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SUSTAINABLE PERFORMANCE AS A MEDIATOR BETWEEN GREEN BANKING PRACTICES AND COMPETITIVE ADVANTAGE—EVIDENCE FROM INDIAN PRIVATE BANKS

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ABSTRACT

Objectives: This research paper examines how green banking practices contribute to competitive advantage in Indian private sector banks and evaluates the mediating role of sustainable performance in this relationship. The study is guided by the following objectives: (i) to examine the impact of green banking practices on competitive advantage, (ii) to analyze the influence of green banking practices on sustainable performance, (iii) to investigate the effect of sustainable performance on competitive advantage, and (iv) to assess the mediating role of sustainable performance between green banking practices and competitive advantage.

Research Methods: A quantitative research design was employed using primary data collected from 300 managerial respondents from Indian private banks through convenience sampling. Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS 4.0 was applied to test the proposed relationships and mediation effects among green banking practices, sustainable performance, and competitive advantage. Convenient sampling is used to gather the primary dataset from Indian private banks. The causal relationship between GBPs and CA will be assessed using SEM, and the mediating function of SP in this relationship will also be ascertained.

Outcomes: The results indicate that green banking practices significantly enhance competitive advantage. Green banking practices also positively influence sustainable performance, which in turn strengthens competitive advantage. Mediation analysis confirms that sustainable performance partially mediates the relationship, suggesting that green initiatives improve competitiveness both directly and indirectly through enhanced sustainability outcomes. The results emphasize that banks should integrate sustainability into their strategic planning and focus on measurable green initiatives to achieve long-term competitive positioning.

Uniqueness: This paper provides empirical evidence on the mechanism through which green banking practices translate into competitive advantage by incorporating sustainable performance as a mediating construct, thereby enriching sustainable banking literature in the Indian context.

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KEYWORDS: Green Banking Practices; Sustainable Performance; Competitive Advantage; Mediation; Indian Private Banks; PLS-SEM

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1. INTRODUCTION

Towards the country's GDP, more than 50% is contributed by the service sectors in India. Drastic growth of PMI (Purchasing Managers Index) to 61.2 in March 2024, indicating the strong service sector expansion. Banks are prominent financial service providers in India. Climate change pushes the various sectors to be conscious about being environmentally friendly and sustainability-oriented. To equip itself with the environmental norms of the RBI and World Bank, the Indian banking sector moves forward with various innovative and strategic approaches. In order to manage risk arising out of environmental conditions and to exploit the opportunities, the banking sector put forward various GBPs. In addition to environmental benefits, green banking practices provide strategic advantages to financial institutions. Sustainable initiatives enhance operational efficiency, reduce costs, improve corporate image, and increase customer loyalty. These factors collectively contribute to competitive advantage in an increasingly dynamic and sustainability-oriented marketplace. Banks that adopt eco-friendly policies and responsible financing practices are more likely to attract environmentally conscious customers and investors. Furthermore, sustainable banking initiatives support long-term financial performance by promoting innovation, improving risk management, and strengthening stakeholder relationships. Sustainable performance plays a crucial role in translating green banking practices into competitive advantage. Banks that integrate sustainability into their core operations through corporate social responsibility programs, green finance, and environmentally responsible lending can achieve improved economic, social, and environmental outcomes. These sustainability-driven outcomes not only enhance reputation but also create long-term value for stakeholders. Therefore, sustainable performance is considered a mediating factor that strengthens the relationship between green banking practices and competitive advantage.

Despite the growing importance of sustainability in the banking sector, limited empirical research has examined the mediating role of sustainable performance in the relationship between green banking practices and competitive advantage, particularly in the context of Indian private sector banks. This study aims to fill this research gap by investigating how green banking practices influence competitive advantage directly and indirectly through sustainable performance. By providing empirical evidence, the study contributes to the understanding of sustainability-driven competitiveness and offers practical implications for banking professionals and policymakers seeking to promote environmentally responsible financial systems.

