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Sustainability Practices and Financial Outcomes in the Banking Sector: A Systematic Review of Empirical Evidence

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ABSTRACT. *This study provides a qualitative systematic literature review examining the relationship between sustainability practices and financial outcomes in the banking sector. Drawing on peer reviewed empirical studies published between 2015 and 2025, the review synthesizes evidence on how environmental, social, and governance (ESG) initiatives influence bank performance indicators, including profitability, risk management, and market valuation. The findings reveal a generally positive association between sustainability practices and financial performance, particularly in the long term, driven by enhanced reputation, improved risk mitigation, and stronger stakeholder trust. However, the results also indicate contextual variations depending on regulatory environments, geographic regions, and measurement approaches. The review highlights methodological inconsistencies and calls for more standardized ESG metrics in future research. Overall, sustainability is positioned not merely as an ethical obligation but as a strategic driver of financial resilience and competitive advantage in banking.*

Keywords *Sustainability Practices; Financial Performance; Banking Sector; ESG; Systematic Literature Review*

INTRODUCTION

In recent decades, sustainability has emerged as a central paradigm in the global financial system, particularly within the banking sector, where institutions play a pivotal role in allocating capital and managing systemic risk. The increasing emphasis on Environmental, Social, and Governance (ESG) practices reflects a broader transformation in how financial performance is conceptualized, moving beyond short term profitability toward long term value creation and stakeholder engagement. This shift has been driven by regulatory pressures, stakeholder expectations, and the growing recognition that sustainability risks such as climate change, social inequality, and governance failures can materially affect financial stability and institutional performance (Scholtens, 2009; Shad et al., 2019).

The banking industry is uniquely positioned at the intersection of sustainability and financial outcomes. Unlike other sectors, banks influence sustainability not only through their internal operations but also through their lending, investment, and risk management decisions. As a result, integrating ESG considerations into banking practices has become a critical issue for regulators and policymakers worldwide. For instance, in Indonesia, the Financial Services Authority (OJK) mandated sustainability reporting through Regulation No. 51/POJK.03/2017, requiring financial institutions to adopt sustainable finance principles and disclose ESG related information. This regulatory development

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underscores the importance of transparency and accountability in aligning banking activities with sustainable development goals.

Despite the growing adoption of sustainability practices, the relationship between ESG performance and financial outcomes in the banking sector remains ambiguous and contested in the empirical literature. Some studies suggest that sustainability initiatives enhance financial performance by improving risk management, strengthening corporate reputation, and increasing stakeholder trust (Cornett et al., 2016; Esteban-Sanchez et al., 2017). For example, ESG engagement has been associated with reduced risk exposure and enhanced market valuation, particularly in developed economies (Gangi et al., 2019; Miralles-Quirós et al., 2019). These findings are consistent with stakeholder theory, which posits that firms that effectively address stakeholder concerns are more likely to achieve superior financial outcomes (Freeman, 1984; Rivera et al., 2017). Supplier engagement, adoption of green technologies, and collaboration with stakeholders, is crucial for improving operational efficiency, reducing environmental impact, and enhancing the company's reputation (Ruslaini & Eri Kusnanto, 2020).

Conversely, other studies report a negative or insignificant relationship between sustainability practices and financial performance, particularly in emerging markets. Sustainability initiatives often entail significant costs, including investments in environmental technologies, social programs, and governance reforms, which may reduce short-term profitability (Buallay, 2019; Soana, 2011). Empirical evidence from Indonesian banks indicates that ESG performance is negatively associated with key financial indicators such as Return on Assets (ROA), Return on Equity (ROE), and Tobin’s Q, although the effects vary across ESG dimensions . Specifically, while social initiatives may positively influence profitability, governance and environmental practices can have neutral or even adverse effects on firm value in the short term (Gutiérrez-Ponce & Wibowo, 2023). These mixed findings highlight the complexity of the ESG financial performance nexus and suggest that contextual factors such as regulatory environments, market maturity, and stakeholder awareness play a critical role. Sustainability, innovation, and dynamic factors are important capabilities for multi-finance companies that need to be strengthened and developed (Patricia, M. C, 2023).

Furthermore, the heterogeneity of measurement approaches and methodological frameworks contributes to inconsistencies in the literature. Studies differ in how they operationalize sustainability (e.g., ESG scores, CSR disclosures, sustainability reports) and financial performance (e.g., accounting-based vs. market-based indicators), leading to divergent conclusions (Galant & Cadez, 2017; Velte, 2017). Additionally, variations in sample selection, time horizons, and analytical techniques further complicate the comparability of findings. For instance, cross country studies often reveal differing ESG impacts depending on institutional contexts, while longitudinal analyses suggest that the benefits of sustainability may materialize only in the long term (Nizam et al., 2019; El Khoury et al., 2021). Islamic marketing strategies, including Islamic branding and halal marketing, significantly contribute to building consumer loyalty and business sustainability (Santoso, S., & Ruslaini, 2022).

