



A PROJECT REPORT ON EXAMINING SUSTAINABILITY STRATEGIES AND THEIR IMPACTS ON ORGANIZATIONAL PERFORMANCE IN BANK MUSCAT

By

Semhar Tekle Haile Gofar, 19F18930

January, 2023

ACKNOWLEDGEMENT

The student would like to express her gratitude and appreciation to everyone who helped her for the research study.

The student thank to the employees of Bank Muscat who completed the survey and helped collecting very useful insights about the scope of this project.

Last but not least, the student thank to Mr. Festus Odhigu who provided extremely useful guidance and feedback in terms of both structuring and writing this project, listening to all inquiries and sharing his views and valuable input to help improve the quality of this project.

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ABSTRACT

The aim of the study is to analyze the sustainability strategy approach adopted by Bank Muscat, the main initiatives under the ESG umbrella, and their impact on the performance of the company in the context of a growing importance of sustainability in building more trust among all the stakeholders and ensuring long-term performance and value delivery. The analysis includes also the governance mechanism around sustainability, the results in terms of the environment footprint of the bank, and the impact on the customers and communities.

The main data sources used for this research were: the bank annual sustainability report, a dedicated survey designed to assess how sustainability is managed by the bank and which has been completed by 50 employees from 3 strategic departments which are the representative for the transformation of the bank. Last but not least a series of secondary sources, articles and books on sustainability in general and in the financial services industry in particular have been critically reviewed.

The main findings of the research are that the bank has a clear sustainability strategy split in 3 main areas/sub-strategies under the environment, social and governance pillar, that the bank has a formal governance and annual report for sustainability, specific performance indicators to monitor the progress in implementation and also the bank employees have a high awareness about the sustainability strategy and perceive that it contributes to the long-term performance of the organization.

The main recommendations of the research are: **to calculate the return on investment (ROI) for the sustainability strategy** and communicate it, to **introduce a maturity model for the sustainability strategy** and execution and communicate it, to **introduce new performance indicators to measure innovation and leadership** as the employees perceived these 2 areas are the most difficult to measure and to **continue the awareness and training programs around sustainability** and its impact on the long-term performance of the organization.

The study will give a comprehensive image on sustainable finance, how does the long-term sustainability look like for the banking sector, what are the key sustainability strategies adopted by the financial institutions.

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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The financial sector represents the backbone of the economy. All the financial services, allocating and managing the financial capital, play a very critical role in the economy and impact the health of businesses and the wealth of the population.

Banks are a significant pillar within the financial sector. They represent the bridge between the borrowers and the savers. The health of the banking system is reflected in the health of the economy in general. Due to its strategic importance the banking system is strongly regulated to avoid any gaps or risks that might negatively impact the population and businesses.

Currently there is an increased impact of societal and climate change on the banking sector profitability. The management consultancy company Ernst & Young reported in 2020 that 52% of the banks considered climate change as a fundamental risk to their business for the upcoming 5 years (Aspiration, 2022).

The natural disasters induced by climate changes counted for over \$ 200 billion damages in 2020 (Newburger, 2021).

The impact includes all the industries. Agriculture, construction, or health are just few of them. The employees who work in these sectors are equally impacted.

The above challenges determined the banks to play a more significant role in addressing climate change, income inequality, and business risks across the communities. Banks are more and more aware that they are vulnerable to changes in customers demands and at risk of losing important assets due to the extreme weather events.

Oman has not been spared by the climate changes and in 2021 experienced a severe cyclone that hit the country and produced significant damages.

Bank Muscat is by far the largest bank in Oman with a market share of approx. 35% and more than 2 million customers (Bank Muscat, 2021). This financial institution has a large exposure to the risks of climate change.

The problem to be examined in this study is related to the sustainability approach adopted by Bank Muscat, the sustainability strategies, and their impact on the performance of the company.

The study will analyze how the bank defined sustainability, the governance mechanism around sustainability, the initiated actions, and results in terms of the environment footprint of the bank, impact on the customers and communities.

The study will assess the existing sustainability reports issued by the bank annually and also interview/survey the bank representatives to better understand how sustainability is managed in Bank Muscat, what are the key milestones in the sustainability strategy and how the bank aims to execute upon it.

This study will be part of a continuously growing literature that emerged after 2010 and describes the efforts done by the private and public sectors to reduce the carbon emissions and achieve net zero emissions. The literature review proposed for this study include themes like sustainable finance, how does the long-term sustainability look like for the banking sector, what are the key sustainability strategies adopted by the financial institutions.

1.2. Statement of the Research Problem

The research problem is how to increase the trust of the different categories of stakeholders (customers, employees, communities, shareholders) in Bank Muscat to improve the overall performance of the bank.

The research will examine how sustainability can enable the trust increase of the stakeholders.

The financial performance is not enough anymore, and the bank needs to prove more and more how it adds value to all these categories of stakeholders. Sustainability is part of the core bank strategy to provide a positive impact on the stakeholders and the research will examine all the aspects and challenges of implementing a sustainability strategy in the financial sector.

1.3. Aims and Objectives of the Study

1.3.1. Aim

The research aims to analyze the sustainability strategy of Bank Muscat from all the dimensions from governance till specific targets and outcomes. The sustainability strategy will be examined in relationship with the overall performance of the bank. The analysis will shed light on how sustainability is defined by the bank, what is the governance and framework for it, what is the value added for customers, employees and communities, the environment footprint of the bank.

1.3.2. Research Objectives

- 1) To examine sustainability strategies and their impacts on organizational performance in Bank Muscat
- 2) To examine the factors affecting business sustainability strategies.
- 3) To evaluate the challenges of implementing sustainability strategies in Bank Muscat.
- 4) To analyze the relationship between sustainability and organizational performance in Bank Muscat

1.4. Research Questions

- 1) What are the sustainability strategies and their impacts on organizational performance in Bank Muscat?
- 2) What are the factors affecting business sustainability strategies?
- 3) What are the challenges of implementing sustainability strategies in Bank Muscat?
- 4) What is the relationship between sustainability and organizational performance in Bank Muscat?

1.5. Scope of the Study

The study will include in the scope the following elements:

- 1) Sustainability definition in the financial sector and in Bank Muscat
- 2) The governance and framework of the sustainability in Bank Muscat
- 3) Stakeholders engagement
- 4) ESG materiality assessment
- 5) The main components of Bank Muscat sustainability strategy
- 6) The importance of sustainability as a core pillar for the bank

- 7) The organizational challenges in adopting a sustainability strategy and executing it
- 8) The perception of different employees on the impact of this strategy
- 9) The main targets and achievements of the sustainability strategy in Bank Muscat

1.6. Significance of the Study

The study tries to shed light on the importance of sustainability in the financial sector of Oman and choosing the largest financial institution of the country is very relevant as Bank Muscat has a very large impact on the overall population of Oman.

The potential benefits of the study can be better highlighted in relation to different categories of stakeholders:

1.6.1 Bank Muscat:

- 1) Analyzing the gaps if any between the sustainability trends and the sustainability strategy of the largest bank in Oman
- 2) Highlight the relationship between sustainability practices and the long-term organizational performance
- 3) Identify the main sustainability strategies that can positively impact the bank performance and deliver more value to all the major stakeholders
- 4) Highlight the environment footprint improvements following the implementation of the sustainability strategy when it comes to energy saving, water management, waste management and greenhouse gas emission.

1.6.2 Banking sector:

- 1) Identifying the recent trends of sustainability in the financial sector
- 2) Offer a better understanding of the new set of expectations from different categories of stakeholders when it comes to trust in the banking sector
- 3) Identify how sustainability strategy can increase the trust in financial sector

1.6.3 Customers and institutions

- 1) Provides more visibility on the bank efforts to create value in the community through the main sustainability strategies
- 2) Informs about the main bank achievements in the sustainability space
- 3) Highlight the value for the customers through the bank practices in terms of financial inclusion, empowering communities, privacy & security

- 4) Highlight the value for the employees through the bank practices in terms of diversity and inclusion, the employees engagement and benefits, health and wellbeing.

1.7. Limitation of the study

This research comes with a set of limitations that are necessary and non-avoidable as per the context situation.

The study includes only one organization – Bank Muscat – and relies on the accuracy of data in the annual reports and on the data collected through the surveys with the bank employees. Hence any conclusion related to the sustainability in the Oman financial sector cannot be generalized as it will be applicable solely to the organization that was assessed.

The study includes a limited number of bank employees (3 departments) and the conclusions related to the sustainability maturity assessment should be viewed only from the perspective of these employees who might not be considered fully representative for the entire staff of the bank.

The study includes a limited number of references from the literature review of the sustainability practices in the financial sector hence the main findings might not reflect the complete picture of the sustainability approach globally in this industry.

1.8. Operational Definition of Terms

- 1) **Sustainability** - it represents the ability to maintain or support a process continuously over time. In the business environment, sustainability tries to prevent running out of the resources by saving or regenerating them (Mollenkamp, 2022)
- 2) **Sustainable Finance** - Sustainable Finance is the process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects (European Commission, 2021). It is also defined as investment decisions that consider the ESG factors of a specific project or initiative (Bakken, 2021).
- 3) **Risk Management** - it is the process of identifying, assessing, and controlling threats to an organization's capital and earnings (Tucci, 2022).
- 4) **Business Continuity** – it is a business level of operability/readiness to keep the critical functions working after a major disruption event (VmWare, 2022). These events can include:

1. Security breaches
 2. Natural disasters
 3. Power outages
 4. Equipment failures
 5. Sudden staff departure
- 5) **Customer Satisfaction** – it is defined as a measurement that determines how happy customers are with a company’s products, services, and capabilities (ASQ, 2022).
- 6) **Customer Engagement** – it is the continuous nurturing of a relationship between the company and customers that goes beyond the usual transaction-based interactions. It's a purposeful, consistent approach by a company that provides value at every customer interaction, thus increasing loyalty (Murray, 2022).
- 7) **Financial Inclusion** – describes the level of individuals and businesses having access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit, and insurance – delivered in a responsible and sustainable way (World Bank, 2022).
- 8) **Financial Literacy** – is defined as the capability to understand and practically use different financial skills like personal cash flow management, budgeting, and investing. Learning how one relates with money and how one can prosper by effectively saving and investing is the foundation of financial literacy (Fernando, 2022).
- 9) **Greenhouse gas** – are defined as the gases that keep the heat blocked in the atmosphere (EPA, 2022). The following 3 gases are the most known for this: carbon dioxide, methane, nitrous oxide, fluorinated gases.
- 10) **Waste management** – represents the end-to-end process of collection, transportation, handling, and disposal of human waste. Waste management, generally, covers all aspects of human waste including waste reduction (Safeopedia, 2022).

1.9. Structure of the Research

Chapter	Topic	Description
Chapter 1	Introduction	<p>The chapter represents an introduction that describes the topic and background of the research. Further on the chapter presents the statement of the research problem and aim of the research, the objectives and questions of the research, the scope, significance and limitations of the study, the operational definitions of terms, the structure of the research and the summary</p>
Chapter 2	Literature review	<p>The chapter represents an overview of the main literature findings on the topic of sustainability and sustainability in the financial sector, the governance and framework of sustainability, the different sustainability strategies and the impact on the organizational performance. The literature findings will represent a reference/benchmark to be utilized in the analysis performed on Bank Muscat.</p>
Chapter 3	Research Methodology	<p>The chapter represents a comprehensive overview on the approach utilized to conduct the research in order to respond the research questions and reach the aim of the research.</p> <p>The methodology will include both qualitative and quantitative methods and analysis of reports and benchmarks for financial institutions in the region.</p> <p>The bank employees will be involved in the research and their feedback will be collected via interviews and surveys.</p> <p>The research will focus on the assessment on the importance of sustainability as a core pillar of the bank, the challenges in adopting and executing a sustainability strategy.</p>

Chapter 4	Data analysis	<p>The chapter presents the main data sources, the data collection methods and the analysis related to it.</p> <p>The main data for the research comes from surveys, interviews, and secondary data like annual sustainability report of the bank and other reports of similar financial institutions in the region.</p> <p>The chapter includes the presentation of the questions designed for the interviews and surveys. The secondary data analysis will identify the main elements included in the regular annual sustainability reports, what indicators and measured and monitored from one year to another and the key actions the bank takes to improve these indicators.</p>
Chapter 5	Summary of findings, conclusions, and recommendations	<p>The chapter presents the main findings, conclusions and recommendations that came out of the data analysis.</p> <p>The chapter includes an evaluation of the sustainability strategy maturity in the largest bank in Oman and how the long-term performance will be impacted by a series of measures taken by the management related to the customers, employees, communities, and energy footprint</p>

Table 1.1. Structure of the research

1.10. Summary

This chapter represents a comprehensive introduction in the topic of sustainability for the financial sector and the impact of the sustainability strategy on the organizational performance. The chapter offers the background of the study, the research problem statement, the main research objectives, and questions. The current problem of Bank Muscat is related to the increasing expectations of different categories of stakeholders to get more value from the bank and how the level of trust is impacted by other elements than the financial performance of the organization. The chapter clarifies the scope, significance and limitations of the study, the operational definitions of terms, the structure of the research and the summary.

