



**Tikrit Journal of Administrative
and Economics Sciences**

مجلة تكريت للعلوم الإدارية والاقتصادية

EISSN: 3006-9149

PISSN: 1813-1719



**The effect of sustainability reporting on the corporate profitability of
the south Asian large banks**

Hala Ayyed*^A, Hussein adnan essa Alallaq^B, Jasim Mohammed Kareem^B

^A AL-Suwaira Technical Institute, Middle Technical University, Department of Accounting

^B Al-Muthanna University/College of Administration and Economics/Department of Business Administration

Keywords:

Sustainability reporting, corporate profitability, south Asian large banks

ARTICLE INFO

Article history:

Received 17 Jan. 2024
Accepted 04 Mar. 2024
Available online 30 Jun. 2024

©2023 THIS IS AN OPEN ACCESS ARTICLE
UNDER THE CC BY LICENSE

<http://creativecommons.org/licenses/by/4.0/>



*Corresponding author:



Hala Ayyed

AL-Suwaira Technical Institute, Middle
Technical University, Department of
Accounting

Abstract: The purpose of this paper examination the sustainability reporting (SR) and corporate profitability (CP) of the south Asian large banks. This research employs the secondary data from 134 banks for the year 2019–2022. The results of this paper display that there is a positively and significantly relationship among SR and its dimensions (community and environment) with CP. The most important issues of sustainability in banks and companies do not disclose information related to the environment and society that will effect negatively on the institutions reputation. For the researchers' best knowledge, this research creates important support in terms of SR in south Asian large banks. In addition to this study propose the sustainability improves banks and firm's reputation and interests customers and investors involved in sustainable problems.

تأثير تقارير الاستدامة على ربحية الشركات في البنوك الكبرى في جنوب آسيا

جاسم محمد كريم
كلية الادارة والاقتصاد
جامعة المثنى

حسين عدنان عيسى العلق
كلية الادارة والاقتصاد
جامعة المثنى

هالة عايد هادي
المعهد التقني الصويرة
الجامعة التقنية الوسطى

المستخلص

الغرض من هذه الورقة هو فحص تقارير الاستدامة (SR) وربحية الشركات (CP) للبنوك الكبيرة في جنوب آسيا. يستخدم هذا البحث البيانات الثانوية من 134 بنكا للعام 2019-2022. أظهرت نتائج هذا البحث أن هناك علاقة إيجابية ومعنوية بين النشاط الجنسي وأبعاده (المجتمع والبيئة) مع الإنتاج الأنظف. من أهم قضايا الاستدامة في البنوك والشركات عدم الإفصاح عن المعلومات المتعلقة بالبيئة والمجتمع مما يؤثر سلباً على سمعة المؤسسة. للحصول على أفضل معرفة للباحثين، يخلق هذا البحث دعماً مهماً من حيث ريبال سعودي في البنوك الكبيرة في جنوب آسيا. بالإضافة إلى هذه الدراسة تقترح الاستدامة تحسين سمعة البنوك والشركات واهتمام العملاء والمستثمرين المشاركين في المشاكل المستدامة.

الكلمات المفتاحية: تقارير الاستدامة، ربحية الشركات، البنوك الكبيرة في جنوب آسيا.

1. Introduction

The sustainability concept emphasizes on the three main pillars that cover societal and environmental aspects, and says that these pillars are people, planet, and profit, if we want to give an accurate report outside the framework of formal nomenclature.

In their continuous search of a sustainable future, companies often overlook the importance of the third pillar: profitability. To comply with rising pressures from investors, regulators, and consumers, many companies around the world are making commitments and launching new programs and initiatives to reduce their environmental impact. These steps pave the way towards creating real change, thus laying the foundations for a more sustainable world.

One of the most important problems of sustainability is that banks and companies do not disclose information related to the environment and society, and therefore this negatively affects banks or companies because the public does not know about these institutions due to their weak reputation, and thus this negatively affects profitability performance. The idea of corporate sustainability represents public value and is expected to contribute beneficial outputs for the company through which it creates special value, corporate sustainability framework companies can identify sustainability challenges through strategic management and research claims that business

organizations can shift their sustainability budget through innovative governance strategies aimed at creating value and solving problems (Lancee, 2017).

