



“The linkage between green banking practices and green loyalty: A customer perspective”

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THE LINKAGE BETWEEN GREEN BANKING PRACTICES AND GREEN LOYALTY: A CUSTOMER PERSPECTIVE

Abstract

The aim of this study is to explore the bank customers' perceptions towards green banking practices. This study uses a convenient sampling method. Pre-tested questionnaires were employed to collect data. The data were collected conveniently from 358 bank customers. However, the final sample includes 304 responses after ignoring null responses ($n = 304$). The Structural equation modeling (SEM) was applied for the analyses. The significant results of the study indicate that green banking practices positively influence green image ($p = 0.001$) and green trust ($p = 0.025$), while it does not significantly affect green loyalty ($p = 0.642$). The mediation analysis reveals that green image mediates the relationship between green banking practices and green loyalty, while green trust does not mediate the relationship between the same. The results have practical implications for banking institutions in India to recognize the importance of environmental initiatives in influencing the decisions of bank customers.

Keywords

sustainability, corporate environmental responsibility, green marketing, green banking initiatives, Structural Equation Modeling (SEM)

JEL Classification

G21, M14, M31

INTRODUCTION

Sustainable development has cut through various disciplines, organizations, civil societies, media, and academia. It has even swayed the commercial banking industry by taking the form of sustainable banking (Mejia-Escobar et al., 2020). Human infringement in the natural biological cycle has given rise to the concept of sustainable development, and the conservation of the environment has been given prime importance in the present scenario (Munitlak-Ivanovic et al., 2017). The repercussions of extensive consumption of limited resources are being witnessed in the form of global warming, climate change, the greenhouse effect, etc. This alarming condition calls for critical measures by global organizations (Khairunnessa et al., 2021), and banks being the key players of an economy, carry huge responsibilities of directing the economic players towards a sustainable green economy.

The green banking practices have been considered a novel strategy that promotes socially responsible behavior in society. It has been considered as a criterion to measure and improve the performance of a company (Camilleri, 2020). Presently, investors are making decisions based on the environmental performance of companies (Ye & Zhang, 2011). Several firms have been adopting green innovations to reduce their footprint on the environment, and also to increase the returns from their investments (Chen, 2008). Banks, being the major players in the economy, play a pivotal role in greening the economy (Rehman

et al., 2021). These institutions have successfully implemented sustainable initiatives and practices, and significantly impacted the course of transition (Nakao et al., 2007). They have implemented green policies and practices, adopted green technology, encouraged their customers to unfold new sustainable financing opportunities, and invested in projects to create a favorable green economy (Okyere-Kwakye & Md Nor, 2021). As their institutional functionalities have a considerable impact on various stakeholder groups, they have significantly mitigated the environmental issues that are impeding the growth of an economy (Bukhari et al., 2020).

Green banking has been gaining much attention from individuals and institutions, though many of its dimensions are still undetermined (Sarma & Roy, 2021). Lately, the banker-customer relationship has gained much importance in the market, and customer loyalty has become a priority among bankers (Ferreira et al., 2015). However, nowadays, the customers of banking institutions have been insisting banks to follow sustainable practices (Climent, 2018), as many of them consider the ESG performance of firms, along with their financial performance, before getting associated with banks (Ye & Zhang, 2011). Therefore, acknowledging the changing economic scenario, banking institutions should expand their business objective from profitability to sustainability (Ghassim & Bogers, 2019), while also paying attention to the changing needs of their customers.

1. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Stakeholder theory is commonly used to disclose an institution's commitment to upholding the interest of all its stakeholder groups. Primarily, stakeholder groups of an institution include employees, suppliers, investors, creditors, customers, shareholders, government, etc. (Masud et al., 2018). Parmar et al. (2010) defines this theory as a fundamental theory about how business functions at its best, and how it could work. It is prescriptive, descriptive, instrumental, and managerial as well. It is about trade and value creation and how to manage the business efficiently. A company is obligated to obey rules and regulations, owing to external pressure surrounding an institution to survive in the competitive world. These pressures can arise from institutions, stakeholders, and social conditions and norms (Maltais & Nykvist, 2020). Several groups of society can be directly and indirectly affected by the social and environmental activities of the business. Hence, it is important for institutions not to function in a manner, detrimental to the various stakeholder groups (Hossain et al., 2016). Thus, the institutional efforts should demonstrate accountability to identifiable stakeholders with sustainability demands on the institution (Maltais & Nykvist, 2020). However, with the increased involvement of stakeholders, the re-

alization of banks' responsibility in environmental degeneration is consistently increasing and banks are taking the required measures and initiatives to reduce its negative environmental impact and increase their positive contributions towards a greener economy (Bukhari et al., 2020).

1.1. Green Banking practices

Green Banking is an evolving approach, which aims to address environmental concerns through the bank's functional activities to foster sustainable development in the banking industry. A green economy involves the restructuring of the business framework to earn better returns from ecological, human, and monetary investments. It encompasses activities that use fewer resources and leave behind lesser waste aggregates, thus reducing greenhouse emissions. Shaumya and Arulrajah (2017) define green banking as environmentally friendly banking that promotes eco-friendly practices, which decline the banking institution's carbon footprint on the environment and avoids further environmental degradation. The green banking initiatives and practices promote environmental sustainability in the economy, through the implementation of sustainable green policies and practices in the banking industry. Being a multi-stakeholder approach (Hoque et al., 2019), green banking initiatives can actively strengthen the transition towards a greener economy.

Globally, several banking institutions have acknowledged their crucial role in this transitional phase (Mulder & Koellner, 2011), and have implemented various policies and practices to foster environmental sustainability. Primarily, many banking institutions have adopted in-house green activities like efficient utilization of available resources, physical infrastructural changes, centralized computer networking systems, development of social and environmental management systems, etc. (Mehedi & Kuddus, 2017). A few banks are building up their green marketing activities by encouraging their customers to shift to internet and mobile banking to avail their services (H. M. A. Herath & H. M. S. Herath, 2019). However, other banking institutions have opted for green financing mechanisms, where they fund only environmentally sustainable projects and avoid financing carbon-sensitive projects and industries (Akomea-Frimpong et al., 2021). The environmentally cautious activities of banking institutions have led to socially responsible investments in the economy (Martini, 2021). Lately, certain banks are assessing their prospective project's carbon footprint on the environment. As a result of this initiative, the environmental criteria have now been included in the bank's credit risk management system (Cui et al., 2018). Additionally, a lot of banking institutions are reporting their green practices in the general reports to ensure transparency and legitimize their actions to their various stakeholder groups (Masud et al., 2017). Thus, these green initiatives and practices have potentially created better opportunities, and are robustly boosting the environmental performance of banking institutions (Sharma & Choubey, 2021).

1.2. Green image

The ideological shift in the banking industry towards sustainability has given rise to the concept of green marketing, which includes marketing practices that are initiated to promote eco-friendly behavior among customers (Baktash & Talib, 2019). Chang and Fong (2010) believe green corporate image is the perceptions developed from connecting to personnel, institutions, and communities, engaged and associated with robust environmental commitments. Chen (2010) defines green image as that which represents the customers' perception of a companies' environmental commit-

ments and concerns. Green marketing practices create an image in the cognitive minds of its customers. Studies have empirically proved that green banking initiatives have a significant and positive impact on the green image of banks (Ibe-enwo et al., 2019). Bashir et al. (2020) have validated that the benefits derived from green initiatives and practices by the customers will further increase the green brand image of the institution. Hwang and Lyu(2020) confirm that the green image positively affects its customer's attitude towards the institution and thus, becomes a driving factor for customer purchase intentions (Shah et al., 2012). However, Igbudu et al. (2018) asserted that sustainable banking practices positively and directly affect bank loyalty and the image of the institution. Thus, banks must invest in developing their green core competencies, which will positively enhance the green image, as well as green innovation in the banking industry (Chen, 2008).

