Analysis Of The Effect Of Green Banking On Banking Environmental And Financial Performance In Indonesia

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Abstract:

The purpose of this study is to examine if the adoption of green banking has a sizable impact on the environmental performance of the banking industry. Organizations in Indonesia's banking industry served as the study's sample. Nonprobability sampling with purposive sampling was the strategy utilized to select the research sample. The Sustainable Finance Initiative (IKBI) program, which has 13 bank members, provided the samples for this study's banking sector companies. Quantitative research is the style used. The focus of this study's data collection strategy is on documentation and literature review. There are numerous techniques and tools for statistical testing that can be used to examine and handle research data. The Eviews application was employed as the research's analytical instrument. The implementation of green banking does not appear to have an immediate impact on banking profitability, but it is an investment that will yield significant returns in the future. The research also demonstrates that ROA does not become the only metric for evaluating the financial performance of banks that implement green banking. The effects of green banking practices by banking organizations are both immediate and long-term.

Keywords: green banking, financial performance, banking environmental performance.

Introduction

The most challenging issue at the moment is climate change. People are increasingly aware of global warming today and its obvious effects on human life. The physical effects of climate change, such as extended heat waves, tropical storms, and other events, are particularly dangerous for Southeast Asia. According to projections, the ASEAN region's GDP could decrease by up to 11% as a result of climate change. Especially for Indonesia, the threat of loss of biodiversity is also critical because it will result in a lack of natural capital and very significant economic and social development risks. Climate change events directly or indirectly contribute to the deterioration of the national economy. The Asian Development Bank (ADB) projects that climate change in Indonesia could impact up to 3.5% of the national gross domestic product (GDP). In 2013, the environmental and economic sectors were the world's main risks. So, continuous efforts are made for sustainable environmental management. Sustainable environmental management is concerned with providing the necessary resources for the current generation without affecting the needs of the next generation. Environmental issues have received a lot of attention in recent decades from governments, policymakers, advocacy groups, commercial corporations, and society at large. Since society has become more concerned with environmental performance, there have been numerous discussions regarding themes such as environmental degradation, climate change, ethics, social responsibility, marginalization, the emergence of powerful group voices, radicalism, and protests against capitalism (Anggraini et al., 2022).

Consumers and the general public are now fully aware of how crucial environmental preservation is to ensuring ecological sustainability, together with commercial organizations. As a result, business organizations have been influenced by customer demand to change their operations and policies in order to secure the preservation of the environment and natural resources. Since the general public is more conscious of environmental issues, different efforts are being made across all sectors to combat climate change. One of the efforts that have been made by international organizations is the formation of sustainable development plans. In the long term, it will be maintained if each organization can behave ethically by not only focusing on making profits but also paying more attention to aspects of the environment and society (Baridwan & Budiarto, 1999). Financial institutions are entities that engage in financial transactions consisting of loans, investments, currency exchange, and deposits. They also operate in the financial sector, such as banking, investment, etc. The government ensures that the country's financial institutions are well regulated, as they play an important role in economic stability as many rely on them for transaction and investment operations. Indonesia has participated well in several aspects of financial principles, namely participation in solving social problems and preventing further environmental damage. However, their participation is limited, partially managed, and lacking important elements of sustainable finance principles. Typically, financial institutions implement policies aimed at maximizing profits rather than fulfilling their responsibilities towards the environment. Today, many who currently manage these institutions have changed perspectives compared to the past.

One of the most significant aspects influencing the business world's policy-making process is the promotion of ecological sustainability, which the financial sector, particularly banking, has the potential to play a significant role in. However, the current state of environmental degradation can only be remedied via concerted efforts involving governments, the commercial sector, and individuals. These initiatives targeted towards a greener environment are supported and complemented in many ways by banks and financial organizations. Banks, as part of the financial sector, cannot be separated from demands to change their business climate to more environmentally friendly practices. Since 2015, the banking sector has provided debt and guarantees to a number of companies involved in forest fires of at least IDR 262 trillion, or US$ 19 billion, throughout 2019–2020. This indicates that banks have a big role in lending because they need to be responsible for selecting and evaluating the projects they will fund. The government has a role in regulating the country's financial institutions to ensure economic stability, as many people rely on them for transactions and investments. As part of the financial sector, banks also have demands to change their business practices to be more environmentally friendly (Aracil et al., 2021). One of the things that banks can do to minimize environmental pollution resulting from their business activities is to implement the green banking concept. Implementing the green banking concept is one of the steps that can be taken by the banking sector to minimize environmental pollution resulting from its business activities. Therefore, banks need to be responsible for selecting and evaluating projects to be funded. In this way, financial institutions can play a role in promoting ecological sustainability and reducing negative impacts on the environment through practices such as green banking.