But the current scene does not live up to the expected level in light of the absence of innovation and excellence, with the emergence of huge numbers of cloned green initiatives that are similar in form and content, with a few exceptions that include a very limited number of commitments or initiatives launched by a group of brands. “Meeting compliance standards in this way helps brands” demonstrate their it is consistent with the issue of sustainability, but at the same time it fails to bring about the required change. Without change, sustainability is just a cost.

Achieving sustainability needs huge investments thru training, supply chains, technology, communication, innovation, and more-all while producing slight or no profits. But there is a way to variation this equation, which is to transform sustainability from an essential cost into an activity that achieves profits on through the use of the community and environment disclosure information and support. Branding helps companies identify ways to differentiate through sustainability while ensuring consistency, thus enhancing profit on investment, rather than concentrating only on compliance aspects and experiencing costs as is the case with any other entity. Therein lies the true business value of sustainability.

This research makes much assistance to SR and its dimensions with CP literatures and it spreads CP literatures by examining the being of SR and its dimensions. This study measures the CP applying the “return on equity” (ROE) = “net income/shareholders’ equity” of large banks. Therefore, SR quality is examined in this study using the “annual reports” of 134 banks for the period of 2019 to 2022. Therefore, this paper assumes that the important effect of sustainability reporting on the corporate profitability of the south Asian large banks.

2. Literature review: The social pillar focuses on companies supporting the “local community through donations and support for the education and health sectors”. Companies often collaborate with non-profit companies to do this. Firms deliver this enhance to “local communities” whether or not there are authorized requests. The environmental pillar studies the influence of the firm’s activities and “decisions on the environment and biological communities in the areas of activity of the firm and its suppliers”. For

instance, the firm “avoids dumping toxic waste on agricultural” lands or rivers. The company is committed to examining its contractors to see if they are committed to the same sustainability values. “Firms committed to the principles of sustainability study and find solutions to reduce the environmental impact of their operations as much as possible”. All of these activities help the company improve its path and reputation, which positively affects the company’s performance and reputation, and this leads to increasing the company’s profitability.

Sustainability indicators are among the tools for socially responsible investment it helps in evaluating the sustainability efforts of companies as an intermediary between sustainability management profit performances, they are important guiding tools for investors in determining the company's status.

The balance between profitability and sustainability has become essential. Although the primary goal of any business is to achieve profit, this must be done in ways that preserve the environment and achieve sustainable development (Wahib Al-Halbousi et al., 2023: 9), (Lancee, 2017: 6). Sustainability is at the core of today's business organizations, and sustainability disclosure is an innovation awareness that markets can harm the environment under certain circumstances if they are priced natural resources were unfairly priced or had no price (Beckmann et al, 2014:20). Sustainable development is an applied approach or philosophy to establish a certain value in to the United Nations Committee. The organization is defined by the “World Environment and Development Council” as sustainable practices that meet the requirements of the current without cooperating the quality of life of the generation Next (Salem Abdullah et al., 2023: 221), and as a consequence of the growing attention in sustainable development performance.

Social media has become important to relevant parties whose demands have increased corporate social responsibility (CSR) and rational leadership concerned with sustainability (Aupperle et al., 1985: 449). On the other hand, the concept of investment emerged socially responsible SRI (investing responsible). Which reflects investors' interest in environmental growth social, economic, health of the organization and conscious selection of the highest performing investment (Jasim Ahmed Slow, et al., 2023 & Chen & Su, 2020: 5-6), and it is defined as investing in companies that engage in

activities sustainable development (Kwan & Lo, 2017: 610). Sustainable development presents SRI as a socially responsible investment tool, it makes it possible to evaluate corporate social responsibility efforts as an intermediary between sustainable management and financial performance; they are important guiding tools for investors to determine whether a company is socially responsible and whether or not a company's inclusion in the index provides a "positive signal." To investors and convey information that the company is making efforts in governance, social responsibility and environmental responsibility (Chen & Su, 2020: 32), assuming that the investor makes their own decisions and takes into account the considerations economic and social, and divides the news into bad and good according to; good news contains information that predicts future profits, social responsibility, or ethical behavior.

