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The banking sector's response to environmental sustainability

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ABSTRACT

The major theme of this research has been to understand the South African banking sector's response to environmental sustainability. The research was both qualitative and quantitative in nature.

To elicit understanding of these responses, semi-structured interviews were undertaken with representatives from seven South African banks. The research interviews revolved around four core themes; the environmental drivers, environmental strategy implementation, the corresponding practices undertaken and their frame of reference according to the sustainable value framework, together with the relevant benefits and costs realised.

The key research findings of the study include: all of the banks have either formalised or are in the process of formalizing a response to the pursuit of environmental sustainability; the banks either have or are in the process of developing a sustainability strategy; the growing environmental concerns and credit risks are currently the primary drivers of pursuing environmental sustainability. Furthermore, the practices adopted by the banks to pursue environmental sustainability were currently internally focused with priority for operational quick wins addressing risk and cost reduction.

Based on the research findings, recommendations have been made to further enhance the pursuit of environmental sustainability. These include: integration of environmental sustainability factors in performance reporting for all business units; integration of environmental sustainability criteria in all business case assessments.

KEYWORDS

Sustainability

Environment

Banks

Governance

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfillment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorization and consent to carry out this research.

Name :

Signed :

Date :

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1. INTRODUCTION TO RESEARCH PROBLEM

“It is no longer a question of if we need to address sustainability, nor is it about what needs to be done. The issues are HOW and WHEN.”

(World Business Council for Sustainable Development (WBCSD), 2010, p.9)

1.1 Description of Problem and Background

1.1.1 Introduction to Problem

The global environmental crisis has come about due to the failure of the market to adequately consider environmental risk when making decisions (Dunphy, Griffiths and Benn, 2003). Stern (2006) argues that our current and future actions could result in changes that are difficult or impossible to reverse due to the scale of the risks created, that will inevitably disrupt our economic and social activity. This crisis is global in scale and requires concerted and coordinated action from world governments, the business sector as a whole and all communities (Dummett, 2008; WBCSD, 2010). The role being played by the banking sector in the context of environmental sustainability in South Africa is the focus of this report.

1.1.2 Sustainable Development and Environmental Sustainability

1.1.2.1 Global Context

In a Global context, the Brundtland Commission defined sustainable development as “paths of progress which meet the needs and aspirations

of the present generation without compromising the ability of future generations to meet their own needs” (Brundtland, 1987). According to Porritt (2001), this definition implies that wealth creators today often find themselves operating in three different time zones:

- Clearing up of legacy issues and the related liabilities arising from cost externalisation in previous years;
- Far higher expectations on the part of contemporary consumers and citizens who regard cost externalization as unacceptable price for economic progress;
- Taking account of the interests and rights of future generations.

According to WBCSD (2010), the above implications emphasize that sustainability is more than mere window-dressing. In pursuing sustainability, companies can gain competitive advantage, increase their market share, and boost shareholder value (IISD, 2007).

1.1.2.2 South African Context

The South African National Strategy on Sustainable Development (NSSD, 2010) states that the concept of sustainable development is a conceptual framework for development that recognizes the interdependencies between economic growth, social equity and environmental integrity. According to the South African Department of Environmental Affairs and Tourism (DEAT, 2006), the concepts of economic, social and environmental sustainability are interdependent outcomes of sustainable development.

Resource use efficiency and intergenerational equity are part of the core principles of sustainable development (WBCSD, 2010), which implies guaranteeing everyone a decent life without damaging the ecological system to the detriment of future generations (Garvare and Isaksson, 2001). The NSSD (2010), states that sustainable development implies “the selection and implementation of a development option which allows for the achievement of appropriate and justifiable social and economic goals without compromising the natural system on which it is based”. In addition, the National Environmental Management Act (No. 107 of 1998) definition states “*Sustainable development means the integration of social, economic and environmental factors into planning, implementation and decision-making so as to ensure that development serves present and future generations (DEAT, 1998 p.9).*”

The South African government recently, 26 Oct 2010, endorsed the new growth path framework that aims at addressing unemployment, inequality and poverty through, amongst others, environmental sustainability initiatives in the country using the green economy as one of the six key sectors that have been identified to unlock the employment potential (GCIS, 2010). In the green economy, the new growth path projects a jobs potential of 400 000 by the year 2030. These additional jobs will be created through the expansion of existing public employment schemes to protect the environment and bio fuel production (GCIS, 2010).

1.1.2.3 Financial Sector Context

As this report is based on sustainability from a banking perspective, the United Nations Environmental Programme Finance Initiative (UNEP-FI) (2007 p.41) report defines sustainable banking as *“the process whereby banks consider the impacts of their operations, products and services on the ability of the current or future generations to meet their needs.”*

The focus of this research will be on the latter definition considering only the environmental component of sustainable development. Within the context of this document, environmental sustainability and sustainability will be used interchangeably.

1.1.3 Global Response to Environmental Sustainability

According to Ernst & Young (2009), strategic pressures created by rising environmental concerns and the threat of climate change continues to escalate as one of the top ten global business risks. The key factors that are seen as catalysts in the global economic and environmental collapse have been identified as exponential growth coupled with the development of technology by society (Meadows, Randers and Meadows, 2004). The International Finance Corporation (IFC) (2007) states that sustainability has become an essential element of competitive advantage and something businesses can no longer ignore. In response to this trend, companies across the globe are looking to integrate sustainability into their businesses (WBCSD, 2010).

According to Milne, Kearins and Walton (2006), worldwide business interest in the concept of sustainability appears to be increasing as evidenced through the emergence of various dedicated business associations, award schemes, reports and discussion documents on the implications of sustainability for business. According to the WBCSD (2010), there has been progress toward government and business leaders working more closely in partnership, yet not enough has been done to create the systemic changes necessary to successfully address the global challenges climate change, poverty and natural resource scarcity.

This slow response has also been compounded further by the global economic crisis as the media and business experts have cautioned against the aggressive response to climate change in case it negatively affects economic recovery and growth (Smith & Karlson, 2009).

However, Lacy, Cooper, Hayward & Neuberger (2010), found that despite the recent economic downturn, corporate commitment to the principles of sustainability remains strong throughout the world with 93% of the CEOs in their survey seeing sustainability as important to their company's future success. Compared to the McKinsey 2007 survey (Lacy, Oppenheim, Bonini, Bielak & Kehm, 2007), which showed that sustainability was just emerging on the periphery of business issues, Lacy *et al* (2010) state that their latest survey highlights that sustainability is truly top-of-mind for CEOs around the world.

1.2 The South African Banking Industry

1.2.1 An Overview

According to the World Economic Forum Global Competitiveness Report (WEF, 2010), South Africa has the largest economy in Sub-Saharan Africa as well as one of the most advanced banking system globally, ranking ninth globally out of 139 countries and the leader on the African continent. According to the United Nations Environmental Programme Finance Initiative (UNEP-FI) African Task 2 Force report (2007), South Africa is the economic powerhouse of Africa, with a gross domestic product (GDP) comprising around 25% of that of the entire continent. South Africa's banking sector is highly consolidated (SARB, 2009) and is also host to the five biggest banks in Africa. These dominate South Africa's market, accounting for close to 90% of the banking assets (The Banker, 2010). As at the end of June 2009, there were 35 banking institutions reporting data to the office of the Registrar of Banks with 13 of them being locally controlled. In addition, 43 international banks have authorised representative offices in South Africa (SARB, 2009). The South African financial sector is recognised as world class in terms of its skilled workforce, adequate capital resources, infrastructure and technology, as well as being considered a global leader in the product innovation space (WEF, 2010).

Within South Africa, the Financial Services Board oversees the regulation of financial markets and institutions, including insurers, fund managers and broking operations, but excludes banks, which fall under the South African

Reserve Bank. The Banks Act (No 94 of 1990) is primarily based on legislation similar to that of the United Kingdom, Australia and Canada.

The WEF (2010) states that the South African banking sector compares favourably with industrialized countries in terms of the strength of its banking systems, legislation, central bank and the overall structure of the sector.

Investment and merchant banking remains the most competitive front in the industry, with many major South African banks competing for business throughout Africa. While not a direct driver, the relative size and sophistication of the South African banking sector implies that it has a critical leadership role to play in forwarding the sustainability agenda in the banking industry across Africa (UNEP-FI, 2007).

The UNEP-FI (2007) argues that a sustainable bank considers the impacts of its operations, products and services on the ability of the current and future generations to meet their needs, which implies that banks can be deemed to have direct and indirect impacts on the environment. Direct impacts are those related to the banks "operations and would include issues such as: energy efficiency, waste recycling and ecological footprint. Indirect impacts are those that follow from the banks" products and services, typically these impacts are associated with the finance and investment activities of banks (UNEP-FI, 2007).

Banks provide credit and loans to thousands of businesses and individuals and ultimately, by including environmental sustainability factors in credit

risk management, banks can allocate finance in a manner that mitigates the negative impacts on the environment and influence business to manage the environment responsibly (UNEP-FI, 2007).

The growing reputation pressures for sustainable investment and lender's liability for environmental impacts heightens the need for the banks to understand and manage the credit risks (Watchman, Delfino & Addison, 2007; Scholtens & Dam, 2007). The size of the banking sector's asset value relative to the gross domestic product (GDP) underlines the importance and potential influence of the banking sector to the South African economy (Hawkins, 2004; UNEP-FI, 2007).

1.2.2 Legislative and Regulatory Framework

According to the UNEP-FI (2007), the following elements govern the South African banking sector in terms of sustainability:

- The Johannesburg Stock exchange (JSE) requires listed companies to comply with the latest Institute of Directors in Southern Africa (IOD, 2009) King III Report on Corporate Governance, which necessitates adherence to Global Reporting Initiative (GRI) guidelines for integrated sustainability reporting. In May 2004 the JSE launched the Socially Responsible Investment (SRI) Index, which aims to assess the extent to which companies comply with a series of triple bottom line performance criteria. The index was the first of its kind in an emerging market, as well as the first of its kind in Africa.
- The Bill of Rights under South Africa's Constitution, entitles all South Africans the right to an environment that is not harmful to human health

or well-being and to have the environment protected for the benefit of present and future generations. As a result, the legal tools now exist for the public to enforce environmental laws through class actions. The following major Acts presently account for the bulk of environmental regulation in South Africa: National Environmental Management Act (NEMA) No.107 of 1998 and the National Water Act (NWA) No.36 of 1998.

- The Basel II Accord proposes that banks disclose their operational risk in order to accurately determine their capital adequacy requirements. The Accord considers the management of environmental, social and governance risks as an integral part of operational risk management.
- A growing awareness amongst the local banks of voluntary industry agreements, including the agreements listed in Table 1.

Table 1: Voluntary industry agreements for financial institutions

AGREEMENT	DESCRIPTION	YEAR
The UNEP Statement by Financial Institutions on the Environment and Sustainable Development	Members of the financial services industry declaring recognition that sustainable development depends on positive interaction between socio-economic development and environmental protection, to balance the interests of current and future generations. They further committed to working together with government, business and individuals within the market mechanism framework towards common environmental goals (://www.unep.org).	May 1997
The Equator Principles	A set of voluntary principles for financial institutions that seek to ensure that projects financed through these FIs are developed in a manner that is socially responsible and reflect sound environmental management practices (://www.equator-principles.com).	Jun 2003

The Collevocchio Declaration on Financial Institutions and Sustainability	A declaration that calls on Financial Institutions to embrace six commitments which reflect civil society's expectations of the role and responsibilities of the financial services sector in fostering sustainability. Main argument is that financial institutions (FIs) play key roles in channeling financial flows, creating financial markets and influencing international policies in ways that are too often unaccountable to citizens, and harmful to the environment, human rights, and social equity (://okobank.hu).	Jan 2003
The United Nations Principles for Responsible Investment	A set of voluntary principles aiming to help asset owners and asset managers integrate consideration of Environmental, Social and Governance issues into investment decision-making and ownership practices (://www.unpri.org).	April 2006
The code for Responsible Investing by Institutional Investors in South Africa	A voluntary framework that can be used to ensure sound governance is practiced by institutional investors and financial service providers. The code encourages the incorporation of Environmental, Social and Governance (ESG) considerations in investment analysis and activities (://www.iodsa.co.za).	Sept 2010
The United Nations Global Compact Differentiation Framework	A practical roadmap to help all companies in the Global Compact improve sustainability performance and disclosure and to give recognition for progress made (://www.unglobalcompact.org).	Oct 2010
International Corporate Governance Network (ICGN) Corporate Risk Oversight Guidelines	Guidelines intended for institutional investors to assist in assessing how well a company's board is effectively overseeing ESG risk management (://www.icgn.com).	Oct 2010

1.3 Research Purpose

The purpose of this research has been to understand the South African banking sector's response towards the pursuit of environmental sustainability and was descriptive in nature. The following tasks were undertaken:

- Identify the strategic approach adopted by financial banks in pursuing environmental sustainability.
- Identify those drivers promoting the pursuit of environmental sustainability.
- Identify the practices adopted in pursuing environmental sustainability and plot them on Hart's (2007) Sustainable Value Framework.
- Identify any benefits and costs resulting from the pursuit of environmental sustainability.
- Compare the research findings to those that were established during the review of the literature.

1.4 Scope of Research

This study included both direct and indirect impacts by financial institutions and was confined to environmental sustainability and not sustainability in general. The study was limited to South African controlled banks listed on the top 200 African banks report (the African report, 2010) with the exception that if the bank had changed ownership to foreign within the last 5 years, it was still considered.

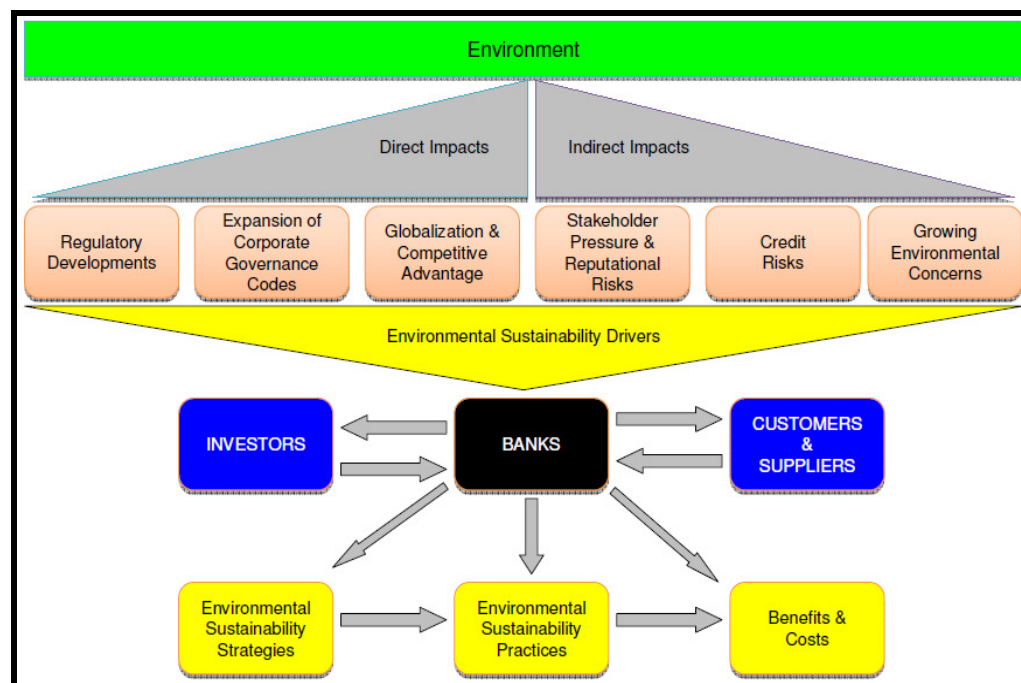
2. LITERATURE REVIEW

2.1 Introduction

From the literature review, four central themes pertaining to the banking sector's response to environmental sustainability were identified and depicted in Figure 1.

