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The Impact Of Green Finance On Market Value And Reputation Of Financial Service Companies

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ABSTRACT

This study aims to analyze the impact of green finance implementation, including green bonds and green loans, on the market value and reputation of financial service companies in Indonesia. The research employs a quantitative approach with an explanatory research design. Secondary data, including financial reports, sustainability reports, and ESG scores, were obtained from financial service companies listed on the Indonesia Stock Exchange (IDX) during the 2015–2025 period. The sample consists of 70 companies selected using purposive sampling. The regression analysis results indicate that green bonds and green loans have a positive and significant impact on both market value and company reputation. Green loans show a greater effect compared to green bonds on both dependent variables, reflecting their flexibility and more direct influence on corporate sustainability. The model demonstrates that green finance accounts for 65% of the variation in market value and 70% of the variation in company reputation.This study confirms that green finance not only supports global sustainability goals but also offers significant benefits to financial service companies by enhancing their competitiveness and market image. Policy implications and strategies to promote the adoption of green finance in Indonesia are also discussed.

Keywords: *Green Finance,Market Value, Reputation*

ABSTRAK

Penelitian ini bertujuan untuk menganalisis dampak penerapan keuangan hijau, termasuk obligasi hijau dan pinjaman hijau, terhadap nilai pasar dan reputasi perusahaan jasa keuangan di Indonesia. Penelitian ini menggunakan pendekatan kuantitatif dengan desain penelitian eksplanatori. Data sekunder, termasuk laporan keuangan, laporan keberlanjutan, dan skor ESG, diperoleh dari perusahaan jasa keuangan yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2015-2025. Sampel terdiri dari 70 perusahaan yang dipilih dengan menggunakan purposive sampling. Hasil analisis regresi menunjukkan bahwa green bonds dan green loans memiliki pengaruh positif dan signifikan terhadap nilai pasar dan reputasi perusahaan. Pinjaman hijau menunjukkan pengaruh yang lebih besar dibandingkan dengan obligasi hijau pada kedua variabel dependen, yang mencerminkan fleksibilitas dan pengaruh yang lebih langsung terhadap keberlanjutan perusahaan. Model ini menunjukkan bahwa keuangan hijau menyumbang 65% dari variasi nilai pasar dan 70% dari variasi reputasi perusahaan. Studi ini menegaskan bahwa keuangan hijau tidak hanya mendukung tujuan keberlanjutan global, tetapi juga menawarkan manfaat yang signifikan bagi perusahaan jasa keuangan dengan meningkatkan daya saing dan citra pasar mereka. Implikasi kebijakan dan strategi untuk mendorong adopsi keuangan hijau di Indonesia juga dibahas.

Kata kunci: Keuangan Hijau, Nilai Pasar, Reputasi

1. Introduction

In recent decades, the increasing global awareness of climate change and environmental degradation has driven the economic and financial sectors to seek solutions that support sustainability. The financial services sector, as a key driver of the economy, plays a strategic role in allocating resources for environmentally friendly and sustainable activities. One rapidly growing approach to achieving this is green finance. Green finance encompasses various financial instruments and strategies designed to support projects that contribute to environmental preservation, energy efficiency, renewable energy, and climate change adaptation.

Green finance offers the financial services sector an opportunity not only to contribute to sustainability goals but also to enhance corporate value through instruments such as green bonds, green loans, and sustainable investments focusing on Environmental, Social, and Governance (ESG). Green bonds have grown significantly over the past decade, with global issuance exceeding $1 trillion by 2020

(Climate Bonds Initiative, 2020). These instruments are increasingly popular among financial service companies as they not only provide profit opportunities but also attract environmentally and sustainability-conscious investors (T. Ehlers; F. Packer, 2017).

In the financial services sector, green finance holds significant potential to enhance corporate image and reputation, reduce capital costs, and increase attractiveness to institutional investors oriented towards sustainability. Research by Ng & Rezaee(Ng & Rezaee, 2015) ndicates that companies adopting sustainable financing and issuing green bonds have access to capital at lower costs. Furthermore, companies involved in green finance tend to be favored by investors focused on sustainable investments, who view sustainability commitments as an indicator of lower risk and better long-term prospects.

However, the effectiveness of green finance in enhancing the value of financial service companies is not without challenges. High certification and reporting costs remain one of the obstacles, as companies must ensure that funds from green bonds or loans are genuinely allocated to projects contributing to environmental sustainability(Ma et al., 2023). Additionally, the risk of greenwashing is a concern, particularly if companies make sustainability claims that are not independently verified or lack transparency in fund utilization. According to research by Dai et al (Dai et al., 2022), greenwashing can damage a company's reputation and erode investor trust in its sustainability commitments.

Beyond internal challenges, the success of green finance in enhancing the value of financial service companies is also influenced by government regulations and policies. In several developed countries, regulations supporting green finance have been implemented, including tax incentives and policy support facilitating the issuance of green bonds and other sustainable financial instruments. Conversely, in many developing countries, the lack of clear regulations poses a barrier to green finance development. According to Cao et al (Cao et al., 2021), financial service companies in developing countries often face difficulties accessing green finance markets due to insufficient incentives and regulatory uncertainties.