The EU directives aim to require large companies to disclose information in a way that allows them to manage, regulate and report on environmental and social issues, in addition to their environmental and social policies. Environmental, social and governance (ESG), human rights and anti-corruption reporting, to help stakeholders assess companies' non-financial information and accelerate their capacity improvement. Companies must develop a responsible approach to environmental, social and governance activities (Cordazzo, 2020: 12). Therefore, this paper fills this study gap by seeing such relative and the three main hypothesised mentioned below:

H1. The SR has a positive relationship with the corporate profitability of Asian large banks.

H2. The community has a positive relationship with the corporate profitability of Asian large banks.

H3. The environment of SR has a positive relationship with the corporate profitability of Asian large banks.

3. Research method: To face future challenges, and several challenges in this banks and market the Asian stock exchange has adopted the concept of sustainability as one of the axes of strategic work. The stock exchange has realized the importance of sustainability contributed to preparing the second report to take into account the standards the Asian stock exchange in updating the listing and disclosure rules in a manner that takes into account transparency and is in line with governance standards are one of the most

important key standards for sustainability. Therefore, there are poor performance in the Asian large banks.

This study applies the data of south Asian large banks start from 2019 and end to 2022 due to several challenges in this banks and market. Meanwhile, all large banks are “obligated to disclose their SR activities in their” “annual reports”. This research employs the secondary data from the Datastream and annual reports. Profitability performance measured by (ROE) and the data was composed from “Data-stream” beginning from 2019 to end to the 2022. In order to “determine” the “final sample” of this research. The “ROE data” on the data-stream “database” essential is made presented from the year of entry. Ultimately, 134 large banks are certain as the last sample cover the time of (2019-2022).

The “accounting”-based “measure” is the more important one. Hence, this research utilised the “ROE” to “measure” a CP. The favourite for this technique rises since it has liked periods of approval and has changed important in previous period. One main diverse between ROE. Figure 1 show the CP index according to the year.

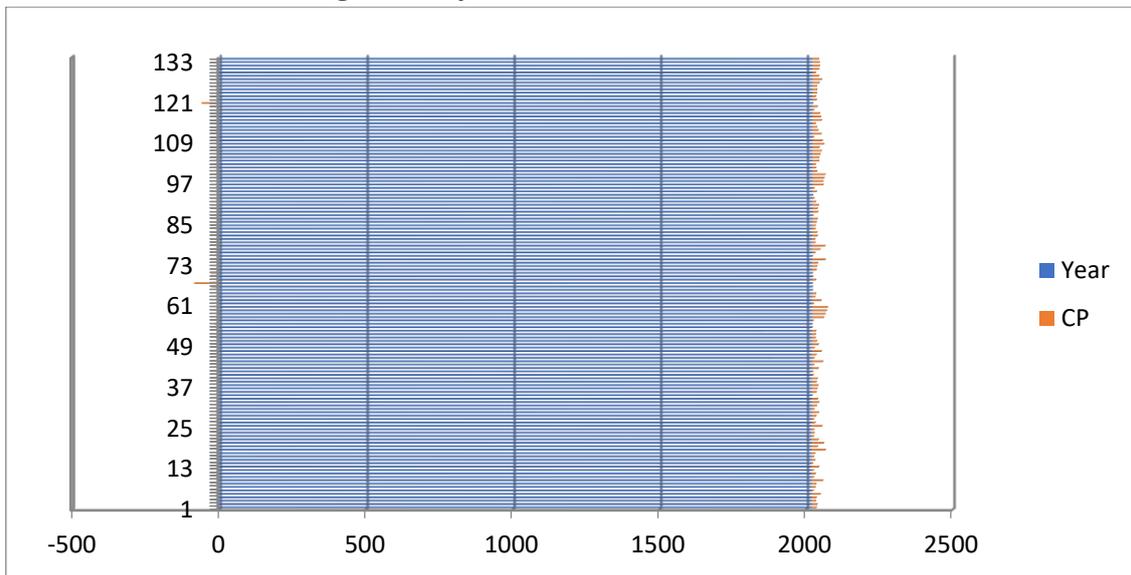


Figure (1): show the corporate profitability index

Source: Prepared by the researcher based on the results of statistical analysis

ROE= Net income /shareholders' equity.....1

Separately from the “independent variable” mentioned previous, many “control variables” are utilised in this study for example (the ownership, leverage, and industry). This is to display that this research “controls” the potential connection between SR with “dimensions” on the