2. LITERATURE REVIEW

- (i) Green banking helps both corporate and retail customers through physical facilities and technological initiatives. Physical infrastructure includes branch networks and ATM counters. Technological advancements like mobile banking, e-wallets, and online fund transactions avoid paper truncations. Besides, most of the banks offer services for the welfare of socially weakened sections of the society. These practices will ensure sustainability, social consciousness, and environmental friendliness (Yadav & Pathak, 2014).
- (ii) Green banking, having a dual benefit for the industry and economy, helps in improving asset quality. It focuses on lending to industries that prioritize environmental sustainability. Green

banking practices will ensure that the bank's sustainable development will lead to growth in financial performance and its overall outcomes (Bhardwaj & Malhotra, 2013).

- (iii) Green banking is positioned as a strategy that benefits all stakeholders in a market that is growing increasingly competitive by combining technological advancements, changing consumer behaviour, and operational improvements. It highlights how adopting greener banking practices increases operational efficiency, reduces fraud and errors, and saves money. Even though green banking adoption is still comparatively low in India, the study highlights the necessity of banks to include ecological and environmental considerations in their grant policies and encourages companies to spend money on environmental protection and technology. Green banking strategy includes both managing environmental risk and identifying opportunities for innovative, environmentally friendly financial products (Biswas, 2011).
- (iv) To fully realize banks potential, financial institutions must embrace accountability and show concern for social and environmental issues. This is especially true when lending to borrowers who have proven to have excellent governance, social, and environmental performance. It entails promoting social and environmental responsibility, starting with lending procedures that consider environmental and future impacts before providing funding for a project. Additional elements of green banking practices include low-interest loans for greener investments and support for the expansion of specific businesses with environmental concerns. Sustainable banking, which is closely related to green banking, is the provision of financial products and services that safeguard the environment and advance community welfare while generating a consistent profit (Gunawan et al., 2022).
- (v) The competitive edge is the capacity of a firm to outperform its rivals in the marketplace. Because of this, consumers find a company's products and services more appealing than those of its competitors. This could be accomplished by a variety of factors, such as lower costs, distinctive products or services, higher quality, or a more respected brand. A sustainable competitive advantage is one that makes it difficult for competitors to copy and allows the company to maintain its leading position over time. In food-service franchise businesses, the study examines the relationships among financial performance, competitive advantage, environmental unpredictability, and franchise core competency. The study found that both franchise core strength and environmental uncertainty can affect the success of a business. Earnings can be raised by investing in cost advantages and differentiation while concentrating on core competencies. The report states that in order to achieve financial performance in the food-service franchise industry, brand differentiation, new product and service differentiation, and distinct segmented items are more important than low opening expenses (Lee et al., 2015).
- (vi) Bank competitiveness is not just a mere application of technological adaptation, but it focuses more on green initiatives of employees. Developing best practices and enhancing the financial sector's competitive edge in a market that prioritizes sustainability also require engagement among banks, trade associations, and non-governmental organizations. The paper suggests that governments and regulatory agencies should give top priority to developing a legal framework that encourages green finance, laying out precise guidelines for green banking, and providing incentives for the adoption of environmentally friendly devices (Azad & Devi, 2025).
- (vii) Green banking can supply businesses with a sustainable competitive superiority in two ways: by boosting customer loyalty and enhancing a company's social image. In the service industry, where products are often similar, corporate social responsibility (CSR), including green banking, becomes crucial to building and maintaining long-term client relationships. Green banking, a form of corporate social responsibility, can therefore help companies present a socially conscious image that will attract customers and forge long-lasting relationships, ultimately leading to a sustainable competitive advantage (Shah & Khan, 2020).