1.3. Green trust

Hart and Saunders (1997) believe that trust is a level of the willingness to rely on something that is based on the confidence of its ability, reliability, and benevolence. Chen (2010) defined green trust as the willingness to depend on a product, service, or brand due to its ability and reliability arising from its environmental performance. An institution's functional and social value has a significant effect on green trust. Green trust, being a significant mediator between the consumption values and green purchase intention (Zaidi et al., 2019), strongly influences the customers repurchase intention towards green banking (Lam et al., 2016). This gives banks a competitive edge over other banking institutions. Green trust is an important determinant of green brand attachment (Yang & Zhao, 2019). Further, Chen (2010) indicated that green trust mediates the relationship between green image and green equity. However, Assaker et al. (2020) asserted that customer satisfaction positively influences trust, with both satisfaction and trust having a direct positive effect on green loyalty. Hence, institutions enhance their green trust by improving the green satisfaction and green perceived quality among the bank's green products and services (Chen et al., 2015). Prior research has found that institutions should invest resources to increase the green perceived value and

to decrease the green perceived risk, which consequently enhances the green trust of the institutions (Chen & Chang, 2012).

1.4. Mediating role of green image and green trust

Green banking practices have a positive influence on green image (Bashir et al., 2020), which also positively influences green loyalty among the customers of a bank (Ibe-enwo et al., 2019). Thus, based on the above argument, the study infers that green banking practices can not only influence green image directly, but also indirectly influence green loyalty via their green image. Therefore, this study argues that green image mediates the relationship between green banking practices and green loyalty. Similarly, green banking practices positively influence green trust among the customers of the bank (Ibe-enwo et al., 2019), while green trust has a direct influence on green loyalty (Assaker et al., 2020). Hence, it can be asserted that green banking practices indirectly influence green loyalty via green trust. Based on the above assertion, this paper posits that green trust mediates the relationship between green banking practices and green loyalty.

To test the relationship among the identified variables, this study explores bank customer perceptions towards green banking practices. Pertinently, it examines the mediating role of green image and green trust while studying the relationship between green banking practices and green loyalty.

Based on the above arguments, the following hypotheses are proposed:

H₁: Green banking practices positively influence green image.

H₂: Green banking practices positively influence green trust.

H₃: Green banking practices positively influence green loyalty.

H₄: Green image positively influences green trust.

H₅: Green image positively influences green loyalty.

H₆: Green trust positively influences green loyalty.

H₇: The relationship between green banking practices and green loyalty is mediated by green image.

H₈: The relationship between green banking practices and green loyalty is mediated by green trust.

To test the developed hypotheses, the study proposes a conceptual model on green banking. The four constructs of the research model are green banking practices, green image, green trust, and green loyalty. Green banking practices is the independent variable, while green loyalty is the latent dependent variable. Green image and green trust are considered latent mediating variables.

2. RESEARCH METHOD

To achieve the study objective, a research model on green banking practices is proposed. The proposed model is empirically validated using primary data. This study uses a well-structured questionnaire to collect primary data. The questionnaire consists of two sections. The first section includes the demographic details of respondents. The second sec-