- Environmental sustainability drivers
- Environmental sustainability strategies adopted in pursuing environmental sustainability
- Environmental sustainability practices adopted in pursuit of environmental sustainability
- Benefits and costs of pursuing environmental sustainability

Figure 1: The banking sector's response to environmental sustainability



2.2 Environmental Sustainability Drivers

2.2.1 Regulatory Developments

The WBCSD (2010) states that global trends indicate positive developments in the context of regulatory framework, which is indicated by the progress of government and business leaders working together more closely in partnerships. But not enough has been done to create the systemic changes necessary to successfully address the global challenges of climate change and natural resource scarcity.

In South Africa, the state is obliged to take reasonable legislative and other measures to ensure environmental protection, equitable access to land, access to housing, health care, food, water and social security and to address previous imbalances in society (AICC, 2004). According to Tucker & Gore (2010) the NEMA (1998) and NWA (1998) extend the net of liability to include persons who 'indirectly contribute to' or benefit from pollution or degradation. Tucker & Gore (2010) further state that it is possible that in certain circumstances, liability may extend to include a lender. Prudent lenders are following the environmental trends and changes in regulatory frameworks to assess the possible implications of these changes on their clients' overall financial position, to ensure the loan is repayable or the collateral value is not reduced through contamination (IISD, 2007).

2.2.2 Expansion of Corporate Governance Codes

The IOD (2009) argues that there is always a link between good governance and compliance with law. In South Africa corporate

governance is a well-developed concept with the King Committee on Corporate Governance publishing the first King report on Corporate Governance in 1994 (AICC, 2004). In 2002, the King Committee issued its second report (King II), which advocates principles of openness, integrity and accountability. It identifies seven primary characteristics of good governance, namely discipline, transparency, independence, accountability, responsibility, fairness and social responsibility (IOD, 2002). In 2009, the King Committee issued its third report (King III) with an effective date of 1 March 2010. The philosophy of this report revolves around leadership, sustainability and corporate citizenship (IOD, 2009 p.8):

- *“Responsible leaders direct company strategies and operations with a view to achieving sustainable economic, social and environmental performance...” (IOD, 2009).*
- *“Nature, society and business are interconnected in complex ways that should be understood by decision-makers. Most importantly, current incremental changes toward sustainability are not sufficient – we need a fundamental shift in the way companies and directors act and organize themselves...” (IOD, 2009).*

In terms of sustainability, it means that the Board of Directors are expected to lead the company ethically for sustainability, which entails taking account of the legitimate expectations of all stakeholders including the environment in their integrated report (KPMG, 2010).

2.2.3 Globalization and Competitive Advantage

Many of today's energy and material intensive industries may soon become unnecessary due to the emerging technologies that may provide potent, disruptive solutions (Hart, 2007). These include genomics, bio mimicry, nanotechnology, information technology, and renewable energy, which all have the potential to reduce the human footprint on earth (Hart, 2007). According to the IISD (2007), in the banking sector, the traditional approach to sustainability is often regarded as reactive and defensive.

According to Nidumolu, Prahalad and Rangaswami (2009), many companies are convinced that being environmentally friendly erodes their competitiveness through increased costs and non-delivery of immediate financial benefits. However, Nidumolu *et al* (2009) argue that the quest for sustainability is already starting to transform the competitive landscape, which will force companies to change the way they think about products, technologies, processes, and business models because sustainability will always be an integral part of development. Furthermore, early movers who treat sustainability as a goal, develop competencies that rivals will find difficulty matching (Nidumolu *et al*, 2009).

According to Porritt (2001), companies that were previously oblivious to sustainability (see Figure 3) realize huge savings when implementing relatively simple eco-efficiency programmes like controlling inputs (energy and raw materials), designing more efficient processes, waste minimization and recycling, referred to as the eco-efficiency stage (see Figure 3). These

practices obtain approval in companies because of the business case that shows cost savings whilst supporting sustainable development.

According to IISD (2007), several international banks have recently adopted innovative, proactive strategies to capture the opportunities associated with sustainability. They have developed new products such as ethical funds or loans specifically designed for environmental businesses to capture new market opportunities associated with sustainability (IISD, 2007). In the near future, only companies that rely on sustainability as the main strategic objective will manage to develop a decisive competitive advantage (Kmen, 2010).

2.2.4 Stakeholder Pressure and Reputational Risks

Globalization has led to the eroding of national government power, resulting in the emergence of global trade regimes, non-governmental organizations (NGOs) and other civil society groups who have stepped in play the role of monitor and in some cases enforcer of social and environmental standards (Hart, 2007). The internet and information technology has led to rise of internet-connected coalitions of NGOs, making it increasingly difficult for governments, corporations or any large institutions to operate in secrecy. According to Harvey (2005, p.13), *“Increasingly, environmental groups hoping to expose those responsible for catastrophes, and prevent them happening again, are working up the chain of financial responsibility. Not content with holding up to public scrutiny the companies directly involved, they are seeking out the organizations that provided finance for projects that end in such disasters”*.

These trends have led to strict international regulations and conventions of environmental protection along with the rise of consumer environmentalism in response to climate change (Chen, Shyh-Bao and Chao-Tung, 2006). For example, the financiers, developers and government responsible for the routing of the Chad-Cameroon pipeline came under heavy scrutiny by environmental NGOs, due to its proximity to sensitive environments (AICC, 2004). Environmental pressure groups also lobbied against the Eskom's World Bank loan arguing that it would encourage the use of coal, and the US Treasury Department declined to vote for it, citing concerns about the climate impact of the project (Ferreira, 2010).

According to the reputational risk radar RepRisk (2010), Transocean Ltd and BP PLC were the most controversial companies in June 2010. Transocean was the owner of the Deepwater Horizon oil rig, operated by BP, which exploded off the Gulf of Mexico killing 11 workers and started an oil spill that reached catastrophic proportions. Companies listed on the reputational risk radar face severe stakeholder pressure through constant criticism by the world's media, governmental organizations and NGOs for issues including severe environmental violations, as well as breaches of labour, and health and safety standards. According to the EIU (2005), protecting a firm's reputation is the most important and difficult task of senior risk managers. Firms therefore have no choice but to operate in a transparent, responsive manner due to a very well-informed, active stakeholder base (Hart, 2007).

2.2.5 Credit Risks

According to the International Institute for Sustainable Development (IISD, 2007), lender's liability is associated with the financial risks banks face when granting or extending loans. Banks and other lenders rely on financial statements of companies when deciding whether to grant or extend credit. They need to be fully and accurately informed about decommissioning liabilities in order to avoid unacceptably high financial risks. Under current reporting requirements, potential environmental liabilities can easily remain undiscovered unless a lender develops its own procedure to assess the environmental risks (IISD, 2007). Therefore, some banks can end up spending money on the cleaning up of sites contaminated through their clients' activities.

2.2.6 Growing Environmental Concerns

Recent scientific discoveries of environmental and health risks associated with pollution have also contributed to an increase in public demand for environmental quality. These growing concerns have contributed to a major shift in public perception of corporate roles in society. Influenced by these trends, some banks have begun looking closely into their own environmental and social performance. In many cases this effort has resulted in adoption of energy and resource efficiency programs within the institutions themselves (IISD, 2007).

2.3 Environmental Sustainability Strategies

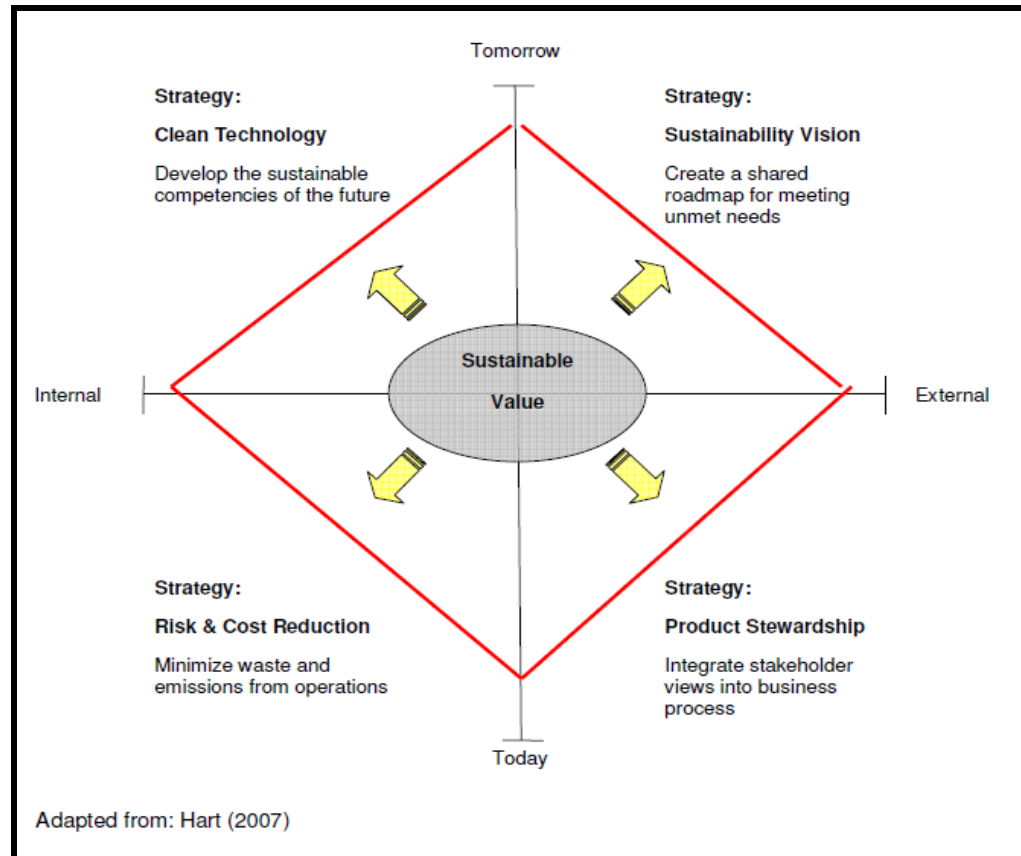
According to Hart (2007), addressing environmental sustainability concerns requires a combination of the firm positioning and the resource

based view of the firm. Firm positioning is about obtaining a favourable competitive advantage in an industry, which is done through either cost leadership or product differentiation (Porter, 1998). The resource based view of the firm states that competitive advantage should not be seen as a function of industry structure but as resulting from the firm's use of its resources (Orsato, 2006).

Hart (2007) argues that although the companies' business interest is increasing in the concept of sustainability, the biggest opportunity for the future lies the eco-efficiency stage yet most companies still focus virtually all their attention on eco-efficiency initiatives or (worse) mere compliance. In the South African context, the banking sector now has the Banking Association of South Africa (BASA) Sustainability Forum which will assist in ensuring that the banks learn from each other by sharing strategies and practices being adopted in pursuing environmental sustainability. This forum will also assist in avoiding situations where the need to become sustainable is treated as a corporate social responsibility, divorced from the business objectives (Nidumolu *et al*, 2009).

Hart (2007) provides a framework for addressing environmental sustainability concerns that integrates both the firm positioning and the resource based view of the firm as seen in Figure 2. Using this framework, different types of sustainability strategies can be deployed depending on the drivers, time horizon (tomorrow, today) and focus (internal or external) with the associated benefits and costs. To achieve maximum sustainability requires a balanced portfolio of all the strategies in all four quadrants (Hart, 2007).

Figure 2: Sustainable Value Framework



According to the AICC report (2004) and Nidumolu *et al* (2009), the four stages in Figure 3 represent awareness stages of the banks:

2.3.1 Defensive Banking

A defensive approach consists of basic environmental risk management, where broader sustainability issues are overlooked or ignored (AICC, 2004). In this stage firms rely upon the extraction of cheap raw materials, exploitation of factory labour, and production of mass quantities of waste and pollution (Hart, 2007). The main focus is on the maximisation of profits, irregardless of the cost.

2.3.2 Reactive Banking

There is more systematic management of environmental and social risk (AICC, 2004). In this stage the firms believe that they must sacrifice financial performance to meet societal obligations (Hart, 2007). In this stage, the company managers and executives think of environmental and social issues as negative for the business (Hart, 2007). According to Hart (2007), these companies as a result do only the bare minimum necessary to avoid legal sanction. Nidumolu *et al* (2009) states that companies are tempted at this stage to adhere to the lowest environmental standards for as long as possible. Nidumolu *et al* (2009) further argues that at this stage, it is advisable for a company to comply with the more stringent rules before they are enforced, which yields first mover advantage in terms of fostering innovation.

2.3.3 Competitive Sustainability Advantage

There is strategic management of environmental and social risk, including limited environmental and social value added (AICC, 2004). In this stage environmental and societal issues are seen through the prism of quality and stakeholder management, as they can become important opportunities to improve its environmental, societal and operating performance simultaneously (Hart, 2007).

According to Nidumolu *et al* (2009) companies have become more proactive about environmental issues and work with suppliers and retailers to develop eco-friendly raw materials and components and reduce waste.

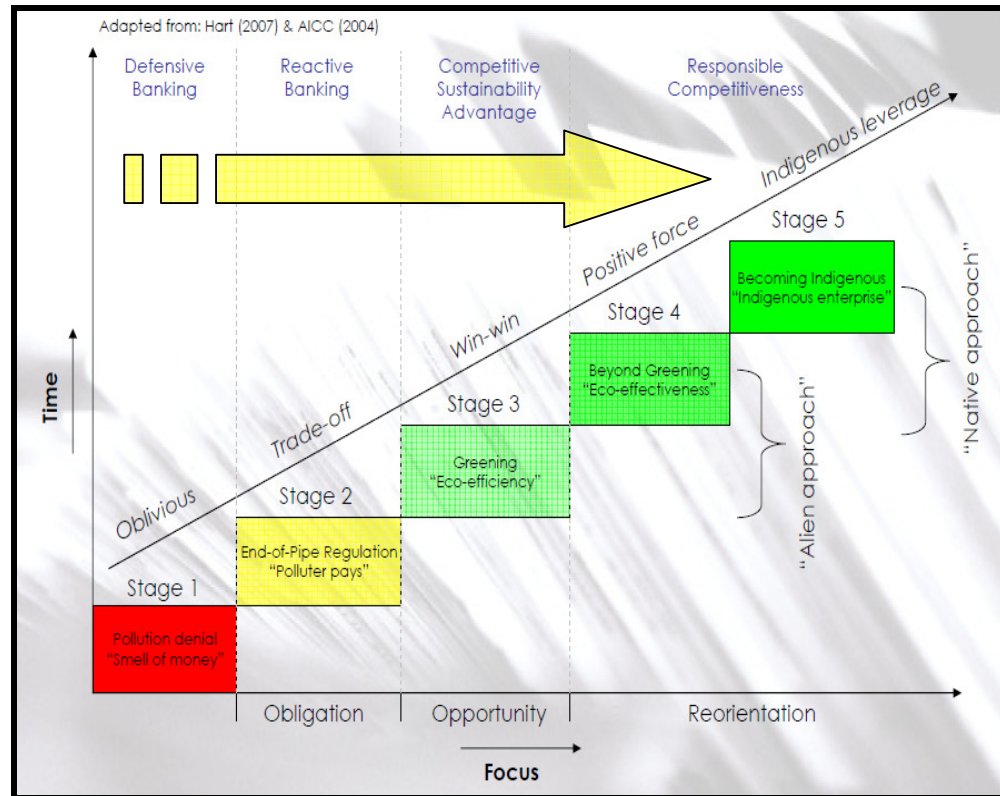
This stage eventually leads to reduction in costs and possibly the creation of new business (Nidumolu *et al*, 2009). Eventually, the companies create environment friendly value chains that result in monetary benefits through energy efficiency and waste reduction (Nidumolu *et al*, 2009). During this stage environmental concerns take root within the business units and the sustainability strategy of the company is integrated into the company strategy allowing the executives to tackle the next stage (Nidumolu *et al*, 2009)

2.3.4 Responsible Competitiveness

During this stage environmental concerns have taken root within the business units and the sustainability strategy of the company is integrated into the overall company strategy allowing the executives to tackle this stage (Nidumolu *et al*, 2009). The firm not only hopes to address the mounting environmental and social concerns, but also focuses on building the foundation for innovation and growth in the coming decades (Hart, 2007).

