term funding both locally and internationally. Clients, shareholders, investors and environmental activists usually organize campaigns against institutions that finance projects which have negative impacts on the environment and local communities (Jamali, 2008). Because of such activism, non-compliant institutions may suffer reputational loss and eventually lose customers and business. Sustainable finance concept

provides banks with an opportunity to develop innovative financial products and services (in existing and new markets), that have social and environmental benefits (Kariuki, 2015). Such opportunities are in renewable energy, energy efficiency, cleaner production processes and technologies, biodiversity conservation, microfinance, financial services for marginalized groups like youth and women, agency banking, and low-income housing. By developing financial products targeting such clientele, these institutions are able to get new business, access new markets, attract new capital, generate goodwill and attract support from stakeholders. Socially responsible banking demands that a series of principles be followed in the financial services market in guiding banks on how to offer financial products while considering sustainability issues. These organizations are also required to become more transparent in reporting their corporate social responsibility (CSR) activities (Scholtens, 2009).

2. Problem Statement

Sustainability-related issues are becoming increasingly important for organizations. Scarcity and volatility of resources; and cost, regulation, customer demands, investor pressure, emergence of new markets, economic uncertainty, changes in financial operations, necessity for intra-industry and global collaboration and the pressure from communities and interest groups are factors that have made sustainability agenda inevitable. According to Dyllick and Hockerts (2002), there are three key aspects to business sustainability. The first is an integration of economic, environmental and social elements. The second is going beyond the short-term financial benefits driven by shareholder expectations, to pursue a long-term value for all stakeholders. The third is maintaining not only the capital base of the firm, but also paying attention to the management of natural and social capital. Previous studies laid emphasis on the direct effects of the predictors of sustainability. For instance, empirical research has attempted to broadly address corporate social responsibility (Vaaland *et al*., 2008). Other studies have linked green bank marketing and product development to the broader CSR concept (Scholtens, 2009; Karna *et al*., 2003; Grove *et al*., 1996). What the studies have not brought out is the people factor, and particularly the influence of organizational leadership. No empirical studies have been done to establish the influence top-leadership behaviour has in balancing the interplay among the economic, social and environmental elements of sustainability. This paper therefore attempts to determine a conceptual framework that can be used by future studies, to establish the relationship between green banking and its predictors, and also between green banking and organizational sustainability. The import of future studies that will address the foregoing gap is not only the intersection between leadership behaviour and the three elements of corporate social responsibility, green internal processes and green products development; but also between leadership behaviour and business green finance. Notably, empirical studies should address how this intersection or interaction impacts on organizational business sustainability. This is a knowledge gap that yields a research problem and needs to be empirically bridged.

3. Literature Review

The classical and neo-classical scholars have viewed organizational development as a growth process or change in quantitative and qualitative terms which all organizations and economies go through (Beaudry and Portier, 2007; Kariuki, 2015). Over time it has been realized that by focusing on economic growth only, the social and environmental pillars of economic development end up overlooked. There has therefore been a need, than ever before, for integrating the social and environmental concerns in development. This is what led to the formulation of the principle of sustainable development. Sustainability is grounded on the principle of sustainable development i.e. meeting the needs of the present without compromising the ability of future generations to meet their own needs (Kates *et al*, 2005). Recent studies have shown a direct correlation between sustainability and profitability (Lopez, *et al*, 2007). Besides the usual customer screening done by every prudent banker, aimed at meeting regulatory due diligence obligations, environmental compliance screening has positive impacts on long-term profitability. Sustainable development is therefore a holistic and balanced concept that applies the principles of integration and focuses on the specific problems of resource depletion, health care, social exclusion, poverty, and unemployment, amongst others (Strange and Bayley, 2008).

The three pillars of sustainable development are society, economy and the environment (Mutisya and Yarime, 2014). These pillars are interrelated and interdependent. Ignoring one of them leads to a macro- or global crisis such as climate change. For example, improvement of production systems through technologies and processes that utilize resources more efficiently while producing less wastes, is an important improvement towards sustainability for business and industry (Davenport, 1993; Kariuki, 2015). Facilitating and encouraging creativity, competitiveness and voluntary initiatives is another approach to stimulating more varied, efficient and effective sustainable options. The advent and promulgation of sustainable development has led to concerted efforts by both the public and private sector players to integrate the concept in their operations and activities. In 1992, the Rio Conference adopted Agenda 21 as its action plan. This agenda stipulates that activities of business and industry increase prosperity as a goal of the development process. Leading institutions in the financial services sectors have therefore already formulated sustainability guidelines for adoption. The Global Reporting Initiative (GRI) was launched by UNEP in 1997 to promote sustainability reporting. The UN Global Compact initiative (2000) aims at

