
ANALYSIS OF THE INFLUENCE OF GREEN FINANCE, GOOD CORPORATE GOVERNANCE, AND FINANCIAL PERFORMANCE ON COMPANY VALUE IN THE BANKING INDUSTRY IN INDONESIA

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ABSTRACT

This research is motivated by the fact that activities carried out by humans unconsciously have many negative effects on nature, one of which is climate change, which is already uncertain. This research analyzes the influence of green finance, good corporate governance, and financial performance on company value. This research uses quantitative research methods. Data collection techniques were obtained from sources related to banking companies in the form of annual reports and sustainability reports for 2020–2022 published by banking companies on the official website of the Indonesia Stock Exchange (IDX) and the official websites of related banking companies. The data analysis technique used in this research uses panel data regression analysis, and the test tool uses EViews13. The results of this research show that: (1) Green Finance has no effect on Company Value; (2) Good Corporate Governance has no influence on Company Value; (3) Financial Performance influences Company Value; and (4) Green Finance, Good Corporate Governance, and Financial Performance simultaneously influence Company Value.

Keywords: Green Finance, Good Corporate Governance, Financial Performance, Company Value

1. INTRODUCTION

Human activities unconsciously have many negative effects on nature, one of which is climate change, a global issue that is already uncertain. This is not only happening in Indonesia, but every human being in various countries has felt the impact of climate change. As reported from the BMKG website (2023), the Head of the Meteorology, Climatology, and Geophysics Agency (BMKG) said that 2023 has the potential to be the year with the hottest temperature in history because it has

been proven in several places in the world where several countries have reached a temperature of 40°C. This climate change has even occurred in previous years, one of which is in Indonesia, where CNN Indonesia (2021) wrote that evidence of climate change includes extreme heat waves, increasing temperatures in Sumatra and Kalimantan by 4°C, and decreasing rainfall by 12%. In addition, climate change such as drought and flooding that occur in several areas in Indonesia, rising coastal seas, tropical cyclones, and also a

decrease in staple food harvests which, if left alone, will cause a decrease in Gross Domestic Product (GDP) per capita of up to 31%, highlighting the potential economic impact of climate change. This is not only happening in Indonesia, but every human being in various countries has felt the impact of climate change. The United Nations (UN) provides efforts from the dynamics of nature that occur by forming an action agenda for the Sustainable Development Goals (SDGs) which is targeted to be achieved in 2030 (Amidjaya and Widagdo, 2020 in Baharudin, 2023).

One form of implementation of the sustainable development goal in the business sector currently receiving much attention is green finance, which can be seen as a financial management activity focusing on environmental sustainability, not just profit or loss. Green finance is considered an effort against environmental degradation because it contains sustainable development, which means that projects will be carried out with more attention to the environment in the long term.

The implementation of green finance in the banking industry will run well if all Human Resources (HR) in the scope understand the importance of green finance in environmental sustainability in the future. Before understanding green finance, the company must provide rules made by management that

are implemented by all human resources (HR) in the banking industry. It would be better if the rules that serve as guidelines were based on green finance. This indicates that the success of implementing green finance in a company also requires a good corporate governance mechanism from the banking industry company. A good corporate governance mechanism is important in a company so that every activity can run well based on the roles and tasks that have been determined. Implementing sound corporate governance depends on Human Resources (HR), one of which has the task and function of supervising the company. However, the audit committee also supervises the independent board of commissioners. This supervision makes all company activities run well and by the roles and tasks determined. Companies also use good corporate governance to direct and control the company to balance the interests of individuals, companies, and society. Therefore, with a good corporate governance mechanism in a company, implementing green finance is more straightforward for human resources (HR) in the company environment.

In addition, the existence of a good corporate governance mechanism is certainly not only beneficial to the environment but also increases the efficiency of the activities of the banking industry company so that it can improve the company's financial performance.

The benchmark for the financial performance of a banking industry company can be seen through the company's financial reports. The financial report contains information about changes in capital, profit and loss, cash flow, and other information related to the company's financial performance. Good and increasing financial performance will affect the decision-making of potential investors.

Investors' decision-making to invest in a company is one of the ways to look at the return on assets (ROA) of the company because the higher the profit obtained by the company, the higher the profit that investors will obtain. Concern for the environment is one of the factors in attracting customers or investors, which can increase the company's profitability (Hasanah and Hariyono, 2022:151). Banking companies also need to pay attention to Non-Performing Loans (NPL) to avoid negative impacts because they can erode the profitability obtained, which will also affect the ability of banking companies to distribute their loans.