The next chapter will present the most relevant literature related to the sustainability strategies in the financial sector and will review the correlation to the organizational performance.

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CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

The topic of sustainability and sustainability in the financial sector, the sustainability governance, framework and strategies and their impact on the organizational performance it is a very trendy one for the last few years. The literature review aims to present what is business sustainability, what are its related strategies, the factors affecting them, the impact on the organizational performance, the implementation challenges. The review will have a special focus on the sustainability in the financial services, but also on the technology of sustainability, the marketing of the sustainability and the main theories of sustainability.

The chapter aims to analyze the main literature findings and it will represent a reference/benchmark to be utilized in the analysis performed on Bank Muscat.

2.2. Business Sustainability

Business sustainability is defined as “doing business without negatively impacting the environment, community, or society as a whole.” (Spiliakos 2018). Another useful definition states that sustainability represents “the ability to maintain or support a process continuously over time” (Mollenkamp, 2022). The objective of sustainable business is to make an impact on three main areas: economic, social and environmental. Hence the sustainability in business can be represented by the renewable energy sources, sustainable materials for manufacturing goods or community development projects.

The below graph describes more detailed the three main pillars of sustainability.

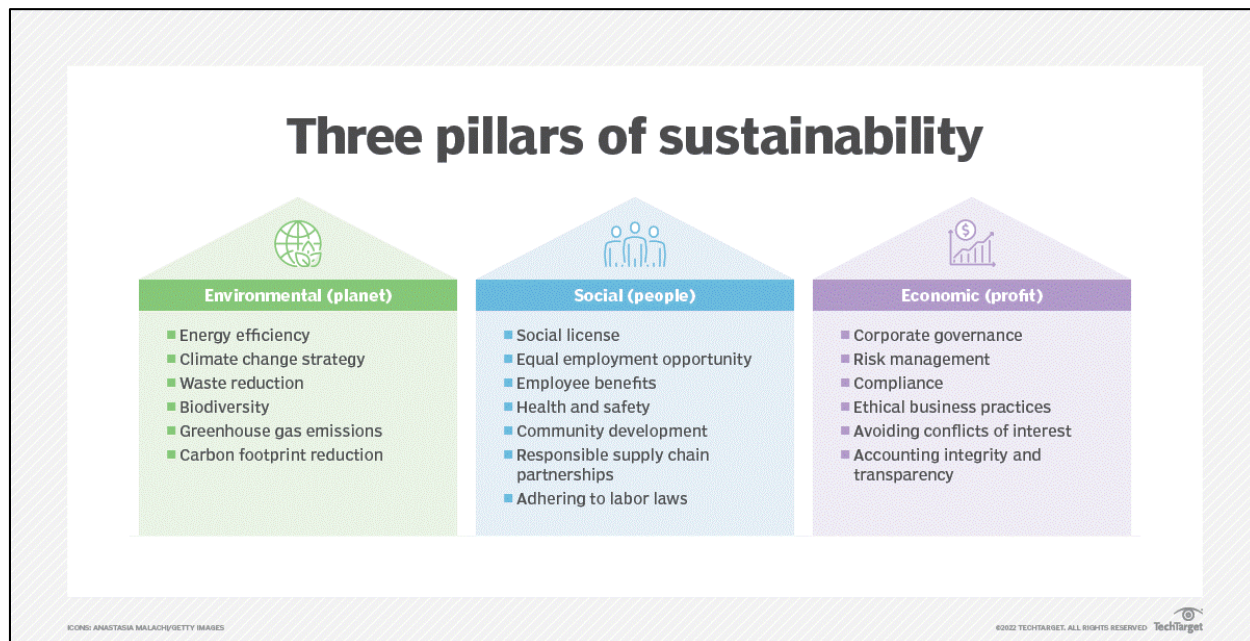


Figure 2.1 The sustainability pillars

The companies that exceed in the ESG (Environment, Social, Governance) performance have an average operating margin almost 4 times higher than the ESG laggards (Accenture report, 2020). The importance of business sustainability is increasing as the entire network of stakeholders are closely monitoring the companies' performance in the ESG areas and especially the customers and investors are more and more demanding. The organizations are seen more and more as having the obligation to aim for growth and in the same time to achieve improvements in social and environmental outcomes (Haanaes & Olyneec, 2022). It is a refocus on responsible leadership.

2.3. Sustainability Strategies

The sustainability strategies represent different approaches selected by the companies to improve the business operations on the long terms (Vitez,2022). Depending on the overall strategy, the industry specifics or the market context, there are different strategies to be adopted (Indeed, 2022). These strategies might focus only on specific areas of the organization or on the entire supply chain. Here there are the most usual strategies:

2.3.1 Improve logistics and shipments.

The optimization of the transportation routes can have a significant impact on reducing carbon emission and pollution across the supply chain. Reducing the number of kilometers per route by rerouting will minimize the fuel consumption (Absorbtech, 2022). Maximizing the container space and using less packing for the products or predicting the necessary of raw materials can all contribute to less pollution. The biggest impact of such analysis and optimization will be registered for cross-borders transportation which involves more than one type of transportation vehicle.

The more visibility is designed across the end-to-end value chain the more options are available to optimize it and support responsible consumption by using the resources and energy efficiently.

2.3.2 Reduce the overproduction

Waste is usually one of the main issues in business operations. Waste is negatively impacting the company's revenues, the supply chain and the environment.

The main cause of overproduction is the imbalance between supply and demand (Long, 2023). Extra sourcing of raw materials, excessive inventory, poor vendor relationships are all contributing to this imbalance.

The optimization of the inventories and a just-in-time production system are usually the methods supporting to minimize the waste. Implementing Lean management or Lean Six Sigma projects can contribute to identifying the sources of waste, the root-causes and find solutions to eliminate or reduce it. A software equipped with business intelligence including demand forecast and vendor monitoring will support to reduce the overexploitation of resources or the stock overproduction.

An optimization of the inventories, a just in time production system are usually the methods supporting to minimize the waste. Implementing Lean management or Lean Six Sigma projects can contribute to identifying the sources of waste, the root-causes and find solutions to eliminate or reduce it.

2.3.3 Ethical manufacturing:

This strategy is a more comprehensive one as the company tries to select vendors and partners who are also committed to implementing sustainability. Ethical manufacturing implies that the vendors of a company are also obtaining their products/services following sustainable strategies. In this way the entire supply chain is less polluting, and waste is limited.

Depending on the particular industry and complexity of the supply chain it is imperative to establish trade, ethics and sustainability practices with the suppliers. It is important to understand how the suppliers extract and manufacture the raw materials, what is the legislation governing their labor and trade practices. New technologies like Internet of Things (IoT) and blockchain can support to increase the transparency across the supply chain (Long, 2023). Visiting and auditing different components of the supply chain is also helping to get real data and identify potential gaps in the chain.

2.3.4 Conservation

This strategy is mainly focusing on eliminating different sources of pollution by implementing initiatives aiming for a paper-free workplace, reusable items, conserving the energy in the workplace or recycling. Ditching plastic and recycling paper, metal and plastic are essential to reduce pollution (Long, 2023) and the carbon print.

The paperless approach is coming more easily in the digital world by replacing the old business and financial processes with end-to-end digital flows.

2.4. The impacts of sustainability strategies on organizational performance

The ESG impact on the organizational performance has been studied by different consulting companies worldwide and there are usually 5 main impacts: top-line growth, cost reduction, regulatory and legal interventions, productivity improvement and investment and assets optimization.

Some of these impacts are more specific to one industry or another, but all are visible to a certain extent irrespective of the business model or location of a company.

2.4.1 Top-line growth

Study confirmed that 70% of the customers are willing to pay 5% more for a green product (McKinsey, 2019) which translates into higher revenues for companies.

A Harvard University study has proved that companies embedding sustainability in their strategy outperforms the ones lacking the same. The study compared 90 companies ranked as high sustainability companies and 90 low sustainability companies over a period of 18 years (1993-2010) and revealed the following results (Capgemini, 2020):

- 1) **Stock market performance:** +46.8% more for the high sustainability companies vs. the low ones
- 2) **Return on Assets (ROA):** +61.4% more for the high sustainability companies vs. the low ones
- 3) **Return on Equity (ROE):** +23.3% for the high sustainability companies vs. the low ones.

2.4.2 Cost reduction

Executing ESG initiatives can affect the operating profits by 60% (McKinsey, 2019) by reducing the water consumption, raw-material cost and energy cost. Sustainable companies usually develop a metric by combining the amount of water, energy and waste used in relation to revenue.

Sustainability drives innovation and pushes people to be more creative and come up with new ideas to reduce costs and improve the productivity and the operational efficiency (Capgemini,2020). In the same way sustainability encourages long-term thinking and collaboration.

2.4.3 Reduced regulatory and legal interventions

It is usually noticed that companies with the strong ESG have a lower risk of being impacted by adverse government decisions. The state intervention can impact up to one third of a company profits (McKinsey, 2019) due to different possible requirements changes in terms of minimum capital, consumer protection, etc. Embedding sustainability in the business strategy will support to future-proof the negative impact of regulations and increase the trust of any regulator (Capgemini, 2020).

2.4.4 Increased productivity

The ESG value proposition usually supports companies to attract and retain high quality employees and enhance their motivation by providing a superior purpose. This motivation is directly increasing productivity. The companies that are rated as Best Employers to Work for are generating between 2.3 to 3.8% higher stock returns/year compared to their peers (McKinsey, 2019.)

2.4.5 Investment and assets optimization

The rapid pace of technology innovation is a key enabler for the ESG initiatives focused on waste reduction, renewable energy, recycling, and other environment-friendly projects. Investing in these areas will optimize the cash-flow in the long terms as maintaining the status-quo can be even more expensive and negatively impacting the environment as well (Capgemini, 2020).

The New York University Stern Center for Sustainable Business has developed the Return on Sustainability Investment (ROSI) tool so companies can measure the financial impact on sustainability initiatives. The process has 5 steps: identify the current sustainability initiatives, identify the changes in operational and management practices, identify the benefits, quantify the benefits, and calculate the monetary value (Harvard Business Review, 2021). The savings can reach hundreds of millions or billions for large companies.

2.5. The factors affecting business sustainability strategies

The management consulting company Korn & Ferry established a set of 5 factors that are decisively impacting the effectiveness of the sustainability strategies. It is recommended to start the design of the sustainability strategy with a materiality assessment to identify the opportunities and main risks based on the specifics of the industry, company and its value chain.

The 5 factors are: leadership alignment, risks and opportunities understanding, a vision of a better future, identify the change needs and evaluate what works and scale it across the company (Korn & Ferry, 2022)

2.5.1 Leadership alignment

Considering the importance and the magnitude of the sustainability strategy it is required the entire executive team and the Board to be fully dedicated and support the execution. All the leaders need to understand and adopt the sustainability concepts and frameworks and start utilizing them.

2.5.2 Understanding of risks and opportunities

Assessing the current environment of the business from the ESG perspective is important and engaging the stakeholders and getting their feedback. The identification of the current level of the sustainability maturity can be done fairly accurate by using 5 strategic dimensions:

- 1) Awareness and commitment across the management level
- 2) Risk management
- 3) Talent integration
- 4) Operations integration
- 5) Market integration

2.5.3 A vision of better future

Once the leadership team is aligned around the sustainability goals, it is recommended to bring a story about the better future the company is aiming for. This future will be described as a clear ambition statement, as a multi-annual strategy with milestones and outcomes, as a set of company values to inspire and motivate the staff.

2.5.4 The change needs

This factor is about assessing what needs to be developed in the leadership and operating models, in the organizational structure so the sustainability strategy can be effectively implemented.

The most important is to identify the right problems to be solved and adopt the best solutions for the specific circumstances (McKinsey, 2019). It requires to define a series of assumptions and answer very bold questions. It requires to define a series of experiments as well and track actions and measure results.

2.5.5 Assess what works and scale it

As sustainability should be integrated in the core operating model of the company then new practices should be adopted and sustained. There is a need to identify the pockets of the organization that have already registered some early success and replicate it fast across the company. This requires more flexible structure, less hierarchy and bureaucracy so people can feel empowered to drive innovation and feel accountable for the end results.