According to Nidumolu *et al* (2009), this stage entails the development of innovations that lead to new practices that fundamentally change existing business paradigms. Furthermore, Hart (2007) states that the next challenge will be for firms to be 'indigenous' to the places in which they operate. This will entail the development of new 'native' capabilities that enable a company to develop relevant solutions that respect local culture and natural diversity (Hart, 2007).

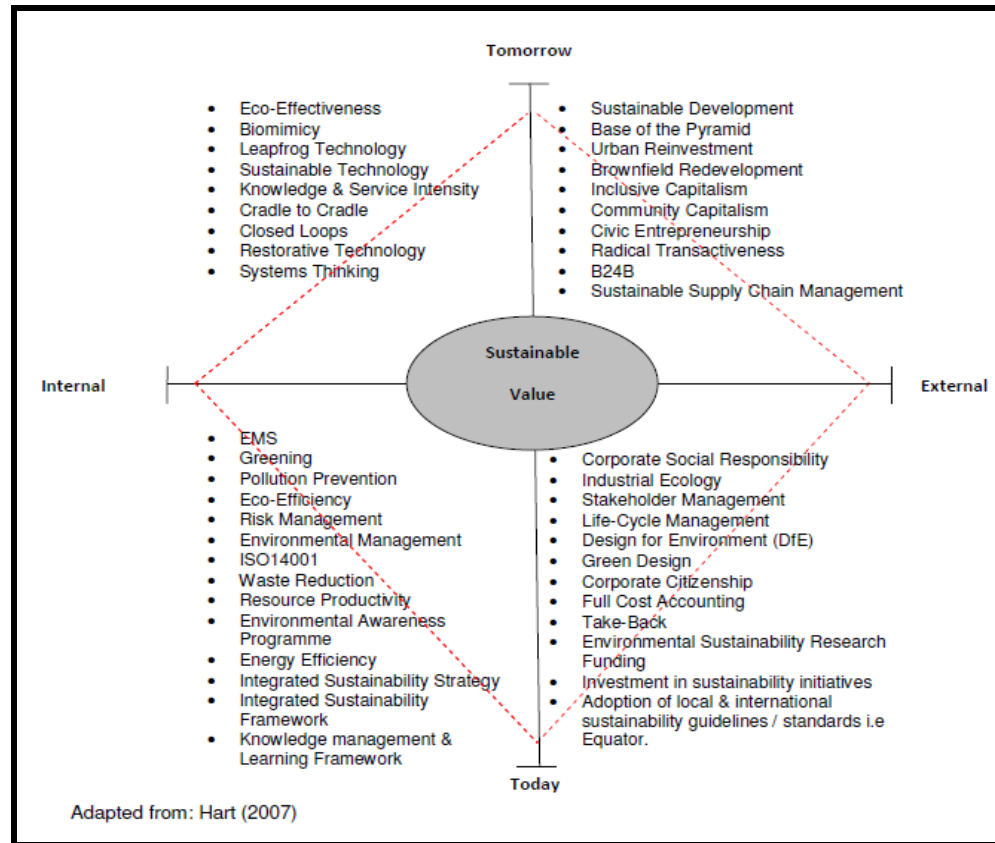
Figure 3: Maturity stages to sustainability issues (Strategic Themes)



2.4 Environmental Sustainability Practices

According to Hart (2007), environmental sustainability practices can be grouped into four categories based on a combination of the following; internally and externally focused practices, current and future focus. The vastness of this list shows that these sustainability practices are applicable to the whole organization and not reserved for one department of the firm (see Figure 4). The four quadrants of the sustainable value framework represent the four dimensions of environmental sustainability strategic themes (see Figure 2); most companies will be heavily skewed towards the lower left quadrant because of emphasis on risk and cost reduction in their strategy (Hart, 2007).

Figure 4: Balanced portfolio of sustainability practices



A bottom heavy portfolio indicates a focus on the organisation’s current operations but leaves it vulnerable to the future, whereas a top heavy portfolio indicates a vision lacking the skills required for implementation (Hart, 2007).

Hart (2007) further states that a left-skewed portfolio indicates a preoccupation with achieving environmental sustainability through process and technology improvements, whereas a right-skewed portfolio runs the risk of being labelled as “green washing” because the underlying operations and technology continue to cause a negative environmental impact, which implies misleading instances of environmental advertising in an attempt to portray themselves as environmentally and socially

responsible (Hart, 2007). According to Hart (2007), it is crucial for a company to attain a balanced portfolio of practices under the adopted strategies to deal with the current-future as well as the internal-external dimensions of environmental issues (see Figure 4).

2.5 Benefits and Costs of Pursuing Environmental Sustainability

According to the IFC (2007), growing evidence is highlighting that innovative approaches to sustainability can bring substantial benefits to the bank's overall business performance including:

- Greater and higher long-term returns by financing more sustainable projects and businesses
- Reduced risk
- New business development through new products and services
- Increased market share in sustainability-driven sectors
- Enhanced reputation and better brand value
- Better access to capital from international financial organizations
- Increased value to shareholders

The benefits obtained from environmental sustainability practices assist in enabling product differentiation and/or cost reduction as well as the resource based view of the firm (Orsato, 2006). According to Porritt (2001), these benefits can be grouped into five categories; eco-efficiency, quality management, license to operate, market advantage and sustainable profits.

Table 2: Benefits associated with implementing environmental sustainability initiatives

Eco-Efficiency
Reduced costs
Costs avoided (Design for Environment, Eco-innovation)
Optimal investment strategies
Quality Management
Better risk management
Greater responsiveness in volatile markets (resilience)
Staff motivation / commitment
Enhanced intellectual capital (knowledge management)
License to Operate
Reduced costs of compliance
Regulatory tax incentives
Enhanced reputation with all key stakeholders
Influence with regulator
Market Advantage
Stronger brands / Brand value
Customer preference / loyalty
Lower costs of capital / Access to capital
New products/processes/services (Innovation)
Attracting the right talent
Sustainable Profits
New business/increased market share
Enhanced shareholder value

There are also costs incurred as a company implements environmental sustainability practices.

Table 3: Costs associated with implementing environmental sustainability initiatives

Costs
Implementation (investment and capital)
Certification and endorsement
Sustainability marketing
Publicity
Sustainability monitoring and reporting
Increased scrutiny

2.6 Summary of Literature Review

Banks provide credit and loans to thousands of businesses and individuals and ultimately, by including environmental sustainability factors in credit risk management, banks can allocate finance in a manner that mitigates the negative impacts on the environment and influence business to manage the environment responsibly (UNEP-FI, 2007). The size of the banking sector's asset value relative to the gross domestic product (GDP) underlines the importance and potential influence of the banking sector to the South African economy (Hawkins, 2004; UNEP-FI, 2007).

The effect that that bank has on the environment is either through direct or indirect impacts. Direct impacts are those related to the banks "operations and would include issues such as: energy efficiency, waste recycling and ecological footprint. Indirect impacts are those that follow from the banks" products and services, typically these impacts are associated with the finance and investment activities of banks (UNEP-FI, 2007). A number of environmental sustainability drivers have ensured that pressure is placed not only on the banking sector but other sectors as well. These drivers include regulatory developments, credit risks, growing environmental concerns worldwide and stakeholder pressure linked to reputational risks. These drivers have also resulted in the banks revisiting the manner in which they interacted with their clients and investors (see Figure 1).

In responding to the environmental sustainability challenge, the banks can implement a number of strategies with corresponding practices. According to Hart (2007), these strategies have a present or future timeframe, paired

with a focus on either internal or external stakeholders. The practices adopted can provide benefits including competitive advantage and as well as ensuring the necessary capabilities are harnessed in the bank. Some of the practices will require the bank to incur costs for implementation.

In South Africa, the recent developments in the regulatory and governance area including the King III codes of governance, the Companies Act no.71 of 2008 and the amended National Environmental Management Act.107 of 1998 highlight the increased focus on sustainable development. In consideration of these mounting pressures, sustainability strategies and practices, the resultant benefits and costs and the role of the banks in pursuing environmental sustainability, the extent to which the banking sector in South Africa has responded to the call to pursue environmental sustainability, has motivated the need for this research.

3 RESEARCH QUESTIONS

From the literature review and the research purpose, the following research questions were formulated and subsequently the research was undertaken in order to better understand the response of the banking sector to environmental sustainability:

- Research Question 1: Has a sustainability strategy been formulated?
- Research Question 2: What has been the rationale, if any, for pursuing environmental sustainability?
- Research Question 3: What practices if any, have been adopted in pursuing sustainability?
- Research Question 4: What are the benefits and costs, if any, that have been realised in pursuing environmental sustainability?

4 RESEARCH METHODOLOGY

4.1 Introduction

This section provides details of the research method adopted in addressing the research questions summarised in chapter three. This section covers the research design, unit of analysis, population, sampling method and size, data gathering process, analysis approach, and limitations to the study.

4.2 Research Design

The research was both qualitative and quantitative in nature, with an exploratory design. According to Zikmund (2003), exploratory research provides the necessary information in addressing research questions as well as diagnosing potential problems requiring further research, in this case – the banking sector’s response to environmental sustainability. The aim of the research was to determine the answers to who, what, when, where and how questions (Zikmund, 2003), in this case:

- What, if any, are the portfolios of environmental sustainability strategies being pursued by the banking sector?
- What are the drivers dominating the rationale for pursuing environmental sustainability in the banking sector?
- What are the practices that have been adopted in pursuing environmental sustainability in the banking sector?
- What are the benefits and costs that have been realized in pursuing environmental sustainability in the banking sector?

The research consisted of two parts. The first part used the sustainable value framework (Hart, 2007) as a foundation along with identified environmental sustainability practices and the corporate payoffs of pursuing environmental sustainability in the banking sector as input into the semi-structured interview questionnaire (see Appendix 2). The second part consisted of gathering primary data through semi-structured interviews. The interviews were carried out with individuals representing organizations within the South African banking sector. The approach was through combined interviews with three MBA classmates who were also conducting interviews within the same population.

4.3 Unit of Analysis

The unit of analysis was a banking sector organisation.

4.4 Population

The banking sector consists of institutions that offer services to two product markets: retail and wholesale banking. Retail banking is oriented towards households and small firms, while wholesale banking caters to larger firms and other financial institutions (Amel, Barnes, Panetta & Salleo, 2004).

The study targeted South African banks listed on the top 200 African banks report (see Appendix 1) (the African report, 2010) based on the three criteria below with the exception that if the bank had changed ownership to foreign within the last 5 years, it was still considered:

- Top 4 based on total assets.

- Next 3 should be locally owned and have assets in excess of half a billion US\$.
- Last 2 should be development finance banks linked to government.

The population identified by the above criteria was made up of the following nine banks. It was noted that although the IDC was the only institution not included in the African report (2010), it has been included because the criteria required two development finance banks linked to government:

- Standard Bank of South Africa Limited
- Absa Group Limited
- FirstRand Limited
- Nedbank Group Limited
- African Bank
- Investec Bank Limited
- Capitec Bank Holdings Limited
- Development Bank of South Africa (DBSA)
- Industrial Development Corporation (IDC)

4.5 Sampling Method and Size

There were two semi-structured interviews conducted within each bank identified in the population group, as well as the review of their annual financial and sustainability reports for triangulation purposes. The use of triangulation enabled a more rounded picture to be generated from the viewpoints obtained and took into account the multiplicity and similarity of the different frames of reference (Denzin and Lincoln, 2005).

The identified sample size comprised of nine banks as per the population section with two respondents per organization, resulting in 18 respondents in total. The two interviews were conducted from a financial/operational and sustainability line accountability perspective. In the analysis stage, the responses from each bank were not be analysed between the line functions.

A judgmental sampling technique was used, as the research required input from certain groups from the sustainability and project finance functions (Zikmund, 2003). The sample organizations were required to provide expert input as guidance during this selection exercise.

4.6 Data Collection

Data was gathered through semi-structured interviews. According to Gillham (2005), the rationale for using semi-structured interviews was as follows:

- The same questions were asked of all those involved
- The questions asked ensured topic focus
- Equivalent coverage was ensured
- The time for each interview was approximately the same
- Open questions coupled with structured questions were asked to introduce flexibility into the interviewing process and ensure that rich data was obtained

- It allowed a strong element of discovery whilst the structured focus allowed an analysis in terms of commonalities

The interviews were conducted face-to-face with the persons identified in the sample. The use of interview guideline ensured interview consistency and interviewer neutrality (Denzin and Lincoln, 2005). The interview guideline was piloted prior to its use in an actual interview setting, to ensure that it enabled the effective and effective answering of the research questions.

4.7 Data Analysis

According to Gillham (2005), an interviewer makes a subjective interpretation of what the interviewee says unless the interviewer takes a high level approach to analyzing the interview data. The content, comparative and constant sum analysis techniques were used in analyzing the interview data.

4.7.1 Content Analysis

Content analysis ensured that an objective, systematic and quantitative description of the manifested data took place (Zikmund, 2003). The main objective of this analysis was to obtain a quantitative description of the manifest content of communication. This process entailed systematic analysis, as well as observation, to identify specific message characteristics and themes emanating from the interviews.

4.7.2 Comparative Analysis

Comparative analysis enabled the findings of each interview to be compared against respondents of the same bank (Gillham, 2005). Through

triangulation of the data, the consistency and quality of the findings was improved (Denzin and Lincoln, 2005). Similar responses within each bank were combined and disparities were clarified with respondents to ensure a consistent and representative response.

4.7.3 Constant Sum Analysis

Constant sum analysis provided an overall assessment of the relative importance of the perceived benefits and costs associated with pursuing environmental sustainability. This method also provided the basis for assessing the portfolio balance of the environmental sustainability practices adopted by the banks. Using the list of practices obtained from the respondents and the sustainability and annual reports, the results were aggregated. The aggregate percentage profile for each bank was plotted on the sustainable value framework to reflect the respective bank's portfolio balance in their pursuit of environmental sustainability.