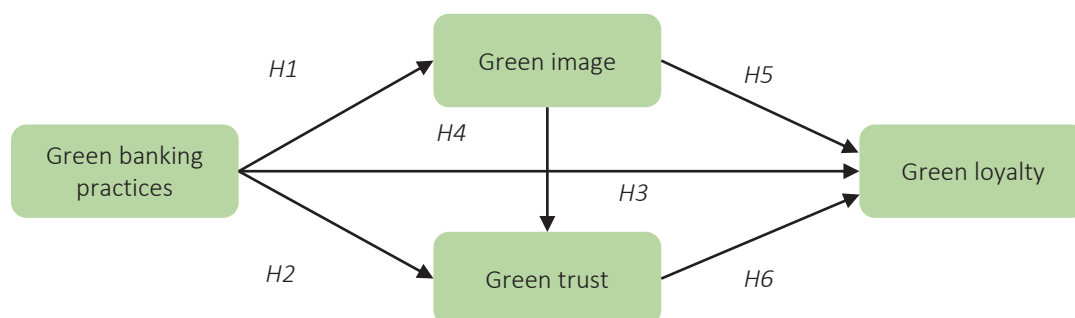


Figure 1. Research model

tion consist of four statements each related to green banking practices, green image, green trust, and green loyalty. These statements are adopted from previous studies (Sun et al., 2020; Wu et al., 2016; Chen et al., 2015) after necessary modifications and the same has been presented in Table 1. As the exact number of customers of commercial banks in India is unknown, this study adopted the convenient sampling technique. Thus, the customers of commercial banks in India were the targeted population of this study. The pre-tested questionnaires were circulated electronically on various social media platforms. A total of 358 responses were received, among which only 304 responses were complete. The rest 54 responses are not considered for data analysis, as these respondents either did not have a bank account or were unaware of their respective bank's green banking initiatives. Thus, the sample size of the study is $n = 304$. Further, a five-point Likert scale rating is used to measure the variables of this study.

Table 1. Questionnaire items

Construct	Items
	The bank is concerned about environmental sustainability
Green Banking Practices	The bank's functionalities are oriented to the environmental dimension
	The bank has taken adequate steps to promote environmental sustainability
	The bank is well-established about its environmental concern
Green Image	The bank's environmental functionalities are credible
	The bank's environmental products are innovatively developed
	The bank's environmental commitments create a good reputation in the minds of the customers
Green Trust	The bank is successfully discharging its environmental commitments
	The bank's environmental image is generally reliable
	The bank's environmental claims are trust-worthy
Green Loyalty	The bank's environmental functionalities are dependable
	The bank's environmental performance meets the customers' expectations
	I am satisfied with the bank's environmental practices and products
	I rely on the bank's environmental practices and products
	I will choose this particular bank over other banks because of its environmental commitments
	I will recommend this bank because of its environmental commitments

This study adopted Structural Equation Modeling (SEM) to measure the relationship between the

identified variables. The analysis of moment structures (AMOS SPSS) software is used effectively to analyze SEM, evaluate parameters, test the fit of the model, and confirm the hypotheses.

3. RESULTS

3.1. Respondents' demographic profile

Table 2 presents the demographic profile of the respondents of this study. Out of 304 respondents, 46.7% are male while 53.3% are female. Of the total respondents, 17.1% are below 20 years, 59.5% are between 20-40 years of age, 19.7% are between 40-60 years of age, and 3.6% are above 60 years. Over 6.9% of the respondents have secondary education, 48.4% have completed their under-graduation, 26.6% have completed their post-graduation, and 18.1% are professional degree holders. Of the total respondents, 36.5% are students, while 34.9% of them are working individuals. Over 17.1% of the respondents are self-employed and 9.2% are homemakers.

Table 2. Demographic profile

Respondents	Frequency	Percentage
Gender		
Male	142	46.7
Female	162	53.3
Age		
Below 20	52	17.1
20-40	181	59.5
40-60	60	19.7
60 and above	11	3.6
Educational Qualification		
Secondary Education	21	6.9
Under-Graduation	147	48.4
Post-Graduation	81	26.6
Professional Education	55	18.1
Occupation		
Student	111	36.5
Homemaker	28	9.2
Self-Employed	52	17.1
Working Individual	106	34.9
Retired Individual	7	2.3

3.2. Model validity

The study employed the SEM technique to examine the proposed research model. The construct validity of the model was tested using the values

