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Assessing the Nexus between Social Responsibility, Environmental Initiatives, and Profitability: A Sustainable Finance Perspective of the Universal Banks in the Philippines

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ABSTRACT

This study examines the impact of social responsibility and environmental projects on the profitability of 10 Universal Banks in the Philippines within the context of the Bangko Sentral ng Pilipinas (BSP) through a sustainable finance framework. The research adopts a quantitative approach and analyses data from 2019 to 2021 using exploratory data analysis and regression analysis. These captured evolving trends or shifts in the relationship between banks' engagement in these projects and their financial performance. The study found that the number of social responsibility and environmental projects undertaken by Universal Banks did not significantly impact their profitability during this period (2019-2021). However, the study emphasizes the broader value of these initiatives, as they contribute to sustainability, promote corporate social responsibility, and align with global trends towards a more environmentally conscious and socially responsible business landscape. The research suggests that banks should continue to invest in social and environmental projects for their substantial societal and ecological impacts, aligning with the evolving needs and expectations of customers, investors, and the broader community.

Keywords: Universal Banks; Return on Equity; Social Responsibility Projects; Environmental Projects; Regression Analysis

1. INTRODUCTION

Sustainable finance includes climate, green, and social finance, along with more critical considerations for the long-term financial viability of the supported organizations and the operation and stability of the entire economic system they operate (Ziolo et al., 2021). According to Kumar and Prakash (2019), sustainable development was considered the support around which all development efforts should be focused. Alexander and Fisher (2018) claimed that social and environmental hazards were potentially endangering financial stability by becoming systemic. Furthermore, the main ecological sustainability risks had a detrimental impact on the banking industry and the economy included liability risks, physical and transitional hazards, and risks related to transition. In recent years, there has been a growing emphasis on the integration of environmental and social initiatives by businesses worldwide, reflecting a global shift towards sustainable and responsible practices.

In the context of Universal Banks in the Philippines, the extent to which environmental and social projects impact the profitability of these financial institutions remains unclear. As the banking sector is a critical player in the country's economic landscape, understanding the relationship between environmental/social projects and profitability is crucial for both the financial industry and the broader sustainable development goals. The lack of comprehensive research on this intersection creates a knowledge gap that hinders informed decision-making for banks, regulators, and stakeholders (Diokno, 2020). According to the Bangko Sentral ng Pilipinas (BSP) Circular 1085, on April 29, 2020, the BSP issued the sustainable finance framework and required all banks to apply the framework, which established encompassing principles for incorporating sustainability principles along with environmental, social, and governance considerations into corporate and risk governance frameworks, strategies, and operations of banks as agreed by their board of directors. The researchers conducted quantitative research and examined the impact of the Universal Bank's Social responsibility projects (SRP) and Environmental-related projects (ERP) on the ten Universal Bank's profitability represented by the rate of earning (ROE) in 2019 and 2021 using the Exploratory Data Analysis.

The researchers then applied a panel regression analysis to evaluate the relationship between the number of social responsibility projects and the number of environmental-related projects contributing to Universal Bank's profitability. This study aims to analyze the impact of environmental and social projects on the profitability of universal banks in the Philippines, assessing their contribution to financial performance and competitive advantage. Additionally, it seeks to evaluate the long-term sustainability implications of banks' focus on environmental and social responsibility in the Philippine financial market. The study sought to answer the following questions:

1. How do environmental and social projects undertaken by universal banks in the Philippines impact their overall profitability?

2. To what extent do these projects contribute to the financial performance of universal banks in the Philippines?

3. Do universal banks with a strong focus on environmental and social responsibility demonstrate a competitive advantage in the financial market in the Philippines, and how is this advantage reflected in profitability metrics?

4. What are the potential long-term effects of environmental and social projects on the sustainability of the banking industry in the Philippines, both from an environmental/social and financial perspective?

2. LITERATURE REVIEW

Durrani et al. (2020) noted that many countries intend to establish or actively develop a sustainable financial system. The quantity of sustainable finance roadmaps demonstrated the most effective ways the financial sector could promote sustainable and inclusive economies. Additionally, many monetary and fiscal authorities in emerging economies seek ways to integrate environmental concerns such as climate change into their policy frameworks and encourage financial institutions to consider these issues when making credit, investment, and capital allocation decisions. Climate change and other environmental and societal risks to which the financial sector was vulnerable were cited as reasons why urgent action was required to safeguard the financial system (Battiston et al., 2017).