4.7.4 Results of Analysis

The information obtained was used for answering the proposed research questions and in determining the current response to pursuing environmental sustainability by each sampled bank. From the research findings, recommendations have been made as to how the response to achieving environmental sustainability can be improved and the opportunities for further research.

4.8 Limitations to the Study

A number of limitations to the study were identified and mitigating actions were undertaken to ensure data integrity and minimisation of bias:

4.8.1 Willingness to Participate

The biggest risk was that people would not be willing to participate or choose to selectively answer questions leading to the research losing vital information in the process. This risk was mitigated through the use of public documents such as annual reports and sustainability reports.

4.8.2 Maturity Level

The level of maturity, in an environmental sustainability context, may be low in the research population which may affect the ability to effectively answer the research questions. This risk was mitigated through the use of annual reports and sustainability reports and reference to these documents was made during the interview process to clarify any misunderstandings.

4.8.3 Data Capturing

To ensure no critical information was missed when documenting the responses during the interview process, the researcher utilised a voice recorder to complement the notes taken during the interview process. Comparison was then done between the transcriptions, notes and sustainability reports to minimize transcription errors. If certain parts of a transcription were unclear, clarification was requested from the interviewees.

4.8.4 Data Confidentiality

The data provided in the interviews is sensitive and can compromise the competitive position of the bank with regards to the pursuit of environmental sustainability. This has implications on the amount of

information that can be published in the research report. This risk was mitigated through the signing of confidentiality agreements with the respondents before commencing with the interview. It was agreed that the names of the participating banks would not be disclosed unless permission was given to do so.

4.8.5 Interviewer Bias

The subjective interpretation of the data obtained may lead to interviewer bias. This risk was mitigated through the use of the interview guideline and any additional responses were clarified with the respondent.

4.8.6 Research Design

The study was limited to the banking sector which meant that findings obtained may not be extrapolated to other sectors. The limitation was accepted and further research can be undertaken in the other sectors in order to have a consolidated view of the sectoral response of South Africa to environmental sustainability.

4.8.7 Sampling Technique

The judgemental sampling technique may have led to an unrepresentative sample rendering the data collected meaningless. As mentioned in the sampling method section, the two responses and the content from the annual and sustainability reports were triangulated to mitigate this risk.

5 RESULTS

5.1 Description of Sample

A total of twelve interviews were conducted amongst seven South African banks between the months of August and September 2010. The sample obtained represents 78% of the identified research population. All the interviews involved the individual accountable for sustainability, and where possible, a representative from an operational line function to obtain both direct and indirect impact perspectives. The particulars of the sample are illustrated in the Table 4:

Table 4: Particulars of interview sample

	Number of Interviews	Functions Interviewed	Management Level	Supporting Documents
Bank A	2	Sustainability Project Finance	Executive Senior	Sustainability Report
Bank B	2	Sustainability Corporate Governance	Senior Senior	Sustainability Report
Bank C	2	Sustainability Strategy	Senior Senior	Sustainability Report
Bank D	2	Sustainability Project Finance	Executive Senior	Sustainability Report
Bank E	1	Sustainability	Senior	Sustainability Report
Bank F	2	Sustainability Project Finance	Senior Executive	Annual Report
Bank G	1	Sustainability	Senior	Annual Report
Bank H	0			
Bank I	0			

For the purpose of confidentiality the identity of the banks interviewed has intentionally not been disclosed in the research findings. This is in line with the research methodology outlined in Chapter 4. Ensuring confidentiality is not only deemed to be ethically responsible but also assisted in obtaining unbiased and informative responses from interviewees. Confidentiality has been ensured by coding actual bank names and also presenting the research findings in such a way that the banks could not be identified. Through this process the subsequent quality and content of the research findings has not been altered in any way.

The interviews were conducted face to face for an hour duration. Where necessary follow up discussions were held to better understand or clarify some of the research findings. The results of the individual responses within each bank were triangulated in order to obtain a consistent view of that bank. The results are presented in accordance with the general layout of the interview guideline (Appendix C).

Obtaining access and willing participation to the research proved to be a challenge. Two of the banks identified as part of the research population were invited to participate in the research process but declined to participate. Two other banks were only able to avail the sustainability manager to participate in the study. The research sample and subsequent positioning of each of the banks with regard to the pursuit of environmental sustainability was triangulated with the bank's sustainability report and if not available, the annual reports were used, which assisted in verifying and validating the information provided by the interviewees and the status of each bank with regards to the pursuit of environmental sustainability.

The sample obtained and the input received has enabled each of the research questions to be answered and has thus satisfied the research objectives.

5.2 Research Question 1 Results: Has a sustainability strategy been formulated?

The focus area of this question included:

- Identifying if environmental sustainability has been defined and the formality of the definition
- Identifying if the pursuit of environmental sustainability is perceived to be playing either a more indirect role or has a direct impact on the organisation
- Identifying what the key challenges have been in the pursuit of environmental sustainability
- Understanding if the global economic downturn has had an impact on pursuing environmental sustainability

5.2.1 Applied Definition of Environmental Sustainability

All respondents agreed that environmental sustainability has been defined or is in the process of being defined for their respective organizations. It was emphasized that this definition will not be static and will evolve as the bank better understands the concept of environmental sustainability.

Table 5: Has environmental sustainability been defined

Count of Responses		
Yes	Yes	No
Adequately	Not Adequately	Not At All
6	1	0

The definition of environmental sustainability adopted varies between organizations. The general themes shared between the organisations include:

- Reducing environmental impact
- Ensuring future business sustainability
- Responding to climate change
- Influencing behaviour of clients, non-clients and staff.

In terms of formulation of a sustainability strategy, all the respondents agreed that their respective organizations have either formulated or are in the process of formulating a strategy.

Table 6: Has a sustainability strategy been formulated

Count of Responses		
Yes	In the Process	No
Adequately	Not Adequately	Not At All
4	3	0

5.2.1.1 Individual Company Findings

Below are some of the quotes obtained during the interview process reflecting the general themes and some organisation-specific themes:

Bank A

“The triple bottom line approach is being used as it focuses on economic, environmental and social performance. Using this approach, the bank aims to meet the needs of the present without compromising the ability of future generations to meet their own needs, adopted from the Brundtland commission definition of sustainable development”.

Bank B

“We acknowledge that the sound management of natural resources is a cornerstone of sustainable development including justifiable social and economic development. Sustainable development and sustainable profit growth are viewed as complementary objectives”.

Bank C

The bank’s approach is centred on its belief that *“it is not the profitability of a business that ensures its sustainability, but the sustainability of a business that drives its profitability”*. The focus is extending the pledge to the environment beyond legislative compliance and is part of its integrated sustainability strategy. *“This strategic approach brings together the essential elements of economic, environmental, social and cultural sustainability to unlock synergies across the business and deeply entrench sustainability within the bank”*.

Bank D

The bank believes that *“building sustainability thinking into its culture is less about drastic changes in what is done and more about understanding*

the linkages between its operations, the environment in which it operates and global pressures". The bank chose to link its environmental sustainability definition to the Brundtland Commission definition.

Bank E

In the context of sustainability, the focus areas for the bank are profit, people and planet. *"The company endeavours to pursue sustainable profits by enriching communities through education and entrepreneurship and embracing diversity while constantly striving to reduce the overall size of their environmental footprint"*.

Bank F

Although environmental sustainability has not been adequately defined in the company, they are in the process of developing a sustainable development strategy using international benchmarks. Currently, their main focus is ensuring that the company and its clients comply with environmental, health and safety standards.

Bank G

The bank endeavours to reduce its environmental impact by ensuring that its operations and that of its clients are environmentally sound.

5.2.2 Role Played in Pursuing Environmental Sustainability

All the respondents felt that the pursuit of environmental sustainability has both a direct and indirect effect on their organization. A direct effect by ensuring that bank operations are eco-efficient. An indirect effect through

ensuring that projects financed by the bank have a minimum impact on the environment.

Table 7: Role of bank in pursuing environmental sustainability

Count of responses								
	Bank A	Bank B	Bank C	Bank D	Bank E	Bank F	Bank G	TOTAL
Both indirect & direct	2	2	2	2	1	2	1	12
Indirect								
Direct								

5.2.2.1 Individual Company Findings

Some of the findings obtained from the interview process highlighting organizational themes below:

Bank A

The bank is committed to reducing the direct and indirect impacts of its operations and those of its associates. The direct environmental footprint derives mostly from its property and development portfolios. It also includes the daily activities of employees involving energy, water use and travel.

Bank B

The bank’s indirect environmental impacts relate primarily to the impacts that the activities of customers and suppliers have on the natural environment. Although it is not possible to accurately describe these indirect impacts, the bank ensures that appropriate mechanisms are in place to monitor and control operational, legislative and regulatory risks in respect of their environmental performance. Unlike the indirect impacts,

the direct impacts can be accurately described and including materials usage, waste produced, water usage, carbon emissions, and energy usage.

Bank C

The bank acknowledges that although their day-to-day business operations may not have a significant impact on the environment, they still have a responsibility towards protecting the country's natural heritage and help preserve the planet for future generations. Through the process of awareness, measurement, reduction and neutralisation the bank has been able to play a role in reducing its impact on the environment both directly and indirectly. Focus on direct impacts has been through the drive to reduce the carbon footprint by decreasing the consumption of energy, water and paper, and reducing business travel, thereby driving the overall reduction of carbon emissions.

Bank D

The bank has been focused on its direct role through its physical footprint but is increasingly focussing on its indirect role through influencing supply chain and the financing of projects.

Bank E

The bank has been busy with a campaign aimed at reducing its carbon footprint with an aim to raise awareness around carbon footprint in the workplace and in homes as well as eco-efficiency initiatives including energy, water, and paper use reduction. The indirect role is performed

through continuous application of clearly defined risk review processes in order to carefully assess business transactions with potential environmental or social risks.

Bank F

The bank is currently focussed on its indirect role although it is running direct impact initiatives on parallel. Its direct role has been focussed on ensuring that the carbon footprint of its operations is reduced. Its indirect role is focussed on coordinating green initiatives through skills development, research on best practice, assist the relevant stakeholders in clarifying relationships and roles, and to mobilise funding for green initiatives.

Bank G

The bank has been focused on its direct role through ensuring that all its facilities are energy efficient. The bank also implemented an environmental management system to consolidate reporting on its key environmental factors in line with the GRI guidelines. The indirect role is performed by ensuring that all projects undergo a rigorous environmental appraisal process before approval.

5.2.3 Response to Pursuing Environmental Sustainability

All the banks interviewed have formalised an approach to achieving environmental sustainability and are members of the BASA Sustainability Forum. Banks A, B, C, and D have a sustainability manager working within a group sustainability forum and reporting to a head of sustainability, who

is either a member of the board of directors or reports directly to the board. Although Banks E and G have a sustainability manager, a sustainability office has not been formalised in the bank reporting structure. Bank F has no sustainability office in its reporting structure although it is currently in the process of reviewing the roles relating to sustainability through benchmarking exercises. Any environmental sustainability issues are addressed by the risk department.

The overall responses varied slightly between the banks although some common themes of focus were identified:

- *Reporting and Governance* – All the banks interviewed report on environmental sustainability and they have either developed or are in the process of developing an environmental policy and strategy that ensures that environmental sustainability factors are incorporated into all the bank's processes and eventually fully integrated into the bank's strategy.
- *Education and Awareness* – All the banks consider environmental education and awareness campaigns as crucial in pursuing environmental sustainability. The banks indicated that they conduct awareness campaigns both internally to staff as well as externally to their suppliers and clients through a variety of channels including their website, intranet, print, audio and visual media.
- *Operational Efficiency* – All the banks indicated that they were in the process of completing implementation of eco-efficiency initiatives including energy and water saving projects in their buildings. They also

highlighted that before embarking on these initiatives, they had to produce a business case for approval.

5.2.4 Key Challenges in Pursuing Environmental Sustainability

All the banks interviewed identified that challenges were experienced in pursuing environmental sustainability. The main challenges that were highlighted by the banks interviewed include:

- Proving the business case for environmental sustainability initiatives
- Internal and external stakeholder acceptance of the need for pursuing environmental sustainability despite obtaining buy-in from board level.
- Training and skills development for management and staff to adapt to the culture of operating in a triple bottom line context i.e. reporting, product development, project finance as well as performance management.

5.2.4.1 Individual Company Findings

Some of the quotes from the interview process highlighting organizational themes below:

Bank A

“It may be too early to comment on this but the main problems include data collection to include in business cases for the environmental sustainability initiatives and the acceptance of these initiatives by colleagues”.

Bank B

“Our colleagues seem to find it difficult accepting the need to pursue environmental sustainability, especially from a project finance context”.

Bank C

“Financial sustainability is a priority in the company; therefore a business case has to show financial viability before approval. Ensuring participation from the bank units has also proved difficult but this has changed over time through awareness initiatives”.

Bank D

“People find it difficult relating a bank to environmental sustainability so the main hurdle is getting past this state of mind. Obtaining acceptance from colleagues also proves difficult, as accountability is an important part of the environmental sustainability initiatives. The business units are tasked with formulating practical ways that the bank can respond to the challenges and opportunities of environmental sustainability”.

Bank E

“Raising awareness internally and a change in mindset has been the biggest challenge thus far but the positive response is indicating that the internal awareness initiatives are beginning to pay off. Obtaining buy-in from colleagues during the development of the operational risk framework was also challenging due to the increased focus on regulatory, social and environmental aspects”.

Bank F

“The process of deciding on the approach to be taken by the bank in pursuing environmental sustainability has been the most challenging. When benchmarking you realise that there are so many approaches to take and it is overwhelming not knowing where to begin. The BASA Sustainability Forum has eased this challenge because of knowledge sharing that takes place in this forum. Delays in regulations from government have also added to the challenge when developing a business case for environmental sustainability initiatives”.

Bank G

“As a bank, the main focus has been on profitability which colleagues felt could be compromised if environmental sustainability factors were considered in project finance assessment”.

5.2.5 Impact of the Global Economic Downturn on Pursuing of Environmental Sustainability

All of the interviewees highlighted that the global economic downturn has not affected efforts of pursuing environmental sustainability. The common theme cited for the lack of impact is because all the environmental sustainability initiatives had been approved and integrated into the other business goals and incorporated into the performance measurement.

5.3 Research Question 2 Results: What has been the rationale, if any, for pursuing environmental sustainability?

The objective of this question was to identify the organisation's rationale for pursuing environmental sustainability and whether they thought this rationale was still valid or needs to be reconsidered.

5.3.1 Rationale for Pursuing Environmental Sustainability

All the organizations highlighted the importance of the environment in the context of the triple bottom line approach. They also emphasized that ignoring environmental sustainability would be short-sighted as the triple bottom line approach ensures that future customer needs are being secured in the present. The individual reasons mentioned by the banks for pursuing environmental sustainability are highlighted below:

5.3.1.1 Individual Company Findings

Bank A

"The bank takes its environmental obligations seriously and stays up to date with the constitution, NEMA and other relevant legislation as a good corporate citizen. It also realises that environmental sustainability initiatives must involve all relevant stakeholders and must aim to improve the lives of everyone living in South Africa".

Bank B

The bank believes that in order to meet the needs of its current and future stakeholders, the sound management of natural resources should be acknowledged as a cornerstone of sustainable development including

justifiable social and economic development. It recognises that the interests of all its stakeholders coincide in the long run and identified the stakeholders as government and regulators, shareholders, employees, customers, suppliers, communities they operate in and the natural environment.

