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Banks' environmental policy and business outcomes: The role of competition

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Abstract

By integrating the two areas of competition–performance and environment–performance, this research explores if competition matters in the relationship between environmental practices and interest margins in the market. A panel of 458 banks from 74 countries for the period of 2006–2016 is used, and the sample is further divided into developed and developing countries. This paper uses the system Generalized Method of Moments estimator to tackle potential omitted variable bias, endogeneity, and simultaneity issues. Without competition, environmental practices only affect banks in developing countries; however, the results show a significant impact for the full sample, including developed countries, when the competition is taken into consideration, suggesting that competition might play a role in the relationship of environmental practices and interest margins. In the full sample, competition impacts the relationship negatively after a moderate level of competition is reached in the market. The environmental practices in developing countries are prone to competition in the market. In developed countries, the competition is found to be lightly positively moderating the impact of environmental practices on interest margins. Based on these findings, it is recommended that developing countries should have a low or moderate level of competition to encourage environmental practices. For developed countries, however, high competition should be preferred to encourage banks to consider environmental practices as one of their core business strategies. These findings are found robust to different statistical estimators.