# LITERATURE REVIEW: THE INFLUENCE OF GREEN BANKING ON BANK PERFORMANCE

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***Abstract***

*The adoption of green banking basically has a positive impact on long-term bank development. Bank operations that are based on sustainable environmental principles can create a positive image in the eyes of customers and the public. This research is to see whether there is an influence of green banking on bank performance. This research uses a literature review method by reviewing research articles that are relevant to this research. From the study carried out, there is an influence of green banking on bank performance.*

***Keywords: Bank performance, Green banking***

## INTRODUCTION

Economic and business activities that are increasingly growing and developing are currently causing environmental quality to continuously decline. This activity also causes climate change, thus triggering long debates, both on a national scale and on a global scale. Explained byKaryani & Obrien (2020)that the World Economic Forum places the economy and the environment as the world's main risks. The study of a sustainable economy is a serious discussion to encourage sustainable development, harmony between an advanced economy and environmental sustainability. Basiago (1998); Chouinard et al., (2011); and Blewit (2014) explained that a sustainable economy is seen as important for balancing economic growth and quality of life.

The position of financial institutions is very strategic to be able to play a role in creating and maintaining the green revolution. In addition, financial institutions cannot be separated from a country's economic system.Sadiq et al. (2023)states that financial institutions are the backbone of the economy and stand tall in any situation. Financial institutions such as banks can ensure environmental sustainability and inclusive economic growth because of the bank's connections with most industries as a source of funding(Chowdhury, 2023). Therefore, it can be said that as financial intermediation, banks can consider green policies in both internal and external activities aimed at protecting the environment.

Currently, stakeholders have begun to care about all banking activities, especially regarding environmental sustainability. This was stated by Fakhira et al (2022) that banks are responsible for environmental sustainability because stakeholders are starting to care about the environment and want real action in environmental protection.Chowdhury (2023)also stated that stakeholders have now realized the significant benefits of sustainable business practices. These stakeholders include competitors, customers, shareholders and top management(Choudhury et al., 2013).

Banking activities that can be carried out in an effort to minimize environmental pollution caused by business activities are by implementing the green banking concept.Islam & Das (2013) Defining green banking is a concept to support environmentally friendly practices and reduce the impact of the carbon footprint of banking activities. Implementing green banking is referred to as ethically responsible behavior because it not only advances banking initiatives, but can also influence the socially responsible behavior of other business actors.

Several researchers have revealed various positive impacts that banks will obtain when implementing the green banking concept. Meena (2013) explains that implementing green banking will minimize the use of paper in banking operational activities so that it is more paper-less and increasingly utilizes technological innovation. Banks' concern for environmental sustainability will attract stakeholders, considering that currently stakeholders have paid more attention to various businesses that prioritize long-term sustainability (Fakhira et al., 2022; andChowdhury, 2023).Lymperopoulos et al., (2012b)explained that the reputation of banks will increase and new customers will be increasingly attracted to banks that consider the concept of green banking when developing their operational policies. The expert's statement can be said that the implementation of green banking by banking institutions can be a surefire way to win customers and investors from competitors.

Implementing environmental sustainability-based banking in practice is not easy. Mazuru et al (2013) stated that one of the challenges of implementing green design is high costs.Zheng et al. (2021)and Alamri (2023) also stated that implementing green-based banking requires high costs. Therefore, banks have not been able to fully implement it in its entirety. Based on this study, it can be said that the main challenge faced by banks in implementing green banking is the high costs caused by the transition to technology and innovation as basic capital.

The adoption of green banking basically has a positive impact on long-term bank development. Bank operations that are based on sustainable environmental principles can create a positive image in the eyes of customers and the public (Febiola et al. 2023). This positive image will increase customer trust and result in sustainable business growth. Apart from that, implementing green banking also involves investing in environmentally friendly projects. By making this investment, banks can take advantage of growth opportunities in developing sectors, which in turn can increase company value (Hastuti & Kusumadewi, 2023).