Bank C

“We realised that the issue of environmental sustainability and the negative effects of the non-sustainable usage of natural resources was not a fad but a trend and so the group began developing a response that would be incorporated and integrated into the group strategies to ensure that the response was effective and sustainable”.

Bank D

“The bank believes that the natural environment is a life giving base and must be protected. This entails building sustainability thinking, which is less about drastic changes in what is done and more about understanding the linkages between its operations, the environment in which it operates and global pressures”.

Bank E

“The global economic and financial crisis has forced businesses to focus on the challenges of what it means to be a sustainable business. We understand that our obligation goes beyond profits and also includes people and the planet”.

Bank F

Aside from pursuing environmental sustainability as a good corporate citizen, the bank believes that they have an obligation to support the development of green industries and technologies.

Bank G

The bank believes that it has a duty in ensuring that its operations, programmes and projects are socially responsible, environmentally sound and in line with the regulations of the country.

5.4 Research Question 3 Results: What practices, if any, have been adopted in pursuing sustainability?

This question encompassed a number of objectives, these include:

- Whether or not an approach to achieving environmental sustainability has been formalized and the degree to which the approach has been formalized.
- The type of internal and external practices pursued as part of this approach.
- Framing the environmental sustainability focus area within the context of time and area of focus.
- Whether or not practices for achieving environmental sustainability practices will be scaled up in future and where the focus will be.

5.4.1 Environmental Practices Pursued

The aggregated count of internally and externally focused environmental sustainability practices are illustrated in Tables 8 and 9 below. Note that

the values depicted represent what each bank is pursuing and not individual responses.

Table 8: Internally focused environmental sustainability practices

Internally Focused Practices	Count
Revised Project Investment Focus	7
Green product and process innovation	7
Systems thinking	7
Environmental Awareness Programmes	7
Pollution management	7
Corporate ethics, values and strategy alignment	7
Eco-efficiency	7
Materials & waste management	7
Risk Management	7
Carbon emissions & carbon management strategy	7
Eco-effectiveness	6
Knowledge management and competency development	6
Environmental Management Systems (e.g. ISO 14000)	5
Integrated Sustainability Strategy	5
Branchless Banking	3
Carbon trading	3
Environmental Impact Assessments	3
Product life-cycle analysis	0
Packaging/biodegradability improvement	0
Biometrics (paperless)	0
Resource productivity e.g. Solar powered ATMs	0

Table 9: Externally focused environmental sustainability practices

Externally Focused Practices	Count
Sector dialogue & forums	7
Stakeholder engagement	7
Strategic Partnerships	6
Third party accreditation and certification	6
Sustainable Supply Chain Management	5
Triple Bottom Line Approach	5
Carbon Disclosure	5
Sustainability reporting	5
Environmental Sustainability Research	5

International Sustainability Listing (SRI, DJ, etc)	5
Green Design	4
Investment in sustainability initiatives (External)	4
Clean development mechanisms	3
Green marketing and eco-labelling	2
5 Capital Model Approach	2
Natural capitalism	2
Design for Environment	2
Radical transactiveness	1
Urban reinvestment	0
Full cost accounting	0

5.4.2 Future Environmental Sustainability Practices

All of the banks interviewed indicated that they will be scaling up their environmental sustainability practices in future.

5.4.2.1 Individual Company Findings

Bank A

“More focus will be given to product and services offered especially in the retail part of the business. Research will be scaled up both internally and through external consultants to better inform deal teams, credit scorers and also be in a better position to identify opportunities for product innovation”.

Bank B

Indicated that scaling up of its environmental sustainability practices will be done when necessary. Information not disclosed as the bank deemed this information to be confidential at this stage.

Bank C

“The main focus will be on product innovation and ensure that these products are competitively positioned. We believe that our strategy has been positioned to ensure that it drives this innovation”.

Bank D

“We realise that we are currently in an emerging market mentality that is still focused on profits. The main focus is therefore to increase environmental awareness as well as product innovation with relevant value propositions. As stated earlier, building sustainability is less about drastic changes in what is done and more about understanding the linkages between its operations, the environment in which it operates and global pressures”.

Bank E

“Two areas have been identified which will be scaled up and include uniform reporting within the business as well as the IT system advancement to ensure that environmental initiatives are measurable so the board can identify savings obtained through these initiatives”.

Bank F

“More focus will be given to product innovation and funding support for these environmental initiatives through reviewing the funding models. The bank will also increase the amount of research focused on environmental sustainability and ensure that the findings are communicated to all stakeholders”.

Bank G

“The main focus will be on completing all the eco-efficiency projects being undertaken. Any other practices will be introduced when necessary”.

5.4.3 Environmental Sustainability Frame of Reference

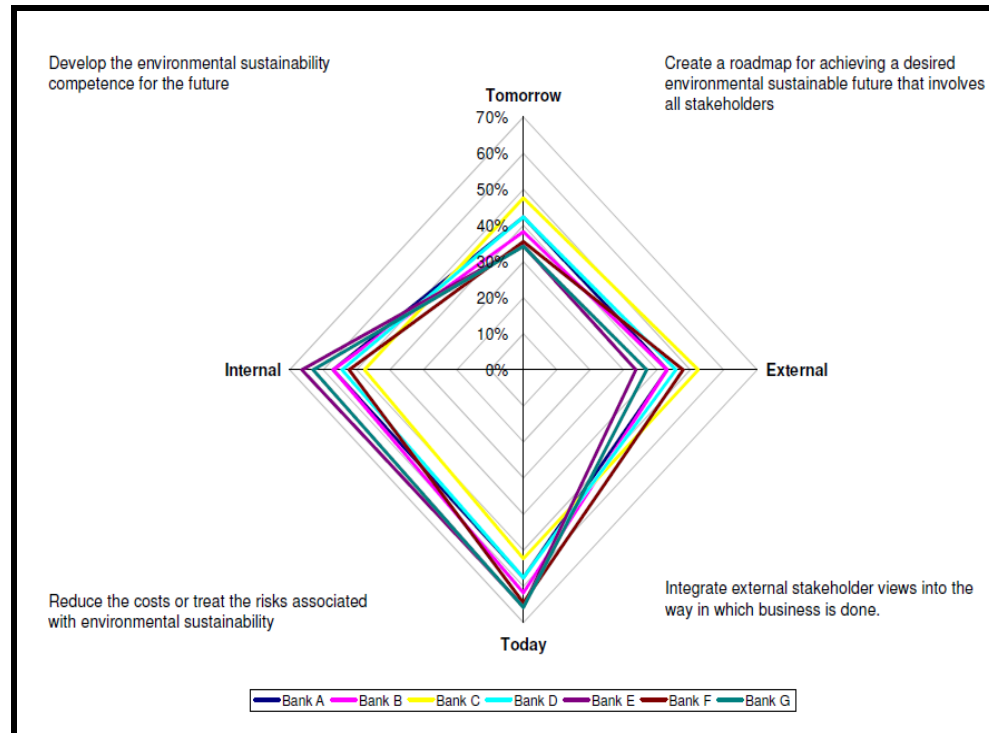
The focus areas of each bank interviewed in relation to their approach to environmental sustainability is illustrated in Figure 5. The values represented are the average percentage values of the practices adopted by the banks in the pursuit of environmental sustainability (see Table 10).

Table 10: Environmental sustainability focus areas

	Tomorrow	External	Today	Internal
Bank A	42%	43%	58%	57%
Bank B	38%	43%	62%	57%
Bank C	48%	52%	52%	48%
Bank D	42%	46%	58%	54%
Bank E	34%	34%	66%	66%
Bank F	36%	48%	64%	52%
Bank G	34%	37%	66%	63%
Average	40%	44%	60%	56%

The focus areas of the practices being implemented by each bank varied (see Table 10). Comparatively Bank E has the greatest amount of variation in terms of the focus on the internal versus the external environment, whilst Banks E and G have the greatest variation in terms of current and future orientated activities.

Figure 5: Current environmental sustainability focus area



5.5 Research Question 4 Results: What are the benefits and costs, if any, that have been realised in pursuing environmental sustainability?

The objective of this question was to understand the benefits obtained and costs incurred to the bank as a result of pursuing environmental sustainability. This was from a quantitative and qualitative perspective.

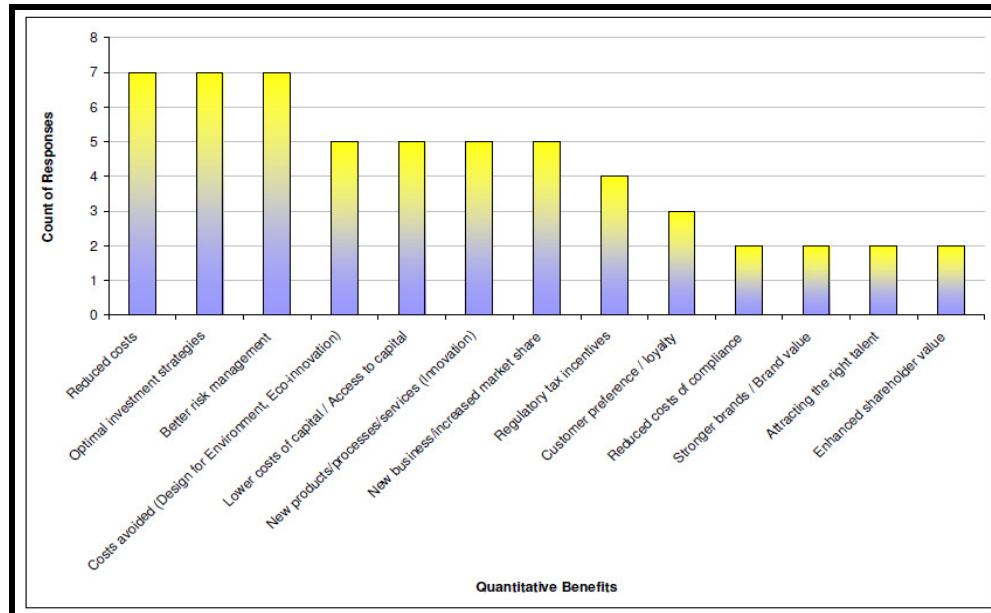
5.5.1 Benefits and Costs Accrued

The quantitative and qualitative benefits believed to be realised by the banks when pursuing environmental sustainability are illustrated in Figures 6 and 7.

The respondents felt that the most important benefit from pursuing environmental sustainability was the reduced costs obtained through the

efficiency initiatives. The use of investment criteria, that considered environmental sustainability, ensured that the future risk exposure of the business through investments was managed.

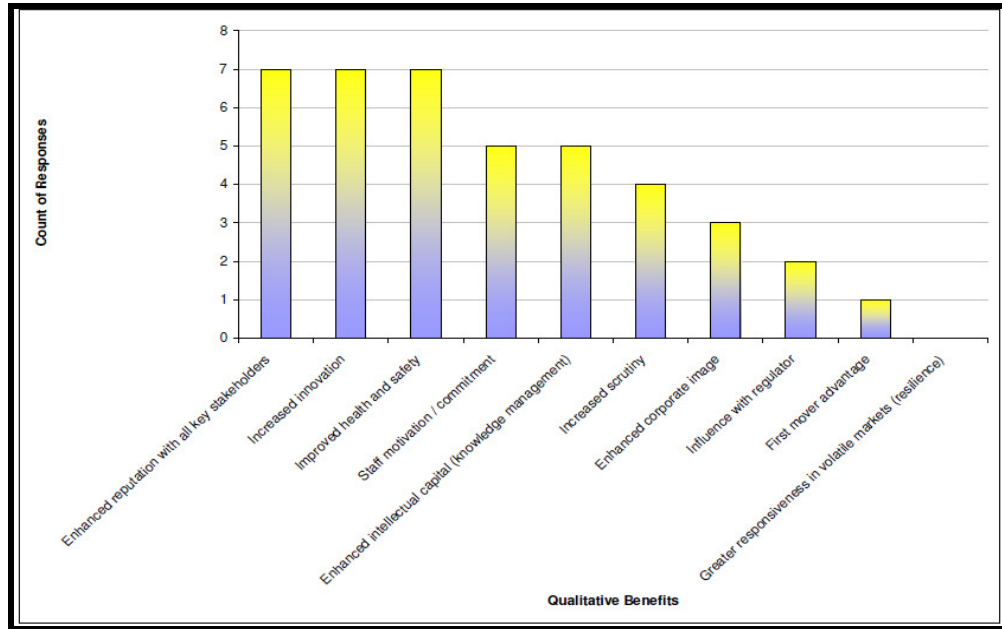
Figure 6: Count of quantitative benefits of pursuing environmental sustainability



Some additional qualitative benefits not identified in the literature review section (chapter 2) were also highlighted by respondents, these include:

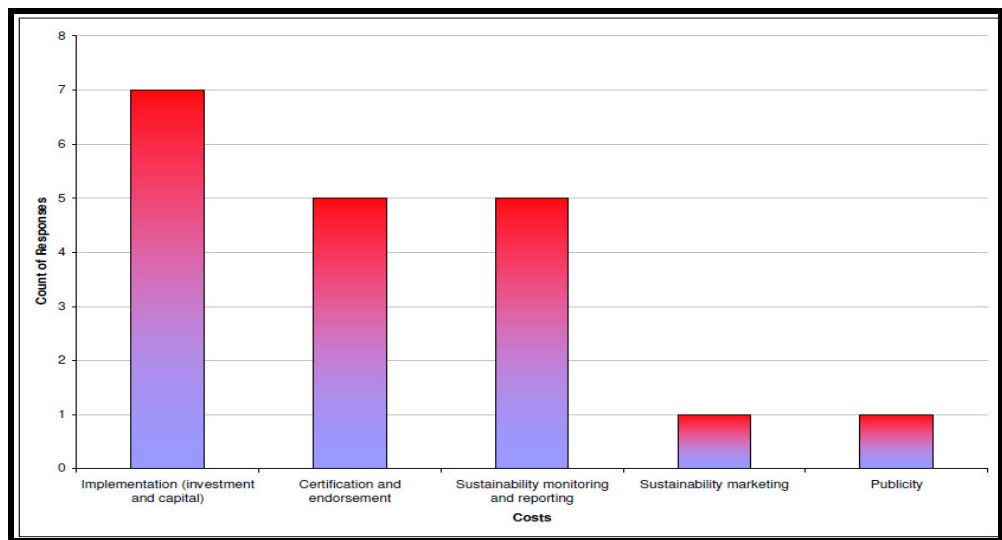
- Retention of suppliers in supply chain and improved relationship through exposure to new business opportunities
- Potential to influence future legislation through the sustainability forums of BASA and other forums.

Figure 7: Count of qualitative benefits of pursuing environmental sustainability



Similar to the benefits realised, based on individual responses the perceived costs associated in pursuing environmental sustainability are illustrated in Figure 8.

Figure 8: Count of costs of pursuing environmental sustainability



5.6 Additional Research Findings

Some additional items were identified by the respondents in support of the research undertaken. The quotes made by the respondents in this regard include:

- The data collection methods still need to improve in order to accurately quantify the effects of implementing environmental sustainability initiatives.
- Government needs to do more to ensure that the pursuit of environmental sustainability is more than a mere 'green washing' circus.