At this point the organizations should consider assuming a bigger role in their industry to deliver on a collective sustainability agenda (Korn Ferry, 2022). This could be as a knowledge sharing or by creating partnerships. Furthermore, act as the voice of change and call out disbelievers and poor behavior. As companies continue to test and learn, they need to make sure they measure the results, celebrate the small wins, learn quickly, and share lessons from failures.

2.6. The challenges of implementing sustainability strategies

Even if sustainability is a more recent topic, the implementation of its strategies comes down to the classical challenges underpin by any change or significant transformation.

The 3 main challenges that prevent companies to reach a full fledged implementation of the sustainability strategies (Boston Consulting Group, 2022):

- 1) Figuring out where to focus for the biggest impact
- 2) How to setup the transformation engine
- 3) How to fund the transformation journey

The challenges can be overcome once they are properly understood and addressed in a systematic and structured way that require a set of transformation principles, integrated efforts and laser-focus execution.

2.6.1 Where should focus to get the biggest impact?

This question can be addressed by designing a prioritization matrix that considers different variables of the ESG initiatives and tries to balance them in terms of effort and impact. As the ESG scope is quite substantial it is imperative to continuously prioritize and allocate the resources to those initiatives that prove they have the largest impact. The initiatives should not be considered in isolation but grouped around the main ESG themes and around the largest gaps the organization has. In practice, there will be initiatives focused on transforming the core business into a sustainable one while others will concentrate on identifying new sources of growth by looking to change the business model or recalibrate the current business portfolio. On top of that there are also other initiatives driven by the digital transformation strategy, the data management enhancement, the leverage of AI, the operational improvements and so on.

2.6.2 How to setup the transformation engine?

The transformation requirements of the ESG initiatives are too complex and need an entire governance mechanism that involves people, processes and technologies aligned with a common goal. Leadership alignment is a must and adding the ESG KPIs in the regular performance evaluation and incentives.

People's engagement is also required when it comes to any type of massive transformation and leaders should communicate and explain internally on a regular basis the need for change, the benefits, and the progress. Regularly taking the employees' pulse is also a very useful approach to assess their perception about the transformation.

2.6.3 How to fund the journey?

Any large-scale transformation comes with a need to relook at the resources of the organization and identify the required amounts that will impact the capital, the operating expenses, or the human resources. The funding will not be done upfront for all the transformation requirements but will be driven by the prioritization of initiatives. In this way, the funding approach will be driven by allocating smaller amounts on a continuous basis, achieving quick wins that can even fund themselves.

Generating rapid progress and showcasing the value of the ESG in a fast way is the foundation of a successful ESG strategy implementation and getting the internal and external buy-in.

So the key element to overcome the sustainability strategy challenges is to have in place a structured, formal transformation process and define a specific set of solutions for each problem.

There is also another angle depicted in the literature for sustainability strategy implementation challenges. Which is more related to the human aspect of the implementation (Negru, 2021).

According to these experts, the main challenges when it comes to sustainability are: lack of knowledge, lack of motivation and lack of experience.

1) Lack of knowledge

The organizations have different functions, and the understanding of the sustainability concepts and practices is very different across the units. It is important to have a common understanding and be on the same page hence designing a sustainability training program and disseminating among all the staff members will help a lot to create the culture for sustainability. On top of the training program there is a need to constantly communicate inside the organization about the strategic importance of sustainability, create forums to discuss the topic and capture the people attention.

2) Lack of motivation

According to research studies, the level of employee's engagement in the companies is quite low. It was rated at 15% in 2017 (Gallup, 2022). This context is creating a challenge for any new transformation initiative as people get reluctant to it. There are small steps that can help to instill a need for change and a commitment among the staff members: the powerful stories about the current environment context and the negative consequences if nothing will be done, the communication about early small successes and who contributed to them, the creation of forums where the staff can share their interests, ideas and collaborate. People will be influenced by other people behavior and commitments are stronger when they are public. The more public actions are done the more people will be soon adopting the sustainability principles and will pledge for practicing it and implementing new initiatives. Finally, it is important to reward the ESG behaviors and contribution so it will become clear for everyone that this is the new norm expected to have in place.

3) Lack of experience

As educating and engaging employees are the first two stages when it comes to adopting and executing a sustainability strategy, there is also another barrier which is related to the limited previous exposure staff had to such practice and the lack of practical skills and confidence on how to do it.

Empowering the staff to take ownership and drive new initiatives under the sustainability umbrella, allowing new experiments to come up and rewarding the effort put to conduct them are useful means to overcome the lack of experience and confidence. Identify the staff members who are already passionate about the sustainability topic and have a bit more knowledge about it so they can become the sustainability ambassadors inside the company and support to spread the

information and guide other colleagues on how they can be involved and deliver on the sustainability initiatives.

2.7. Sustainability in Financial Services

There is an increased pressure on the financial services providers to focus on the ESG standards due to the critical role of the finance system in the community.

The spread of global data is supporting to offer visibility on what the heavy carbon emitting companies and their financing mechanisms.

Elements like data-centric IT infrastructure and ESG-compliant or a carbon-free data center are now more and more part of the overall financial institution's commitment and strategy.

As the research proves the financial services providers adopting the sustainable business models will have a good opportunity to gain market share by attracting new customers segments who are driven by the sustainability values (Fenick, 2021). So the financial players are aware that sustainability and ESG initiatives are not only a cost that will improve the goodwill and the humanity but it will also improve their revenues as globally the customers started to choose companies that improve their environment, support the local communities and are a good place to work for their employees.

The European Union (EU) developed a comprehensive taxonomy for sustainable activities and initiatives and globally there are 200+ environmental laws for financial services which proves the increased focus on this sector (Fenick, 2021).

It is estimated that between 25% to 30% of the customers are factoring the ESG values when it comes to choosing their financial services provider and the market of financial services will reach \$28.5 trillion by 2025. The majority of customers are actively looking for energy-efficient financial providers and these financial providers need also to partner with other sustainable players in order to demonstrate the ESG practices across the value chain.

Currently, there is no standardized or global framework to measure ESG. Investors and other stakeholders need to look at different measures. The most popular reporting frameworks as (Korn & Ferry, 2022):

- 1) TCFD
- 2) SASB
- 3) The UN PRI
- 4) Global Reporting Initiative (GRI),
- 5) B Corp Certification

2.8. Technology for Sustainability

Sustainable technology was defined as a comprehensive framework of digital solutions that can support ESG outcomes for the companies and their customers (Wiles, 2022).

Sustainable technology is helping companies to optimize costs and energy consumption, it can improve the employees wellness and facilitate the emerging on new business models to better serve the customers.

As per Gartner management consulting research, the sustainable technology drives the ESG outcomes in 3 main areas: customer operations, internal IT and company/enterprise operations.

- 1) Sustainable technology can support customers to meet their own sustainability objectives by providing new products/services that enable sustainability as a service for other companies.
- 2) Sustainable IT focuses on finding the right hardware, tools and vendors that can deliver maximum output with minimum resources. The indirect emissions associated with the electricity used by IT are measured and reduced through specific actions of decommissioning IT applications that can be consolidated in a larger one or moved to cloud.
- 3) The spectrum of companies operations is quite large and the opportunities to deliver the ESG goals across the business will always include (Wiles, 2022):
 1. Automation of the business processes to reduce/eliminate the resource-consuming activities
 2. Artificial intelligence to be able to forecast the impact of climate on business.
 3. Advanced analytics to be able to capture real-time performance and drive instant optimized decisions

4. Cloud services to be able to work remotely and reduce the carbon emissions, increase the utilization of shared resources and allow organizations to use only what they need and when they need it.

2.9. Communication and marketing of Sustainability Strategies

Once the sustainability strategies are designed and the implementation started it is very important to start communicating with all the stakeholders (regulators, customers, investors, employees, etc.) to show the progress on the sustainability journey.

Different stakeholders have different sets of expectations related to sustainability, so it is imperative to drive the communication strategy based on the data that is influencing/impacting the perception of these stakeholders.

The below illustration captures the very essence of the sustainability communication strategy (Bhatia, 2022).



Figure 2.2. The importance of communication in sustainability strategies

The communication about the sustainability strategies and regular status reporting is also helping the companies to improve the ESG rating and showcase the progress and the sustainability performance in general.

Investors are using the ESG ratings to predict any financial risks, the customers and the general public are monitoring the transparency of the ESG communication on all the usual communication channels.

The internal functions who are usually responsible for driving the communication strategy are: Corporate Communication, Corporate Social Responsibility and Marketing teams.

One successful example of such a communication strategy on sustainability comes from the hospitality industry. Accor hotels defined a program called Planet 21. This program brings to the public attention well-shaped videos sharing the progress about the ESG goals, regular updates and activities that prove the high level of commitment towards sustainability (Shook, Lacy, 2020).

2.10. Environment, social and governance (ESG) in the GCC Banking

The GCC business environment started to follow the global ESG trends and even if the ESG practices started a bit later comparing to other regions, the current dynamic is very encouraging. The GCC countries have made significant sustainability pledges over the last few years. Saudi Arabia launched large-scale projects such as NEOM, a futuristic city using 100% renewable energy, and the Saudi Green Initiative aimed at reducing carbon emission by more than 4 percent of global contributions. Qatar announce a plan to reduce its greenhouse gas emissions by 25 percent by 2030 and has launched a detailed plan to embed principles of the circular economy, including the use of 35% recycled materials in construction projects (Dominik et al.. 2022).

The reports suggest that the amount of green bonds issued in the GCC in 2020 is double the value from 2014 (Vincent & McDowell, 2021). The Dubai financial market issued its ESG index and 30% of the GCC banks are now publishing a regular annual ESG report which was not the case 5 years ago.

Banks in the GCC are more and more under the pressure of their stakeholders (government, customers, employees, regulators, investors) to increase the ESG initiatives and have a roadmap in place for implementing a sustainability strategy.

As per one PwC survey from 2021, 46% of the CEOs in the Middle East plan to increase the investments in the ESG initiatives over the next 3 years (Oman Observer, 2022)

The increase interest in the ESG initiatives comes because of the fact that the GCC countries have established long-term visions to drive away from the fossil-based economies hence the ESG will support achieving these visions.

The GCC banks will be heavily impacted by the ESG efforts made by the companies in their portfolios. The corporate banking assets in the GCC region are 3 times more than the retail banking (Khan, 2022). There is a big opportunity for the GCC banks to grow and strengthen the corporate and investment banking areas as their customers are on an ESG transformation journey and they

are expecting a lot of support from their banks. The GCC banks will have to go beyond the classical credit business and develop new value propositions around ESG financing. The banks can support their corporate customers to reduce their fixed costs and optimize their value chain.

One example of success in terms of ESG adoption among the GCC banks comes from ADCB (Abu Dhabi Commercial Bank) who was recently upgraded by Sustainalytics, one of the leading global ESG rating agencies (Ibrahim et al., 2022).

ADCB registered an ESG score of 21 in September 2022 which is a 10-points improvement comparing to March 2021 and it has been recognized as the highest-ranked bank in the GCC and in the top 25% of the banks globally.

The Sustainalytics ESG methodology scores a company on how effectively it manages the ESG risks. The scoring system is from 0 to 40 and the lower the score the better. The best improvement for ADCB came from the data privacy and security as well as business ethics.

ADCB issue its first green bond in September 2022 and managed to raise USD \$500 million to support the financing of the low-carbon projects. This green bond was added in the Bloomberg MSCI Green Bond Index as a recognition of the overall consistent ESG strategy adopted by the bank.

2.11. Theories of sustainability

The concept of sustainability shaped through different stages that reflected a certain mindset and approach of a specific economic, social and political context.

Historically there are 4 main theories of sustainability (Chang et al., 2017):

2.11.1 Corporate Social Responsibility

Emerged as a reaction to the extreme liberal concepts that mentioned the only purpose of companies is to be profitable. This theory underlines the mission of a company to be involved in the community where it serves and to give back to this community through a series of social actions.

2.11.2 Stakeholder theory

It gives a broader perspective about the role of a company and the ecosystem of different stakeholders who should be listened to and who have specific expectations (regulators, governments, customers, employees, etc). This theory points out that the companies should set specific goals and present updates for a wide category of stakeholders so financial performance

should go hand in hand with social performance, regulatory compliance, employees satisfaction, etc.

2.11.3 Corporate Sustainability theory

It emerged once there were so many cases of companies who failed to deliver their promise and became bankrupt due to financial issues, corruption, bad practices, etc. This theory brought up corporate governance as an imperative and how to design new sound practices that will ensure business sustainability.

2.11.4 Green Economics theory

The last one chronologically and it emerged after 2010 once the environment issues became evident and governments started to align to find solutions for reducing carbon emissions. This theory aims for producing products and services with minimum or no environmental impact.