Another critical dimension in the sustainability performance relationship is corporate governance. Strong governance mechanisms are often considered essential for ensuring effective implementation of ESG practices and enhancing financial outcomes. Empirical studies indicate that governance quality can mitigate risks and improve transparency, thereby strengthening investor confidence (López-Arceiz et al., 2018; Hussain et al., 2018). However, some evidence suggests that governance-related sustainability efforts may also impose additional costs, potentially reducing firm value in the short term (Gutiérrez-Ponce & Wibowo, 2023). This dual effect underscores the need for a nuanced understanding of how governance interacts with other ESG dimensions in shaping financial performance.

The global financial crisis of 2008 further intensified the focus on sustainability in banking, as it exposed significant weaknesses in risk management and corporate governance. In its aftermath, banks have increasingly adopted sustainability frameworks to rebuild trust and enhance resilience (Cornett et al., 2016). More recently, the COVID-19 pandemic has reinforced the importance of sustainable and socially responsible banking practices, highlighting the need for institutions to balance financial performance with broader societal objectives (Elali, 2021). These developments suggest that sustainability is no longer a peripheral concern but a core strategic priority for banks.

Given the fragmented and sometimes contradictory nature of existing research, there is a clear need for a systematic synthesis of empirical evidence on the relationship between sustainability practices and financial outcomes in the banking sector. A systematic literature review (SLR) provides a rigorous and transparent methodology for identifying, evaluating, and synthesizing relevant studies, thereby offering a comprehensive overview of current knowledge and research gaps (Centobelli et al., 2020). By integrating findings from diverse contexts and methodologies, an SLR can help clarify the conditions under which sustainability practices enhance or hinder financial performance.

This study aims to address this gap by conducting a systematic review of empirical literature on sustainability practices and financial outcomes in the banking sector. Specifically, it seeks to (1) examine the direction and strength of the relationship between ESG practices and financial performance, (2) identify key moderating and mediating factors influencing this relationship, and (3) highlight methodological trends and research gaps in the existing literature. By doing so, the study contributes to both academic and practical discourse, providing insights for researchers, policymakers, and banking practitioners.

While sustainability practices are increasingly recognized as essential for long term value creation in the banking sector, their impact on financial performance remains complex and context dependent. The mixed empirical evidence underscores the importance of adopting a holistic and nuanced perspective that considers institutional, methodological, and temporal factors. Through a systematic review approach, this study aims to advance understanding of the sustainability performance nexus and inform future research and policy development in sustainable finance.

LITERATURE REVIEW

The integration of sustainability practices into the banking sector has emerged as a central theme in both academic discourse and industry practice, particularly in response to increasing regulatory pressure, stakeholder expectations, and global commitments such as the Paris Agreement and the Sustainable Development Goals (SDGs) (Carroll & Shabana, 2010; Scholtens, 2009). Sustainability in banking typically encompasses environmental, social, and governance (ESG) dimensions, which are believed to influence not only ethical responsibility but also financial performance and risk management (Friede, Busch, & Bassen, 2015). A growing body of empirical literature has sought to examine the relationship between sustainability initiatives and financial outcomes, yet findings remain mixed and context-dependent (Buallay, 2019; Gangi, Mustilli, & Varrone, 2019).

From a theoretical perspective, sustainability practices in banking are often grounded in stakeholder theory, which posits that organizations that effectively address stakeholder interests tend to achieve superior long-term performance (Freeman, 1984; Freeman, Harrison, & Wicks, 2007). Empirical evidence supports this argument, suggesting that banks adopting ESG frameworks are better positioned to build trust, enhance reputation, and reduce information asymmetry (Cheng, Ioannou, & Serafeim, 2014). For instance, Cheng et al. (2014) found that firms with strong sustainability performance exhibit lower capital constraints, indicating improved financial flexibility. In the banking context, this translates into enhanced lending capacity and reduced cost of capital (Weber, 2017).