6. DISCUSSION OF RESULTS

6.1 Analysis of Sample

6.1.1 Quantity of Responses

Of the planned 18 semi-structured interviews only 12 could be conducted. Despite this, these interviews were conducted with seven of the nine banks identified and as such represents 78% of the research population. The triangulation of the research sample with the sustainability reports of the banks ensured consistency between the interviews and subsequent findings made. The quantity of responses received is therefore deemed adequate to provide the required basis for the interpretation of the findings.

6.1.2 Quality of Responses

Access to key individuals and willing participation proved to be a challenge, as mentioned in Chapter 5. Despite the challenge, the triangulation process followed as per the research methodology mentioned in Chapter 4 assisted in validating the data obtained. The main reasons highlighted include:

- The pursuit of environmental sustainability is still in its infant stages in some banks. Therefore, some banks felt that participating in this research would place them at an unfair position in the industry.
- Some of the banks were concerned with the reputational risks associated with how the results will be interpreted in the public domain.

6.2 Discussion of Research Question 1 Results: Has a sustainability strategy been formulated?

6.2.1 Applied Definition of Environmental Sustainability

All the definitions adopted by the banks interviewed are aligned in terms of being environmentally responsible as well as recognising their responsibility in influencing the behaviour patterns of their clients.

The definition of environmental sustainability adopted by two of the banks (C and D) is the Brundtland Commission definition (Brundtland, 1987), which is a global accepted definition as highlighted by Jeucken (2001). The UNEP-FI (2007) definition has been adopted by Banks A, B, E and G and is considered relevant to the financial sector. Both definitions adopted by the six banks are in line with the definition provided by the South African National Environmental Management Act (DEAT, 1998), the South African National Strategy on Sustainable Development (NSSD, 2010; Garvare and Isaksson, 2001).

6.2.2 Role Played in Pursuing Environmental Sustainability

All the respondents felt that the role played by South African banks in the pursuit of environmental sustainability is both direct and indirect in nature. The drivers for pursuing environmental sustainability have mainly emanated from response to the growing environmental concerns and acknowledgement of the evolving competitive landscape. This mindset is in line with the focus of the environmental sustainability definition that has been adopted by these banks.

Apart from a few references to indirect impacts, it seems more intangible to most banks to take responsibility for indirect impacts. According to the National Australian Bank (NAB) (2007), the two sources of influence for the bank involve partnerships with customers and suppliers. The customers are influenced through, amongst others, the reviewing and continuous improvement of the bank's lending policy that includes the relevant ESG factors and wherever possible, assisting corporate clients to operate their businesses in an environmentally sustainable manner (see Table 1). Suppliers are encouraged to reduce their environmental impact and procurement policies include environmental factors (NAB, 2007).

6.2.3 Key Challenges in Pursuing Environmental Sustainability

All the banks highlighted that currently, the pursuit of environmental sustainability does not appear as an opportunity for creating competitive advantage. The banks argued that they were all still in the early stage of the environmental sustainability maturity model so competitive advantage cannot be realised as yet. According to the respondents from Bank C, competitive advantage will only be realised when the banks begin competing on innovative product offerings through their resources. This is in support of the findings by Orsato (2006) that competitive advantage should not be seen as a function of industry structure but as resulting from the firm's use of its resources.

According to Bank D, it is important for the banks to get their house in order first before preaching the message of environmental sustainability. This includes beginning with the internally focussed initiatives that will improve the energy and resource efficiency. This is in support of the

findings by Porter and van der Linde (1995) who argue that competitive advantage is obtained by adopting the mindset of improving resource productivity, environmental improvement and competitiveness.

The issues of internal and external stakeholder acceptance as well as training and skills development were also highlighted in the research findings. This is in support of findings by Hansel (2009) who then argues that if the pursuit of environmental sustainability was seen as a business opportunity, aspects such as obtaining stakeholder buy in and proving the business case of pursuing environmental sustainability would not be a challenge. This would include justifying training and skills development initiatives focussed on the pursuit of environmental sustainability.

6.2.4 Impact of the Global Economic Downturn on Pursuing of Environmental Sustainability

According to the research findings, the recent global economic downturn had minimal, if any, negative effects on the banking sector concerning their pursuit of environmental sustainability. This appears to contradict the findings by Smith and Karlson (2009) who argued that the economic crisis may lead to a slow response to environmental sustainability because the media and business experts had cautioned against the aggressive response to climate change in case it negatively affects economic recovery and growth.

The research findings are, however, in line with Lacy *et al* (2010), who found that despite the recent economic downturn, corporate commitment to the principles of sustainability remains strong throughout the world. Lacy

et al (2010) states that their latest survey highlights that sustainability is truly top-of-mind for CEOs around the world with 93% of CEOs believing that sustainability issues will be critical to the future success of their business and 96% of CEOs believing that sustainability issues should be fully integrated into the strategy and operations of a company. The interviewees highlighted that the environmental initiatives had focussed on addressing operational efficiencies that would result in cost savings. The interviewees also felt that the fact that these initiatives were implemented during the economic downturn made the business case for pursuing environmental sustainability stronger than ever. This finding supports the research findings by McKinsey (2009) that during the global economic crisis, a focus on environmental issues has resulted in improved operational efficiencies.

From the responses received and the findings by Lacy *et al* (2010) it is evident that integrating the environmental sustainability strategy into the broader strategy of the bank is essential in the pursuing of environmental sustainability. This is in line with the recent King III governance code (IOD, 2009), which urges corporate leaders to mainstream sustainability issues to ensure sustainability issues permeate the operation of the company (Gilmour, 2010). Previously, sustainability reporting was additional to financial reporting which made it difficult to get a holistic picture of a company (Gilmour, 2010). According to Gilmour (2010), this led to reports that represented a 'ghettoisation' of sustainability disclosure within a desert of dry financial information. This 'ghettoisation' in an integrated report

occurs when the report contains very little or no sustainability information outside of the sustainability section (Gilmour, 2010). Of all the banks interviewed, five had separate sustainability reports and the remaining two had sustainability sections in the annual report. Gilmour (2010) states that in South Africa, all listed companies will soon have to produce integrated reports, or explain why this is not being done.

6.3 Discussion of Research Question 2 Results: What has been the rationale if any, for pursuing sustainability?

6.3.1 Rationale for Pursuing Environmental Sustainability

No new additional rationale for pursuing environmental sustainability was identified during the interviews, therefore the drivers identified in Chapter 2 suffice.

6.3.1.1 Regulatory Developments

Research findings indicating that regulatory developments play a part in prompting banks to pursue environmental sustainability were evident. Although adherence to regulations is currently more as a result of choice, recent developments like the amended National Environmental Management Act indicate that being ignorant to environmental sustainability in their business operations, whether directly or indirectly, may lead to financial losses through fines.

6.3.1.2 Expansion of Corporate Governance Codes

Evidence of expansion of corporate governance codes prompting the pursuit of environmental sustainability was evident in the research findings. The respondents felt that the inclusion of sustainability focus in the recent

King III Corporate Guidance Codes (IOD, 2009) indicated that sustainability will continue to play a major role in the business world.

6.3.1.3 Globalization and Competitive Advantage

All the banks interviewed indicated that globalization does play a major factor in terms of access to capital from the international banks. As stated by the AICC (2004), many of the international private banks investing in Africa have high standards of environmental and social responsible investment. Although competitive advantage is also considered as a driver, the research findings indicate that at present most of the banks were still benefiting from recently implemented eco-efficiency programmes as a result of being in the early stages of the pursuit of environmental sustainability, which supports the view by Porritt (2001).

6.3.1.4 Stakeholder Pressure and Reputational Risks

As highlighted by Chen, Shyh-Bao and Chao-Tung (2006), globally there has been a trend towards stricter international regulations and conventions of environmental protection along with the rise of consumer environmentalism in response to climate change. Hart (2007) argues that firms therefore have no choice but to operate in a transparent, responsive manner due to a very well-informed, active stakeholder base. Based on the research findings, the banks felt that although stakeholder pressure and reputational risks are drivers of pursuing environmental sustainability, they currently classify it as a minor driver from a customer attraction and retention perspective. The respondents all agreed that this driver currently plays a more significant role when accessing capital from international banks as highlighted by the AICC (2004).

6.3.1.5 Credit Risks

The IISD (2007) highlighted that banks need to be fully and accurately informed about decommissioning liabilities in order to avoid unacceptably high financial risks. Based on the research findings, the banks felt that credit risks is a major driver of pursuing environmental sustainability and has led to stricter standards and the adoption of international guidelines such as the Equator Principles.

6.3.1.6 Growing Environmental Concerns

Research findings indicating that growing environmental concerns play a part in prompting banks to pursue environmental sustainability were evident. All the banks indicated that they were implementing environmental sustainability initiatives in response to these concerns. This supports the view by the IISD (2007) who argue that this effort has resulted in the adoption of energy and resource efficiency programs.

6.4 Research Question 3 Results: What practices, if any, have been adopted in pursuing sustainability?

6.4.1 Environmental Practices Pursued

The list of practices currently being pursued in the banking sector (Tables 7 and 8) seem to be fairly conclusive as the research findings did not highlight any new additional internally and externally focused practices.

6.4.1.1 Internally Focused Practices

Of the 21 internally focused practices (Table 8), 10 of these practices are being pursued by all of the banks. These practices include:

- Revised project investment focus

- Green product and process innovation
- Systems thinking
- Environmental awareness programmes
- Pollution management
- Corporate ethics, values and strategy alignment
- Eco efficiency
- Materials and waste management
- Risk management
- Carbon emissions and carbon management strategy

Those practices that are less well established or understood, for example product life-cycle analysis, packaging/biodegradability improvement, biometrics, and resource productivity are currently not pursued by the interviewed banks. All the banks highlighted that they were still in the early stages of the maturity model of pursuing environmental sustainability.

From the research findings, five of the seven banks interviewed have either adopted or developed an environmental management system (EMS) and have also developed or are in the process of developing an integrated sustainability strategy. All the interviewed banks did however acknowledge that the adoption of an EMS was crucial in ensuring the coordination and monitoring of any energy and resource efficiency initiatives. They also acknowledged that an integrated sustainability strategy also played a part

in ensuring that the pursuit of environmental sustainability was incorporated into the general business goals and therefore featured in the performance management targets.

Three of the seven banks interviewed are practicing carbon trading and four of the seven were in the early stages of introducing a branchless banking system focused on providing financial services to the market at the bottom of the pyramid. This research finding supports the argument by Nidumolu *et al* (2009) that the quest for sustainability is already starting to transform the competitive landscape, which will force companies to change the way they think about products, technologies, processes, and business models because sustainability will always be an integral part of development.

6.4.1.2 Externally Focused Practices

Of the 20 externally focused practices (Table 9), only 2 of these practices are being pursued by all the banks. These practices include:

- Sector dialogue and forums
- Stakeholder engagement

Those practices that are less well established or understood, for example urban reinvestment and full cost accounting are currently not pursued by all the banks interviewed and the design for the environment is being pursued by only two of the interviewed banks.

All, except two banks have adopted six of the practices, which can be attributed to the very early stages of pursuing environmental sustainability.

Another reason would be the characteristic of the banks and their target focus. The practices adopted include:

- Sustainable supply chain management
- Triple bottom line approach
- Third party accreditation and certification
- Carbon disclosure
- Sustainability reporting
- International sustainability listing

The interviewed banks highlighted that some of the practices that have not been adopted will only feature once their processes are properly in place. This can also be attributed to the early stage of pursuing environmental sustainability.

6.4.2 Future Environmental Sustainability Practices

All of the banks interviewed indicated that they will be scaling up their environmental sustainability practices in future. The general theme highlighted by the banks was the focus on the innovation of product and services offered. The banks felt that this stage of pursuing environmental sustainability is where the issue of competitive advantage then plays a factor. This is in line with the view highlighted by Lee and Ball (2003) that organisations will pursue environmental sustainability provided that it provides some form of competitive advantage.

6.4.3 Environmental Sustainability Frame of Reference

According to the research findings (see Table 9 and Figure 5); the practices of only one of the interviewed banks (bank C) came close to having a balanced portfolio on sustainability from an internal-external as well as a current-future timeframe perspective. Hart (2007) highlights that a balanced portfolio of all the strategies in all four quadrants is critical in achieving maximum sustainability and reflects the relative maturity of the organisation's response to achieving environmental sustainability. Furthermore, Orsato (2006) highlights that this portfolio also enables competitive advantage through the development of the necessary resource capabilities, as well as competitive positioning (1998).

The research findings highlighted that six of the seven banks interviewed had an emphasis on current orientated practices with an internal focus. This supports the view by Hart (2007) that most companies will be heavily skewed towards the left quadrant because of emphasis on risk and cost reduction in their strategy. This appears to reflect that most of the banking sector is still in the early stages of pursuing environmental sustainability.

6.5 Discussion of Research Question 4 Results: What are the benefits and costs, if any, that have been realised in pursuing environmental sustainability?

6.5.1 Quantitative and Qualitative Benefits Accrued to the Bank

The research findings highlight that the quantitative benefits acquired are consistent with the predominantly current and internally focused environmental sustainability frame of reference (Research Question 3).

These benefits include:

- Reduced costs
- Optimal investment strategies
- Better risk management
- Access to capital
- Increased innovation
- Improved health and safety
- Staff motivation and commitment

The research findings also highlighted some benefits consistent with some of the externally focused practices pursued. These benefits include:

- Customer loyalty
- Stronger brand value
- Attracting the right talent
- Enhanced shareholder value
- Enhanced reputation with stakeholders
- Influence with regulator
- Retention and improvement of suppliers

These findings support the views of Hart (2007) that strategies focused on current practices will result in risk and cost reduction as well as reputation

and legitimacy benefits from the internal and external practices respectively.

6.5.2 Quantitative and Qualitative Costs Accrued to the Bank

The research findings highlighted that the costs associated with pursuing environmental sustainability are the set-up costs including the implementation, certification and endorsement costs. Once the set-up phase is completed, the other costs of pursuing environmental sustainability then include:

- Sustainability monitoring and reporting
- Sustainability marketing
- Increased scrutiny
- Publicity

7. CONCLUSION

7.1 Key Research Findings

7.1.1 Response to Environmental Sustainability

All of the banks have either formalised or are in the process of formalizing a response to the pursuit of environmental sustainability. Although the response is still in its early stages, being members of the BASA Sustainability Forum indicates that the response is viewed in a serious light. The banks interviewed all understand that their response must cover both the direct and indirect effects the banks have on the environment. Proving a business case, securing buy-in for pursuing environmental sustainability together with difficulty in skills development within the banks were highlighted as the key challenges for pursuing environmental sustainability.

7.1.2 Current Drivers of Pursuing Environmental Sustainability

The growing environmental concerns and credit risks are the primary drivers of pursuing environmental sustainability in South Africa's banking sector. The main concern was being a good corporate citizen and ensuring the loan book was healthy to minimize bad debt. The regulatory development; expansion of codes of governance; globalization and competitive advantage; and stakeholder pressure and reputational risks are secondary drivers. Global trends are increasing focus on regulatory development and the codes of governance, but eventually this will lead to increased focus on stakeholder pressure and reputational risks.

Globalization and competitive advantage will become more important as the banking sector matures in its response to pursuing environmental sustainability and begin competing on the basis of environmentally friendly products and service offerings.