2.12. Summary

Sustainability strategy is fundamentally one of the biggest challenges for the corporate world and it requires a series of critical decisions - what will a company do, and what will a leadership team choose not to do. It is hence important to have a shared commitment to sustainability and define clear and achievable ESG objectives.

The ESG takes the innovation and technology to the next level tapping into the collective creativity, energy and motivation of the employees who will ultimately execute the implementation of the sustainability strategy.

Sustainability implementation is more a matter of having the right culture and mindsets who can learn, share, work together, build and execute so sustainability will become part of the new DNA of companies.

The next chapter is Research Methodology and aims to present an overview on the approach used to conduct the research in order to answer the main questions and achieve the aim. The chapter will include both quantitative and qualitative methods, reports and benchmarks for the financial institutions in the GCC.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

The research methodology chapter aims to explain in detail how the research questions will be addressed. The chapter will include a comprehensive explanation of the methodology, how the required data for the investigation will be collected, what instruments will be used and how these instruments will be applied. The detailed structure of the chapter includes: the description of the research design approach, the targeted population of the study, the sampling techniques and the sample size, the presentation of the research instruments, data collection and analysis techniques and any legal, ethical, and social considerations.

3.2. Research Design

The design of the current research aims to cover 4 main areas which are related to the 4 main questions of the research:

- 1) If the largest bank in Oman has a sustainability strategy, what is it and how it impacts the overall organizational performance.
- 2) The factors that are impacting the sustainability strategy.
- 3) The specific challenges of implementing the sustainability strategy
- 4) The relationship between the bank performance and the sustainability strategy.

The research will use two main sources of data, a primary and a secondary one. The primary data will be collected through a survey and few interviews with the bank representatives and the secondary data will come from the regular annual sustainability report issued by the bank.

The survey was designed using Google forms and it was structured in few sections covering the 4 main areas mentioned above and including few more questions related to the demographics of the participants, their educational background and work experience. The survey has been distributed to the employees as a link.

3.3. Population of the Study

The population of the study is represented by Bank Muscat employees from 3 departments: Customer Experience, Strategy and Corporate Communication department which are all strategic units of the bank. The departments have a total number of 60 people both men (40%) and women (60%) with an age between 25-55 years old and work experience between 4 to more than 20 years. 50% of the population is 41-50 years old and 40% of the population has 10-15 years of experience. The departments are at the forefront of the organizational changes and have a very good visibility of all the main strategic initiatives of the bank, so it is a reliable source of data based on the exposure of the employees in these departments.

3.4. Sampling Techniques and Sample Size

The sample technique is the simple random sampling which represents a randomly selected group of the study population. Considering the size of the population is very small – just 60 people – and to obtain a very representative response for the research questions it has been calculated that the ideal number of responses to be received should be 50 (Qualtrics, 2022). The sample size main assumptions are that the confidence interval is 95% (the rate of how confidently to rely on the result) and the error margin is 5% (what is the projected error in the interpretation of the result). Basically, in this case the population size (60) and the sample size (50) are not far from each other due to the small size of the population.

3.5. Research Instruments, Validity and Reliability Testing

The main research instrument that has been used is the survey. This instrument was preferred mostly due to the size of the sample as it would have been very difficult to interview at least 50 employees of the bank. The main advantage of the survey instrument is that it reached simultaneously to all the participants, and it is very effective in terms of duration of acquiring the feedback and ready to start the analysis.

The survey has been designed in several sections with a total of 25 questions including the ones related to the demographics, educational background and work experience of the participants.

To ensure the validity and reliability of the survey this was designed with 2 guiding principles: closed questions and 5 points Likert scale with options. Follow-up with the survey invitees was done to reach to the ideal number of responses and ensure maximum reliability.

Most of the survey questions are closed as specific options should be chosen. This approach was selected due to the nature of the research questions as the overall objective is to assess the existence of the sustainability strategy, its impact on the organizational performance, the challenges and factors influencing it. Nevertheless, there are also few open questions under the option Others to give the respondents to input any other option that has not been included in the design of the survey.

Most of the questions were designed on the 5 points Likert scale with options from Strongly Agree to Strongly Disagree to better assess the perception of the employees about the sustainability strategy from multiple angles including its maturity level.

The research is highly reliable once the number of ideal responses is met and the perception of the employees will be influenced by objective factors: communication of the strategy inside the organization, the awareness and cascading done by the managers and leaders, the circulation of the achievements and status reports on the sustainability strategy.

3.6. Data Collection Techniques

The research was designed to collect both primary and secondary data.

The survey represents the primary data, and it is designed to cover in-depth the 4 main research questions underpinned by a total of 25 questions to be answered in about 15 minutes. The survey was distributed to 32 people of the Customer Experience department.

The survey has specific questions in order to identify if the respondents confirm there is a sustainability strategy or not, what are the main factors impacting the strategy and the one with the highest impact, what are the main challenges in implementing effectively the strategy, if there is any relationship between the strategy and the performance of the organization, etc.

Main three advantages and disadvantages of the survey:

Advantages	Disadvantages
Customized to the need of the research	Time consuming
Reliable	Potentially expensive
Control how the data is collected	Potentially small amount of data to be collected

Table 3.1. Main advantages and disadvantages of the survey

The secondary data used for the research are represented by the annual sustainability report issued by the bank and the literature review on sustainability including specific reports about the sustainability strategy in the financial sector.

The bank sustainability report offers detailed information about the following:

Sustainability management, governance, value for customers and employees, communities and managing the environmental footprint.

The other sources of secondary data are represented by the sustainability reports of the financial institutions in the region, management consultancies or market research reports.

The main three advantages and disadvantages of the secondary data are:

Advantages	Disadvantages
Ease of access	Potentially not specific to the research needs
Potentially free or low-cost	No control over the data quality
Potentially high amount of data to be collected	Cannot control how data is collected

Table 3.2. Main advantages and disadvantages of the secondary data

Both sources of data will complement each other and offer a complete picture of the sustainability strategy in the bank and also its position in the regional/international context.

3.7. Data Analysis Technique

The results of the survey responses will be analysed graphically. The data will be visualized as a pie chart graph corresponding to the aggregated responses distribution for each question.

The pie chart graph is the most suitable to visualize data related to closed and multiple options questions as it will reflect instantly the preference of the respondents for one answer or another and how significant is that level of adoption for an answer or another.

The regression analysis will be also utilized in order to determine a specific relationship between different variables of the survey like the number of working years of the employees and their perception about a specific element of the sustainability strategy.

3.8. Legal, Ethical and Social considerations

Legal considerations: We hereby declare that the uploaded content of the research represents our own work. We confirm this content has been researched and completed in accordance with the college rules and regulations on plagiarism. We acknowledge the advice given by the module tutor on the rightfully referencing to avoid any plagiarism and the academic rules of unfair practice.

Ethical considerations: Following the reading and understanding of the research ethics and bio safety approval form we hereby declare the research is not including any other human participants outside the team members and there are no plants or animals involved in the research.

Social considerations: We evaluated all the risks listed in the form and the only risk involved by the objectives and content of our research can occur in case of not receiving enough number of responses from the survey. The rest of the activities are risk-free as we are only using the collected data via secondary sources.

3.9. Summary

The chapter presented in details the entire research methodology related to the sustainability strategy of Bank Muscat. The methodology was described in terms of the structure of the design, the data, types of data, collection methods, the main instruments to be used and how to apply them. The next chapter is Data Analysis and aims to present an overview on the outcome of the research based on the data sources used. The chapter will include the main methods of analysis, the type of charts utilized, the results from the primary data sources and the references coming from the secondary data like reports, benchmarks related to the sustainability strategy in the financial sector within the GCC or globally.

CHAPTER FOUR DATA ANALYSIS

4.1. Introduction

In this chapter will be discussing about the data analysis following the online survey distributed to the employees of 3 departments in Bank Muscat: Customer Experience, Corporate Communication and Strategy. The survey contained 25 closed questions related to the sustainability strategy of the bank. Out of the total number of 60 employees in the 3 departments, there are 50 responses received. The data outcome will be presented in charts and each question will be analyzed in details.

4.2. Demographics

Age distribution of the respondents

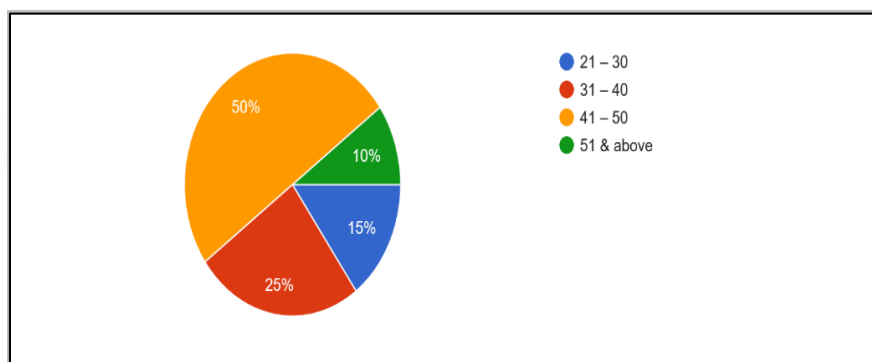


Figure 4.1. Age distribution

The majority of the respondents from the 3 departments have an age between 41 to 50 years old (37.5%) followed by the 31-40 years old category (31.3%). The departments have very balanced ratio between young and older employees which reveals the importance of mixing experienced people with young talents. It also shows the departments have a good pool of young people who can be trained and developed and prepared for the next steps in their career.

Gender distribution of the respondents

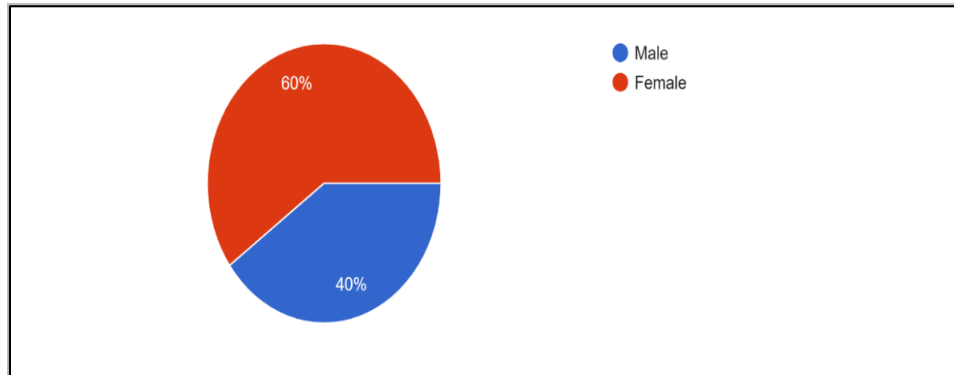


Figure 4.2. Gender distribution

The 3 departments have 60% women and 40% men. This is in alignment with the overall gender distribution in Bank Muscat as women represents more than 50% of the entire workforce of the bank (Bank Muscat Annual Report, 2021).

Educational background of the respondents

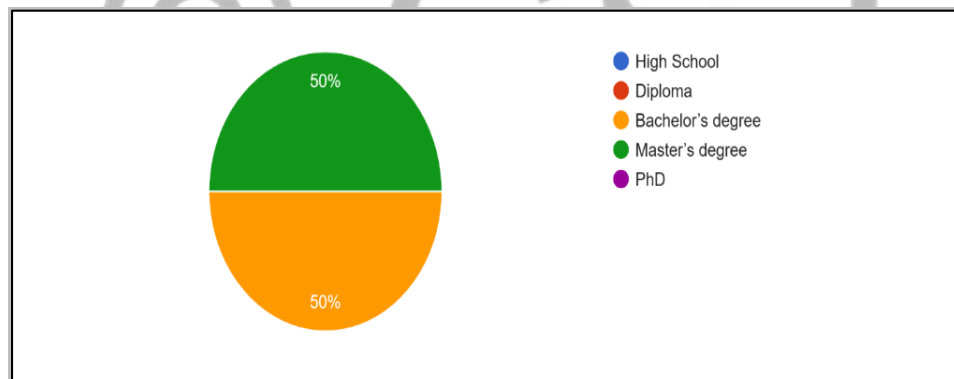


Figure 4.3. Educational background

50% of the respondents have a master degree and the other 50% have a bachelor's degree. Due to the highly specialized competences required by the nature of work in the 3 departments it is understandable the high percentage of people having master degree. The bank supports the continuous education of the young talents and every year there is a group of employees who are sent to complete their master degree (Bank Muscat Annual Report, 2021).