Table 3. Convergent validity

Construct	Indicators	Standardized Factor Loadings	Cronbach's alpha	Composite reliability	Average Variance Extracted (AVE)	Square root of AVE
Green Banking Practices (GBP)	GBP_1	0.767	0.868	0.869	0.625	0.790
	GBP_2	0.796				
	GBP_3	0.818				
	GBP_4	0.780				
Green Image (GI)	GI_1	0.774	0.854	0.854	0.595	0.771
	GI_2	0.770				
	GI_3	0.805				
	GI_4	0.734				
Green Trust (GT)	GT_1	0.794	0.868	0.870	0.626	0.791
	GT_2	0.811				
	GT_3	0.797				
	GT_4	0.761				
Green Loyalty (GL)	GL_1	0.762	0.877	0.879	0.645	0.803
	GL_2	0.832				
	GL_3	0.821				
	GL_4	0.795				

of standardized factor loadings, Cronbach's alpha, composite reliability, average variance extracted (AVE), and square root of AVE. As seen in Table 3, the standardized factor loadings are above the minimum recommended level of 0.6. The Cronbach's alpha value of all the constructs is acceptable as they are above the minimum acceptable level of 0.7. As a composite reliability value of less than 0.7 is not acceptable, the values of composite reliability in the present study are acceptable. The values of average variance extracted (AVE) of all the constructs are above the recommended level of 0.05. Based on the output values, it can be said that there is adequate validity in the research study.

As Table 4 indicates the model fit indices, it is evident that the chi-squared test with degrees of freedom = 3.844, comparative fit index = 0.921, the goodness of fit index = 0.866, adjusted goodness of fit index = 0.815, and root mean square error of approximation = 0.087 are acceptable. Thus, the fit of the model is considered good and acceptable.

Table 4. Model fit indices

Fit Index	Research model
χ^2/df	3.844
Comparative fit index	0.921
The Goodness of fit index	0.866
Adjusted goodness of fit index	0.815
Root mean square error of approximation	0.087

3.3. Test of hypotheses

Table 5. Results of SEM

Hypothesis	Path	Path coefficient
H1	GBP to GI	0.894***
H2	GBP to GT	0.275**
H3	GBP to GL	0.062
H4	GI to GT	0.691***
H5	GI to GL	0.113
H6	GT to GL	0.733***

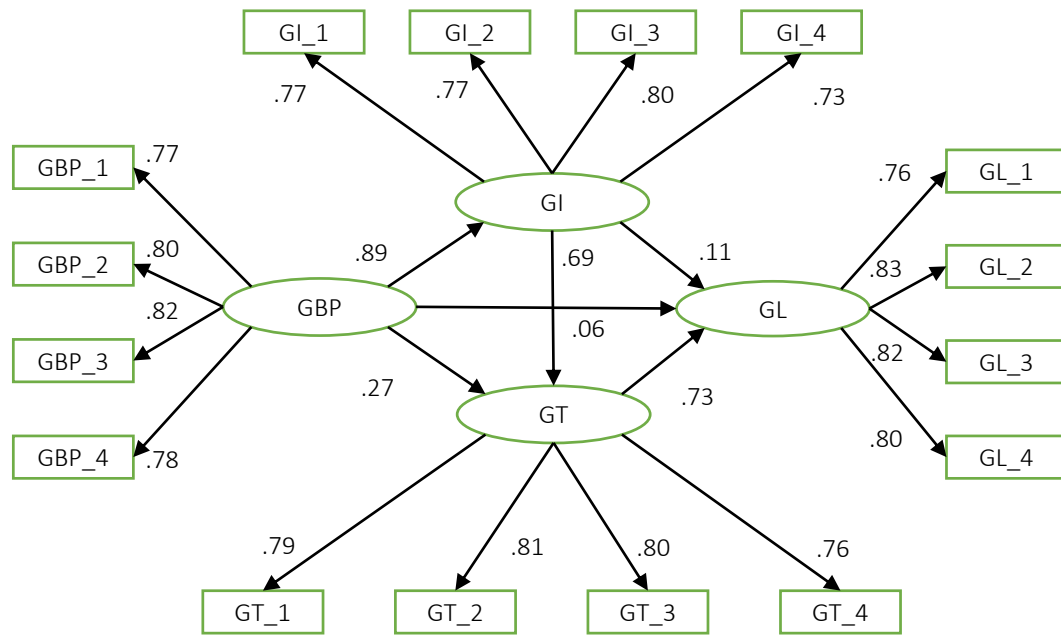
Note: Significant at *** $p < 0.001$, ** $p < 0.05$, * $p < 0.1$.