According to Ruiz and Weber (2021), the fundamental issue for the financial industry was establishing a sustainable financial system that required long-term operations that motivated institutions to pursue sustainable actions and contribute to sustainable development. In addition, the study noted that the promoters of the transition to sustainable finance included sustainability leaders in financial institutions and private codes of conduct addressing sustainability concerns. They underlined that a bank's primary business strategy that incorporated sustainability could be successful and benefit both firms. In the banking industry's corporate social responsibility (CSR), financial organizations explored innovative sustainability approaches beyond traditional charity operations and ethical considerations (Lin et al., 2019; Melé & Fontrodona, 2023). According to Schoenmaker and Schramade (2019), these new ways included incorporating non-financial information about sustainability. In addition, financial institutions should have found out if their risk management was well established to deal with the climate and environmental risks and stopped funding operations that hurt the climate and environment. Their main goal should have been making a wide range of new products contributing to a green and sustainable economy (Schoenmaker & Schramade 2019).

Moreover, financial institutions that implemented these sustainable practices produced more value for their shareholders as they protected the environment and, consequently, the economy's health, which enriched everyone in that sector (Alkaabi & Nobanee, 2019). Cabaron J.B and Cabaron R.R (2021) believed that sustainable banking policies and procedures significantly contributed to a profitable and sustainable world for both present and future generations, reducing the risk associated with their lending decisions and increasing their profits from doing business with financially rewarding emerging "green" companies. The study showed that companies aiming to make their corporate financial reporting practices more environmentally friendly generated more firm value individually and across other industries (Alkaabi & Nobanee, 2019). According to Ramnarain and Pillay (2016), corporate culture and business endeavors, operational innovation and excellence, and a socially responsible and customer-focused attitude that went above and beyond the necessary regulatory requirements of a sustainable bank seamlessly incorporates banking sustainability. Čihák et al. (2012) focused on the essential traits of a sustainable financial system, these essential triats encomapass four financial depths, which are access to financial services, intermediation effectiveness, financial stability supporting economic growth and poverty reduction.

2.1 Conceptual Framework

The Triple Bottom Line (TBL) concept expresses the extension of environmental objectives by integrating economic and social lines (Elkington, 1997). Triple Bottom Line (TBL) offered a model for evaluating an organization's effectiveness and performance regarding the economy, society, and the planet (Alhaddi, 2015; Goel, 2010). The Triple Bottom Line’s (TBL) objective, directed towards businesses, regularly and fairly highlighted the importance of these institutions on the fronts of economics, society, and environment. Elkington listed the three lines as profit, people, and planet, which were employed to define the economic, societal, and environmental lines.

2.2 Economic Line (Profitability)

The economic line of the TBL framework denoted the impact of a company's business operations on the financial system (Elkington, 1997). It pertaines to the economy's ability, as one of the sustainability subsystems, to survive and grow to support subsequent generations (Spangenberg, 2005).

The economic line evaluated how well the organization contributed to the economy's expansion and linked it to it. It emphasized the economic value the company added to the environment in a way that benefited it and promoted the ecosystem's ability to support future generations.

2.3 Social Line (People)

The social line of TBL refers to the use of moral and advantageous business practices regarding the community, labour, and human capital (Elkington, 1997). These actions aimed to benefit society and "give back" to the community. For instance, paying fair wages and offering health insurance were a few of these behaviours. Beyond the moral duty of doing good for society, ignoring social responsibility could negatively impact a company's performance and sustainability. Recent instances from various businesses demonstrated that avoiding social responsibility had financial ramifications. During the 2002 local elections in the Bay Area of California, the public rejected the development of a Home Depot because they feared it would harm their community (Dhiman, 2008). According to Goel (2010), social performance is concerned with how an organization interacts with its surrounding area, and it encompasses things like employee relations, community engagement, and just compensation.

2.4 Environmental Line (Planet)

The environmental line of the TBL describes measures taken to preserve the environment and its resources for future generations. It involved decreasing one's ecological footprint, lowering the release of greenhouse gases, and conserving sources of energy (Goel, 2010). Environmental actions, such as the social component of TBL, impact an enterprise's ability to do business. Kearney et al. (2009) researched 99 firms focused on sustainability across 18 industries to examine how environmental actions affected the organization's performance. The industries included in the analysis ranged from food, the media, retail, and tourism to technology, automotive, and chemical. The six-month analysis period and research technique aimed to ascertain whether businesses that employed sustainable practices could improve the present economic climate.