7.1.3 Current Focus of Sustainability Practices

The sustainable value framework diagram (Figure 5) showed that the practices adopted by the banks interviewed were skewed towards the lower-left quadrant, which is in line with Hart (2007) who states that most companies will be heavily skewed towards the lower left quadrant because of emphasis on risk and cost reduction in their strategy, in the early stages of pursuing environmental sustainability. This meant that the practices adopted by the banks had an internal focus with a current orientation because of their focus on getting the basics right through risk and cost reduction. According to Hart (2007), it is crucial for a company to attain a balanced portfolio of practices under the adopted strategies to deal with the current-future as well as the internal-external dimensions of environmental issues (see Figure 4).

7.1.4 Risk and Cost Reduction Realised

Most of the banks are realising benefits in the areas of risk and cost reduction, which is in line with their current strategy frame of reference, being dominated by the lower-left quadrant. This is in line with Hart (2007) who describes this as the greening stage (see Figure 3) of the sustainability maturity journey. According to Nidumolu *et al* (2009), the greening stage eventually leads to reduction in costs and possibly the creation of new business. Eventually, the companies create environment

friendly value chains that result in monetary benefits through energy efficiency and waste reduction (Nidumolu *et al*, 2009).

7.1.5 Impact of Global Economic Crisis

The recent global economic downturn had minimal, if any, negative effects on the banking sector concerning their pursuit of environmental sustainability. The environmental initiatives undertaken were not affected because of their risk and cost reduction focus, which has resulted in improved operational efficiencies and cost savings.

7.2 Recommendations

7.2.1 Integrated Performance Reporting

Gilmour (2010) states that in South Africa, all listed companies will soon have to produce integrated reports. It is therefore recommended that the reporting on the performance of all environmental initiatives be mainstreamed into monthly performance reporting by the business units within the banks. This will ensure that the pursuit of environmental sustainability permeates to all levels and functions in the operation of the bank through the integrated performance management system.

7.2.2 Integrated Assessment of Business Cases

As long as environmental initiatives are evaluated unfairly compared to the traditional 'profit generating' business cases, they will always be viewed as a cost burden. It is recommended that sustainability factors should be incorporated into the business case evaluation criteria with a truly representative weighting incorporating a long-term viability view.

7.3 Opportunities for Further Research

7.3.1 Intra-Banking Sector Analysis

This study looked at the holistic response of the banking sector to environmental sustainability. From the research it became obvious that some practices were only adopted by certain banks depending on their target markets. Therefore research should be undertaken into understanding the responses to environmental sustainability by the different sub-sectors of the banking sector i.e. development finance, investment, microfinance, retail and commercial.

7.3.2 Quantifying of Costs and Benefits

This study focussed on counting the types of costs and benefits that were realised by the participating banks. Research should be undertaken into quantifying the costs and benefits realised in the pursuit of environmental sustainability.

7.3.3 The Response of the Banking Sector's Customers

The literature review highlighted that the bank customers form one part of the key leverage points for influencing the bank's indirect impacts on the environment. Research should be undertaken into understanding how the bank's customers are responding to environmental sustainability. This plays a major factor in influencing the bank's product development and innovation space, especially when the banks move out of the early stages of sustainability maturity model and begin to compete on their environmentally friendly product and service offering.

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APPENDICES

APPENDIX 1 – TOP 200 AFRICAN BANKS

RANK	COMPANY NAME	COUNTRY	RANK	COMPANY NAME	COUNTRY
1	STANDARD BANK GROUP	SOUTH AFRICA	51	THE MAURITIUS COMMERCIAL BANK	MAURITIUS
2	STANDARD BANK OF SOUTH AFRICA	SOUTH AFRICA	52	CRÁ DIT AGRICOLE EGYPT	EGYPT
3	ABSA GROUP	SOUTH AFRICA	53	FIDELITY BANK	NIGERIA
4	FIRSTSTRAND BANKING GROUP	SOUTH AFRICA	54	WAHDA BANK	LIBYA
5	INEDBANK GROUP	SOUTH AFRICA	55	BARCLAYS BANK OF MAURITIUS	MAURITIUS
6	NATIONAL BANK OF EGYPT	EGYPT	56	BANQUE DE L'HABITAT DE TUNISIE	TUNISIA
7	BANQUE EXTÁ DRIEURE D'ALGÁRIE	ALGERIA	57	CRÁ DIT IMMOBILIER ET HÁ TELIER	MOROCCO
8	ATTIJARWAFABANK	MOROCCO	58	BOA GROUP	MALI
9	CRÁ DIT POPULAIRE DU MAROC	MOROCCO	59	AFRICAN BANK	SOUTH AFRICA
10	GUMHOURIA BANK	LIBYA	60	ECOBANK NIGERIA	NIGERIA
11	BANQUE MAR. DU COMMERCE EXTÁ DRIEUR	MOROCCO	61	AFRIBANK NIGERIA *	NIGERIA
12	ZENITH INTERNATIONAL BANK	NIGERIA	62	BARCLAYS BANK EGYPT	EGYPT
13	FIRST BANK OF NIGERIA	NIGERIA	63	STANBIC IBTC CHARTERED BANK *	NIGERIA
14	LIBYAN FOREIGN BANK	LIBYA	64	BNP PARIBAS EGYPT	EGYPT
15	INTERCONTINENTAL BANK *	NIGERIA	65	SUEZ CANAL BANK	EGYPT
16	UNITED BANK FOR AFRICA	NIGERIA	66	AMEN BANK	TUNISIA
17	COMMERCIAL INTERNATIONAL BANK	EGYPT	67	EXPORT DEVELOPMENT BANK OF EGYPT	EGYPT
18	CAISSE NAT. D'Á PARGNE ET DE PRÁ V.	ALGERIA	68	ARAB TUNISIAN BANK	TUNISIA
19	CRÁ DIT POPULAIRE D'ALGÁRIE	ALGERIA	69	ALWATANY BANK OF EGYPT	EGYPT
20	UNION BANK OF NIGERIA *	NIGERIA	70	KENYA COMMERCIAL BANK	KENYA
21	OCEANIC BANK INTERNATIONAL NIGERIA	NIGERIA	71	FIRST CITY MONUMENT BANK *	NIGERIA
22	ECOBANK TRANSNATIONAL INC.	TOGO	72	CITIBANK NA GABON	GABON
23	NATIONAL SOCIÁ D'Á GÁ NÁ RALE BANK	EGYPT	73	ATTIJARI BANK TUNISIE	TUNISIA
24	BANK PHB	NIGERIA	74	BARCLAYS BANK OF KENYA	KENYA
25	SAHARA BANK *	LIBYA	75	STATE BANK OF MAURITIUS	MAURITIUS
26	SOC. GÁ N. MAROCAINE DE BANQUES	MOROCCO	76	CALYON CREDIT AGRICOLE CIB	SOUTH AFRICA
27	ARAB AFRICAN INTERNATIONAL BANK	EGYPT	77	BANCO ESPIRITO SANTO ANGOLA *	ANGOLA
28	BANCO AFRICANO DE INVESTIMENTOS	ANGOLA	78	EGYPTIAN SAUDI FINANCE BANK	EGYPT
29	BANQUE MAROCAINE POUR LE COMM. ET L'IND	MOROCCO	79	PIRAEUS BANK	EGYPT
30	DIAMOND BANK *	NIGERIA	80	BANQUE DE TUNISIE	TUNISIA
31	BANQUE DU CAIRE	EGYPT	81	GROUPE BOFIBANK	GABON
32	GUARANTY TRUST BANK	NIGERIA	82	BARCLAYS BANK OF BOTSWANA	BOTSWANA
33	CITIBANK NA SOUTH AFRICA *	SOUTH AFRICA	83	BNP PARIBAS EL DJAZAIR	ALGERIA
34	BANCO DE FOMENTO DE ANGOLA	ANGOLA	84	STERLING BANK	NIGERIA
35	HSBC BANK EGYPT	EGYPT	85	HOUSING AND DEVELOPMENT BANK	EGYPT
36	ACCESS BANK NIGERIA	NIGERIA	86	UNION INTERNATIONALE DE BANQUES	TUNISIA
37	BANK OF ALEXANDRIA	EGYPT	87	SOCIÁ D'Á ARABE INTERNATIONALE DE BANQUE	EGYPT
38	SKYE BANK	NIGERIA	88	NATIONAL BANK FOR DEVELOPMENT	EGYPT
39	PRINCIPAL BANK FOR DEV. AND AGR CREDIT	EGYPT	89	FIRST NATIONAL BANK OF BOTSWANA	BOTSWANA
40	IMPERIAL BANK	SOUTH AFRICA	90	BANCO INTERNACIONAL DE MOÁ AMBIEQUE	MOZAMBIQUE
41	COMMERCIAL BANK OF ETHIOPIA	ETHIOPIA	91	CITIBANK NA ALGÁRIE	ALGERIA
42	DEVELOPMENT BANK OF SOUTHERN AFRICA *	SOUTH AFRICA	92	FIRST NATIONAL BANK OF NAMIBIA	NAMIBIA
43	CRÁ DIT DU MAROC	MOROCCO	93	CBAO GROUPE ATTIJARWAFABANK	SENEGAL
44	BANCO BIC	ANGOLA	94	COMMERCIAL BANK OF ERITREA	ERITREA
45	ARAB INTERNATIONAL BANK	EGYPT	95	MISR IRAN DEVELOPMENT BANK	EGYPT
46	SOCIÁ D'Á TUNISIENNE DE BANQUE	TUNISIA	96	BANK OF KHARTOUM	SUDAN
47	FAISAL ISLAMIC BANK OF EGYPT	EGYPT	97	AHLI UNITED BANK EGYPT	EGYPT
48	BANQUE NATIONALE AGRICOLE	TUNISIA	98	STANDARD CHARTERED BANK BOTSWANA *	BOTSWANA
49	BANQUE INTERNATIONALE ARABE DE TUNISIE	TUNISIA	99	GHANA COMMERCIAL BANK	GHANA
50	BANQUE DE DÁ VELOPPMENT LOCAL *	ALGERIA	100	UNION BANCAIRE POUR LE COMM. ET L'IND	TUNISIA

Source: The Africa Report (2010)

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RAIK	COMPANY NAME	COUNTRY	RAIK	COMPANY NAME	COUNTRY
101	STANDARD BANK NAMIBIA	NAMIBIA	151	ECOBANK BĀNIN	BENIN
102	BGFI BANK S.A	GABON	152	FIRST SECURITIES DISCOUNT HOUSE *	NIGERIA
103	BLOM BANK EGYPT	EGYPT	153	NATIXIS ALGĀRIE	ALGERIA
104	SOC. GĀN. DE BANQUES EN CĀTE D'IVOIRE	CĀTE D'IVOIRE	154	ZAMBIA NATIONAL COMMERCIAL BANK	ZAMBIA
105	OCEI BANK GE	EQUATORIAL GUINEA	155	TADAMON ISLAMIC BANK	SUDAN
106	STANDARD CHARTERED BANK KENYA	KENYA	156	ECOBANK CĀTE D'IVOIRE *	CĀTE D'IVOIRE
107	COMMERCE & DEVELOPMENT BANK *	LIBYA	157	BANCO COMERCIAL DO ATLĀNTICO	CAPE VERDE
108	CITIBANK NIGERIA	NIGERIA	158	CITIBANK NA KENYA	KENYA
109	SOC. GĀN. DE BANQUES AU SĀNĀGAL *	SENEGAL	159	ARAB BANKING CORP. *	ALGERIA
110	STANBIC BANK BOTSWANA	BOTSWANA	160	DEVELOPMENT BANK OF ETHIOPIA	ETHIOPIA
111	CRDB BANK	TANZANIA	161	BGFI BANK CONGO	CONGO
112	INVESTEC GROUP SOUTH AFRICA	SOUTH AFRICA	162	CAPEC BANK	SOUTH AFRICA
113	BANK WINDHOEK	NAMIBIA	163	UNION GABONAISE DE BANQUE	GABON
114	BARCLAYS BANK OF GHANA	GHANA	164	BANQUE DES MASCAREIGNES	MAURITIUS
115	SOCIĀTĀ GĀNĀRALE SOUTH AFRICA *	SOUTH AFRICA	165	AFRICAN BANKING CORP. BOTSWANA	BOTSWANA
116	NATIONAL MICROFINANCE BANK	TANZANIA	166	NATIONAL BANK OF KENYA	KENYA
117	ARAB BANKING CORP. (EGYPT)	EGYPT	167	STANDARD CHARTERED BANK ZAMBIA *	ZAMBIA
118	BANQUE AL-BARAKA D'ALGĀRIE	ALGERIA	168	NIC BANK	KENYA
119	CO-OPERATIVE BANK OF KENYA	KENYA	169	ENI MADAGASCAR	MADAGASCAR
120	CFC STANBIC BANK	KENYA	170	TUNIS INTERNATIONAL BANK	TUNISIA
121	BANQUE INT. POUR L'ĀPARGNE ET LE CRĀDIT	CAMEROON	171	SOC. GĀN. DE BANQUE EN GUINĀE EQUAT.	EQUATORIAL GUINEA
122	BANCO COM. E DE INVESTIMENTOS	MOZAMBIQUE	172	BANCO SOL *	ANGOLA
123	EQUITY BANK	KENYA	173	BANQUE NATIONALE D'INVESTISSEMENT	CĀTE D'IVOIRE
124	BARCLAYS BANK OF ZAMBIA	ZAMBIA	174	BANK OF ABYSSINIA	ETHIOPIA
125	SOC. GĀN. DE BANQUES AU CAMEROUN	CAMEROON	175	BANK OF AFRICA - CĀTE D'IVOIRE	CĀTE D'IVOIRE
126	BANK OF AFRICA - BĀNIN	BENIN	176	INVESTMENT & MORTGAGES BANK	KENYA
127	EGYPTIAN GULF BANK	EGYPT	177	BANQUE INTERNATIONALE DU BURKINA *	BURKINA FASO
128	NATIONAL BANK OF COMMERCE	TANZANIA	178	SOCIĀTĀ IVOIRIENNE DE BANQUE	CĀTE D'IVOIRE
129	STANDARD BANK MOZAMBIQUE	MOZAMBIQUE	179	NATIONAL BANK OF MALAWI	MALAWI
130	STANBIC BANK UGANDA	UGANDA	180	BANQUE DE L'HABITAT DU SĀNĀGAL	SENEGAL
131	BICIG	GABON	181	BANQUE ATLANTIQUE - CĀTE D'IVOIRE *	CĀTE D'IVOIRE
132	DASHEN BANK	ETHIOPIA	182	MEGAGEN BANK	ETHIOPIA
133	AFRILAND FIRST BANK	CAMEROON	183	FINANCIAL BC SA TOGO	TOGO
134	STANDARD CHARTERED BANK GHANA	GHANA	184	STANBIC BANK ZAMBIA	ZAMBIA
135	STANBIC BANK ZIMBABWE	ZIMBABWE	185	STANDARD BANK LESOTHO	LESOTHO
136	UNION NATIONAL BANK EGYPT	EGYPT	186	ISLAMIC CO-OPERATIVE DEVELOPMENT BANK	SUDAN
137	FAISAL ISLAMIC BANK SUDAN	SUDAN	187	BFV SOCIĀTĀ GĀNĀRALE	MADAGASCAR
138	SOC. COMM. DE BANQUE CAMEROUN	CAMEROON	188	BANQUE INTERNATIONALE POUR LE MALI	MALI
139	ECOBANK GHANA	GHANA	189	ALEJMAA ALARABI BANK *	LIBYA
140	SBI INTERNATIONAL	MAURITIUS	190	ECOBANK SĀNĀGAL *	SENEGAL
141	BICICI	CĀTE D'IVOIRE	191	EXIM BANK TANZANIE	TANZANIA
142	BANQUE DE DĀVELOPPEMENT DU MALI	MALI	192	NATIONAL INVESTMENT BANK *	GHANA
143	BICIS	SENEGAL	193	BANQUE DE TUNISIE ET DES ĀMIRATS D'INV.	TUNISIA
144	DIAMOND TRUST BANK KENYA	KENYA	194	STANBIC BANK GHANA	GHANA
145	COMMERCIAL BANK OF AFRICA	KENYA	195	MERCHANT BANK GHANA	GHANA
146	INFRASTRUCTURE DEV. BANK OF ZIMBABWE *	ZIMBABWE	196	STANBIC BANK TANZANIA	TANZANIA
147	BANK OF AFRICA - MADAGASCAR	MADAGASCAR	197	BANQUE MALGACHE DE L'OCĀAN INDIEN	MADAGASCAR
148	BANCO MILLENNIUM ANGOLA	ANGOLA	198	BANQUE NATIONALE DE DĀV. AGRICOLE	MALI
149	MERCANTILE BANK	SOUTH AFRICA	199	SOCIĀTĀ GĀNĀRALE - SSB BANK	GHANA
150	BIAO CĀTE D'IVOIRE	CĀTE D'IVOIRE	200	ECOBANK TOGO	TOGO

Source: The Africa Report (2010)

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APPENDIX 2 - INTERVIEW QUESTIONNAIRE

1. Introduction

- Personal introduction: Thokozani Dlamini, working for the First National Bank under the smart services segment. I am doing academic research as part of my MBA degree I am doing through GIBS.