In line with previous studies (Ibe-enwo et al., 2019), green banking practices has a positive influence on green image ($p = 0.001$) and green trust ($p = 0.025$), but has no significant influence on green loyalty ($p = 0.642$). Similar to past studies (Ibe-enwo et al., 2019), the results indicate that green image positively influences green trust ($p = 0.001$), and does not significantly influence green loyalty ($p = 0.597$). Lastly, green trust positively influences green loyalty ($p = 0.001$). Thus, Table 5 shows that hypotheses H1, H2, H4, and H6 are strongly supported, while hypotheses H3 and H5 are statistically not significant and are rejected.

Table 6. Mediation result

Hypothesis	Path	Path Coefficient
H7	GBP to GI to GL	0.547***
H8	GBP to GT to GL	0.710

Note: Significant at *** $p < 0.001$, ** $p < 0.05$, * $p < 0.1$.



Note: GI – Green Image; GT – Green Trust; GL – Green Loyalty; GBP – Green Banking Practices.

Figure 2. Results of SEM

Table 6 indicates the results of the mediation analysis. The standardized regression weights of the path green banking practices to green loyalty decreased to 0.817 ($p = 0.001$) and the path coefficients of green banking practices to green image to green loyalty is 0.547 ($p = 0.001$). This supports hypothesis seven ($H7$), and it can be asserted that green image mediates the relationship between green banking practices and green loyalty, which is in line with previous findings (Ibe-enwo et al., 2019). Further, in the test of mediating effect of green trust between green banking practices and green loyalty, the p -value of the path green banking practices to green loyalty is not statistically significant ($p = 0.416$), implying that green trust does not significantly mediate the relationship between green banking practices and green loyalty. Thus, hypothesis eight ($H8$) is rejected.

4. DISCUSSION

In line with the previous study (Ibe-enwo et al., 2019), the results of this study confirm that green banking practices positively influence green image and green trust, with path coefficients 0.894 ($p < 0.001$) and 0.275 ($p < 0.05$), respectively. Thus, hypotheses one and two are accepted. Further, similar to the past study (Chen, 2010), hypothesis

four is accepted as green image significantly influences green trust, with a path coefficient 0.691 ($p < 0.001$). This implies that banking institutions are actively engaging in activities that conserve the environment, through the means of delivering eco-friendly products and services. The environmental initiatives of the banking institutions are creating a green brand image, and also instilling a sense of trust in the minds of their customers. The results reaffirm the obligation for banking institutions to innovatively develop their products and services to retain customers in the market. The results of the present study are in line with existing literature that posits that customers specifically consider banking institutions' brand image, before getting associated with the same (Yip & Bocken, 2018). Lastly, hypothesis six is accepted, as there is a positive relationship between green trust and green loyalty ($p = 0.001$). This reaffirms the fact that trust among customers directly influences customer loyalty (Assaker et al., 2020).

On the contrary, hypothesis three is not accepted as green banking practices do not significantly influence green loyalty ($p = 0.642$). Similarly, green image also does not significantly influence green loyalty ($p = 0.597$). Therefore, hypothesis five is also not accepted. The insignificant influence of green banking practices and green image on green

loyalty implies that the current initiatives of banking institutions do not foster green loyalty among customers. The customers are still not convinced and do not completely rely on the environmental products and services offered by the banking institutions.