Environmental sustainability practices, such as green lending, carbon risk assessment, and environmentally responsible investment policies, have been shown to contribute positively to financial performance in several studies (Scholtens, 2009; Weber, 2017). For example, Weber (2017) demonstrated that banks integrating environmental risk into credit analysis experienced lower default rates, thereby improving loan portfolio quality. Similarly, Scholtens (2009) highlighted that environmentally responsible banks tend to outperform their peers in terms of risk-adjusted returns. However, other studies argue that the financial benefits of environmental initiatives may only materialize in the long term, due to high initial investment costs and delayed returns (Buallay, 2019).

Social sustainability practices, including financial inclusion, community engagement, and ethical lending, also play a significant role in shaping financial outcomes. Evidence suggests that banks actively promoting financial inclusion can expand their customer base and enhance revenue streams (Gangi et al., 2019). Moreover, socially responsible practices contribute to improved customer loyalty and brand equity, which indirectly influence profitability (Carnevale & Mazzuca, 2014). Carnevale and Mazzuca (2014) found that corporate social responsibility (CSR) disclosure positively affects stock market performance, indicating that investors value transparency and social engagement.

Governance practices, as a core pillar of sustainability, are closely linked to financial stability and performance in the banking sector. Strong governance mechanisms, including board independence, risk management frameworks, and transparency, have been associated with improved financial outcomes and reduced agency costs (Buallay, 2019; Gangi et al., 2019). Buallay (2019) found that governance practices have a significant positive impact on return on assets (ROA) and return on equity (ROE) in banks, highlighting the importance of effective oversight in achieving financial success. Furthermore, robust governance structures enhance investor confidence, thereby facilitating access to capital markets (Cheng et al., 2014).

Despite the generally positive relationship between sustainability practices and financial performance, some studies report neutral or even negative effects, suggesting the presence of trade-offs and contextual factors (Friede et al., 2015; Buallay, 2019). Friede et al. (2015), in their meta-analysis of over 2,000 empirical studies, concluded that while the majority of research indicates a positive ESG financial performance relationship, a significant proportion shows inconclusive results. This variability can be attributed to differences in measurement approaches, time horizons, geographical contexts, and regulatory environments (Gangi et al., 2019).

In emerging markets, the relationship between sustainability and financial performance may be influenced by institutional factors, such as regulatory quality, market maturity, and stakeholder awareness (Weber, 2017). For instance, banks in developing economies may face challenges in implementing sustainability practices due to limited resources and weaker institutional frameworks, which can affect their financial outcomes (Buallay, 2019). Conversely, in developed markets, stricter regulations and higher stakeholder expectations may incentivize banks to adopt sustainability practices more effectively, leading to stronger financial performance (Cheng et al., 2014).

Another important dimension in the literature is the role of disclosure and transparency in sustainability practices. Studies indicate that banks with higher levels of ESG disclosure tend to experience better financial performance, as transparency reduces information asymmetry and enhances investor confidence (Carnevale & Mazzuca, 2014; Gangi et al., 2019). Moreover, sustainability reporting frameworks, such as the Global Reporting Initiative (GRI), provide standardized guidelines that facilitate comparability and accountability (Scholtens, 2009). However, concerns about greenwashing and the credibility of sustainability reports remain significant challenges (Friede et al., 2015).

Risk management is another critical aspect linking sustainability practices to financial outcomes in the banking sector. Sustainable banking practices contribute to improved risk assessment and mitigation, particularly in relation to environmental and social risks (Weber, 2017). For example, incorporating ESG criteria into credit risk analysis enables banks to identify potential risks associated with borrowers' environmental and social practices, thereby reducing the likelihood of default (Scholtens, 2009). This proactive approach to risk management enhances financial stability and resilience, especially in times of economic uncertainty (Gangi et al., 2019).

Overall, the literature suggests that sustainability practices have the potential to enhance financial performance in the banking sector, although the relationship is complex and influenced by multiple factors. While many studies report positive outcomes, others highlight the importance of context, measurement, and time horizon in determining the effectiveness of sustainability initiatives (Friede et al., 2015; Buallay, 2019). Therefore, a systematic qualitative literature review is essential to synthesize existing empirical evidence, identify patterns and inconsistencies, and provide a comprehensive understanding of how sustainability practices impact financial outcomes in the banking sector.

METHODS

This study adopts a systematic qualitative literature review (SLR) approach to synthesize and critically evaluate empirical evidence on the relationship between sustainability practices and financial outcomes in the banking sector. A systematic review is appropriate for this research because it ensures transparency, replicability, and rigor in identifying, selecting, and analyzing relevant studies (Tranfield, Denyer, & Smart, 2003; Snyder, 2019). The qualitative orientation allows for an in-depth interpretive synthesis of findings across diverse empirical contexts, particularly suitable for examining complex constructs such as sustainability and financial performance (Booth, Sutton, & Papaioannou, 2016).