The study's sample included organizations with a sustainability emphasis, which was included in the Dow Jones Index. Two phases of the analysis were carried out: three-month and six-month phases. During the present economic downturn, companies with strategies focused on preserving the environment, boosting their stakeholders' social well-being, and maximizing shareholder value outperformed their industry competitors financially. Financial advantages came from lower operational costs (such as energy and water usage) and higher profits from developing innovative sustainable products (Kearney et al., 2009).

2.5 Conceptual Model

The Conceptual model of how Universal Bank's number of social responsibility and environmental-related projects will influence the Philippines' Universal Bank's profitability. The variables of this study are shown in Figure 1. This study assessed the independent variables, number of social responsibility projects (SRP), and number of environmental-related projects (ERP) to determine if there was a significant impact on the dependent variable, Universal Bank's profitability ratio represented by Return on Equity (ROE) for the year 2019 and 2021. BSP Sustainable Finance Framework outlines the Bangko Sentral ng Pilipinas (2020) expectations regarding the incorporation of sustainability practices, namely those addressing the

environmental and social (E&S) risk areas, in company governance and risk managerial guidelines, in addition to the overall strategy and operational processes of banks commensurate with their size, risk profile, and operational complexity.

As for disclosure requirements, banks are required to include the following details in their annual reports. It includes strategic objectives for sustainability and a willingness to take risks; a summary of the E&S risk management system, products and services that follow generally accepted business practices and sustainability standards. The sustainability standards considered are social, environmental, and sustainability bonds. Other details incorporated in annuals reports are exposures to E&S risk for the bank (broken down by sector or industry), data on the bank's exposure to current and anticipated E&S hazards, as well as other programs that promote adherence to sustainable living guidelines and internationally recognized practices. The following are the independent and dependent variables that affects banks' processes and progress:

2.5.1 Profitability Ratio

A higher profitability ratio controlled the expansion of internal funds, which significantly impacted sustainable growth (Hartono & Utami, 2016). Return on equity (ROE) was used to assess profitability, an indicator of a company's capacity to produce net income on return of shareholder equity (Kontesa, 2015).

2.5.2 Social responsibility projects (SRP)

There were several reasons to believe that CSR initiatives could have altered a bank's processes and outcomes and consequently, its effectiveness. CSR was necessary for these services to rebuild consumer trust, reputation, and business image (Bahta et al., 2020; Fandos-Roig et al., 2021). Additionally, a good reputation in the banking industry could have increased revenues by enabling banks to draw in more clients and charge higher interest rates on loans.

2.5.3 Environmental-Related projects (ERP)

Everything about the environment affects every facet of human life. A definitive relationship exists between humans and the environment; implying that if humans care for the environment, the environment will benefit them (Elkington, 1997). Murdifin et al. (2019) asserted that when a firm did not adequately control social and environmental issues, they had such significant effects that their intended effect of increasing profits resulted in numerous losses. Therefore, following hypotheses are proposed.

H1: More social responsibility projects decrease the profitability of universal banks.

H2: More environmental-related projects decrease the profitability of universal banks.