In addition to being seen through the company's financial performance, investor perceptions are also influenced by the company's value because, through the company's value, the company's performance and stock price can be seen. The main goal of the company is to increase the company's value (Novitasari and Kusumowati, 2021:39). The

company's value is significant because the high prosperity of shareholders also follows the high company value so shareholders and potential investors do not hesitate to invest their capital in the company. Good corporate governance also influences one of the ups and downs of the company's value. In addition, the company must also pay attention to the environment and its financial performance to have a good image of its value and attract potential investors to invest their capital. This study aims to analyze the effect of green finance, good corporate governance, and financial performance on company value in the banking industry in Indonesia.

2. LITERATURE REVIEW

a. Green Finance

Green finance or what is usually known as sustainability finance, is the process of allocating capital resources or financial investment activities that care about environmental protection, climate change, environmentally friendly energy, and responsible management in all sectors (Urban and Wojcik, 2019 in Baharudin, 2023). Green finance or green finance is a financial activity or activity, namely the allocation of sustainable capital resources that do not damage the environment. In this variable, researchers use 16 important indicators to measure green finance in a banking industry

company. Green finance is also often known as green banking in companies in the banking industry. The 16 indicators in measuring green banking in banking companies, According to Shaumya and Arulrajah (2016) in Baharudin (2023), include the following:

- 1) Training and Education
- 2) Environmental Performance Evaluation
- 3) Environmentally Based Reward System
- 4) Paper Savings (Paperless)
- 5) Use of Energy Efficient Equipment
- 6) Waste Management/Recycling
- 7) Environmentally Friendly Bank
- 8) Green Loan
- 9) Green Project
- 10) Green Enterprise Facilities
- 11) Green-Based Credit Evaluation
- 12) Green Branch Office
- 13) Environmental-Based Policy
- 14) Environmental-Based Partnership
- 15) Environmental-Based Strategic Planning.
- 16) Green Procurement

All of the above indicators can be found in the company's annual report and sustainability report because all green activities of the banking industry company will be written in the report in the form of data or descriptive information. Green finance can be calculated using the mathematical formula:

$$GF = \frac{\text{Green banking indicators implemented by the company}}{\text{Total green banking indicators}} \times 100\%$$

b. Good Corporate Governance

According to Ilham et al (2022:761), Good Corporate Governance is a process that regulates and controls a company to achieve a goal by increasing business success while still paying attention to stakeholder interests and reducing agency conflicts to achieve company goals. In addition, good corporate governance also helps companies run their operations more effectively and efficiently. In this study, the author uses 2 indicators related to good corporate governance, including the board of directors and the independent board of commissioners. The calculation is as follows:

- 1) Independent Board of Commissioners = $\frac{\sum \text{Member of the Independent Board of Commissioners}}{\sum \text{Member of the Board of Commissioners}} \times 100\%$
- 2) Audit Committee = $\frac{\sum \text{Audit Committee Members}}{\sum \text{Audit Committee Members}} \times 100\%$

c. Financial Performance

Performance is a general term used for some or all of the actions or activities of an organization in a period, along with references to several standards such as past or projected costs, a basis for efficiency, responsibility, or management accountability, and the like (Difinubun and Gudono, 2021 in Sudirman, et

al, 2022:36). Financial performance is an achievement or accomplishment of a company in a certain period which is usually written in the financial statements of a company. This study uses Non-Performing Loan (NPL) and Return on Asset (ROA) to determine the company's financial performance. The calculation is as follows:

1) *Non-Performing Loan (NPL)*

$$NPL = \left(\frac{\text{Total NPL}}{\text{Total Credit}} \right) \times 100\%$$

2) *Return on Asset (ROA)*

$$ROA = \left(\frac{\text{Net Income}}{\text{Total Assets}} \right) \times 100\%$$

d. Company Value

According to Noerirawan (2012) in Romli and Zaputra (2021:144) explains that company value is a condition that has been

achieved by a company as a reflection of public trust in the company after going through a process of activities for several years, namely since the company was founded until now. Company value is a market value that can benefit shareholders or investors if the company's stock price increases. Company value can determine the image of a company because prospective shareholders or investors and prospective customers will be interested in a company if the company has good company value. The way to find out the value of a company is by using Tobin's Q. Tobin's Q can be calculated as follows:

$$\frac{\text{Total Market Value} + \text{Total Liabilities of the Company}}{\text{Total Company Assets}}$$