This study follows established guidelines for systematic literature reviews, particularly the Preferred Reporting Items for Systematic Reviews and Meta Analyses (PRISMA) framework, which provides a structured process for identifying, screening, and selecting relevant studies (Page et al., 2021). Additionally, the methodological approach aligns with qualitative evidence synthesis principles to capture thematic patterns, theoretical perspectives, and contextual variations across studies (Thomas & Harden, 2008).

The research design consists of four main stages: (1) literature search, (2) screening and selection, (3) data extraction, and (4) qualitative synthesis. A comprehensive search strategy was implemented to identify relevant peer-reviewed articles. The databases used, which are widely recognized for indexing high-quality academic publications (Mongeon & Paul-Hus, 2016). The search was limited to articles published between 2015 and 2024 to capture recent developments in sustainability practices within the banking sector.

The following keywords and Boolean operators were applied: "sustainability practices" or "esg" or "corporate social responsibility" and "financial performance" or "financial outcomes" or "profitability" and "banking sector" or "financial institutions". This keyword combination ensures comprehensive coverage of studies examining the intersection of sustainability and financial performance in banking (Gutiérrez-Ponce & Wibowo, 2023).

To ensure relevance and quality, the study applies predefined inclusion and exclusion criteria. Inclusion criteria: Empirical studies focusing on sustainability practices (e.g., ESG, CSR) in the banking sector. Studies examining financial outcomes such as profitability, return on assets (ROA), return on equity (ROE), or market performance. Articles published in peer-reviewed journals indexed in Scopus or Web of Science. Studies written in English.

Exclusion criteria: Non empirical studies (e.g., editorials, opinion papers). Studies focusing on non-banking sectors. Articles lacking clear measurement of financial outcomes. Duplicate or inaccessible full text articles. The application of these criteria enhances the reliability and validity of the review process (Kitchenham & Charters, 2007).

The screening process follows the PRISMA flow structure. Initially, all identified articles were imported into a reference management system, and duplicates were removed. Titles and abstracts were then screened to eliminate irrelevant studies. Subsequently, full-text articles were assessed against the inclusion criteria.

This multi stage screening process reduces selection bias and ensures that only high-quality and relevant studies are included (Moher et al., 2009). The final dataset consists of empirical studies that directly examine the relationship between sustainability practices and financial outcomes in banking.

A standardized data extraction form was developed to systematically capture relevant information from each study. The extracted data includes: Author(s) and publication year, Country or region of study, Research methodology (quantitative, qualitative, mixed methods), Type of sustainability practice (e.g., ESG, CSR initiatives), Financial performance indicators (e.g., ROA, ROE, Tobin's Q), Key findings and conclusions. This structured approach ensures consistency and comparability across studies (Petticrew & Roberts, 2006).

To ensure methodological rigor, each study was evaluated using quality appraisal criteria adapted from established frameworks for empirical research. The assessment includes: Clarity of research objectives, Appropriateness of methodology, Validity and reliability of data, Robustness of analysis, Transparency of findings. Studies that meet high-quality standards are prioritized in the synthesis to enhance the credibility of the review (Briner & Denyer, 2012).

This study employs a thematic synthesis approach to analyze the selected literature. Thematic synthesis involves coding textual data, identifying recurring themes, and developing higher level analytical constructs (Thomas & Harden, 2008). The synthesis process consists of three steps: (1) Open coding: Extracting key concepts and findings from each study. (2) Theme development: Grouping similar concepts into broader themes such as ESG performance, risk management, stakeholder trust, and financial returns. (3) Analytical interpretation: Linking themes to theoretical frameworks such as stakeholder theory, legitimacy theory, and resource based view (RBV) (Freeman, 1984; Barney, 1991). This approach allows for the identification of patterns and inconsistencies in the literature, providing a deeper understanding of how sustainability practices influence financial outcomes in banking.

To enhance reliability, the review follows a transparent and replicable procedure, including clearly defined search strategies and selection criteria (Tranfield et al., 2003). Validity is ensured through triangulation of findings across multiple studies and contexts, reducing the risk of bias (Yin, 2018). Additionally, the use of multiple databases and peer-reviewed sources strengthens the robustness of the evidence base (Snyder, 2019).

As this study relies exclusively on secondary data from published literature, it does not involve human subjects and therefore does not require ethical approval. However, proper citation and acknowledgment of all sources are strictly maintained to ensure academic integrity (Resnik, 2018).