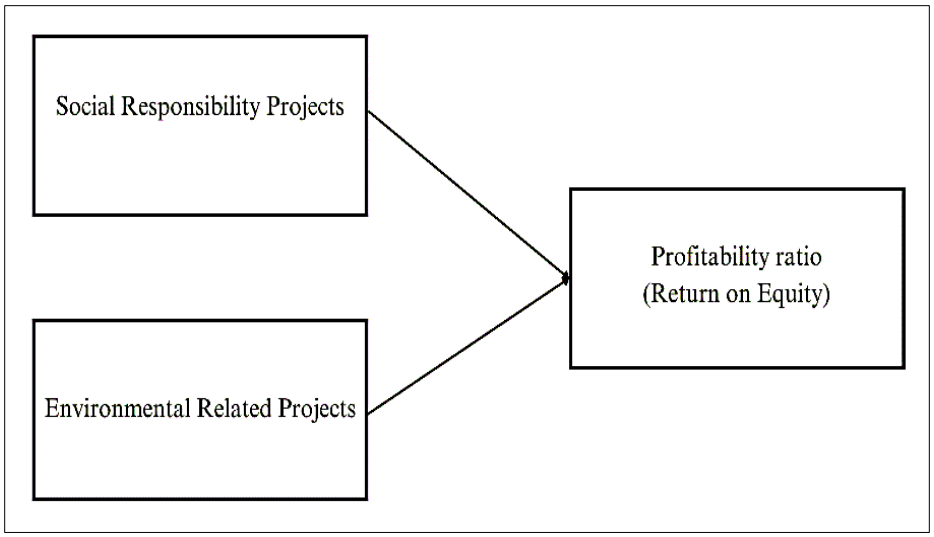

Figure 1. Conceptual Framework

3. METHODOLOGY

According to the BSP's Financial Stability—Directories and Lists, in November 7, 2022, the Philippines' 20 universal banks were divided into three categories: private domestic, government, and foreign. Data were collected from each Universal Bank, and ten out of twenty adopted the BSP's Sustainable Finance Framework, which was the only research subject of this study. This study used regression and correlational analysis methods to accomplish this study. The research instrument used was based on the concept of quantitative data, which was described as the collection of numerical data and the analysis of it using mathematically based techniques, such as statistics (Akcam et al., 2019). Data were collected through secondary data obtained from the Universal Bank's official websites based on the sustainability report and the annual report for 2019 and 2021. To examine the impact of the number of social responsibility projects (SRP) and the number of environmental-related projects (ERP) on Universal Bank's profitability (ROE), data was evaluated through a process called exploratory data analysis or data mining. The researchers then applied a panel regression analysis to evaluate the relationship between the number of SRPs and the number of ERPs in Universal Bank's profitability.

The researchers then applied a panel regression analysis to evaluate the relationship between the number of social responsibility projects and the number of environmental-related projects contributing to Universal Bank's profitability. The number of social responsibility projects and environmental-related projects were gathered manually. At the same time, the profitability ratio represented by ROE was already stated in the Universal Bank's sustainability report and annual report. Researchers evaluated each bank's sustainability report based on their profitability ratio, social responsibility projects, and environmental-related projects for 2019 and 2021. Panel regression analysis is a statistical method extending ordinary regression analysis to handle data with cross-sectional and time-series dimensions. It is beneficial when examining relationships over multiple periods and across different entities, such as banks. Here is a brief overview of how panel regression analysis works:

3.1 Data Collection

The researchers manually gathered data on the number of social responsibility projects and environmental-related projects for each bank. Universal Bank's sustainability and annual reports contained profitability data, represented by the return on equity (ROE). The dataset had a panel structure, where observations were made over multiple periods (2019 and 2021) for each bank. This allows for the examination of both within-bank and between-bank variations. The researchers specified a panel regression model to capture the relationship between the dependent variable (ROE) and the independent variables (number of social responsibility projects and environmental-related projects). The model is presented in the Equation (1)

$$ROE_{it} = \beta 0 + \beta 1 \times Social\_Projectsit + \beta 2 \times Environmental\_Projectsit + \epsilon_{it} \quad (1)$$

Where, i represents the bank and t represents the period.

The model exhibits either fixed effects or random effects Panel regression allows for the inclusion of fixed or random effects to account for unobserved heterogeneity across banks. This helps control for individual bank characteristics that may influence profitability. Moreover, the researchers likely conducted hypothesis tests to determine the significance of the coefficients (β1 and β2) to understand if there is a statistically significant relationship between social responsibility projects, environmental-related projects, and profitability. Researchers may have conducted various robustness checks to ensure the validity of their results. This could include testing for multicollinearity, heteroscedasticity, and other statistical assumptions. This data analysis technique allows researchers to explore and quantify the relationships between different variables while considering individual bank characteristics and changes over time.

4. RESULTS AND ANALYSIS

The researchers collected and analyzed all relevant information to achieve the study's goals, assess whether the number of social and environmental-related projects affected the profitability ratio represented by ROE of the 10 Philippine Universal Banks. Table 1 provides information on the profitability ratio, the number of social responsibility projects (SRP), and the number of environmental-related projects (ERP) of 10 Universal Banks in the Philippines, namely, Development Bank of the Philippines, (2019;2021) Security Bank Corporation (2021), Union Bank,(2019;2021), Rizal Commercial Banking Corporation (RCBC) (2019;2021), Land Bank, (2019;2021) the (BPI) Bank of the Philippine Islands, (2021) the (PNB) Philippine National Bank (2019;2021), East West Banking, China bank, (2019) and Banco De Oro (BDO) for the years 2019 and 2021.