Experience background of the respondents

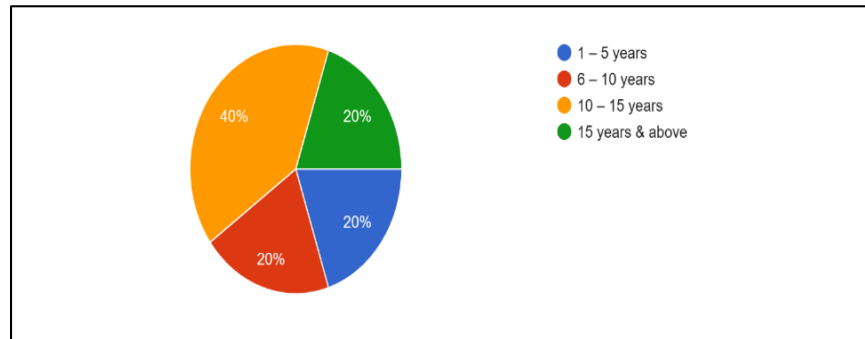


Figure 4.4. Experience background

The majority of respondents have between 10-15 years of experience which is correlated with their age. The function of these departments require experienced professionals. Some of the highly experienced employees have been recruited externally, but many of them are also groomed by the bank internally.

4.3 Questionnaire

Respondents acknowledgment related to the sustainability strategy

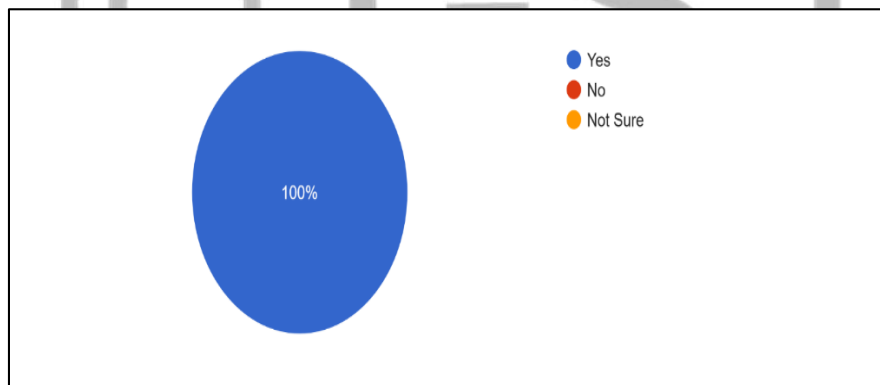


Figure 4.5. Does the bank have a sustainability strategy

All the respondents confirmed and are aware that the bank has a sustainability strategy. This is mainly due to the fact that the Customer Experience, Corporate Communication and Strategy departments are very much involved in the design and implementation of the sustainability strategy.

As per a Forbes report 60% of the companies actually have a sustainability strategy (Rafi, 2021). So Bank Muscat is among the 60% of the companies who have such a strategy.

Respondents' assessment of the sustainability strategy importance

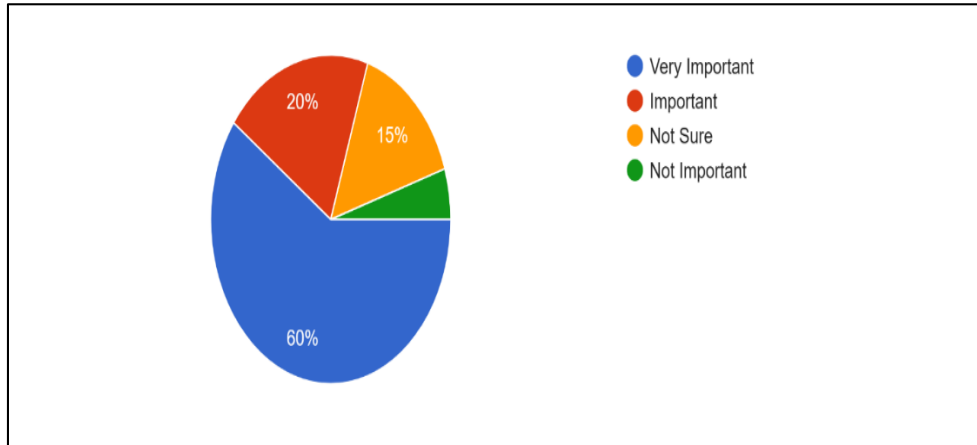


Figure 4.6. How important is the sustainability strategy

The majority of respondents (60%) consider the sustainability strategy as very important. Another 20% of the respondents are considering important. So 80% of the total respondents are considering the sustainability strategy as important or very important which shows the high importance of this topic inside the organization. This also proves that the leadership of the bank is focused on the sustainability initiatives, giving them the right priority and communicating to the employees about their importance.

The Forbes report mentions that 90% of the business leaders consider sustainability as important for their organizations. This shows that Bank Muscat employees are having a similar perception with the global benchmark.

Sustainability strategies

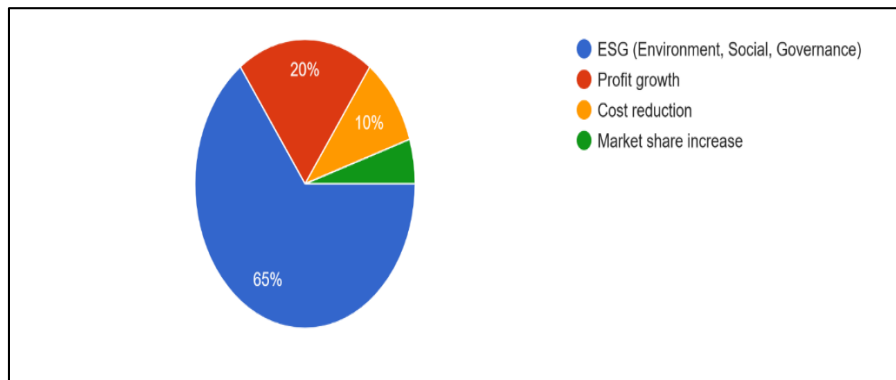


Figure 4.7. Select what is a sustainability strategy

As per the literature review the business sustainability is defined as “doing business without negatively impacting the environment, community, or society as a whole.” (Spiliakos 2018). In other sources the sustainability is defined as “the ability to maintain or support a process continuously over time” (Mollenkamp, 2022). This question tried to assess the overall understanding of the employees about what is sustainability all about. 65% of the respondents chose the right answer that sustainability is about environment, social and governance. This is a good percentage that shows that sustainability knowledge is important for the employees and it is actively disseminated across the company. The remaining 35% of the respondents who chose other options (cost reduction, profit growth, market share increase) shows that there are still employees who are mixing sustainability with the regular business strategy that aims for all the other options. A continuous training and awareness about the role of the sustainability strategy and the main components is still required in order to reach to the large majority of the employees.

Correlation between sustainability strategy and overall bank performance

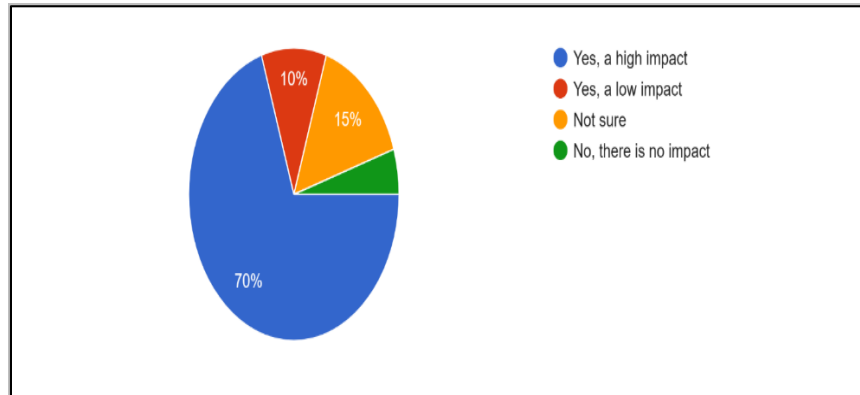


Figure 4.8. Is sustainability strategy having an impact on the bank performance

The large majority of the respondents (70%) consider there is a high impact of the sustainability strategy on the overall performance of the bank which is aligned with the research findings that proved the companies who exceed in the ESG (Environment, Social, Governance) performance have an average margin about 4 times higher than the laggards (McKinsey, 2019). Another 10% of the respondents consider there is an impact, but a low one. 15% of the respondents are not sure and 5% stated there is no impact which shows there is room for improvement in terms of communicating the financial benefits of pursuing and executing a sustainability strategy. As per a recent study there is a clear positive correlation between sustainability and financial performance (Pham, 2021). The main results of the study revealed the following:

- 1) higher sustainable growth rate conducted to a greater value for earning yields
- 2) greater sustainable growth rates lead to greater ROA and ROE
- 3) greater values in sustainable growth rate and corporate social responsibility disclosure determined a greater ROCE

The elements with largest impact on the bank performance

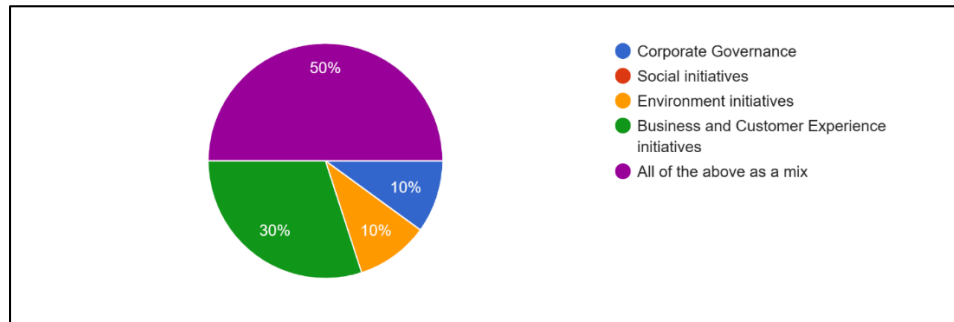


Figure 4.9. Elements with the largest impact on the bank performance

50% of the participants evaluated that the performance of the bank is driven by a mix of elements: corporate governance, business and customer experience initiatives, social initiatives and environment initiatives. There is an important category of the employees (30%) who considers the business and customer experience initiatives as the most important element in driving the bank performance. This shows that sustainability is not necessarily perceived as a business/results driver despite the fact that customers and other stakeholders are more willing to connect with brands that are pursuing clear initiatives in this space and studies show that all the stakeholders are monitoring the companies performance in the ESG space and demand more and more actions. A recent study shows that 80% of the companies plan to increase their investments in sustainability (Travelperks, 2022) which shows that there is a strong perception that financial performance is not only the result of business initiatives. In bank Muscat the percentage is lower though but 50% is still a good score.

Sponsors of the sustainability strategy

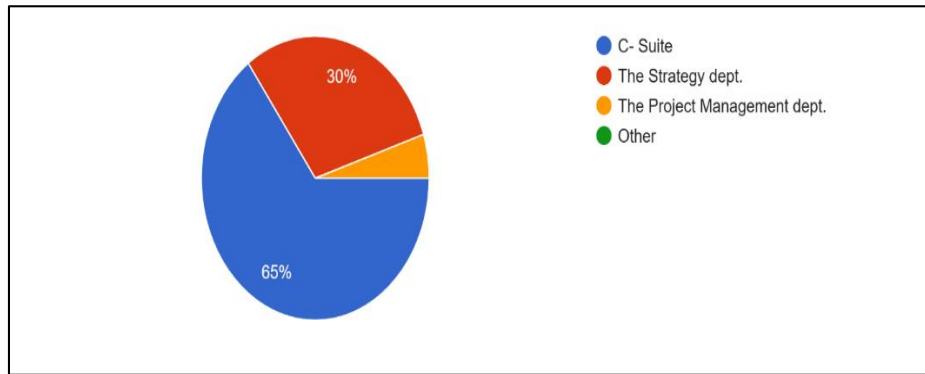


Figure 4.10. Who should sponsor the sustainability strategy

When it comes to who should sponsor the sustainability strategy in the organization a large majority of participants indicated the C-Suite as the right sponsors which is correct as it they are ultimately the executive management of the company and directly responsible for the results and impact of the company in the business community, society and environment. The literature review sustains that C-Suite and senior leaders are the right sponsors for the sustainability strategy (McKinsey, 2021).