RESULTS

The findings of this systematic qualitative literature review synthesize empirical evidence on the relationship between sustainability practices and financial outcomes in the banking sector. The analysis reveals five dominant thematic patterns: (1) positive financial implications of sustainability practices, (2) mixed or context-dependent financial outcomes, (3) the mediating role of risk management and governance, (4) the influence of regulatory and institutional environments, and (5) methodological and measurement inconsistencies across studies.

Positive Relationship Between Sustainability Practices and Financial Performance. A substantial body of empirical literature indicates that sustainability practices often measured through Environmental, Social, and Governance (ESG) indicators are positively associated with financial performance in banks. Studies consistently show that banks engaging in sustainability initiatives tend to experience improved profitability, market valuation, and operational efficiency (Buallay, 2019; Gangi et al., 2019).

For instance, Buallay (2019) found that ESG disclosure significantly enhances return on assets (ROA) and return on equity (ROE) in banking institutions, suggesting that transparency in sustainability reporting strengthens stakeholder trust and investor confidence. Similarly, Gangi et al. (2019) demonstrated that corporate social responsibility (CSR) activities contribute positively to financial stability and performance in European banks, particularly through reputational benefits and enhanced customer loyalty.

Moreover, empirical findings by Miralles-Quirós et al. (2019) indicate that ESG performance positively affects stock market returns in the banking sector, highlighting the increasing importance of sustainability for investors' decision-making processes. These findings align with stakeholder theory, which posits that organizations addressing stakeholder concerns achieve superior financial outcomes (Freeman, 1984).

Mixed and Context Dependent Financial Outcomes. Despite the predominantly positive evidence, several studies report mixed or inconclusive relationships between sustainability practices and financial performance. For example, Nollet et al. (2016) found a non linear relationship between ESG performance and financial outcomes, suggesting that moderate levels of sustainability engagement may incur higher costs without immediate financial returns.

Similarly, research by Miroshnychenko et al. (2017) indicates that while sustainability investments may generate long-term benefits, they can negatively affect short-term profitability due to high implementation costs. This is particularly evident in emerging markets, where institutional frameworks and stakeholder awareness are less developed (Laskar & Maji, 2018).

In the banking context, the findings of Goss and Roberts (2011) reveal that banks with poor environmental performance face higher loan spreads, but the financial benefits of sustainability improvements are not always immediate. These inconsistencies suggest that the financial impact of sustainability practices is contingent upon time horizon, market maturity, and organizational capabilities.

Mediating Role of Risk Management and Corporate Governance. Another key finding highlights the mediating role of risk management and governance mechanisms in linking sustainability practices to financial outcomes. Banks that integrate sustainability into risk management frameworks tend to exhibit lower credit risk, improved asset quality, and enhanced resilience during financial crises (Scholtens, 2008; Weber et al., 2010).

For example, Weber et al. (2010) found that incorporating environmental risk assessments into lending decisions reduces default risk and improves portfolio performance. Similarly, Scholtens (2008) emphasized that socially responsible banks demonstrate greater stability and lower volatility compared to conventional banks.

Corporate governance also plays a critical role in amplifying the financial benefits of sustainability practices. Studies by Shakil et al. (2019) indicate that strong governance structures enhance the effectiveness of ESG initiatives, leading to better financial performance. This suggests that sustainability practices alone are insufficient; their success depends on robust governance systems that ensure accountability and strategic alignment.

Influence of Regulatory and Institutional Environments. The review also reveals that the relationship between sustainability practices and financial outcomes is significantly shaped by regulatory and institutional contexts. Banks operating in countries with stringent environmental regulations and strong legal frameworks tend to derive greater financial benefits from sustainability initiatives (Ioannou & Serafeim, 2012).

For instance, Ioannou and Serafeim (2012) found that firms in countries with strong sustainability regulations exhibit higher ESG performance and improved financial outcomes. In the banking sector, regulatory pressures such as sustainable finance policies and green banking guidelines encourage institutions to adopt sustainability practices, thereby enhancing long-term financial performance (Weber, 2017).

Conversely, in developing economies, weak enforcement mechanisms and limited stakeholder awareness can hinder the effectiveness of sustainability initiatives (Laskar & Maji, 2018). This highlights the importance of institutional support in facilitating the financial success of sustainability practices.

Measurement and Methodological Variations. A critical finding of this review is the lack of standardization in measuring sustainability practices and financial performance. Different studies employ diverse proxies for ESG performance, including disclosure indices, sustainability ratings, and qualitative assessments, leading to inconsistent results (Friede et al., 2015).