CP of large banks. The “control variable” is showed in the bellow. The part of possible “control variable” used in past study in (“e.g., Chang & Kwon, 2020; Ibrahim & Ismail, 2012”) and the studies linking to the CP as displays in this part. In this present study, nevertheless, sustainability reporting, corporate profitability, and control variable measurements are utilised, as clarified in Table 1.

Table (1): Variables Measurements

Variable name	Measurement
Dependent Variable	
Corporate profitability	“Return on equity (ROE) = calculated by dividing net income by shareholders' equity”.
Independent Variable	
“Sustainability reporting (community and environment)”	SR is measured using a QUALITY with a scale of 0, 1, and 2 where 2 refer to the quantitative information; “a score of 1 is for general information disclosure, and 0 for non-disclosure”.
Control Variable	
Management ownership	“The percentage of common shares owned by executive directors”.
Leverage	“The percentage of total debts to total assets”.
Industry	“1 indicates manufacturing company and 0 otherwise”.

Source: Prepared by the researchers based on the results of statistical analysis

Regression model: One empirical model is employed to observe the link between SR and CP. This research employs the “ordinary least squares” (OLS). This research projected results are practical utilizing this utilised to confirm their “comparability” to that of other research. Testing the impact of sustainability reports on profitability performance because many variables affect profitability, the most important were chosen influencing variables based on previous studies, such as sustainability variables and control variables (the ownership, leverage, and industry), and these variables are mentioned in the model below. The “regression” model below clarifies the relation.

$$CP_{it} = \beta_0 + \beta_1 SR_{it} + \beta_2 COM_{it} + \beta_3 ENV_{it} + \beta_4 MOW_{it} + \beta_5 LEV_{it} + \beta_6 IND_{it} + \varepsilon$$

4. Results and discussion

4-1 Descriptive analysis: Table 2 displays the “descriptive statistics” for all the “variables” for the sample of 134 large banks, which signify the findings for the first “objective”. The CP i.e. the first “variable is measured” utilizing the ROE cover the period from 2019 to 2022. Table 2 shows that the CP “mean” is 0.148 with a max of 0.754, and min of -0.612, which shows the Asian CP during the “period” of study.

Table (2): Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Profitability	134	0.148	0.152	-0.612	0.754
Community	134	0.448	0.300	0.000	1.799
Environment	134	0.242	0.307	0.000	1.299
Sustainability	134	0.310	0.232	0.000	1.149
Management ownership	134	7.425	10.930	0.000	0.537
Leverage	134	0.167	0.197	0.000	0.899
Industry	134	0.830	0.368	0.000	1.000

Source: Prepared by the researchers based on the results of statistical analysis. The variable includes the SR dimensions, which are calculated by the QUALITY of SR. The SR dimensions are grouped into two themes i.e. community and environment. Earlier research employs the “purposive sampling” technique which is designed at “large-sized” banks while the current study employs it on large banks. With concerns to the themes of SR and “its dimensions, in terms of SR, the mean index score for SR” is typically described to be 0.310. With concerns to the “separate themes” of SR dimensions, the mean for community and environment, is typically showed to be, 0.448 and 0.242, respectively. The control variable which includes management ownership, leverage, and industry. From the “descriptive statistics”, the mean is 7.425, 0.167, and 0.830.

4-2 Correlation results: The “significance of the association among the variables in this study are determined utilizing the correlation analysis”. The “Pearson correlation coefficients” between the control variables, “dependent variable”, and independent variables are showed in Table 3 with a high “correlation” among the reporting scores. The next discusses these investigations in detail”.