Factors affecting the sustainability strategy

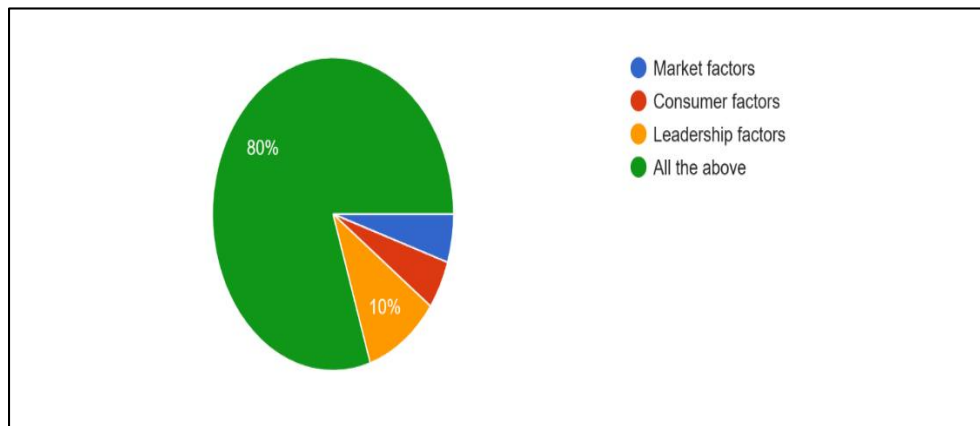


Figure 4.11. Factors impacting the sustainability strategy

80% of the survey participants considered that market, leadership and consumer factors together affect the sustainability strategy which is largely true as the strategy is usually designed and executed based on both the internal and external factors so it cannot be just one factor only who is influencing the strategy.

Top management priority

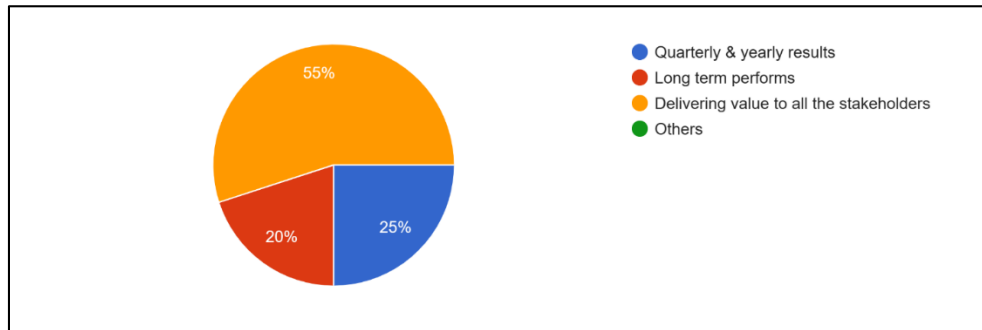


Figure 4.12. What is top management priority

A bit more than a half of the participants considered that delivering value to all the stakeholders is the top management priority. This is correct indeed as the top management is responsible in front of all the categories of stakeholders on how the company performed. The regulator, the government, the customers, the employees have specific expectations from the bank and these expectations are not related only to the financial performance of the bank. It is not surprising though to see that 25% of the respondents chose that quarterly and yearly results are the top management priority as this is how usually the financial institutions are measuring their success and the financial key performance indicators have a high weight in the evaluation process. The ESG KPIs are slowly getting traction though and more and more companies include them in the annual reports and their success depends also on the efficiency of implementing the sustainability strategy. As per the Forbes report 90% of the CEOs consider sustainability strategy important, but only 60% of the companies have a sustainability strategy (Rafi, 2021).

Highest impact on sustainability

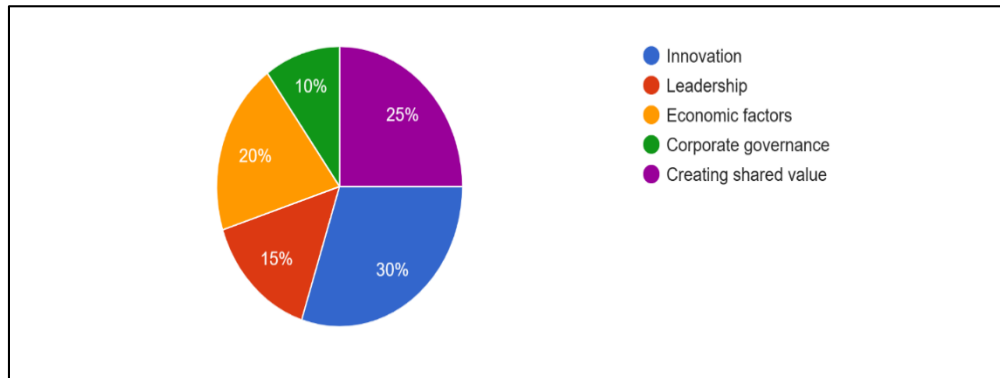


Figure 4.13. Highest impact on sustainability

This question was one of the most controversial for the participants as the responses scattered among the options without a clear choice. Nevertheless, the largest segment of 30% consider innovation has the highest impact while 25% of the respondents selected the creation of shared value. The diversification of opinions came from the fact that it is very difficult to quantify which element has the highest impact on the sustainability strategy. Innovation will always drive improvements in the environment conditions or reduction of waste. But if we consider the ultimate scope of sustainability is to create shared value to all the stakeholders continuously over time then the 25% of the respondents were right. The employees of the bank perceived also that the economic factors (20%), the company leadership (15%) or the corporate governance (10%) have the highest impact. It is interesting to notice that the economic factors are considered more impactful than the leadership itself.

The reports from management consulting companies revealed that innovation and leadership dimensions have the highest impact on sustainability (McKinsey, 2021) which is in alignment with the top selection of bank Muscat employees.

The most impactful leadership elements on the sustainability strategy

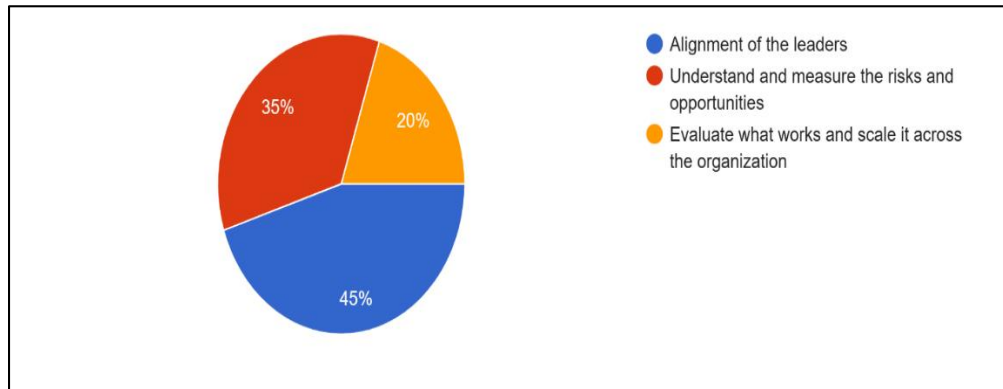


Figure 4.14. Most impactful leadership elements on the sustainability strategy

The alignment of the leaders has been selected by 45% of the participants as the most impactful leadership element on the sustainability strategy. It is indeed the most critical one as without the alignment then all the resources and initiatives cannot be executed. The other 2 options are also important, but they cannot work without the initial alignment that sustainability is a key priority.

Most difficult to measure

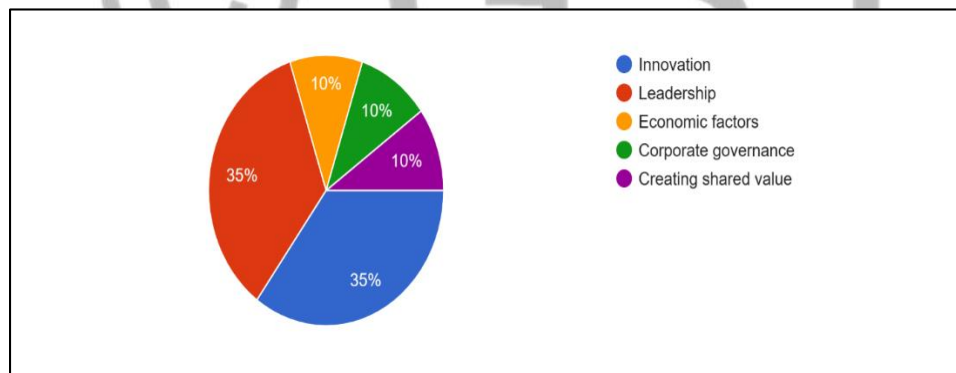


Figure 4.15. Most difficult elements to measure

This is the most controversial question of the survey and the participants couldn't agree on one option. 2 options were equally selected as the most difficult factor to measure: leadership and innovation. This is very interesting as the literature review mentions specific performance indicators for leadership and innovation such as the employee's satisfaction score, the churn rate of the employees or the revenues/cost reduction driven by an innovation initiative.

The outcome of this question might indicate that some of the above-mentioned indicators are not used in the organization.

The maturity level of the sustainability strategy

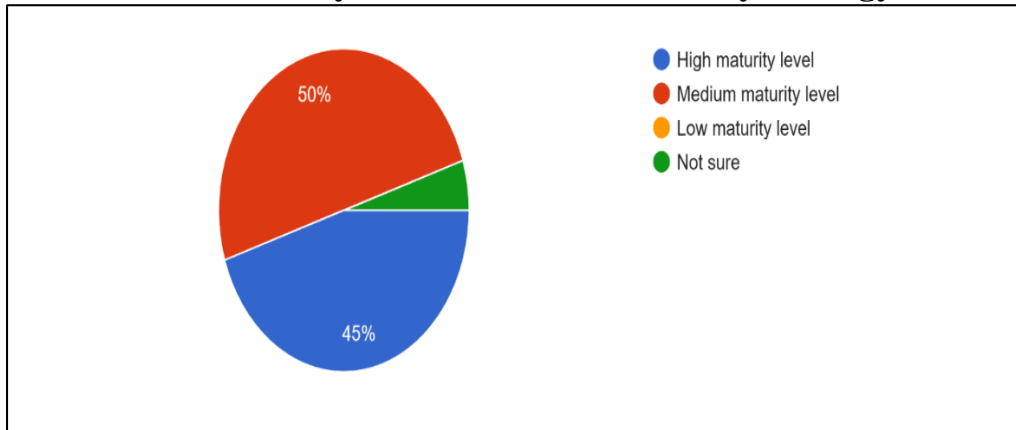


Figure 4.16. Maturity level of sustainability strategy

50% of the participants considered that the bank sustainability strategy has a medium maturity level while 45% rated a high maturity level. These 2 different perceptions might be linked to the fact that there is no maturity model in place and the employees are just subjective in their evaluation or that there is not enough awareness about the current maturity stage when it comes to the execution of the sustainability strategy.

Globally the maturity level of sustainability strategy is assessed at level 2 out of 4 following a 4 levels maturity model (McKinsey, 2021) which shows that Bank Muscat is following the same trend and having a medium maturity level.

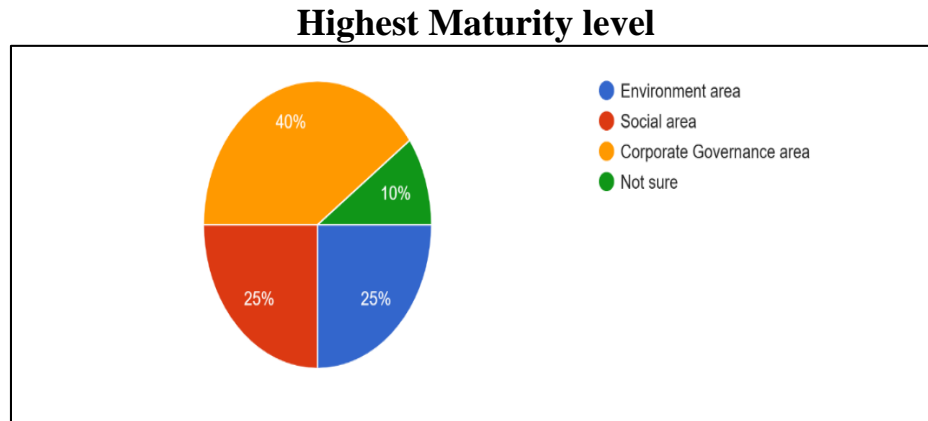


Figure 4.17. Element with highest maturity level

The corporate governance area was selected by 40% of the participants as having the highest maturity level. This can be influenced by the fact that the financial sector in general is highly regulated and the banks have many policies and procedures that document all the activities. The corporate governance is essential in designing and driving the execution of the strategy.