- (viii) The study links competitive advantage to innovation in sustainable business models. It suggests that SBMI is a tactic for obtaining a competitive advantage while simultaneously addressing environmental and societal concerns. Businesses that can better adapt their capabilities than their rivals can sustain a competitive advantage over time, but when competitors catch up, strategic resources eventually lose value, according to the theory of dynamic capabilities. Furthermore, sustainable business models can provide competitive advantages by incorporating proactive multi-stakeholder management and creating both monetary and non-monetary value for a variety of stakeholders (Bashir et al., 2022).
- (ix) Banks' sustainable performance outcomes are due to the adoption of putting into practice sustainable methods such as CSR programs, green banking, and green finance. It must be possible directly and indirectly through CSR and green finance. A comprehensive approach that connects various practices like green financing, green banking, and CSR magnifies the bank's sustainable performance (Siddik et al., 2024).
- (x) Another paper explores the relationship among sustainability performance, green finance, and financial innovation in fostering sustainable growth. It employs a survey-based methodology, integrating data from prior academic works, empirical research, and the industry. The findings demonstrate that GRF and SUSP work well together, with GRF acting as a driving force behind FINV by offering incentives and financial support for environmentally friendly initiatives. The combination of FINV and GRF encourages sustainable growth by bringing the environment, social, and economic objectives into harmony (Hussain et al., 2023). We develop a conceptual framework based on the literature:

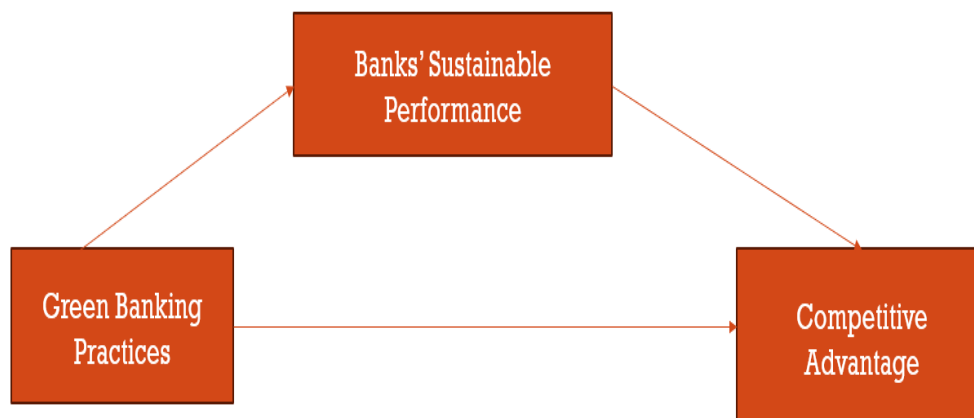


Figure 1: Conceptual framework based on the literature

3. RESEARCH METHODOLOGY

To examine the mediating role of banks' sustainable performance in the relationship between competitive advantage and green banking practices, this study utilizes a robust quantitative research methodology. Because managers of Indian private sector banks have the right information and experience with organizational strategy and sustainability activities, a structured survey is used to collect primary data. Convenience sampling is utilized to select 300 managerial respondents, facilitating efficient access to informed participants. This sampling strategy is deemed appropriate for exploratory and predictive research within management studies, notwithstanding its non-probability characteristics. The sample size of 300 is adequate for Partial Least Squares Structural Equation Modeling (PLS-SEM), which necessitates fewer samples than covariance-based SEM and is optimal for intricate models. Joseph F. Hair Jr. et al. (2016) say that a sample this size is bigger than what the "10-times rule" and statistical power say is necessary. PLS-SEM can give you accurate and reliable results with sample sizes that are small to medium. Claes Fornell and Fred L. Bookstein (1982) say that PLS is also good for predictive research with small sample sizes.

The chosen sample size enhances the statistical power and robustness of the analysis, ensuring precise model estimation and insightful interpretation of the relationships among sustainable performance, green banking practices, and competitive advantage.

