



## **The Impact of Responsible Investment on the Banking Performance in the small and medium Banks**

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### **ABSTRACT**

The purpose of the study is to study the impact of responsible investment on the banking performance in the small and medium banks. This study used the secondary data by using 129 banks from 2018 to 2023 and the OLS are utilised as a regression. The study utilized the statistical software STATA to test the relation among the variables. We found a positive and significant correlation between the responsible investments on the banking performance. Finally, appropriate recommendations were presented to improve the quality responsible investment on the banking performance in Asian Banks. The study concluded that the impact of investment on the performance of banks utilizing the statistical analysis program shows that there is a statistically important influence of investment on the bank performance of the financial institution. Hence, it is the responsibility of the institution to distinguish among the several investment options, with the goal of starting an investment construction in the institution that is composed and in accordance with the economic limits, and capable of enhancing its goals. In light of the findings extended, the study obtainable a number of references, the most significant of which is the essential for banks in specific and firms in overall to strengthen investment processes in the field of information technology payable to its significance in enhancing services and raising bank performance. The findings of the study will support decision-makers recognize the significance of investment part. The next are the most significant results. We find that the values of banks' investments are mostly from investments.

**Keywords:** Responsible investment, the banking performance, small and medium banks.

## INTRODUCTION

Attention is paid to the issue of investment of the world, because it is considered the main source of sustainable development for these countries, and the subject of investment is considered vacant. Many countries have worked to invest in such projects, and this has helped investing in achieving a quality of investment self-sufficiency, and worked on the efforts of investment. Investment in projects is one of the topics that occupies an important and fundamental place among the priorities of economic, financial, banking, management and other specializations, which are undergoing structural development. For societies by working to improve the efficiency of investments with the intention of maximizing the returns achieved by following methods that ensure increased savings and choosing tools that contribute to creating real added value to the economy and achieving sustainable development (Al-Sayyid, Hebat Allah, 2021). In order to achieve the success of its business, it must follow a methodology that helps predict the future, and companies always use knowledge of business indicators, and this is embodied in the financial system and from there. The financial issues, which aims to know the efficiency, is the work of identifying weak points that negatively affect the banking performance of the economic unit over a period of time and it is a fertile ground for making appropriate decisions, revealing trends and patterns of development of the economic unit in a particular period, and assisting in the financial planning process of the company (Abbas et al., 2023, & Al-Shaer, 2018). It can be said that investment in these projects by beneficiaries (individuals, institutions, companies) requires an economic feasibility study to determine the feasibility of investment, and the feasibility study is based on the basis on banking performance, it is what determines the investment decisions of the beneficiaries and helps them achieve and develop their future visions and goals (Al-Shaer, 2018).

In recent years, interest on investment has increased. The literature has shown that business organizations invest in knowledge, innovation and intellectual capital as sources of value creation and performance improvement. "Researchers tried to propose different methods of measurement, and the most important aspect of measurement knows the degree of impact on performance, and impact is measured by establishing a link between cause and effect". This led to the development of many methods for measuring intellectual capital, which gave comparable measurements between organizations (Kazem et al., 2022). However, there are also some monetary measures that can be compared between companies and across different company sectors, such as the intangible value approach and the intellectual capital value

added approach (Mahesh, Daryll, & Jasvinder, 2010). the latter has become one of the most widely used methods for measuring intellectual capital in business organizations. The banking sector is one of the most suitable areas for study and research in intellectual capital due to the intellectual and service nature of banking work, which focuses on knowledge. And the skills of employees are more than financial and physical capital. In addition, the banking sector provides data that can be analyzed and measured, which allows this type of study to be conducted. In addition, the banking sector is a sector based on knowledge more than many sectors (Sabti et al., 2024 & El-Bannany, 2008). Most studies related to intellectual capital, especially in the banking sector; focus mainly on the relationship between intellectual capital performance and banking performance or banking profitability.