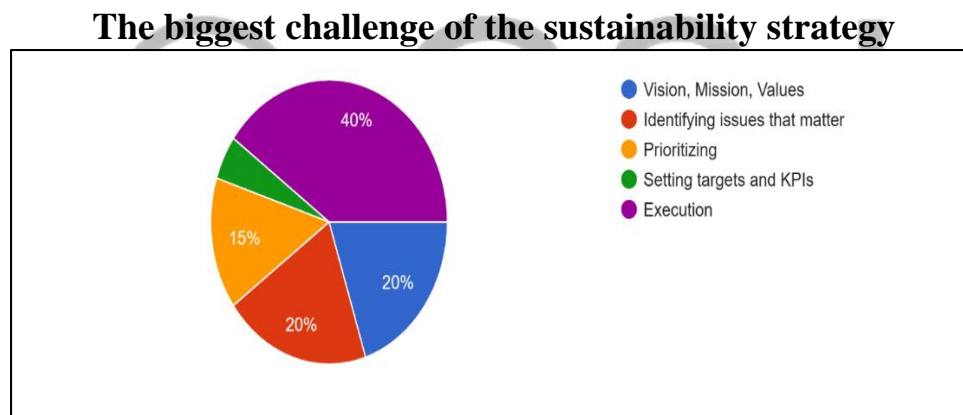


Figure 4.18. Biggest challenge implementing the sustainability strategy

The execution of the strategy has been selected by the 40% of the participants as the top challenge. It is indeed easier to design a strategy or define some targets that actually achieve the objectives of the strategy and reach the targets. It is interesting to observe that this option didn't get a large majority of respondents though which means that the vision and mission or identifying the issues that matter are also challenging due to different views occurring in the organization. Globally the research reports show that execution of the strategy is by far the top challenge (McKinsey, 2021) so bank Muscat confirms this trend.

The top enabler of implementing the sustainability strategy

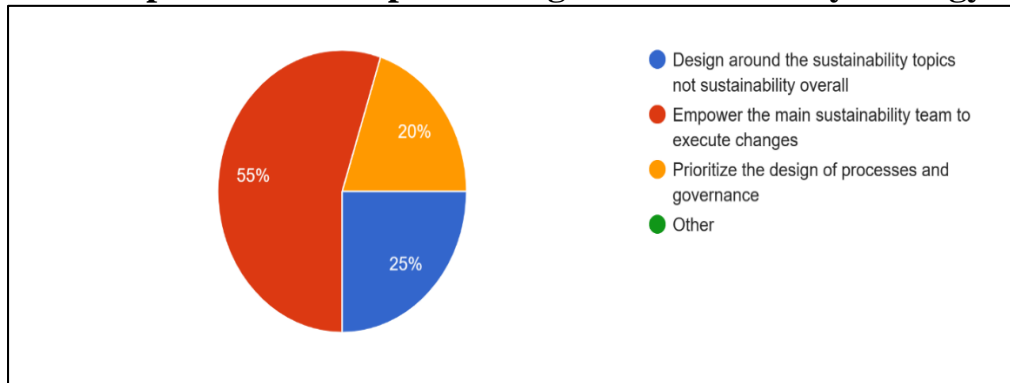


Figure 4.19. Top enabler to implementing the sustainability strategy

The majority of 55% selected that empowerment of the main sustainability team to execute the changes is actually the key enabler of reaching the strategy objectives. The empowerment is indeed critical to execute the roadmap of the strategy as people need the right resources, tools and skills in order to deliver the expected outcomes.

Globally the research reports point out that designing around the sustainability topics is the key enabler of the overall strategy (McKinsey, 2021), but in Bank Muscat employees perceive the empowerment is the most important element among all the enablers.

Successful implementation of the sustainability strategy

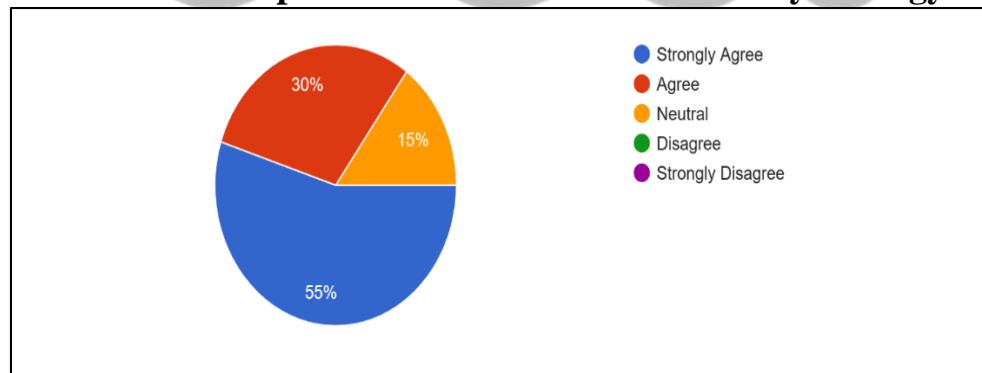


Figure 4.20. Successful implementation of the sustainability strategy

There is a clear consensus among the participants that the bank is successful in implementing the strategy. 85% of the respondents strongly agreed or agreed about it.

The number of sustainability initiatives and the communication related to their implementation are probably contributing to the above scores.

Stakeholder most interested in the sustainability strategy

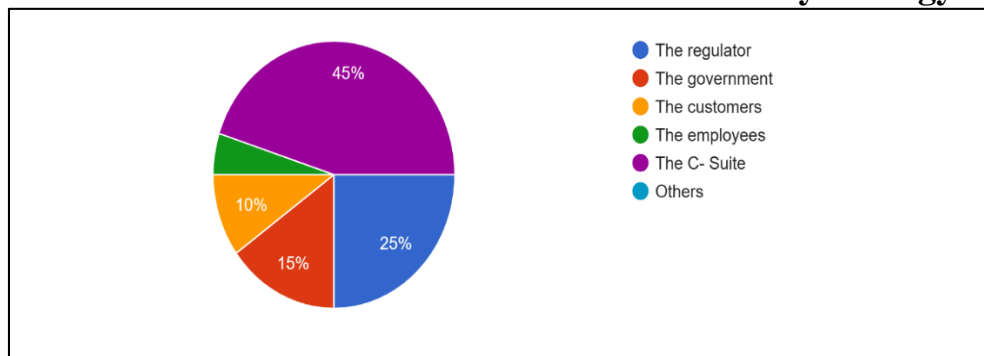


Figure 4.21. Stakeholder most interested in the sustainability strategy

45% of the participants considered the C-Suite is the most interested in the sustainability strategy as it should be since they are the ultimate sponsors of it. 25% of the participants chose the regulator as the top interested stakeholder. This shows that still many employees are considering sustainability strategy is more related to compliance to some compulsory regulations which is due to the high level of regulations for the financial sector.

Impact of the sustainability strategy

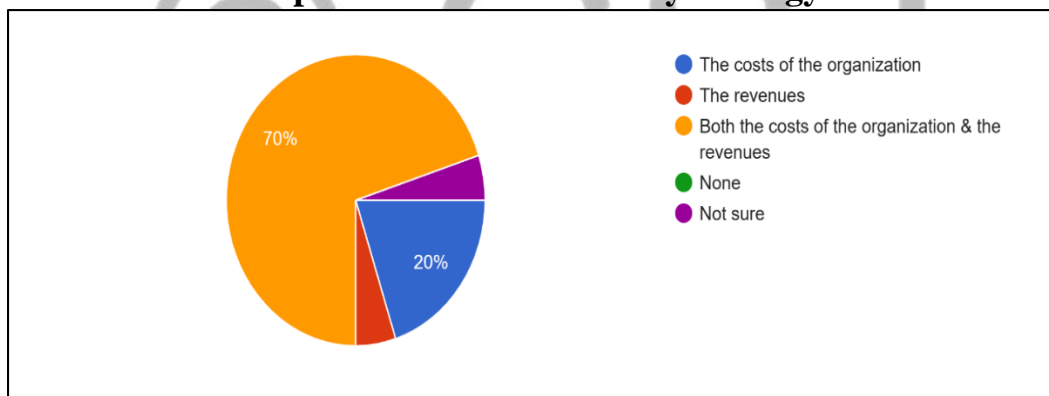


Figure 4.22. Impact areas of the sustainability strategy

The large majority of the employees correctly considered that the sustainability strategy is impacting both the costs and the revenues of the bank. Through the sustainability initiatives there are cost reduction benefits (e.g. Consume less energy) and also revenue increase by attracting more customers who place ESG on their top priorities when dealing with a brand.

Globally the research reports prove that all the sustainability initiatives impact both the costs and the revenues (Rafi, 2021).

What is driving the long-term performance of the company?

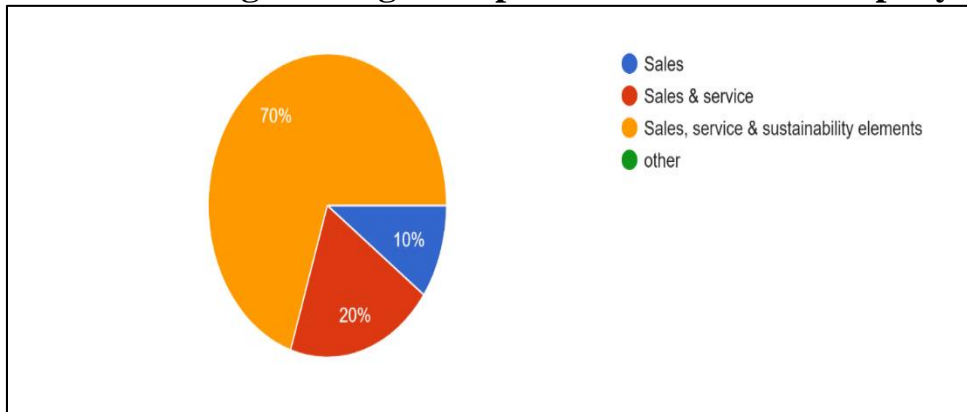


Figure 4.23. Long-term performance drivers

The larger majority of the respondents (70%) assessed correctly that long term performance of the company is driven by sales, service and sustainability elements. Sales will always focus on attracting new customers, service will always focus on retaining the existing customers and make them loyal while sustainability will support in both.

Sustainability element highest impact

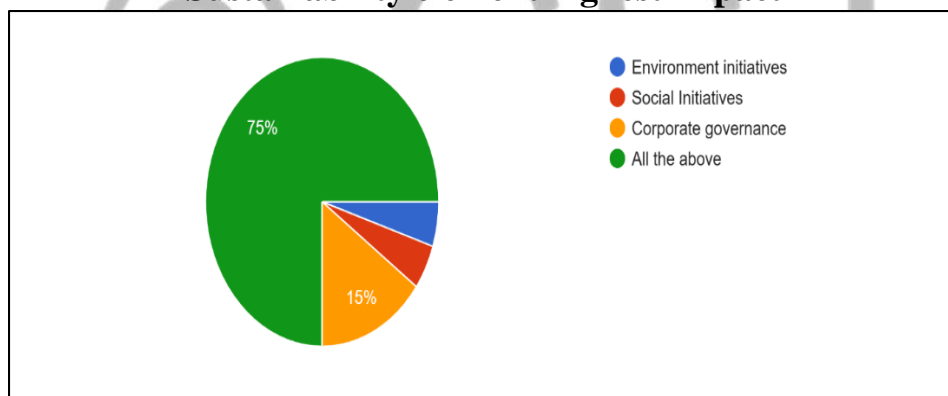


Figure 4.24. ESG highest impact area

When it comes to which element of the sustainability strategy has more impact on the performance of the bank there is a high consensus among the respondents that all the ESG elements are contributing: the environment activities will reduce the carbon print and save energy, the social initiatives will support local communities and increase the financial inclusion of unbanked segments while the corporate governance will ensure a higher standardization and predictability of the processes and activities that will contribute to a higher trust coming from all the stakeholders.

The environment initiatives are having the highest impact on the cost reduction of the companies, but social and governance activities are positively impacting both the costs and the revenues so all 3 of them as a mix are actually driving the highest impact (McKinsey, 2021).

Contribution of sustainability strategy on the overall performance

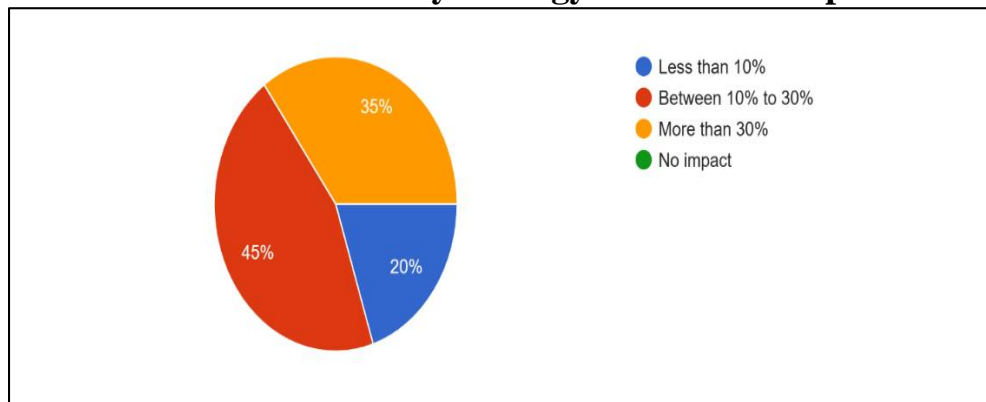


Figure 4.25. Contribution of the strategy to the overall performance

The last question of the survey was also controversial as the ROI of the sustainability strategy is not easily perceived by the employees and probably not calculated inside the organization. 45% of the participants stated that the impact is between 10% to 30% while 35% appreciated is more than 30%. The remaining 20% of the participants stated that the contribution is less than 10%. The literature review considers that ESG has a contribution between 10% to 30%.