Literature Review

In recent years, the idea of "green banking" has attracted more and more attention as financial organizations try to address environmental and social issues while still turning a profit. Green banking is the practice of incorporating social and environmental factors into banking activities and services with the goal of advancing sustainable development and reducing climate change. As more banks adopted sustainable practices and policies in the early 2000s, the phrase "green banking" became more common. Green banking encompasses a wide range of activities, including as supporting the development of renewable energy sources, promoting energy-efficient construction and corporate practices, and factoring environmental risk considerations into lending choices. The foundation of green banking is the idea of sustainable development, which aims to satisfy present needs without compromising the ability of future generations to satisfy their own. Green banking tries to balance economic, social, and environmental factors in banking operations and decisions by recognizing the interconnection of the economy, society, and the environment. Environmental sustainability, social responsibility, economic viability, and stakeholder involvement are the cornerstones of green banking (Bachtiar & Nainggolan, 2023).

Currently, many foreign banks have embraced green banking principles and have included them in their annual reports. Meanwhile, Indonesian banks are still implementing green banking on a voluntary basis because there is no direct mandate from the government. In order to encourage sustainable growth and lessen the damaging effects of financial activity on the environment and society, green banking is a crucial tool. Green banking can contribute to the development of a more just and sustainable world by encouraging sustainable behaviors and ethical investing (Pahlawansah et al., 2023). Economic activity is continuing together with the swift expansion of Indonesian banking activities, which is demonstrated by the sustained rise in the value of banking assets and the financing provided. Applying the green banking idea can reduce banking risks like legal, credit, and reputational risk. This idea gives banking a fresh appearance and is predicted to boost profitability. The performance or health of a bank is frequently described in terms of profitability levels (Chen et al., 2022). A company's capacity to make a profit is referred to as profitability. Investor interest in investing rises as a company becomes more adept at making profits. One of the numerous elements that might impact a bank's profitability is the application of green banking (Pandiangan et al., 2022).

In order to address and resolve the issue of climate change in accordance with the Sustainable Development Goals (TPB), green banking is equally crucial. The role of the banking industry in environmental sustainability and preservation has received substantial attention in recent years in international forums like the Paris Agreement, with the G20 group giving the subject significant consideration in its plans. The protection and preservation of the environment is the ultimate purpose of green banking. Green banking methods include switching from traditional banking systems to internet ones, adopting automated bill payment systems instead of human ones, etc. Similar to how behavioral and management advancements in banking procedures can lessen the adverse effects of banks' environmental performance. As an illustration, consider the bank employees' energy-saving practices at their individual branches, their efforts to reduce waste, their environmental initiatives, their lending to environmentally friendly projects, etc. Banks must prioritize lending to industries that support various environmental protection initiatives if they want to improve their environmental performance and boost business earnings (Handajani et al., 2021).

Methodology

The population used in this research are companies in the banking sector in Indonesia. Purposive sampling was utilized to collect the research sample, which is a nonprobability sampling technique. The Sustainable Finance Initiative (IKBI) program, which has 13 bank members, provided the samples for this study's banking sector companies. Quantitative research is the name for this kind of study. For this study, cross-sectional and time series data are combined to create panel data. The data used in this study are secondary data. Secondary data is information that is derived secondarily from the primary source or that is derived from preexisting sources. The IDX website, the websites of connected businesses, as well as citations from academic journals and earlier studies, are where the data for this study was obtained or came from. The focus of this study's data collection strategy is on documentation and literature review. This research uses quantitative data analysis. To analyze and process research data, there are several methods and tools for statistical testing. The analytical tool used to conduct this research is the Eviews application. Testing a few of the traditional assumptions that the regression model is based on is important to determine the accuracy of the model that will be examined.