Table 1. Ten (10) Universal Bank's Profitability Ratio

Universal Banks	Return on Equity		No. of SRP		No. of ERP	
	2019	2021	2019	2021	2019	2021
Development Bank of the Philippines	0.10	0.05	0.05	0.05	0.05	0.05
Security Bank Corporation	0.09	3	3	3	3	3
Union Bank	0.15	29	29	29	29	29

Rizal Commercial Banking Corporation	0.06	2	2	2	2	2
Land Bank	0.14	4	4	4	4	4
Bank of the Philippines Islands	0.11	0.06	0.06	0.06	0.06	0.06
Philippines National Bank	0.07	13	13	13	13	13
East West Banking	0.14	20	20	20	20	20
China Bank	0.11	3	3	3	3	3
Banco De Oro	0.10	4	4	4	4	4

Note: Return on Equity (ROE) versus Social Responsibility Projects (SRP) and Environmental-Related Projects (ERP); Number of Social Responsibility; Projects (SRP) and Number of Environmental-Related Projects (ERP) for the Years 2019 and 2021

The results from regression analysis, as presented in Table 2, showed that SRP 2019 and ERP 2019 do not significantly impact the profitability ratio of the Universal Banks for the year 2021. The SRP 2019 obtained a p-value of >0.05 (F=2.12, P=0.189), more significant than the required significance level of 0.05, indicating that it failed to reject the null hypothesis. The ERP 2019 obtained a p-value of >0.05 (F=0.00, P=0.979), greater than the required significance level 0.05, indicating that it failed to reject the null hypothesis. Hypothesis 1 was supported and consistent with prior research, and in order to meet social and environmental goals, banks must adopt ESG standards, which increase costs and decrease profitability (Galant & Cadez, 2017). These costs include investments in projects that reduce pollution or emissions, raise staff wages and bonuses, and participate in community activities such as donations and sponsorship.

Table 2. Analysis of Variance of SRP 2019 and ERP 2019 in Return on Equity

Source	DF	Adj SS	Adj MS	F-Value	P-Value
Regression	2	0.001776	0.000888	1.06	0.396
SRP 2019	1	0.001773	0.001773	2.12	0.189
ERP 2019	1	0.000001	0.000001	0.00	0.979
Error	7	0.005855	0.000836		
Total	9	0.007632			

The correlation Table 3 provided shows the correlation coefficients between the variables ROE 2019, SRP 2019, and ERP 2019. The correlation coefficients for SRP 2019 and ERP 2019 are 0.482 and -0.022, respectively. These values indicate a moderate positive correlation between SRP 2019 and ROE 2019 and a weak negative correlation between ERP 2019 and ROE 2019. The correlation coefficient for SRP 2019 and ROE 2019 is 0.482, suggesting a moderate positive linear relationship between the two variables. Similarly, the correlation coefficient for ERP 2019 and ROE 2019 is -0.022, indicating a weak negative linear relationship between the two variables.

Table 3. Correlations ROE 2019, SRP 2019, ERP 2019

	ROE 2019	SRP 2019
SRP 2019	0.482	
	0.158	
ERP 2019	-0.022	-0.027
	0.952	0.941

The results from regression analysis, as presented in Table 4, showed that SRP 2021 and ERP 2021 do not significantly impact the profitability ratio of the Universal Banks for the year 2021. The SRP 2021 obtained a p-value of >0.05 (F=0.00, P=0.982), greater than the required significance level 0.05, indicating that it failed to reject the null hypothesis. The ERP 2021 obtained a p-value of >0.05 (F=0.21, P=0.662), more significant than the required significance level of 0.05, indicating that it failed to reject the null hypothesis. Hypothesis 2 was supported since it is not always true that "making a profit" equates to protecting the environment. Banks are choosing to contribute to financing environmental projects for the benefit of the planet as a whole rather than always to create a profit (Chan-Fishel & Lawson, 2007).

Table 4. Analysis of Variance of SRP 2021 and ERP 2021 in Return on Equity

Source	DF	Adj SS	Adj MS	F-Value	P-Value
Regression	2	0.000715	0.000357	0.11	0.898
SRP 2019	1	0.000002	0.000002	0.00	0.982
ERP 2019	1	0.000684	0.000684	0.21	0.662
Error	7	0.022930	0.003276		
Total	9	0.023645			

Table 5 shows the correlation coefficients between ROE 2021, SRP 2021, and ERP 2021. The correlation coefficients for SRP 2021 and ERP 2021 are 0.036 and -0.174, respectively. These values indicate a moderate positive correlation between SRP 2021 and ROE 2021 and a weak negative correlation between ERP 2021 and ROE 2021. The correlation coefficient for SRP 2021 and ROE 2021 is 0.036, suggesting a moderate positive linear relationship between the two variables. Similarly, the correlation coefficient for ERP 2021 and ROE 2021 is -0.174, indicating a weak negative linear relationship between the two variables.