Impirically, the link between green banking and bank value has been proven by leading researchers.Jayathilake (2019)and Zhang et al (2022) that bank support for the environment can increase company value. Besides that,Karyani & Obrien (2020b)also found that green banking has a positive and significant impact on bank value. So it can be concluded that implementing green banking will not only generate profits, implementing green banking can also increase the value of the bank in the eyes of stakeholders. In contrast to the studies above, several researchers also found that the implementation of green banking had a negative impact on bank value. This is proven by Romli & Reza (2022); Alamsyah & Muljo (2023); and Tommaso & Thornton (2020) who found that the implementation of green banking had a negative impact on company value.

One measure of green banking adoption in banks is the implementation of Environmental, Social and Governance (ESG).Bukhari et al. (2020)in his study stated that measuring green banking through ESG implementation is a complex measurement. With regard to this study, its relationship to bank value has been studied by Azmi et al. (2021) who found that ESG has a somewhat non-linear relationship. This means that a high level of ESG activity has a negative impact on bank value. Another study by Miralles-Quiros (2019) also found that the market values the three ESG dimensions separately and banks from common law countries perceive high value relevance to ESG performance. Mure et al. (2020) also studied banks in Italy and found that increasing ESG practices were due to the need for these banks to improve their reputation.

Several studies state that the implementation of 'green' based banking, whether measured by ESG practices or the green banking index, has a positive and significant impact on bank value. However, on the other hand, it was also found that the implementation of 'green' based banking had an insignificant impact on bank value. In fact, several researchers say that the implementation of 'green' based banking actually reduces the value of the bank. The inconsistent research results are the reason why this study is interesting to study in more depth. Especially in relation to green banking.

The inconsistent research results between green banking and bank performance are thought to be caused by the existence of contingency factors that can mediate the relationship between variables. These contingency factors include environmental regulations. Empirically, Shirai (2023) and Park & Kim (2020) have proven that environmental regulation has an important role in implementing green banking. The implementation of green banking really depends on the applicable regulations. Strict environmental regulations will encourage banks to pay more attention to the ecological impact of each of their operational activities. Vice versa. However, what happens in Asian countries is that the environmental regulations in force are still very diverse. In some countries, environmental regulations are strictly regulated. Meanwhile in several other countries environmental regulations are still not the main focus.

## METHOD

This research uses a literature review method from the data obtained. The research presents the results of searches for research on the internet according to the variables of this research. Literature reviews are carried out with a focus on original articles containing abstracts, introductions, methods and results. Literature review is a systematic, explicit and reproducible method for identifying, evaluating and synthesizing research works and ideas that have been produced by researchers and practitioners. The aim of a literature review is to make an analysis and synthesis of existing knowledge related to the topic to be researched to find free space for the research to be carried out.

## RESULTS AND DISCUSSION

Sustainable banking was first launched in January 2003, as stated in the Collevencchio declaration. The declaration outlines the roles and responsibilities of financial institutions in advancing sustainable development goals. It also outlines the financial institution's commitment to fully integrate considerations of ecological limits, social justice, and economic justice into corporate strategy and core banking business areas such as credit, investment, underwriting, and advising. More specifically, Collevecchio's declaration reads as follows:

“Financial institutions must expand their mission from ones that prioritize profit maximization to a vision of social and environmental sustainability. A commitment to sustainability would require financial institutions to fully integrate the consideration of ecological limits, social equity and economic justice into corporate strategies and core business areas (including credit, investing, underwriting, and advising), to put sustainability objectives on an equal footing to maximization of shareholder value and client satisfaction, and to actively strive to finance transactions that promote sustainability.” (Declaration Collevecchio).

Based on Collevecchio's declaration, it can be seen how important the role of banking is in achieving sustainable goals. This was also clarified by Beck et al. (2010); Alexander (2014); And(Yip & Bocken, 2018)that to achieve sustainable development the role of the banking industry is very important, this is because of its function as a very unique intermediary that can mobilize resources towards sustainability goals.(Alexander & Fisher, 2018)also stated that financial institutions play an important role in supporting economic growth, by providing credit and allocating investment capital. Furthermore,(Alexander & Fisher, 2018)argued that the important role of banking in supporting broader economic adaptation to environmental change, by reallocating credit to more sustainable economic sectors in particular to adapt to the consequences of environmental change, reducing the possibility of environmental sustainability risks, mitigating the impact of these risks when they occur, and supports recovery from any impacts provided.