To evaluate competitive advantage, long-term success, environmentally conscious banking, and pertinent demographics, we will employ a standardized questionnaire. To evaluate validity and reliability, the following items were chosen from the corpus of existing scholarly articles: According to the paper "Do sustainable banking practices boost the sustainability performance of banking institutions?" this study employs four metrics to evaluate banks' sustainable performance and five to evaluate green banking practices (Siddik et al., 2024). Eight items from the paper "Franchise Core Competency and Its Relationship with Environmental Uncertainty, Competitive Advantage, and Financial Performance: An Empirical Assessment of Food-Service Franchise Firms" are used in this study to measure the construct of competitive advantage (Lee et al., 2015). We used SmartPLS 4.0 for this data analysis in order to determine both a mediating role for SP and a direct relationship between GBPs and CA. The variables and sample will be described using descriptive statistics. The significance of direct and indirect effects can be ascertained using structural equation modeling (SEM), which also sheds light on the function of sustainable performance as a mediator. To assess the connections between GBPs, SP, and CA, we can also conduct a mediation study using SEM.

4. Hypothesis

This study looked at how Indian private banks' sustainable performance served as a mediator in the connection between competitive advantage and green banking practices. The previously mentioned link is examined using the following hypotheses:

Hypothesis 1: Green banking practices have a direct positive association with competitive advantage in the banking industry.

Hypothesis 2: Green banking practices have a direct positive association with sustainable performance in the banking industry.

Hypothesis 3: Sustainable performance has a direct positive association with competitive advantage in the banking industry.

Hypothesis 4: Green banking practices have an indirect positive association with competitive advantage, mediated by sustainable performance in the banking industry.

5. DATA ANALYSIS & INTERPRETATION

The research examined responses from 300 managers in Indian private sector banks to investigate the relationship among green banking practices, competitive advantage, and sustainable performance. The sample was varied, with managers of different ages, educational backgrounds, and work experiences. Most were between 30 and 50 years old and had master's degrees in fields that were relevant to their jobs. The participants had between 5 and 20 years of experience, and they were both mid- and senior-level managers who were involved in making and carrying out policies for green initiatives. Managers from different parts of the business, like operations, credit management, risk management, and corporate social responsibility, helped us get a full picture of green banking practices. The study's findings are reliable and generalizable because they come from a variety of sources. They are also good enough for statistical analysis using PLS-SEM.

Cronbach Alpha, Composite Reliability (CR), and AVE were assessed to ascertain the reliability and validity of the indicators used in the factor loadings study.

5.1 Factor Loadings

Factor loadings of indicators explain the relationship between the principal variables and the correlation matrix. Higher values of the indicators are indicated by the values between -1.0 and +1.0 having higher correlation with the construct. In Table 1 and Figure 1, we can see the factor loadings for Green Banking Practices, Banks' Sustainable Performance, and Competitive Advantage.

Table 1: Factor loadings of GBP, BSP and CA

Constructs	Indicators	Loadings
Green Banking Practices	GBP 1	0.627
	GBP 2	0.735
	GBP 3	0.612
	GBP 4	0.871
	GBP 5	0.756
Banks' Sustainable Performance	BSP 1	0.820
	BSP 2	0.598
	BSP 3	0.640
	BSP 4	0.756
Competitive Advantage	CA 1	0.685
	CA 2	0.724
	CA 3	0.788
	CA 4	0.824
	CA 5	0.654
	CA 6	0.766
	CA 7	0.525
	CA 8	0.708

Source: Calculated by authors

The correlation between each indicator and the underlying component is stronger than 0.50, and each indicator has a significant influence on its corresponding construct—Green Banking Practices, Banks Sustainable Performance, and Competitive Advantage. To be precise $R^2 = 0.629$ means 62.9 % change in the Competitive advantage is due to Green Banking Practices and Banks sustainable Performance.