From the annual sustainability report of Bank Muscat there are few clear points to be mentioned (Bank Muscat Sustainability report, 2021) :

- 1) 148% increase in paper recycling volumes compared to 2020;
- 2) A reduction of 8% in waste sent to landfill compared to 2020
- 3) A reduction of 6% in Utility Water consumed compared to 2020
- 4) A reduction of 6% in GHG emissions compared to 2020
- 5) 31,017 individuals benefitted from Maliyat financial literacy programme
- 6) 1,250 students and 150 families benefitted from Tadamun Programme
- 7) 42,900 individuals benefitted from Green Sports programme
- 8) E-waste recycling efforts tripled compared to 2020
- 9) Bank Muscat employs 11 people with disabilities

The bank has a dedicated sustainability committee governance who is leading and monitoring all the related initiatives. There are specific indicators defined to monitor the progress of the sustainability strategy.

4.4. Summary

The survey revealed a high level of awareness and maturity of the sustainability strategy within Bank Muscat. The respondents are generally aware about what is sustainability all about, its importance for the bank and the maturity level of the strategy adopted by the bank. There is a clear perception that sustainability is contributing to the long-term performance of the organization, that management is actively sponsoring and supporting the implementation of the sustainability initiatives.

The next chapter is Summary of findings, Conclusions and Recommendations and aims to present an overview on the research outcomes in order to answer the main questions and achieve the aim. The chapter will include specific conclusions and recommendations based on all the findings and on the literature review benchmarks.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

The chapter presents the main findings of the research, the main conclusions and recommendations that came out of the data analysis, literature review and reports of the bank.

The chapter summarizes the evaluation of the sustainability strategy and its maturity in Bank Muscat and how the long-term performance of the bank will be impacted by a series of decisions taken by the management related to the customers, employees, communities, and energy footprint.

5.2. Summary of Findings

As stated in Chapter 1 there are 4 main research questions to be addressed in this study:

5.2.1 To examine sustainability strategies and their impacts on organizational performance in Bank Muscat.

Main findings:

- 1) Bank Muscat has a sustainability strategy
- 2) The sustainability strategy includes 3 main areas/sub-strategies:

5.2.1.1 Environment strategy and main outcomes:

- 1) 148% increase in paper recycling volumes compared to 2020
- 2) A reduction of 8% in waste sent to landfill compared to 2020
- 3) A reduction of 6% in Utility Water consumed compared to 2020
- 4) A reduction of 6% in GHG emissions compared to 2020
- 5) E-waste recycling efforts tripled compared to 2020

5.2.1.2 Social contribution and financial inclusion main outcomes:

- 1) 31,017 individuals benefitted from Maliyat financial literacy programme
- 2) 1,250 students and 150 families benefitted from Tadamun Programme
- 3) 42,900 individuals benefitted from Green Sports programme
- 4) Bank Muscat employs 11 people with disabilities

5.2.1.3 Governance and value for the employees:

- 1) 49% of the bank employees are women
- 2) The employee satisfaction score is 4.16 out of 5
- 3) The sustainability strategy covers a series of initiatives under the environment, the social and the governance dimensions
- 4) There are specific sustainability indicators and related targets defined

5.2.2 To examine the factors affecting business sustainability strategies.

Main findings:

- 1) The management of the bank is actively sponsoring and supporting the sustainability strategy
- 2) Strong governance around the sustainability (dedicated management committee to oversee all the sustainability initiatives)
- 3) Clear perception of the employees that sustainability is contributing to the long-term performance of the organization.

5.2.3 To evaluate the challenges of implementing sustainability strategies in Bank Muscat.

Main findings:

- 1) 40% of the survey respondents considered execution of the strategy as the top challenge while the global research reports show a larger percentage of employees worldwide have the same perception (approx. 60%)

5.2.4 To analyze the relationship between sustainability and organizational performance in Bank Muscat.

Main findings:

- 1) 45% of the respondents of the survey consider that the sustainability strategy impacts the overall performance of the bank between 10% to 30% which is aligned with the findings in the global research reports.
- 2) 70% of the respondents consider that long-term performance is driven by sales, services and sustainability initiatives which shows a position correlation and contribution of the sustainability to the overall performance of the organization.

5.3 Conclusion

Bank Muscat is addressing the sustainability strategy through a large number of initiatives grouped under the ESG umbrella. The impact of these initiatives is measured through specific indicators and the bank is also communicating constantly with all the stakeholders inside and outside the organization in order to align to their expectations.

In 2020, the bank conducted an impact analysis to identify specific ESG topics and their importance to different internal and external stakeholders. The impact analysis is created by aggregating 2 dimensions, sensitivity, and importance that a particular topic has, as indicated by key stakeholders. Based on the outcome then specific action plans are developed to address the ESG aspects.

In 2021 Bank Muscat followed a two-step approach for Materiality Analysis:

- 1) Secondary research into the banking and financial sector
- 2) Benchmarking to gather material topics.

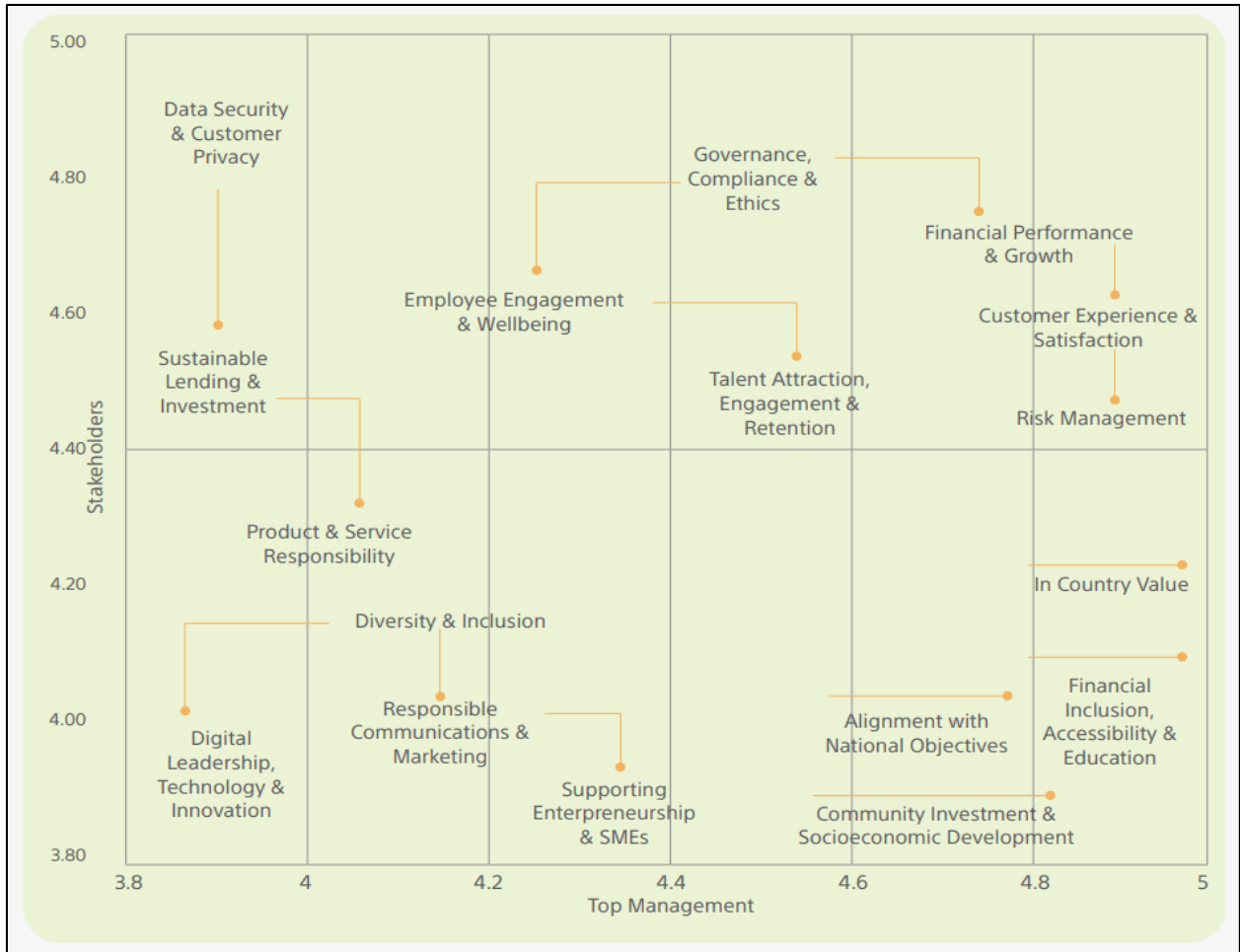


Figure 5.1.: Materiality analysis, Annual sustainability report, 2021

As per the annual sustainability report Bank Muscat believes that governance and accountability are the main enablers to ensure the delivery of sustainable value for all stakeholders. The organization bank has setup a Sustainability Committee to ensure the management of ESG issues in the Bank. The main objective of the Sustain

ability Committee is to ensure the Bank includes sustainability best practices in its core business activities and culture. The Committee's approach to achieving its objective is defined by a 4 pillars framework: Support, Accountability, Recognition and Development (Bank Muscat Annual sustainability report, 2021).

5.3.1 Support pillar

It aims to support the social and community related activities, charitable causes and events.

5.3.2 Accountability pillar

It aims to support sustainable development to initiatives that positively impact the environment, the economy and the society.

5.3.3 Recognition pillar

It aims to support the employees to carry on voluntary activities for the benefits of the environment, economy and society

5.3.4 Development pillar

It aims to support the growth of the economy through the growth of local communities that can benefit by specific programs.

The Sustainability Committee includes members from different divisions across the bank. The diversity of the members ensures having different perspectives together with a holistic view of the bank and the different ways sustainability can be embedded within. The committee meets six times a year to discuss the bank initiatives in terms of contribution to economic performance, empowering the communities and responsible banking.

5.4. Recommendations

The current findings of sustainability survey revealed few potential areas of improvement as following:

- 1) **Calculate the return on investment (ROI) for the sustainability strategy** and communicate it to all the stakeholders

The sustainability initiatives are still perceived as an extra cost for the companies and not as long-term investments aiming to reduce costs and increase profitability hence finding the formula for calculating the return on sustainability is an imperative.

- 2) **Introduce a maturity model for the sustainability strategy** and execution and communicate it to all the stakeholders

The sustainability maturity model is necessary in order to provide a clear roadmap to all the internal and external stakeholders on what are the elements to be in place in order to progress from one maturity level to another. This model will support the managers of sustainability strategy to identify and prioritize the most relevant initiatives.

- 3) **Introduce new performance indicators to measure innovation and leadership** as the employees perceived these 2 areas are the most difficult to measure.

As innovation and leadership are perceived by the employees as the top factors impacting the sustainability strategy it is important to find the right metrics to measure these factors and communicate their level across the company in order to increase awareness and set expectations across the staff members.

- 4) **Continue the awareness and training programs around sustainability** and its impact on the long-term performance of the organization.

The current awareness about the sustainability strategy is quite high among the bank employees but continuous communication and training is required as there is always a natural turnover among the employees and the new ones must be also informed about it.

The financial impact of the sustainability strategy is also a key element in supporting the adoption and execution of it so this element should be always part of the management reports cascaded in the organization.

5.5. Limitations

This research comes with a set of limitations that are specifically necessary and non-avoidable as per the context situation and the related inner constraints.

The study included only one financial institution – Bank Muscat – and took in consideration 2 types of data: the data in the annual reports and the data collected through the survey with the bank employees. All the conclusions and recommendations of the study are applicable solely to the organization that has been analyzed and there is no conclusion to be generalized for the status of the sustainability strategy in the Oman financial sector.

5.6 Future Research

A future research study can expand the assessment of the sustainability strategy development and implementation from one financial institution in Oman to the entire financial sector and can include all the banks and what is the overall maturity level of sustainability for this sector. The research can also include the measurements/initiatives taken at the level of Central Bank of Oman and Oman Banking Association who can play a very important role in driving the sustainability conversation and streamline the required initiatives for the entire sector.

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