According to Relano and Faulet (2012), sustainable banking can be defined as a bank's decision to provide products and services only to customers who consider the environmental and social impacts of the company's activities.(Yip & Bocken, 2018)also defines sustainable banking as financial products and services offered by banking institutions, which are developed to meet community needs and protect the environment while generating profits. Agreeing with the opinion above, Deka (2015) defines sustainable banking as meaning a bank that cares about the social and environmental impacts of its investments and loans.

Globally, action on environmental protection and climate change is key to achieving the UN's sustainability goals by 2030(Amidjaya & Widagdo, 2019). Also explained by Urban and Wojcik (2019) and(X. Zhang et al., 2022)stated that the world bank would no longer allow funds to be received by companies and countries that do not prioritize environmental protection. In response to the World Bank's policy, several banks have admitted that they will work hard and shift their corporate strategy to adopt environmentally friendly policies (Sanchez-Roger et al, 2018). Bouma et al. (2001) identified four stages of banking towards sustainability, namely defensive banking, preventive banking, offensive banking and sustainable banking.

Green banking was first practiced by Triodos bank from the Netherlands in 1980, at the beginning of its existence Triodos bank started with environmental preservation in the banking sector. The term "green" is likened by Shaumya & Arulrajah (2017) to land covered with grass, various plants and trees without buildings. In line with this term, in relation to banking, green banking is a term for banks whose business activities refer to reducing external carbon emissions and internal carbon footprints as a whole (Chaurasia, 2014). Lako (2015) also explains that green banking is a business concept that refers to environmentally friendly business practices. If we look at this concept, it can be said that every bank that carries out its activities with reference to environmental sustainability means that the bank is included in the term green bank.

The business concept in green banking can provide adequate profits and economies of scale. Therefore, overall this strategy is beneficial for the bank's sustainability.(Hossain et al., 2020)explained that green banking practices are very important in efforts to drive sustainability, for this reason banks contribute to environmental performance by providing green finance and initiating green bonds in various sectors. In line with this opinion(Chen et al., 2022)also believes that banks can play an important role in helping to achieve sustainable development goals.

Green banking is a guarantee of sustainability, where banking business operations do not have a negative impact on the environment. Implementing green banking can be a promotional tool for banks. This is because, through this implementation, the bank's image can improve.(Lymperopoulos et al., 2012a)has proven empirically that banking initiatives to be environmentally friendly produce a favorable green image. This can be done by demonstrating and serving its environmental commitment; reduce operational costs due to reduced use of office stationery, energy and water, increase employee productivity and efficiency through skilled and optimal use of technology, and reduce hazards by installing environmentally friendly equipment(Mir & Bhat, 2022b). Based on this opinion, it can be said that banks are very important for the economy in relation to their significant contribution to sustainable development.

Banks that are committed to preserving the environment have a positive impact on life in the future. Green bank activities such as saving operational costs have the effect of saving a lot of forests by minimizing paper use and reducing greenhouse gas emissions(Mir & Bhat, 2022b).

The current implementation of green banks is increasingly increasing the attractiveness of stakeholders. This has a positive effect on banks to continue to compete in winning investors and creditors.(T. Choudhury et al., 2013)explained that currently to be able to compete in banking, banks must produce green products involving high levels of interest and sustainable development. Even described by Zhang et al. (2022) that green banking practices can increase the competitiveness of the bank itself. Therefore, it cannot be denied that green banking practices carried out by banks are an important strategy in competing and winning investors and creditors.

Green banking practices can help restore and preserve the environment, through the various products offered. Chourasia (2014) explained that various environmental problems, including climate change, deforestation, air quality problems, and loss of biodiversity can be reduced with environmentally friendly banking. The products offered by green banking (Chaurasia, 2014) are (a) green deposits; (b) green mortgages and loans; (c) green credit cards; (d) green reward checking account; and (f) mobile banking.

## CONCLUSION

Based on the literature review that has been carried out, there is an influence of green banking on bank performance. Green banking is a guarantee of sustainability, where banking business operations do not have a negative impact on the environment. Implementing green banking can be a promotional tool for banks. The bank's reputation will improve and new customers will be increasingly attracted to banks that consider the green banking concept when formulating their operational policies. The experts' statements can be said that the implementation of green banking by banking institutions can be a surefire way to win customers and investors from competitors.

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