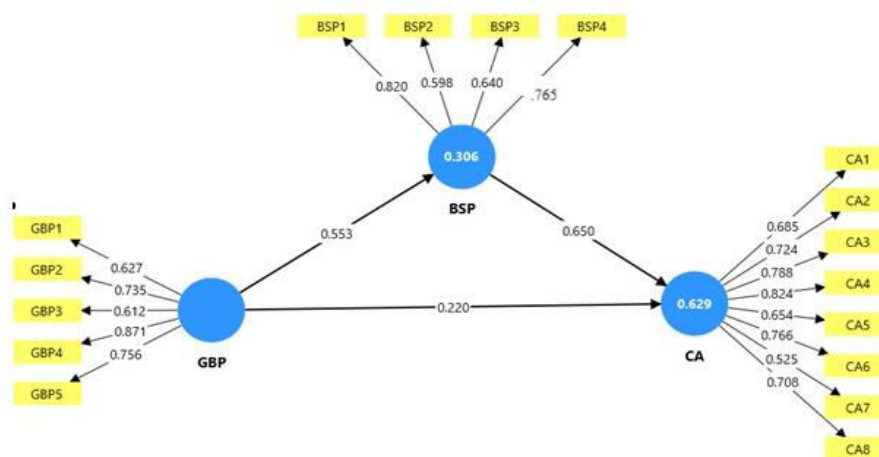


Figure 1: Factor Loadings

5.2 Beta or Path Coefficient

Table 2: Path Coefficient

	BSP	CA	GBP
BSP		0.650	
GBP	0.553	0.220	

Source: Calculated by authors

The beta coefficient for banks' sustainable performance is 0.553, and the beta coefficient for their competitive advantage is 0.220. This means that green banking practices have a big effect on both. Banks' sustainable performance has a big impact on competitive advantage, with a beta coefficient of 0.650.

5.3 Indicator Multicollinearity

The indicators' multicollinearity is evaluated using Variance Inflation Factor (VIF) statistics (Fornell & Bookstein, 1982). Multicollinearity is not a major problem if the VIF value is less than 5, according to Hair et al. (2016). The VIF for every indicator in the study is below the suggested threshold, as shown by Table 2, which displays the VIF values for the indicators.

Table 3: Multicollinearity Statistics (VIF) for indicators

	VIF
BSP1	1.201
BSP2	1.303
BSP3	1.289
BSP4	1.199
CA1	1.515
CA2	1.772
CA3	2.153
CA4	2.381
CA5	1.558
CA6	2.076
CA7	1.284
CA8	1.636
GBP1	1.343
GBP2	1.583
GBP3	1.341
GBP4	2.079
GBP5	1.692

Source: Calculated by authors

5.4 AVE, Cronbach Alpha, and Composite Reliability (CR)

If a measurement device is steady and consistent, it is regarded as reliable. Repetition is the key to dependability. Would the results of an instrument remain the same after repeated use? Two of the most popular techniques for evaluating dependability are Composite Dependability (CR) and Cronbach Alpha. The outcomes of the Cronbach Alpha and Composite Reliability tests are displayed in Table 3. Cronbach's Alpha ranged from .728 to .899, and Composite Reliability statistics ranged from .816 to .923. The reliability statistics for both reliability indicators are said to be greater than or equal to .70. The AVE shows the extent to which the latent component can explain the variation in the indicators. It evaluates the indicators' convergent validity, or how well they capture the target construct.

Table 4: Construct Reliability Analysis (AVE, Cronbach Alpha and Composite Reliability)

	Cronbach's alpha	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
GBP	0.771	0.846	0.527
BSP	0.700	0.750	0.503
CA	0.860	0.891	0.510

Source: Calculated by authors

Since the three constructions' Cronbach's alpha values are higher than 0.70, which is regarded as generally acceptable, they exhibit strong internal consistency. When factor loadings and error variances of the construct-measuring indicators are considered, the dependability of the constructions is explained by a composite reliability score greater than 0.70. It is a measure of the latent variable's ability to explain the indicators' variance. Convergent validity is typically assumed when the AVE values are higher than 0.50. As a result, established levels of internal consistency, reliability, and convergent validity were established for each of the three constructs: Green Banking Practices, Banks' Sustainable Performance, and Competitive Advantage.