Case studies

The first hypothesis test in this study indicates that the adoption of green banking significantly affects the disclosure of financial performance. The green banking implementation variable was then found to have a probability value of 0.23, meaning that 0.23 > 0.05, and a coefficient value of -0.02, indicating that it had no discernible impact on Y1 (financial performance). As a result, hypothesis H1 was discarded. According to the findings of the regression analysis, is equal to -0.02, meaning that for every 1% rise in green banking, ROA will decrease by 0.02%. The findings of this study concur with earlier studies that found GBDI had a minimally detrimental impact on ROA. This shows that green banking adoption does not boost bank profitability; instead, other economic factors are responsible for profitability. The findings of this study support the findings of numerous earlier studies showing the adoption of green banking has little to no effect on financial performance.

Other studies have produced different conclusions, but they all agree that green banking practices have a big impact on ROA. Implementing green banking has a considerable beneficial impact on ROA. They contend that, in reality, banks that adopt green banking by implementing technology advancements in their operations can become more effective, where energy use becomes less since paper is eliminated. As a result, bank profits will rise and expenses that lower bank income will decline. Further discussion explains that ROA is not a single measure that is relevant for measuring the financial performance of banking companies that implement green banking but can also be a broader measure of profitability. Furthermore, green banking implementation may represent a long-term investment that may not have an immediate impact on profitability in the short term but can provide significant long-term value. This shows that banking companies need to view green banking as a long-term investment that can increase the value of their business in the long term. However, the insignificant results were also due to poor ROA data from several banks, which did not match other banks in the research sample, resulting in an imbalance between the ROA of several banks with good scores and some with poor scores.

The second hypothesis in this study contends that the adoption of green banking significantly affects the disclosure of environmental performance. The green banking implementation variable was then discovered to have a probability value of 0.0000, which translates to 0.0000 < 0.05, and a coefficient value of 1.41, allowing it to be concluded that the green banking variable had a significant impact on Y2 (environmental performance), and H1 was therefore accepted. According to the regression analysis's findings, the SUSBA will grow by 1.41% for every 1% increase in green banking, or 1.41. The results of this study are consistent with earlier research that claimed that the implementation of green banking by G-20 countries had a significant positive effect on banking environmental performance because many investors are currently interested in investing in companies that follow regulations related to business sustainability. Additionally, many financial organizations, particularly those in the banking sector, are eager to lend money to businesses that adhere to environmental regulations in the current economic climate. Other researchers' findings show that Nepal and India's green banking policies significantly improve environmental performance.

Similar findings revealed a connection between Sri Lanka's adoption of green banking practices and environmental performance, showing that the more advanced these policies are, the better the bank's environmental performance. Green banking practices, such as online banking, bill payment options, and other green finance, play a significant role in reducing the CO_2 footprint of banks and have a positive impact on the environmental performance of banking companies in Pakistan. Green banking practices and banking environmental performance in Bangladesh are significantly positively correlated. According to this report, because they aid in lowering environmental pollution and achieving sustainable development in the nation, green banking operations are crucial to the growth and development of green financing in Bangladesh. Further discussion explains that the steps and policies adopted by banking companies to promote green practices directly contribute to improving their environmental performance.

Implementing green banking can also provide long-term benefits for banking companies. In addition to improving environmental performance, green practices can also influence a company's reputation, customer relationships, and long-term operational sustainability.

Conclusion

The adoption of green banking, as determined by the GDBI indicator, has no appreciable impact on the profitability of banking organizations that are IKBI members, as determined by ROA. The adoption of green banking does not have an immediate influence on banking profitability, but it is an investment that will yield considerable returns in the future. ROA is just one metric used to assess the financial performance of banks that adopt green banking. The adoption of green banking, as evaluated by the GDBI indicator, has a considerable impact on the environmental performance of banking organizations that are IKBI members, as measured by the SUSBA index. The implementation of green banking shows that green practices carried out by banking companies have an impact that can be seen in the short and long term. Future research is expected to expand the population and research sample and not only be limited to banking companies that are members of IKBI, but also examine other banking companies on the BEI so that we can better understand how much green banking is being implemented in Indonesia. Future research can add other variables to produce more optimal research, such as financial performance and environmental performance. For banking companies to complete information about companies that receive green financing, as well as whether these companies have received awards or certificates for their efforts in preserving the environment. This is recommended considering that of the twenty-one indicators used in green banking disclosures by companies, the lowest value is found in the awards or certificates held by customers or companies that receive financing from banks. For the government to issue stricter regulations for implementing green banking by strengthening current regulations. It is recommended that every banking institution be required to comply with these regulations.

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