having a more sustainable and inclusive global economy. The International Finance Corporation (IFC) focuses on transforming markets by driving innovation and adding value to clients' business performance, ensures that the economic benefits from their lending are shared with the poor and vulnerable, and that development takes place in an environmentally and socially sustainable manner. Other institutions include the German Investment Corporation (DEG), Netherlands Development Finance Company (FMO), French Agency for Development (AFD) and African Development Bank (AfDB). As a matter of course, the foregoing multi-national corporations (MNCs) provide pricing incentives by asking borrowing financial institutions to ensure their business models encapsulate sustainability and environmental, social and governance standards. Sustainability compliant financial institutions are able to access direct and indirect funding from these MNCs at reduced cost. A memorable example is the pressure from some non-governmental organizations (NGOs), which led to the World Bank withdrawing its finance partnership with the Three Gorge Dam project in China, and the Namada Valley Series in India. Failure by institutions to conduct environmental, social and economic screening of projects can negatively affect the performance of their investment portfolios. Since most large scale projects depend on returns and assets from the projects to repay borrowed loans (i.e. self-liquidating), any failure to do sustainability screening will increase their clients' credit default risk (Ibtissem and Bouri, 2013). A financier that fails to carry out sustainability screening may have limited recourse in recouping the extended credit (Willis, 2003). Another effect is devaluation of collateral or loss of market valuation, because of non-compliance by clients, especially where competitive pressure in the market portrays a perception that other players within the sector have improved their practices with positive impact on their overall green agenda performance.

3.1 The Concept of Green Finance

Green finance is a business strategy that financial institutions adapt, so as to trade-off economic, social and environmental benefits. It integrates good governance, transparency, integrity and economic, social and environmental factors when extending credit to corporate clients. This strategy embeds resource efficiency and brings on board financial inclusion, such as supporting the small and medium enterprises (SMEs). It is a deliberate decision by financial institutions to provide products and services to only those clients who take into account environmental and social issues in their establishments (Babalola, 2014). This happens when an organization's activities generate benefits to employees, shareholders, customers and the economy, while at the same time conserving the natural environment. It is therefore noteworthy that the role of financial institutions in developed and emerging economies is not restricted to fiscal development and lending risk management, but it includes social and environmental sustainability.

In spite of the above mentioned benefits, coupled by growing consumerism (Campbell, 2005), government interventions and other initiatives aimed at sustainability in the sector, it is not lost that there have been some critics. For example, there are those of the view that community investments lack guaranteed returns to financial institutions (Gathungu and Ratemo, 2013) and that there is no need for pursuing them. Others argue that through corporate social responsibility (CSR) initiatives, these institutions are already engaged in sustainability work. Sustainable financing is also viewed as a constraint on the organizations' core business of profit-making, because of the attendant implementation costs. These costs are incurred in monitoring and evaluation of environmental impacts, opportunity costs in losing projects, preparation of sustainability reports and building in-house capacity. These costs at times overstretch smaller financial institutions. Further constraints are the absence of internal capacity to understand environmental impact and assessment of client activities, absence of qualified and affordable advisors in this field, lack of consistent application of relevant guidelines and even lack of relevant regulations, standards and guidelines. These constraints conspire to create obstacles to sustainable financing concept, coupled with lack of support from employees and management. The three predictors of Green Finance are CSR, Green internal process and Green product development.

3.1.1 Corporate Social Responsibility

This is a concept that refers to business decisions which acknowledge and recognize ethical values, compliance with legal requirements, and respect for people, communities and the environment (Kama *et al,* 2003).

3.1.2 Green Internal Process

This refers to a holistic management process responsible for detecting, expecting and satisfying the requirements of customers and society, in a profitable and sustainable way (Peattie and Charter, 2003).

3.1.3 Green Product Development

This is ensuring that all the four P's of the traditional marketing mix (Price, Product, Promotion and Place) are aligned to the development, pricing, communication and distribution strategies and systems that go to support energy efficiency and waste management (Evangelinos *et al*, 2009).