5.5 Mediation Analysis

The Impact of Green Banking Practices and Sustainable Bank Performance on Indian Private Banks' Competitive Advantage

To ascertain the mediating function of banks' sustainable performance, the relationship between green banking practices and competitive advantage was investigated using mediation analysis. The results showed that green banking practices significantly impacted competitive advantage indirectly (see Table 3; H4: $\beta=0.283$, $t=9.008$, $p<.0001$). The overall effect of green banking practices on competitive advantage remained significant ($\beta = 0.272$, $t = 6.723$, $p <.0001$) even after controlling for the mediator, indicating a significant correlation between the two variables. This suggests that the relationship between GBP and CA is partially mediated by banks' sustainable performance.

Table 5: Direct Effect, Indirect Effect, and Total Effect

Total effects (GBP->CA)			Direct effect (GBP->CA)			Indirect Effects of GBP on CA						
Coefficient	T value	p-value	Coefficient	T value	p-value	Hypothesis	Coefficient	T value	SE	p-value	Percentile bootstrap 95% confidence interval	
											Lower	Upper
0.556	15.028	0.000	0.272	6.723	0.000	H4: GBP->BSP->CA	0.283	9.008	0.031	0.000	0.233	0.336

Source: Calculated by authors

Note. SE: Standard Error, GBP: Green Banking Practices, BSP: Banks Sustainable Performance, CA: Competitive Advantage

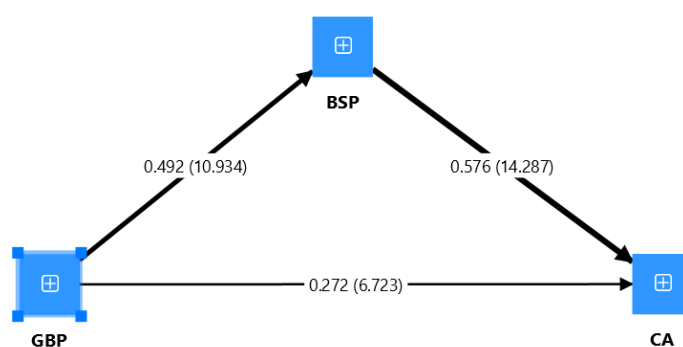


Figure 2 : Process-GBP>>Bootstrapping results

Green banking practices and competitive advantage are impacted by banks' sustainable performance, as demonstrated by the path coefficients in Tables 4 & 5 and Fig. 2, which give specifics of the analysis results. Green banking practices and banks' sustainable performance were found to be significantly positively correlated by the model ($\beta=0.492$, $p<0.000$). Competitive advantage and green banking practices were positively correlated ($\beta=-0.272$, $p<0.000$). The competitive advantage and banks' sustainable performance were positively correlated ($\beta = 576$, $p < 0.0001$). Therefore, it is possible to accept hypotheses 1, 2, and 3. Additionally, the findings validated hypothesis 4, which proposed that green banking practices indirectly impacted competitive advantage by influencing banks' sustainable

performance ($\beta = 0.283$, $p < p < 0.000$). The 95% CIs did not rule out the direct or indirect effects of green banking practices on the competitive advantage of private banks. The sustainable performance of banks had no discernible effect on either.

Table 6: Path Coefficients: T, P, and STDEV values

	Estimate	Standard deviation (STDEV)	Tstatistics (O/STDEV)	P values
BSP -> CA	0.576	0.040	14.287	0.000
GBP -> BSP	0.492	0.045	10.934	0.000
GBP -> CA	0.272	0.041	6.723	0.000