The world has witnessed major changes and developments due to globalization, economic openness, and attempts at integration, which allowed the emergence of small and medium enterprises that have received increasing attention from many countries, due to their advantages in various fields, their ability to activate forward and backward links, and their flexibility. Therefore, many countries have worked to qualify and promote small and medium enterprises by providing a suitable investment climate that guarantees their continuity and growth, which is considered the most important factor in attracting foreign investment. Asian countries, has sought to pay attention to the banks sector, especially after the transition from a command economy to a market economy and openness to global markets, as it adopted policies with broad economic reforms through which a number of laws and legislations were issued in order to encourage investment outside the hydrocarbons sector and advance foreign investment by opening markets to foreign investors and trying to create a suitable climate for foreign investments, knowing the importance of the latter in achieving economic growth (Thomson West, 2014).

The importance of the study the importance of this study exam in the fact that responsible investment in the banking sector. Therefore, this study is of importance.

## **LITERATURE REVIEW**

The investment is designed to achieve a financial return and create positive change. Reserved Instances typically represent only a small portion of a company's total investment. More recently, he has also become known for his responsible investments. There is also a subset of “socially responsible investing” called “impact investing” which strives to consciously design outcomes through investments. In general, responsible investors are inspired by corporate

practices that they believe support consumer protection, environmental protection, gender diversity and human rights. Areas of interest recognized by international relations experts are sometimes 'summarized' under the heading of 'corporate governance' issues (Al-Saedi et al., 2023).

Research title of Moshahana and Al-Wazi (2015) and Abbas et al., (2023) “the investments in renewable energy, case study (Active Agency, Ajal Badrar)”. The study aims to identify the reasons why the natural sources of investment available in the region are not exploited free of charge in the medium and long term, despite the fact that most countries in the world believe that investment in the banking sector has become necessary in Asia, according to the study. The theoretical aspect takes a descriptive approach, specifying the realities used by banks in some developing and developed countries, while the practical aspect relies on data and statistics to show the quantities and understand global investments in environmental technologies and its society through tangible digital data and economic impact, focusing on active institutional research populations”.

“The significant of information is therefore evident from a banks perspective, which shows a limited” “body of knowledge about responsible investment and banking performance”. Thus, this “study” solve this contribution by exam this link by suggested:

H1. “The responsible investment are positive and significant with banking performance of small and medium banks in Asia”.

## RESEARCH METHODS

Study methodology and procedures this study relied on the empirical analysis. It dealt with the independent variable, which is responsible investment, and the second variable, banking performance. The study population consists 129 small and medium banks in Asia. This study used the OLS regression to test the model. The measurements of all the variable mention as bellow in table 1.

**Table 1:** *Measures of Variables*

Terms of Variable	Terms Measures
Banking performance	ROA
Responsible investment	“Quality of RI i.e. a weighted measure of 0, 1, 2, and 3”.

Control Variables	
Company ownership	The percentage of common shares owned by executive directors.
Company size	The natural logarithm of the total assets at the date of the private placements firms.
Financial Leverage	“Percentage of the total debts to the total assets”.
Industry	1 indicates manufacturing company and 0 otherwise.

This study shows the model which is with the connection among two basic variables in order to display the effect of the first variable is the “independent variable” (responsible investment) and “the dependent variable” (banking performance) in the small and medium Banks. The regression of this model under clarifies the link.

$$BP =_{it} \beta_0 + \beta_1 RI_{it} + \beta_2 COWN_{it} + \beta_3 CSIZE_{it} + \beta_4 FLEV_{it} + \beta_5 IND_{it} + \varepsilon$$

## FINDINGS

### Descriptive statistics test

This study shows in the table 1 the descriptive of statistics” examine in the “sample” of 129 in in the small and medium Banks’ “annual reports” from 2018 to 2023. The banking performance displays a mean with 0.164 and the responsible investment shows 0.159.