3.2 The Role of Leadership Behaviour

According to Dlamini (2010), adoption of voluntary sustainability programmes is a management or strategic response to reputational risk, which also benefits the society and natural environment. Despite evident emerging

and urgent need, in the contemporary operating environment, for effective leadership to coordinate factors of production, extant literature is limited in this area. Firms require leaders who are able to not just create value for shareholders and stockholders, but to also protect the environment and improve the lives of communities in which they operate and create benefit for present and future stakeholders, namely: - customers, employees, business partners, governments, local communities, and the public. Firms now require sustainability leaders who reflect an emerging purposeful consciousness and choose to live their lives, a health society and global economy and lead organizations in ways that account for their footprints on the earth (Ferdig, 2007). This paper therefore adapted and modified the sustainability model by Kaldschmidt *et al*. (2011), and came up with figure 1 below to shows the role of leadership behaviour.

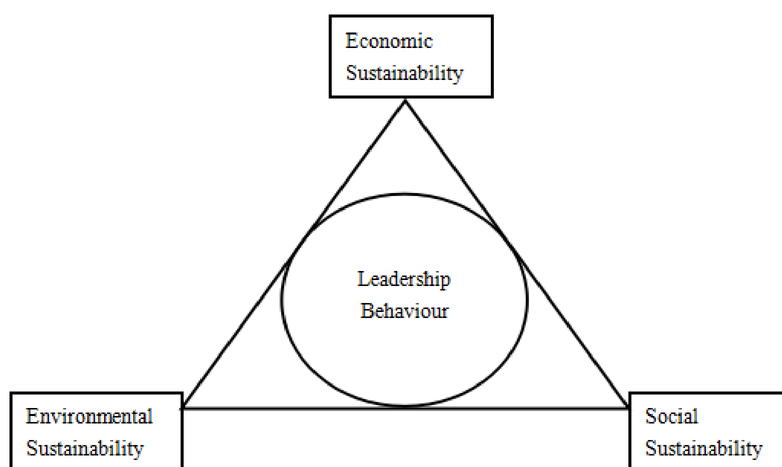

Figure 1: The interplay of leadership Behaviour, Economic, Social and Environmental Sustainability

Dyllick and Hockerts (2002) modelled a theoretical framework premised on just the three elements of economic, social and environmental perspectives of an organization. Kaldschmidt (2011), however indicated that sustainable strategic management of a firm is specifically focused on the management processes that integrate all of a firm's sustainability related responsibilities - economic, ecological, and social (Stead and Stead, 2010); in order to attain competitiveness in terms of cost and differentiation (Dyllick, 2004; Stead and Stead, 2010). The process involves efforts by the top leaders of the organization to successfully align their firms with the environment by developing strategies, which allow the firms to capitalize on their opportunities and minimize on environmental threats. The leadership comes up with a strategic vision that guides the firms' decision-making processes at all levels. The leadership develops a mission, guiding on the goals the firm wants to pursue. Strategic planning, monitoring and execution is contingent on the effectiveness of top leadership (Stead and Stead, 2010). Leadership behaviour goes further to ensure development of subordinates is accomplished through coaching, training and development, empowerment, participation and delegation. There is a positive relationship between developing leadership skills of employees and their performance; and by extension the level of firm performance (Abbas and Yaqoob, 2009). That is why this paper recommends leadership behaviour as a forth element upon which the other three elements are anchored.

4. Proposed Conceptual Framework

A conceptual framework has been adapted from Lymperopoulos *et al*. (2012) and modified as shown in figure 2. The study proposes that green finance concept mediates the relationship between corporate social responsibility, green internal processes and green product development, and organizational sustainability. Further, leadership behavior moderates the green finance concept and its antecedents and also between green finance and organizational sustainability. The paper therefore triggers a need for empirical studies in order to escalate the sustainability agenda from a mere theoretical concept, to a practical form.