Source: Calculated by authors

Table 7: Path Analysis

Hypothesis	Null Hypothesis	Alternative Hypothesis	Path	Coefficient	Sig. Value	Result
H1	(H01)Green banking practices have no direct positive association with competitive advantage in the banking industry.	(Ha1)Green banking practices have a direct positive association with competitive advantage in the banking industry.	GBP -> CA	0.272	0.000	H01 Rejected/ Supported Ha1
H2	(H02)Green banking practices have no direct positive association with sustainable performance in the banking industry.	(Ha2) Green banking practices have a direct positive association with sustainable performance in the banking industry.	GBP -> BSP	0.492	0.000	H02 Rejected/ Supported Ha2
H3	(H03)Sustainable performance has no direct positive association with competitive advantage in the banking industry.	(Ha3) Sustainable performance has a direct positive association with competitive advantage in the banking industry.	BSP -> CA	0.576	0.000	H03 Rejected/ Supported Ha3
H4	(H04)Green banking practices have no indirect positive association with competitive advantage, mediated by sustainable performance in the banking industry.	(Ha4) Green banking practices have an indirect positive association with competitive advantage, mediated by sustainable performance in the banking industry.	GBP->BSP->CA	0.283	0.000	H04 Rejected/ Supported Ha4

Source: Calculated by authors

According to this conclusion, green banking practices may be able to predict competitive advantage indirectly through banks' sustainable performance in addition to directly. The partial mediation finding suggests that green banking practices benefit banks in two ways: they boost their sustainable performance and competitive advantage. Businesses gain a competitive edge by implementing GBPs

because they appeal to consumers who care about the environment and meet sustainability standards. However, the benefit is further enhanced by the fact that these techniques also yield measurable sustainability outcomes (Bashir et al., 2022).

6. CONCLUSION

This study examined the connection between competitive advantage and green banking practices in Indian private banks, with an emphasis on the mediating function of sustainable bank performance. The positive and statistically significant relationship between GBPs and CA is mediated by SP. The results specifically corroborate the claims that GBPs have a positive correlation with CA, SP has a positive impact on CA, and GBPs have a positive impact on SP. One way that green initiatives can gain a competitive edge is through sustainable performance, as demonstrated by the notable indirect impact of GBPs on CA through SP.

7. RECOMMENDATIONS

Banks should focus on quantifiable outcomes by setting specific environmental and social goals, keeping track of their progress, and interacting with stakeholders in order to increase sustainability. In order to foster trust and have open discussions about sustainability initiatives, they should also improve stakeholder communication. Asking for feedback and sharing information freely can improve reputation and draw in new clients. In order to ensure sustainability is a key component of all operations, banks should also incorporate green banking practices into their main business plan. This will help to align eco-friendly initiatives with the organization's objectives. This will help banks draw in new clients and perform sustainably.

8. MANAGERIAL IMPLICATIONS

To generate long-term value and obtain a competitive advantage, managers in the banking industry should implement strategic green initiatives. They should prioritize measurable sustainability objectives, establish clear objectives, keep a careful eye on the results, and make the required corrections. In dealings with suppliers, consumers, and investors, a comprehensive green strategy that incorporates green human capital and green relational tactics is also crucial. By ensuring that sustainability is incorporated into every facet of the bank's operations and relationships, this all-encompassing strategy promotes long-term value creation and sets it apart from rivals.

9. LIMITATIONS

This study has limitations primarily related to its sample size and scope. The sample of 300 respondents, while providing a foundation for analysis, may not fully capture the complexity and diversity of green banking practices across the extensive and varied Indian banking sector. Additionally, the study lacks specific details regarding the geographical distribution of respondents across different states. This absence of regional information affects the generalizability of the findings, as it is difficult to assess the influence of regional economic, cultural, or regulatory variations on the results.

10. SCOPE FOR FURTHER STUDY

Among the many issues with this study are its limited generalizability and the requirement for a larger, more varied sample. Additionally, it must look at moderating elements that may affect the relationship between green banking practices, sustainable performance, and competitive advantage, such as competition and regulatory pressures. A more thorough grasp of how green banking practices affect competitive advantage and sustainable performance can be obtained through qualitative research techniques such as case studies and interviews. In order to assess the long-term impacts of green banking practices on competitive advantage and sustainable performance and to capture the dynamic nature of these relationships over time, longitudinal studies are also required.

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