Table 5. Correlations ROE 2021, SRP 2021, ERP 2021

	ROE 2021	SRP 2021
SRP 2019	0.036	
	0.921	
ERP 2019	-0.174	-0.159
	0.631	0.660

4.1 Discussion

The researchers undertook a comprehensive examination to assess the influence of SRP and ERP on the profitability ratio (ROE) of 10 Philippine Universal Banks over the years 2019 and 2021. Through a rigorous analysis incorporating regression and correlation coefficients, the study revealed that neither SRP nor ERP significantly impacted the profitability ratio during either year. This finding supported Hypothesis 1, according to which prior research posited that pursuing social and environmental objectives could lead to increased costs and reduced profitability (Galant & Cadez, 2017).

Further scrutiny of the correlation coefficients disclosed a moderate positive relationship between SRP and ROE, alongside a weak negative relationship between ERP and ROE in 2019. Similarly, in 2021, Hypothesis 2 found support, suggesting that pursuing profit does not always align with environmental protection, and is also consistent with Chan-Fishel and Lawson's proposition (2007). The correlation coefficients for SRP and ERP in 2021 demonstrated a moderate positive relationship and a weak negative relationship respectively with ROE. These nuanced findings emphasize the intricate dynamics between social and environmental initiatives and the financial performance of Universal Banks, providing valuable insights for both academic discourse and practical decision-making within the banking sector.

The study focuses specifically on 10 Philippine Universal Banks over the years 2019 and 2021. The geographic and sectoral specificity may set it apart from broader or global studies encompassing a more comprehensive range of banks and regions. The sample size and selection criteria may differ from those in previous studies, potentially influencing the generalizability of findings. Given the specific context of Philippine Universal Banks, cultural and institutional factors unique to the Philippines may shape the relationship between SRP, ERP, and profitability. Differences in these factors could contribute to distinctions from studies conducted in other regions.

5. CONCLUSION AND RECOMMENDATIONS

The study's conclusion on Universal Bank's social responsibility and environmental-related projects prompts a deeper exploration of the nuanced relationship between corporate sustainability initiatives and financial performance. Despite the absence of a statistically significant impact on profitability, as reflected in Return on Equity (ROE) for 2021, the findings imply a more complex and multifaceted interplay between these variables. The observation that the number of Social Responsibility Projects (SRP) and Environmental-Related Projects (ERP) did not directly influence profitability suggests that, at least within the examined timeframe, financial gains may not be immediately evident from such initiatives. However, this conclusion does not negate the broader importance and potential benefits of integrating sustainability into banking practices. The mention of the BSP Sustainable Finance Framework introduces a forward-looking perspective, emphasizing the untapped potential for Philippine Universal Banks to play a pivotal role in sustainable development. While the current study did not uncover a direct link between specific project numbers and profitability, it highlights the transformative power of aligning business operations with sustainable finance objectives outlined in the framework.

The suggested avenues for banks to increase risk management, build their brand, and contribute to a sustainable and inclusive economy signal a strategic shift. The value derived from social responsibility and environmental projects might manifest in more than just immediate financial returns as in cultivating intangible assets such as reputation, risk mitigation, and a broader positive economic impact. The conclusion encourages a holistic view of the relationship between banks, sustainability projects, and profitability. It underscores the notion that while direct financial impacts may take time to be evident, the long-term benefits and synergies derived from integrating sustainability into banking operations can be substantial, fostering a more resilient and responsible financial sector.

This study is mainly limited to the 10 Universal Banks in the Philippines; therefore, the findings of the study cannot be generalized to other countries and banks. Future researchers might conduct further investigations involving various banking institutions to provide a more comprehensive insight into the correlation between the number of social responsibility initiatives, environmental-related projects, and their

impact on profitability, as measured by these banks' Return on Equity (ROE) metrics. This extended research effort aims to uncover nuanced insights that can significantly contribute to the banking sector's strategic planning and decision-making processes.

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