The quality of SR, “whether with or without interaction, are tested in the same model considering their use measures of SR. For example, multicollinearity is not an issue in the current study. The association values of all the variables show that a serious problem of “multicollinearity” does not exist as their values are less than 0.80 (Hair et al., 2010). There are some correlations between the “independent variables and the dependent variable”. As illustrated in Table 3, the sustainability, community, and environment, are positively and significantly linked with CP. Management ownership and leverage are negatively correlated to CP. “In terms of multicollinearity, the correlation matrix proves that no multicollinearity exists among the variables because” none of the variables correlate above 0.80. The correlation values of all the variables are less than 0.80”.

Table (3): correlation results

Variables	Profitability	community	environment	sustainability	Management ownership	Leverage	Industry
Profitability	1000						
Community	0.722***	1000					
environment	0.300***	0.300***	1000				
Sustainability	0.7295***	0.7475***	0.747***	1000			
Management ownership	-0.0941	-0.0406	-0.0929	-0.092	1000		
Leverage	0.072	0.0454	0.0559	-0.0928	-0.093	1000	
Industry	-0.1289	-0.0325	-0.11	0.0859	-0.3535	0.353***	1000

Source: Prepared by the researchers based on the results of statistical analysis

4-3 Regression results: Some “regressions” are applied to investigation the study “hypothesis”, but earlier to that, three main hypotheses major to “OLS regression” are measured. These comprise of the examination for “collinearity” among the “independent variables”. “To verify the “collinearity” issue, the variance inflation factors (VIF) are computed. In all the cases shown in Table 4, the VIF values are less than 10 signifying the non-existence of any “multicollinearity” issue. Statistically, the data utilised for regression analysis is considered to be normally distributed in terms of the “skewness” and the kurtosis. The “Breusch-Pagan” tests used to test “heteroscedasticity” in this study show p-values of less than alpha (5%), indicating a large amount of “heteroscedasticity” in the model using” the “ordinary least square” (OLS) as exposed in Table 4.

Table 4 Regression analysis

Profitability	T-test	Sig	VIF
Community	0.19	0.085*	1.32
environment	0.43	0.067*	1.61
Sustainability reporting	0.51	0.061*	1.16
Management ownership	0.39	0.069*	1.05
Leverage	1.48	0.014**	1.28
Industry	1.4	0.016**	1.21
Constant	0.91	0.367	
n			
R2 (%)	78%		
Adjusted R2 (%)	51%		
p-value	0.40		
F-value	0.61		

Source: Prepared by the researchers based on the results of statistical analysis. The described findings for the model in Table 4 expose the conclusions regarding SR A which displays that SR has a positive link with CP. The findings of SR dimensions display that community has a positive link with CP. A positive link between environment and CP. All the SR and its dimensions have a significant relation.

There is a positive link between management ownership, leverage, and industry on corporate profitability. "As a result, hypothesis H1 which predicts that SR and its dimensions are positively correlated to CP is supported the terms of the community and environmental dimensions. Asian banks regulators could benefit from these findings in their endeavour to carry out a reform process on SR to improve its quality. Additionally, the findings can also be used to define efficient SR". Therefore, the results of this study prove the hypothesis that the relationship is positive and important between sustainability reporting and its variables with the profitability performance.

Companies that are committed to the core pillars of sustainability in their operations and strategies include: corporate social and environmental. These companies establish internal controls for decision-making processes to include adding benefits not only to the company's profitability but also to society.

The most important results achieved by the researcher are a proposed sustainability measure for companies registered on the Asian stock exchange and derived from count, the sustainability measure proposed by actual corporate sustainability practices helps evaluate sustainability efforts socially responsible investing for businesses, companies are informed of required non-financial disclosures. Disclosed in sustainable development reports. This result is similar to the results of previous studies which confirmed that the company included in the index gives a positive signal to investors. It conveys information that the company is making efforts in terms of governance and social and environmental responsibility, which increases its profitability (Chen & Su, 2020). On the contrary, the researchers explain that the inclusion of the company in the sustainability index is proof that the company is performing well in terms of sustainability and profitability).