Supporting the results of a previous study (Igbudu et al., 2018), the mediation analysis reveals that green image mediates the relationship between green banking practices and green loy-

alty, with path coefficient 0.547 ($p = 0.001$). Thus, hypothesis seven is accepted. On the other hand, hypothesis eight is not accepted as green trust does not mediate the relationship between green banking practices and green loyalty (0.710, $p = 0.416$), which is similar to the findings of a previous study (Ibe-enwo et al., 2019). This is an important finding of this study that investigates the role of green image and green trust as a mediating variable, between green banking practices and green loyalty.

CONCLUSION

The aim of this study is to empirically evaluate the influence of green banking practices on green loyalty in the Indian context. Based on the results of the structural equation model, it can be inferred that green banking practices help banking institutions in building green image in the minds of the customers. Further, the results affirm that green banking practices aid in instilling green trust among customers of a bank. The insignificant influence of green banking practices on green loyalty implies that currently, the eco-friendly products and services offered by banks do not completely convince bank customers to be loyal to one banking institution. The results have a practical implication for banking institutions in India to recognize the importance of environmental initiatives in influencing the decisions of bank customers. The study recommends banking institutions to invest resources in upgrading their eco-friendly products and services, while keeping in mind the changing needs of the customers. Though the present study includes the foremost variables relating to green banking practices, future researchers can extend the proposed model with additional variables relating to green satisfaction and green equity.

AUTHOR CONTRIBUTIONS

Conceptualization: Jothi Munuswamy.

Data curation: Deepthi S. Pawar.

Formal analysis: Deepthi S. Pawar.

Investigation: Deepthi S. Pawar.

Methodology: Jothi Munuswamy.

Project administration: Jothi Munuswamy.

Software: Deepthi S. Pawar.

Visualization: Deepthi S. Pawar.

Writing – original draft: Deepthi S. Pawar.

Writing – reviewing & editing: Jothi Munuswamy.

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APPENDIX A. Questionnaire

SECTION I. Demographic profile of the respondents

1. Gender:
 - Male
 - Female
 - Other

2. Age (In years):
 - Below 20
 - 20-40
 - 40-60
 - 60 and above

3. Qualification:
 - Secondary Education
 - Under-Graduation
 - Post-Graduation
 - Professional Education

4. Occupation:
 - Student
 - Homemaker
 - Self-Employed
 - Working Individual
 - Retired Individual

5. Do you have a bank account?
 - Yes
 - No

6. Which bank do you hold an account in?

7. Which type of account do you handle?

8. Are you aware of the bank's initiatives to promote environmental sustainability?
 - Yes
 - No

9. Source of awareness regarding the bank's environmental initiatives:
 - Newspapers
 - Magazines
 - Social media platforms
 - Official bank websites
 - Point of operation in bank

SECTION II. Customers' perception on green banking practices

Table A1. Rate the following statements regarding the bank's sustainable environmental initiatives

SN.	Statements	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Green Banking practices						
1.	The bank is concerned about environmental sustainability					
2.	The bank's functionalities are oriented to the environmental dimension.					
3.	The bank has taken adequate steps to promote environmental sustainability					
4.	The bank is well-established about its environmental concern					
Green Image						
5.	The bank's environmental functionalities are credible					
6.	The bank's environmental commitments create a good reputation in the minds of the customers					
7.	The bank's environmental products are innovatively developed					
8.	The bank is successfully discharging its environmental commitments					
Green Trust						
9.	The bank's environmental image is generally reliable					
10.	The bank's environmental claims are trust-worthy					
11.	The bank's environmental functionalities are dependable.					
12.	The bank's environmental performance meets the customers' expectations					
Green Loyalty						
13.	I am satisfied with the bank's environmental products and services					
14.	I rely on the bank's environmental practices and products.					
15.	I will choose this particular bank over other banks because of its environmental commitments					
16.	I will recommend this bank because of its environmental commitments					

Note: SN – Serial Number.