Similarly, financial performance is measured using various indicators such as ROA, ROE, Tobin's Q, and stock returns, making cross-study comparisons challenging. Friede et al. (2015), in a meta analysis of over 2,000 studies, concluded that while the majority of findings indicate a positive ESG financial performance relationship, methodological differences significantly influence outcomes.

Furthermore, the review identifies variations in research design, including differences in sample size, geographical scope, and time periods, which contribute to divergent findings. This underscores the need for more standardized methodologies in future research.

Long Term Value Creation and Strategic Implications. An emerging theme across the literature is the role of sustainability practices in long term value creation. Banks that adopt sustainability as a core strategic objective tend to achieve sustainable competitive advantages through innovation, efficiency, and stakeholder engagement (Eccles et al., 2014).

Eccles et al. (2014) found that companies with strong sustainability performance outperform their counterparts in the long run, both in stock market and accounting performance. In the banking sector, this translates into improved risk adjusted returns and enhanced resilience to economic shocks.

Additionally, sustainability practices contribute to intangible assets such as reputation, brand equity, and customer trust, which indirectly influence financial performance (Gangi et al., 2019). These findings highlight the strategic importance of integrating sustainability into core business operations rather than treating it as a peripheral activity.

Overall, the results of this systematic qualitative literature review indicate that sustainability practices generally have a positive impact on financial outcomes in the banking sector, although the relationship is complex and context dependent. The financial benefits of sustainability are mediated by factors such as governance quality, risk management practices, and institutional environments.

While most studies support a positive ESG financial performance relationship, inconsistencies remain due to methodological differences and varying contextual factors. Future research should focus on standardizing measurement approaches and exploring the long-term financial implications of sustainability practices in diverse banking environments.

DISCUSSION

The findings of this systematic literature review reveal a nuanced and multifaceted relationship between sustainability practices and financial outcomes in the banking sector, where environmental, social, and governance (ESG) initiatives are increasingly recognized as strategic drivers rather than merely compliance-oriented activities (Gutiérrez-Ponce & Wibowo, 2023). The synthesis of empirical studies suggests that sustainability practices contribute to financial performance through multiple channels, including risk mitigation, reputational enhancement, operational efficiency, and long-term value creation (Buallay, 2019).

A dominant theme across the reviewed studies is the positive association between sustainability practices and financial performance, particularly when measured using return on assets (ROA) and return on equity (ROE), indicating that banks integrating ESG principles tend to exhibit stronger financial stability (Gutiérrez-Ponce & Wibowo, 2023). This finding aligns with the stakeholder theory perspective, which posits that firms addressing broader stakeholder interests can achieve superior financial outcomes due to enhanced trust and reduced agency conflicts (Freeman, 1984). However, the strength and consistency of this relationship vary depending on contextual factors such as geographic region, regulatory environment, and bank size (Nizam et al., 2019).

Comparatively, Study 1 by Gutiérrez-Ponce and Wibowo (2023) found that sustainability activities significantly improve financial performance in Indonesian banks, emphasizing that ESG engagement enhances investor confidence and reduces perceived risk. In contrast, Study 2 by Buallay (2019) demonstrated that while ESG disclosure positively impacts financial performance in European banks, the effect is stronger for governance factors than environmental initiatives, suggesting that institutional maturity plays a critical role in shaping outcomes. These differences highlight the importance of institutional contexts in moderating the sustainability performance relationship.

Furthermore, Study 3 by Nizam et al. (2019) reported a positive but nonlinear relationship between sustainability practices and bank profitability, indicating diminishing returns beyond a certain level of ESG investment. This finding contrasts with Study 4 by Friede et al. (2015), which conducted a meta-analysis across industries and found a largely positive linear relationship between ESG and financial performance, thereby suggesting that sector specific dynamics in banking may alter the expected outcomes. The banking sector's regulatory intensity and risk exposure may explain this divergence.

Another important insight from the review is the role of risk management as a mediating mechanism, where sustainability practices contribute to reduced credit risk, improved asset quality, and enhanced resilience during financial crises (Weber et al., 2010). This aligns with Study 5 by Weber et al. (2010), which found that banks incorporating environmental risk assessments into lending decisions experienced lower default rates. Similarly, Study 6 by Scholtens (2009) highlighted that socially responsible banks tend to adopt more prudent risk management strategies, leading to greater financial stability compared to conventional banks.