5. Discussion and conclusion: As a model for a sustainability report from the stock exchange and obligating registered companies in banks to disclose sustainability reports in order to standardize data disclosed by companies and thus the possibility of giving regulatory authorities (as a neutral body) company no. seeks sustainability to improve or advertise it. Develop policies and outlines that help decision maker's commitment to sustainability at the organization level, forcing companies to compliance and commitment to sustainability principles. Imposing a law requiring companies to disclose sustainability reports. Linking the compensation policy granted to managers to the sustainability performance of banks. To be a catalyst for management to practice environmentally supportive behavior and amend policy reparations to be sustainable. Helping small organizations and emerging banks build a sustainability strategy. Giving higher marks to organizations that help their subsidiaries or suppliers or distributors in integrating into the sustainability strategy and implementing principles sustainability. Presence of institutions in industrial areas to ensure proper practices to get rid of industrial waste.

This study proposes that the improving the efficiency of operations in supply chains management can contribute to achieving a balance between sustainability and profitability. This can be achieved through improving inventory management, reducing waste, and improving logistics operations.

Companies must strive for innovation and use technology to achieve higher efficiency in the use of resources, reduce waste, and improve productivity. As well as this study propose the sustainability improves a firm's reputation and interests' customers and investors involved in sustainable problems. Also, competitiveness and innovation as sustainability fosters innovation and gives firms a "competitive advantage". By concentrating on sustainable innovation, firms can advance new services and products that meet customer requirements and provide effective solutions to social challenges and environmental.

References:

1. Aupperle, K. E., Carroll, A. B., & Hatfield, J. D. (1985). An empirical examination of the relationship between corporate social responsibility and profitability. *Academy of Management Journal*, 28(2), 446-463.
2. Beckmann, M., Hielscher, S., & Pies, I. (2014). Commitment strategies for sustainability: How business firms can transform trade-offs into win-win outcomes. *Business Strategy and the Environment*, 23(1), 18-37.
3. Chang, Y. B., & Kwon, Y. O. (2020). Attention-grabbing IPOs in early stages for IT firms: An empirical analysis of post-IPO performance. *Journal of Business Research*, 109(1), 111-119.
4. Cordazzo, M., Bini, L., & Marzo, G. (2020). Does the EU directive on non-financial information influence the value relevance of the ESG discloser. Italian evidence. *Business Strategy and the Environment*, 29(8), 3470-3483.
5. Hair, J., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariate data analysis* (7th ed.). Upper saddle river, New Jersey: Pearson education international.
6. Ibrahim, N. A., & Ismail, N. (2012). The association of ownership structure and the management earnings forecast: The case of Malaysian initial public offerings (IPOs). *Business, Engineering and Industrial Applications (ISBEIA)*, 2012 IEEE Symposium.
7. Jasim Ahmed Slow, Nazeer Yaseen Ali. (2023). The impact of the development of the banking sector on economic growth in Iraq for the period 2004-2021. *Tikrit journal of administrative and economics sciences*, 19(64).
8. Lancee, L. W. (2017). The impact of sustainability reporting on firm profitability. *Undergraduate Economic Review*, 14(1), 1-19.
9. Lo, K. Y., & Kwan, C. L. (2017). The effect of environmental, social, governance and sustainability initiatives on stock value -examining market response to initiatives undertaken by listed companies, *Corporate Social Responsibility and Environmental Management*, vol.24, 606-619. DOI: 10.1002/csr.1431.
10. Salem Abdullah, D., Jasim Hamad, M. (2023). Measuring and analyzing the impact of some financial inclusion variables on sustainable development in Iraq for the period 2004-

2021. Tikrit journal of administrative and economic sciences, 19(64).
11. Su, C., & Chen, C. (2020). Does sustainability index matter to hospitality industry. *Tourism management*, 81, 1-11.
 12. Yilmaz, I. (2021). Sustainability and financial performance relationship: international evidence. *World Journal of Entrepreneurship, Management and Sustainable Development*, 17(2), 537-549.
 13. Wahib Al-Halbousi, S.M., Jassim Al-Akidi, A.M. (2023). Analysis of some indicators of sustainable development in the UAE economy and their future prospects. *Tikrit journal of administrative and economic sciences*, 19(64),187-202.