Investors are increasingly incorporating ESG principles into investment decisions, meaning that financial service companies integrating green finance into their strategies can gain a competitive edge. Investments focusing on ESG are considered indicators of more stable and lower-risk companies in the long term. Flammer(Flammer, 2021) ound that green bond issuance enhances a company's market value and attracts investors concerned about sustainability aspects. Thus, financial service companies that adopt green finance not only play a role in achieving global sustainability goals but also strengthen their appeal in the capital market and increase their corporate value.

Given the existing opportunities and challenges, it is crucial to analyze the extent to which green finance is effective in enhancing the market value and reputation of financial service companies. This study aims to examine how green finance instruments contribute to corporate market value and reputation. The findings are expected to provide valuable insights for financial service companies seeking to leverage green finance as a strategy to improve corporate reputation, achieve sustainability, and increase market value while offering policy recommendations to support green finance development in the financial services sector.

2. Theoretical Framework

The theoretical framework of this study focuses on the concept of green finance and its role in enhancing corporate value, particularly in the context of financial service companies. Several theories supporting this analysis include Stakeholder Theory, Signaling Theory, and the concept of Environmental, Social, and Governance (ESG) in sustainable investments. Stakeholder Theory, introduced by (Freeman & Mcvea, 1984) tates that companies have responsibilities not only to shareholders but also to various other stakeholders, including society and the environment. In the context of green finance, this theory is relevant as companies implementing green finance are considered to fulfill their environmental and social responsibilities. Research by (Ng & Rezaee, 2015), indicates that companies adopting sustainability principles tend to perform better in meeting stakeholder expectations, ultimately improving their reputation and corporate value.

Signaling Theory explains that companies can send positive signals to investors and markets through actions that demonstrate their commitment to sustainability principles. In this regard, the issuance of green bonds or green loans acts as a signal that the company is committed to supporting environmentally and sustainably focused projects. According to (Flammer, 2021), green bond issuance enhances the company's attractiveness to sustainability-conscious investors, positively impacting stock prices and market value.

The concept of Environmental, Social, and Governance (ESG) refers to criteria used by investors to assess a company's environmental, social, and governance impacts. ESG is not only a factor that determines a company's value but also an indicator of long-term sustainability. Companies with strong ESG performance tend to be more appealing to sustainability-focused investors. (Dai et al., 2022) revealed that financial service companies committed to sustainability through green bond issuance demonstrate better ESG performance and have lower risks compared to companies lacking such commitments.

Green Finance and Corporate Value: Green finance, particularly through green bond issuance, has become an essential instrument for enhancing corporate value by improving image, reputation, and investor loyalty.(T. Ehlers; F. Packer, 2017) suggest that green bonds help companies access capital at lower costs and attract investors interested in sustainability initiatives. Green bonds can also boost corporate value by creating a positive perception of the company's commitment to environmental support, leading to improved long-term financial performance.

In addition to green bonds, green loans are also significant instruments in green finance. Green loans are

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financial tools designed to support sustainable projects such as energy efficiency, renewable energy, or environmentally friendly waste management. These instruments enable financial service companies to showcase their commitment to sustainability principles. According to (Flammer, 2021), penerapan *green loans* tidak hanya memengaruhi aspek keuangan perusahaan, tetapi juga menjadi indikator komitmen perusahaan terhadap keberlanjutan, yang diapresiasi oleh investor, pelanggan, dan pemangku kepentingan lainnya. the implementation of green loans not only affects the financial aspects of a company but also serves as an indicator of its commitment to sustainability, appreciated by investors, customers, and other stakeholders.

3. Methodology

This research adopts a quantitative approach with an explanatory research design to examine the relationship between green finance implementation, particularly the application of green bonds and green loans, and the market value and reputation of financial service companies in Indonesia.

3.1 Data

The data used in this study is secondary quantitative data, consisting of financial data, market value, issuance of green bonds, and disbursement of green loans obtained from annual reports, sustainability reports, and the OJK (Financial Services Authority) database. Data sources include annual company reports published on official websites or the Indonesia Stock Exchange (IDX), green bonds and green loans data from the Climate Bonds Initiative and OJK, as well as company reputation information derived from ESG scores provided by organizations such as Sustainalytics or Refinitiv.

The population of this study comprises all financial service companies in Indonesia, including banks, finance companies, and investment institutions, that have implemented green finance during the 2015–2025 period. Based on data from OJK and the Climate Bonds Initiative, approximately 100 companies are involved in green finance in Indonesia.

The sample consists of 70 companies, selected using a purposive sampling method based on the following criteria:

- Companies that have issued green bonds or disbursed green loans during the study period.
- Complete data on market value and company reputation available in annual reports or sustainability reports.
- Companies listed in the Indonesia Sustainable Stock Index (ISSI) or those reporting ESG performance.