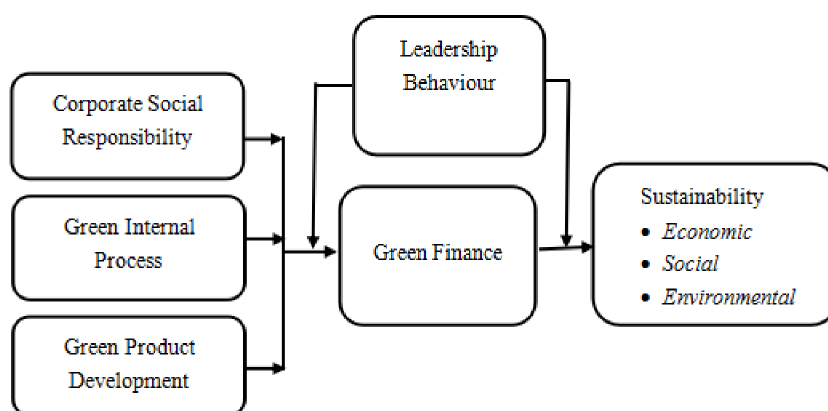

Figure 2: Role of Leadership Behaviour in Business Sustainability

5. CSR versus Sustainability

Sustainability is distinguishable from corporate social responsibility (CSR) in terms of benefits (Edu, 2012). Whereas CSR is an after-core business approach, i.e. where an institution carries out programs to benefit the community as a philanthropic exercise, sustainable financing is a core-business approach integrated into an organizations management and operations. CSR is sporadic while sustainable financing is embedded in a business strategy and therefore consistent and long-term (Katamba *et al*, 2012). Ultimately, sustainability extends profits to a company. Previous studies have shown existence of a correlation between profitability and sustainability. Although this poses challenges in achieving measurement with precision, environmental threats such as climate change have knock-on effects on key sectors of the economy including agriculture, tourism, transport and energy. These effects lead to economic slowdown, unemployment, migration, rises in commodity prices and volatility in the property market.

5.1 Implementing Sustainability

The implementation, monitoring and enforcement of sustainable development principles remain a challenge (McCool and Stankey, 2004). There are two main approaches: - the command and control model; and the voluntary approach. Each of these approaches has its own advantages and disadvantages. The command and control approach involves government agencies setting guidelines and standards and enforcing sanctions on compliance failures, or giving incentives for compliance so as to encourage acceptance and implementation. Some of the sanctions include cancellation or denial of licenses, imposition of fines or cancelation of projects. The main advantages of this approach are: - the guidelines are certain, adherence is mandatory and a high compliance rate is possible. The disadvantage however is the lack of adequate capacity to implement, by government agencies, hence a reduced effectiveness. Non-compliant parties may corrupt or influence the regulator, leading to poor implementation of the guidelines.

The voluntary approach is where organizations adopt and implement sustainable principles on their own initiatives. The main advantage of the voluntary approach is that organizations are likely to comply, for good reason of process ownership. Moreover, this saves tax payers money in setting and implementing sustainable standards and guidelines. Self-regulation complements regulatory initiatives and therefore ensures greater compliance. The salient disadvantage is unfair competition. Some institutions are unlikely to adopt the voluntary principles due to lack of sanctions (Amalric, 2005), avoiding to incur compliance costs, or avoiding costs in appetite for profits. Voluntary approach has no sanctions and encourages withdrawals at will; the standards are ambiguous, loose and differ from one organization to the other. This makes enforcement mechanisms weak and disjointed since compliance depends on industry discipline or peer pressure. Some institutions will benefit from the adoption of industry-wide guidelines without actually taking steps to adopt those guidelines i.e. only adopting them formally without implementing them.

5.2 Conclusions

In conclusion, a review of extant literature, and a conceptualization of the framework for future empirical testing, offers important implications for both scholars and strategic management practice. Practicing managers and Policy makers find some useful model for application in designing strategies in enhancing and sustaining firm performance. More notable is the appropriate considerations that have to be taken into account when acquiring resources and selecting the competencies and capabilities that would avail desired results efficiently and effectively. The model provides a guide to CEOs and firm owners in the financial services sector, to appreciate the impact of

leadership behaviour in the sustainability agenda especially in the contemporary dynamic operating environment where the balance between economic, social and environmental pillars of sustainability is an imperative narrative. The paper demonstrates why firm owners should recruit CEOs who possess compatible leadership behaviours. The findings are useful to other firms in other sectors too. On the theoretical scholarly field, the paper makes valuable knowledge contribution to strategic management theories that ground firm competitiveness and sustainability.

5.3 Recommendations for Further Study

It is hoped that the results would spur additional research to encompass other leadership aspects like psychology, temperament, training and experience etc., which affect strategic behavior. Sustainability in the financial services sector provides an attractive research area, particularly when variables such as regulatory framework, competition, leadership behaviour and organizational size, play a role even when they are moderated by contextual factors. Some of the critical aspects of focus would be the extent to which institutions are complying with environmental legislations and the environmental impacts of their products and services, environmental behavior of their (existing and potential) clients and the adoption of environmental management systems (such as green energy, double sided photocopying, use of recycled paper, provision of staff buses, and good usage of water). Sustainability in financial services sector will be attained when only those projects that are environmentally sound and demonstrate their ecological footprint, start to attract the finest priced finance. That is when development will, to an extent, meet the needs of the present society without compromising the ability of future generations to meet their own.

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