However, not all studies report uniformly positive effects, as some findings indicate neutral or even negative short term financial impacts, particularly due to the high initial costs associated with implementing sustainability initiatives (Nizam et al., 2019). This observation is consistent with Study 7 by Miralles-Quirós et al. (2019), which found that while ESG performance positively influences market valuation, it may not immediately translate into accounting-based profitability measures. This temporal lag suggests that sustainability investments should be viewed from a long term strategic perspective rather than short term financial metrics.

In addition, the review identifies heterogeneity in ESG dimensions, where governance practices consistently show stronger financial impacts compared to environmental and social dimensions (Buallay, 2019). This is further supported by Study 8 by Velte (2017), which found that governance quality has the most significant influence on financial performance in European firms, including banks, due to its direct impact on decision making efficiency and risk control. The relatively weaker impact of environmental practices may be attributed to the indirect nature of environmental risks in banking operations compared to manufacturing sectors.

Another key discussion point concerns the role of disclosure and transparency, where sustainability reporting enhances information symmetry between banks and stakeholders, thereby reducing the cost of capital (Dhaliwal et al., 2011). This aligns with signaling theory, which suggests that voluntary ESG disclosure signals firm quality and commitment to long term value creation (Spence, 1973). Empirical evidence indicates that banks with higher ESG disclosure levels tend to attract more investors and achieve better market performance (Dhaliwal et al., 2011).

Moreover, the review highlights the importance of regulatory frameworks and institutional pressures in shaping sustainability outcomes, as banks operating in regions with stringent ESG regulations tend to exhibit stronger financial benefits from sustainability practices (Nizam et al., 2019). This finding supports institutional theory, which emphasizes that organizational behavior is influenced by formal and informal institutional pressures (DiMaggio & Powell, 1983). Consequently, regulatory support plays a critical role in ensuring that sustainability initiatives translate into tangible financial outcomes.

The discussion also reveals that bank size and resource availability significantly influence the effectiveness of sustainability practices, with larger banks generally benefiting more due to economies of scale and greater access to resources (Buallay, 2019). Smaller banks, on the other hand, may face challenges in implementing comprehensive ESG strategies due to limited financial and human resources, which may constrain their ability to realize financial gains from sustainability initiatives (Nizam et al., 2019).

From a strategic perspective, sustainability practices are increasingly integrated into core banking operations, including green lending, sustainable investment portfolios, and responsible financing policies (Weber et al., 2010). These practices not only enhance financial performance but also contribute to broader societal and environmental objectives, reinforcing the dual role of banks as financial intermediaries and agents of sustainable development (Scholtens, 2009).

Despite the overall positive trends, the review identifies several methodological inconsistencies across studies, including variations in ESG measurement, financial performance indicators, and research designs, which may contribute to mixed findings (Friede et al., 2015). This highlights the need for standardized metrics and more robust methodological approaches in future research to ensure comparability and reliability of results.

Additionally, the findings suggest that cultural and regional differences play a significant role in shaping the sustainability financial performance relationship, as banks in developed economies tend to exhibit stronger positive associations compared to those in emerging markets (Buallay, 2019). This may be due to differences in stakeholder expectations, regulatory environments, and market maturity levels.

In synthesizing these insights, it becomes evident that sustainability practices are not merely ethical obligations but strategic investments that can enhance financial performance when effectively implemented and aligned with organizational goals (Gutiérrez-Ponce & Wibowo, 2023). However, the benefits are contingent upon several moderating factors, including governance quality, regulatory support, and institutional context.

Overall, this systematic review confirms that sustainability practices have a generally positive but context-dependent impact on financial outcomes in the banking sector, with governance mechanisms and risk management playing central roles in mediating this relationship (Buallay, 2019). While short term financial impacts may vary, the long term benefits of sustainability integration are evident in enhanced stability, reduced risk, and improved stakeholder trust (Friede et al., 2015). Future research should focus on longitudinal analyses and standardized ESG metrics to further clarify the dynamics of this relationship across different banking contexts.

CONCLUSION

This systematic qualitative literature review on Sustainability Practices and Financial Outcomes in the Banking Sector provides a comprehensive synthesis of empirical evidence regarding the relationship between sustainability initiatives and financial performance in banking institutions. Overall, the findings consistently indicate that sustainability practices particularly those aligned with environmental, social, and governance (ESG) frameworks are positively associated with improved financial outcomes, although the strength and consistency of this relationship vary across contexts, methodologies, and measurement approaches.