Thank them for their time and participation.

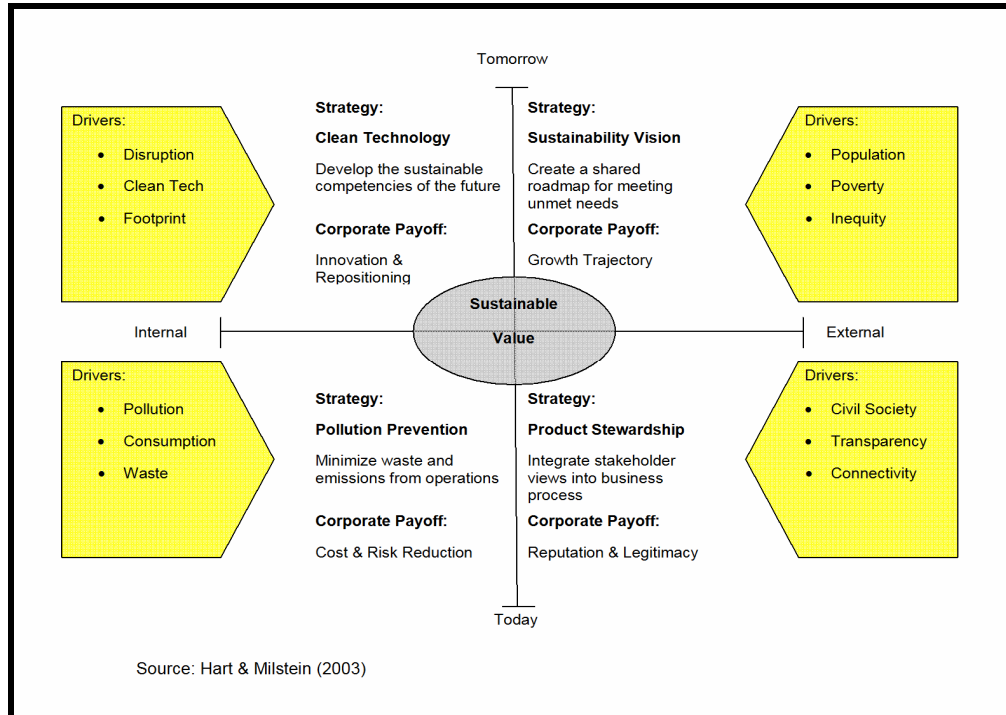
- Purpose of the study: Indicate the purpose of the study i.e. to understand how the banking sector has responded to the pursuing of environmental sustainability and this includes the rational, environmental strategies pursued, environmental practices undertaken and the corporate payoffs realized. Emphasise that the research is on the environmental component and not the social component of sustainability.
- Research process: Highlight the methodology that has been followed to collect the data and how it will be analysed. Give an indication of companies participating in the research process and the intent on how the results will be used.
- Interview process: Provide an overview of the interview process. Also, to build trust, highlight that the interviewee's company's sustainability report (if applicable) has been read and the interviewee's insights are sought. If required, provide a copy of the interview guideline to the interviewee.
- Interviewee consent: Obtain the interviewee's consent via a consent letter. Agree on the terms of obtaining the information and how the information will be made public.

2. General Information

Open discussion with the interviewee by letting them introduce themselves and what their position and designation is in the bank. They should also briefly describe their area of focus.

3. Model Overview

Provide an overview of the sustainability value framework, the drivers, the strategies and common practices involved, the focus area (internal, external) and the timeframes (today, tomorrow) and the possible corporate payoffs.



4. Sustainability Strategy – Research Question 1

4.1 Has environmental sustainability been defined for your organization?

YES	YES	NO
ADEQUATELY	NOT ADEQUATELY	NOT AT ALL

4.2 If yes, what is the definition of environmental sustainability that has been adopted by your organization?

4.3 What do you think the definition of environmental sustainability should be as applied to your organization?

4.4 Do you think that pursuing environmental sustainability has more of an indirect role to play in your organization or is it something that has more of a direct impact on your organization?

Direct / Indirect

4.5 Please explain.

4.6 Has your organization developed and implemented a response to pursuing environmental sustainability?

Yes / No

4.7 What has this response been?

4.8 What have been the key challenges of incorporating the focus on environmental sustainability into the broader corporate strategy?

4.9 Has the global economic downturn affected the organization's response to pursuing environmental sustainability?

4.10 If so, how?

5. Rationale for Sustainability (Drivers) – Research Question 2

5.1 What has been the company's rationale for addressing environmental sustainability?

5.2 What do you think is the basis for this rationale?

5.3 Do you think this rationale is still valid or needs to be reconsidered?

6. Sustainability Practices – Research Question 3

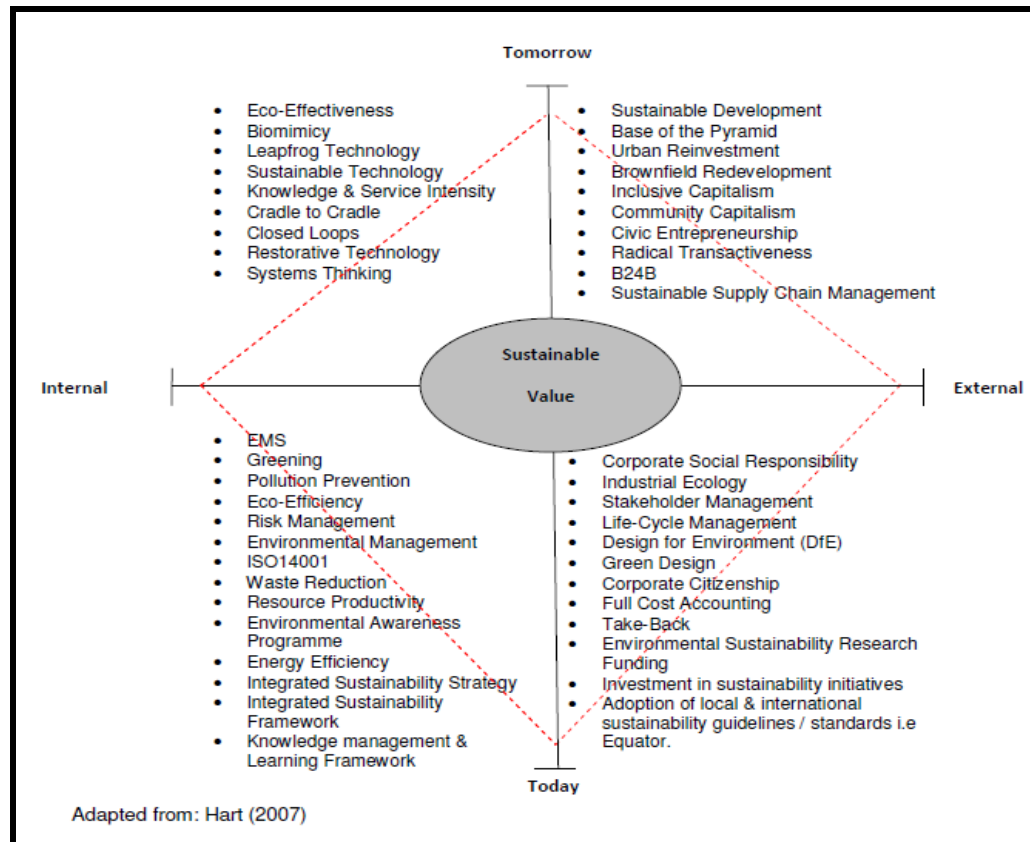
6.1 Has the focus on environmental sustainability been formalized in your company i.e. is there a policy in place, is a sustainability manager or role been appointed, has the strategy been implemented, is there a board representative, etc?

Yes / No

6.2 If yes, what has been formalized in your company?

6.3 What environmental sustainability practices has the company embarked on and are these internally or externally focused?

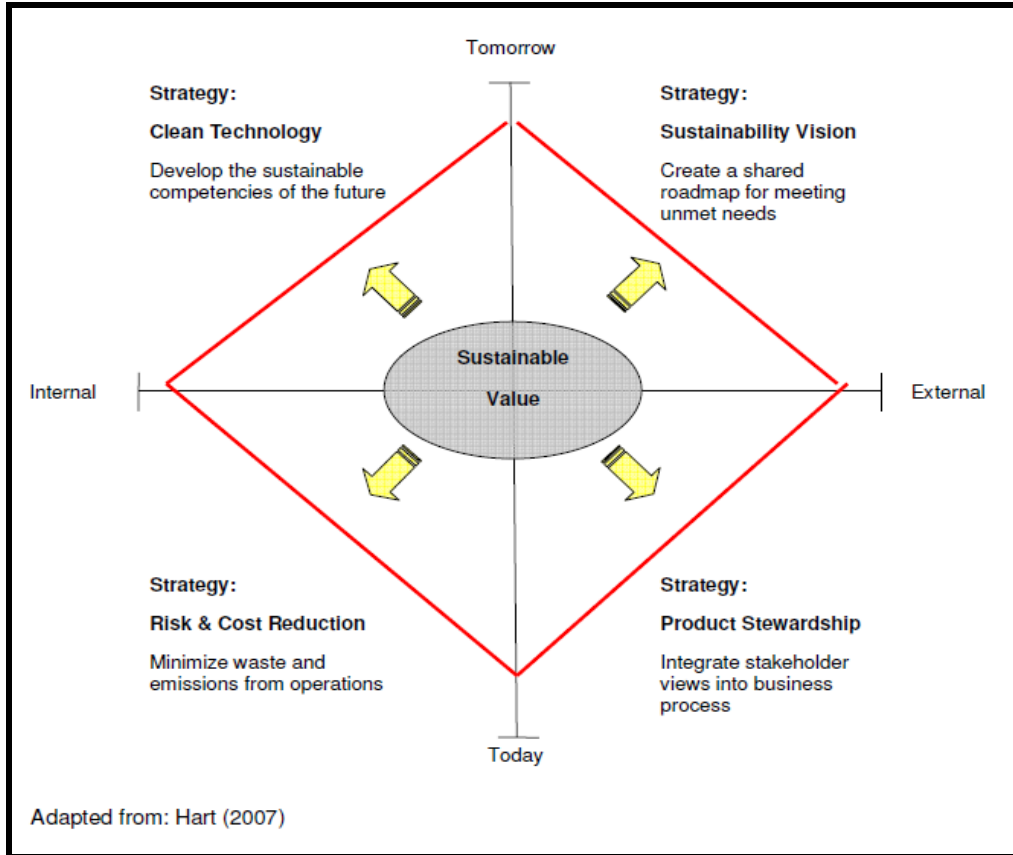
Examples of practices



6.4 What has been the time frame focus (current vs future) for each of these adopted practices?

6.5 What has been the locus of control (internal vs external) for each of the adopted practices?

6.6 Where would you position each of these adopted practices on this model with respect to each of the axis by giving each axis a rating out of 100%?



6.7 Will your company be scaling up their environmental sustainability practices in the future?

Yes / No

6.8 If yes, where do you think the focus will be?

7. Corporate Benefits and Costs for pursuing Sustainability – Research Question 4

Model Overview: Provide an overview of the potential benefits and costs to the company.

Eco-Efficiency	
Reduced costs	
Costs avoided (Design for Environment, Eco-innovation)	
Optimal investment strategies	
Quality Management	
Better risk management	
Greater responsiveness in volatile markets (resilience)	
Staff motivation / commitment	
Enhanced intellectual capital (knowledge management)	
License to Operate	
Reduced costs of compliance	
Regulatory tax incentives	
Enhanced reputation with all key stakeholders	
Influence with regulator	
Market Advantage	
Stronger brands / Brand value	
Customer preference / loyalty	
Lower costs of capital / Access to capital	
New products/processes/services (Innovation)	
Attracting the right talent	
Sustainable Profits	
New business/increased market share	
Enhanced shareholder value	

Costs	
Implementation (investment and capital)	
Certification and endorsement	
Sustainability marketing	
Publicity	
Sustainability monitoring and reporting	
Increased scrutiny	

Model Overview

- 6.1 Are there any costs that may have been left out? (Include these on the table)
- 6.2 If there have been any benefits or costs to the environment what have these been?

Benefits	Costs

- 6.3 Taking 100 percentage points, divide these between those benefits you think your company has obtained from pursuing environmental sustainability.
- 6.4 Taking another 100 percentage points, divide between those costs you think your company has incurred from pursuing environmental sustainability.

7. Interview closure

Questions

- 7.1 Is there anything else you would like to add that you may think will be of relevance to this research?

7.2 Are there any questions that you would like to ask me regarding this research?

Closing comments

- To build trust, share some of the findings of the research to date without company disclosure.
- Enquire as to whether or not the interviewee can be contacted further to clarify any further items.
- Thank the interviewee once again for their time and input. Do this personally and via email.

APPENDIX 3 - INFORMED CONSENT LETTER

Informed Consent Letter

I am conducting research as part of an MBA with GIBS. The research I am conducting aims at understanding the banking sector's response to the challenge of pursuing environmental sustainability. In particular to your company I would like to know:

- If an environmental strategy has been implemented.
- The rationale for this strategy.
- The practices and initiatives undertaken in following this strategy.
- The benefits and costs that the company has realised in pursuing environmental sustainability.

The information I require will be asked by means of an interview, recorded, and later analysed. The information you provide will be treated as confidential and the particulars around the company will not be disclosed. The interview should not take more than one hour to complete.

Your participation is voluntary and you can withdraw at anytime without any penalty. Of course, all data will be kept confidential. If you have any concerns, please contact me or my research supervisor. Our details are provided below:

Researcher: Thokozani Dlamini

Research supervisor: Donald Gibson

Email: thokozani777@gmail.com

Email: gibsond@gibs.co.za

Phone: 082 771 7392

Phone: 011 771 4000

Signature of participant:..... Date:.....

Signature of researcher:..... Date:.....