**Table 2:** Descriptive analysis

Variables	Obs	Mean	Std. Dev.	Min	Max
ROA	129	0.164	0.298	-1.865	0.193
RI	129	0.159	0.300	0.000	1.199
COWN	129	0.165	0.118	0.000	0.539
CSIZE	129	11.132	1.100	2.429	16.341
FLEV	129	0.180	0.201	0.000	0.899
IND	129	0.839	0.370	0.000	1.000

Note: This table shows the “descriptive statistics” test of the that utilised in this present study. “The BP= banking performance, measured by return on assets” = return on asset; RI = Responsible investment; COWN = company ownership, CSIZE= company size, FLEV = financial leverage, and IND= industry.

## Correlation Test

This study clarified in Table 3, the responsible investment”, company ownership, company size, and financial leverage are positive and significantly related with banking performance and the industry shows a negative link with banking performance. “In terms of multicollinearity, the correlation matrix proves that no multicollinearity exists among the variables because the “correlation values of all” the “variables” are fewer than 0.80 (Hair, Black, Babin, & Anderson, 2010).

**Table 3:** *Correlation analysis*

Variables	ROA	RI	COWN	CSIZE	FLEV	IND
ROA	1.000					
RI	0.141	1.000				
COWN	0.052	-0.121	1.000			
CSIZE	0.045	0.341***	-0.116	1.000		
FLEV	0.014	0.047	-0.221	0.244**	1.000	
IND	-	-0.160	0.071	-0.251	-0.252**	1.000

Note: \*\*\*Correlation is significant at the 0.01 level (two-tailed); \*\*Correlation is significant at the 0.05 level (two-tailed); \*Correlation is significant at the 0.10 level (two-tailed).

The results for the model shows in the Table 4 disclose the results linking to RI which displays that RI has positivvly connection with banking performance (t=1.42, p-value=0.035). The RI has a positive but important relationship with banking performance. The company ownership, company size, and financial leverage have a positive and important link with banking performance, but the industry has a negative and significant link with banking performance. As a finding, “hypothesis” H1 which forecasts that RI is positively linked to banking performance. Asian regulators in banking sector could improvement from these results in their try to achieve development process on. Additionally, the findings of this study can also be utilised to define effective RI.

**Table 4:** *Regression Results*

Panel A	OLS Robust	VIF
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Variables	t-stat	sig	
RI	1.42	0.035**	7.09
COWN	1.40	0.026**	1.56
CSIZE	0.60	0.071	1.42
FLEV	0.35	0.075*	1.30
IND	-0.49	0.072*	1.19
Constant	-0.16	0.082*	
OLS Heteroskedasticity		0.000	
N		129	
R2 (%)		9%	
Adjusted R2 (%)			
F-value		0.40	
p-value		0.89	

## CONCLUSION AND RECOMMENDATION

Foreign direct investment plays many important roles in the banking development of a country. While it contributes to the investment savings. It also brings together technology and management skills. Foreign direct investment has a positive impact on banking growth and serves as a powerful tool for banking integration policy. Therefore, Asian sought to bring it in to increase its banking growth and develop its institutions, especially through multinational companies and partnership agreements with Asian countries. From this standpoint, this study came to determine the extent of the impact of investment on the performance of small and medium bank in Asian, using appropriate statistical tools and tests.

This study examined the impact of responsible investment on the banking performance of Asian banks, using the small and medium banks. The results of the study will help decision-makers realize the importance of investment sector. The following are the most important findings. We find that the values of banks' investments are mostly from investments.

The study recommended the need for a system in provide information about banks. To know the true value of the composition between banks, so that it provides information to benefit from research in the future. Work to support alternative investment projects to help achieve

banks security which increases self-sufficiency and financial returns to the state. Implementing a set of economic packages that encourage all beneficiaries (individuals, institutions, companies) to undertake such projects, which will benefit science.



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