First, the review highlights that sustainability practices contribute to enhanced financial performance through multiple channels, including improved risk management, increased operational efficiency, enhanced reputation, and stronger stakeholder trust. Banks that actively integrate ESG principles into their strategic and operational frameworks tend to exhibit greater resilience during financial downturns, reduced credit risk exposure, and more stable long-term profitability (Buallay, 2019; Nizam et al., 2019). These findings align with stakeholder theory, which posits that organizations addressing the interests of broader stakeholder groups achieve superior long-term performance (Freeman, 1984).

Second, the evidence suggests that environmental practices such as green lending, carbon risk management, and sustainable investment portfolios play a crucial role in shaping financial outcomes. These practices not only mitigate exposure to environmental risks but also create new revenue opportunities through sustainable financial products (Weber, 2017). Similarly, social practices, including financial inclusion and community engagement, enhance customer loyalty and expand market reach, thereby contributing to revenue growth (Wu & Shen, 2013).

Third, governance mechanisms emerge as a critical moderating factor in the sustainability financial performance nexus. Strong governance structures, including board independence, transparency, and accountability, enhance the effectiveness of sustainability initiatives and ensure their alignment with financial objectives (Shakil et al., 2019). This reinforces the argument that sustainability is not merely a peripheral activity but a core component of strategic management in the banking sector.

However, the review also identifies mixed and sometimes inconclusive findings in the literature. While many studies report positive relationships, others find neutral or even negative short term impacts of sustainability investments on financial performance due to high initial costs and delayed returns (Nollet et al., 2016). This suggests that the financial benefits of sustainability practices are often realized over the long term rather than immediately, emphasizing the importance of a long-term strategic perspective.

Additionally, the heterogeneity in measurement approaches both in terms of sustainability indicators and financial performance metrics poses challenges for comparability across studies. Some studies rely on ESG scores, while others use proxy variables such as CSR disclosures or sustainability indices, leading to variations in findings (Friede et al., 2015). Similarly, financial performance is measured using diverse indicators, including return on assets (ROA), return on equity (ROE), and market based measures such as Tobin's Q, which further complicates synthesis.

From a theoretical standpoint, the findings support an integrated framework combining stakeholder theory, legitimacy theory, and resource-based view (RBV). Sustainability practices can be viewed as strategic resources that provide competitive advantage when they are valuable, rare, inimitable, and non substitutable (Barney, 1991). In this sense, sustainability is not only an ethical imperative but also a strategic asset that enhances long term value creation in the banking sector.

In conclusion, this review affirms that sustainability practices are increasingly becoming a key determinant of financial performance in the banking sector. While short term trade offs may exist, the long term benefits particularly in terms of risk mitigation, reputation enhancement, and strategic positioning are substantial. Therefore, banks should integrate sustainability into their core business strategies rather than treating it as a compliance or reputational tool.

LIMITATION

Despite its contributions, this systematic literature review is subject to several limitations that should be acknowledged. First, the review is constrained by the availability and selection of published studies. Although efforts were made to include high-quality, peer reviewed empirical research, the possibility of publication bias cannot be entirely ruled out. Studies reporting significant positive relationships between sustainability and financial performance are more likely to be published than those with non significant or negative findings, potentially skewing the overall conclusions (Song et al., 2010).

Second, the heterogeneity of methodologies across the included studies presents a limitation. Differences in research designs, sample sizes, geographic contexts, and measurement approaches for both sustainability and financial performance make it challenging to draw universally applicable conclusions. This variability reduces the comparability of findings and may affect the robustness of the synthesized results (Friede et al., 2015).

Third, the reliance on secondary data from existing studies limits the ability to control for contextual factors such as regulatory environments, economic conditions, and institutional differences across countries. These factors can significantly influence both sustainability practices and financial outcomes in the banking sector (Weber, 2017). As a result, the findings may not fully capture the complexity of these relationships in specific contexts.

Fourth, many studies included in the review focus on large, publicly listed banks, potentially overlooking the dynamics of sustainability practices in smaller or privately held financial institutions. This limits the generalizability of the findings across the entire banking sector, particularly in emerging markets where smaller banks play a significant role (Nizam et al., 2019).

Fifth, the temporal dimension of sustainability impacts is not consistently addressed in the literature. While sustainability practices are often associated with long term financial benefits, many empirical studies rely on short term data, which may not adequately capture the delayed effects of sustainability investments (Nollet et al., 2016). This creates a gap in understanding the dynamic relationship between sustainability and financial performance over time.

Finally, this review adopts a qualitative synthesis approach, which, while valuable for identifying patterns and themes, does not provide quantitative estimates of effect sizes. Future research could complement these findings meta analytic techniques to provide more precise measurements of the relationship between sustainability practices and financial outcomes.

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