3.2 Analytical Methods

The analytical methods employed in this study include:

1. Descriptive Analysis: Provides a general overview of green finance trends in financial service companies in Indonesia, including data on green bond issuance and green loan disbursement.
2. Multiple Regression Analysis: Examines the effect of green finance on market value and company reputation.
3. Significance Tests:
   - t-Test (Partial): Tests the influence of each independent variable on the dependent variable. If the p-value < 0.05, the effect is significant.
   - F-Test (Simultaneous): Tests the combined influence of all independent variables on the dependent variable. If the p-value < 0.05, the regression model is significant.
4. Coefficient of Determination (R^2): Measures the extent to which the independent variables explain the variation in the dependent variable.

4. Results and Discussion

Analysis Results Descriptive

Analysis descriptive give description general about *green bonds* data, green loans, market value , and reputation company service finance in Indonesia.

- *Green Bonds*: Average issuance value *green bonds* amounting to Rp. 5 trillion per year, with range between Rp 1 trillion up to IDR 10 trillion
- *Green Loan*: Average distribution value *green loans* of Rp. 3 trillion per year with range between Rp 500 billion up to IDR 7 trillion
- Market value: Average market capitalization of companies in sample is Rp 50 trillion, with an average Tobin's Q of 1.5.
- Reputation (ESG Score): Average ESG score of companies of 70, with range score between 50 to 90.

Assumption Test Results Classic

- Normality: Residual shows normal distribution (Kolmogorov-Smirnov, p > 0.05).
- Multicollinearity: No found multicollinearity (VIF for all variable < 10).
- Heteroscedasticity: No There is significant heteroscedasticity (Breusch - Pagan Test, p > 0.05).
- Autocorrelation: No found autocorrelation (Durbin-Watson Test = 2.0).

Regression Test Results

Regression results multiple for each variable dependent is as following :

a. Model *for* Company Market Value

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Table 1. Regression Results : Influence *Green Bonds* and *Green Loans* on the Company's Market Value

Variables	Coefficient (β)	t- Statistics	p-Value
GreenBonds	0.3	4.5	0.000
GreenLoans	0.4	5.2	0.000
R^2	**0.65**		

Source : processed spss , 2024

Based on table 1 above , can explained that :

- *Green bonds* own influence positive and significant to company market value ($\beta = 0.3$, $p < 0.05$).
- *Green loans* have influence more big compared to *green bonds* to company market value ($\beta = 0.4$, $p < 0.05$).
- This model explains 65% of the variation in company market value

b. Model for Company Reputation

Table 2. Regression Results : Influence *Green Bonds* and *Green Loans* against Company Reputation

	Coefficient (β)	t- Statistics	p-Value
GreenBonds	0.5	6.0	0.000
GreenLoans	0.6	7.2	0.000
R^2	**0.70**		

Source : processed spss , 2024

Based on table 2 above , can explained that :

- *Green bonds* own influence positive and significant to reputation company ($\beta = 0.5$, $p < 0.05$).
- *Green loans* have influence more big to reputation company ($\beta = 0.6$, $p < 0.05$).
- This model explains 70% of the variation in reputation company

Discussion

- The Effect of Green Bonds on Market Value and Corporate Reputation
  The results indicate that the implementation of green bonds significantly enhances the market value and reputation of financial service companies. These findings are consistent with (Flammer, 2021), which shows that green bonds serve as a signal of sustainability commitment that enhances the company's attractiveness in the eyes of investors. This effect occurs because green bonds allow companies to access capital at lower costs, thereby improving financial efficiency and market value.
- The Effect of Green Loans on Market Value and Corporate Reputation
- Green loans have a greater impact than green bonds on the market value and reputation of companies. This aligns with (T. Ehlers; F. Packer, 2017), which states that green loans offer greater flexibility in financing sustainability projects, ultimately strengthening stakeholders' perception of the company's social responsibility. This positive impact also reflects investors' trust in projects supported by green loans, which tend to have lower risks.
- Comparison of the Impact of Green Bonds and Green Loans
- Green loans exhibit a greater impact than green bonds on both dependent variables. This may be attributed to the higher engagement of companies in projects financed by green loans, which have a more direct effect on sustainability image and corporate reputation.
- Relevance to the Indonesian Context
- These findings are relevant in the Indonesian context, where OJK regulations have encouraged the issuance of green bonds through POJK No. 60/POJK.04/2017 on Environmentally Friendly Debt Securities. However, green loans provide greater flexibility for companies to fund sustainability projects across various sectors, such as renewable energy and waste management, leading to a more significant impact on market value and reputation.

5. Conclusion

This study demonstrates that the implementation of green finance, encompassing green bonds and green loans, has a positive and significant impact on the market value and reputation of financial service companies in Indonesia. It provides a strong empirical foundation that green finance not only supports global sustainability goals but also offers economic benefits for financial service companies in Indonesia.

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