Framework of Thought

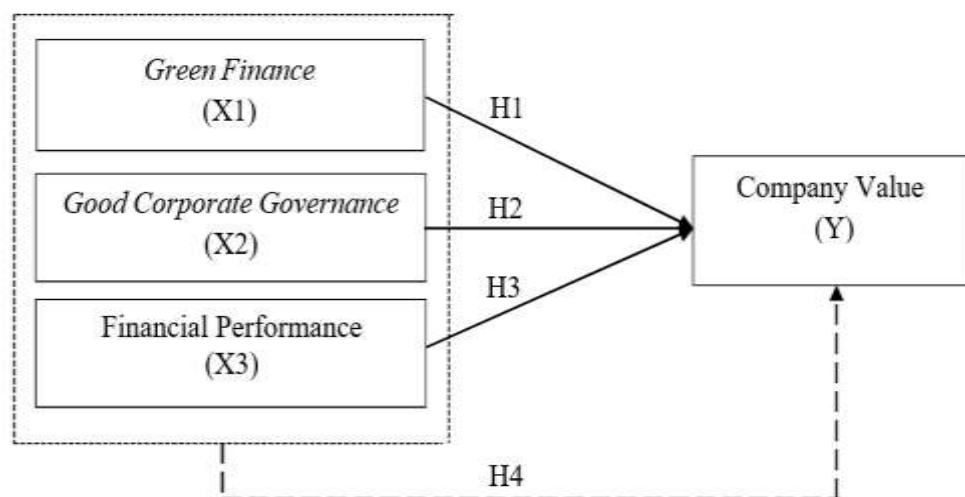


Figure 1

Source : Research Framework

Hypothesis

Based on the theory that has been described above, the following hypotheses can be determined:

H1: Green Finance has an effect on Company Value in the Banking Industry in Indonesia

H0: Green Finance does not have an effect on Company Value in the Banking Industry in Indonesia

H2: Good Corporate Governance has an effect on Company Value in the Banking Industry in Indonesia

H0: Good Corporate Governance does not have an effect on Company Value in the Banking Industry in Indonesia

H3: Financial Performance has an effect on Company Value in the Banking Industry in Indonesia

H0: Financial Performance Has No Effect on Company Value in the Banking Industry in Indonesia

H4: Green Finance, Good Corporate Governance, and Financial Performance have a simultaneous effect on Company Value in the Banking Industry in Indonesia

H0: Green Finance, Good Corporate Governance, and Financial Performance have a simultaneous effect on Company Value in the Banking Industry in Indonesia

3. METHODS

The type of research used in this study is descriptive with a quantitative approach. The population in this study is the banking industry companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022 and by the criteria desired by the researcher. The

population in this study consisted of 47 banking companies listed on the Indonesia Stock Exchange (IDX). In this study, the author used a non-probability sampling technique, namely a purposive sampling sample, which produced 33 companies that met the criteria so that the total data sample in the study was 99. This study's data type is documentary data, while secondary data sources are used. The data technique used in this study is the documentation technique. The data analysis technique in this study uses panel data testing.

4. RESULTS AND DISCUSSIONS

a. Descriptive Statistical Analysis

This study uses a descriptive statistical method to determine the description of the variables contained in this study. The independent variables or free variables in this study are green finance (X1), good corporate governance (X2) with indicators of an independent board of commissioners and an audit committee, and financial performance (X3) Non-Performing Loan (NPL) and Return on Asset (ROA), while those included in the dependent or bound variables are company value (Y). The description of several variables can be seen through the average value (mean), standard deviation, minimum, and maximum. The following are the results of the descriptive statistical output processed using EViews 13:

Table 1. Descriptive Statistical Analysis

	Y	X1	X2		X3	
			DKI	KA	NPL	ROA
<i>Mean</i>	1.701919	77.90404	0.571717	3.737374	3.510303	0.560909
<i>Maximum</i>	21.85000	100.0000	1.000000	8.000000	22.27000	4.740000
<i>Minimum</i>	0.100000	12.50000	0.300000	2.000000	0.000000	-14.75000
<i>Std. Dev.</i>	3.229244	23.15089	0.112522	1.093449	2.991928	2.546731
<i>Observations</i>	99	99	99	99	99	99

Source: Processed by researchers, 2024 (eviews13)

The table shows the result of the descriptive statistical analysis, which shows that the observations in this study amounted to 99 data points. Mean is the average value of each research data, calculated by dividing all the data by the amount of data in the study. Maximum is the largest value of each variable in the study. The minimum is the smallest

value of each variable in the study. Standard deviation is a value that shows the level of data distribution against the mean. Standard deviation is calculated by taking the root of the amount of data after being squared and then dividing by the amount of data in the study.

Chow Test**Table 2. Chow Test**

<i>Effects Test</i>	<i>Statistic</i>	<i>d.f.</i>	<i>Prob.</i>
<i>Cross-section F</i>	2.843323	(32,61)	0.0002
<i>Cross-section Chi-square</i>	90.378769	32	0.0000

Source: Processed by researchers, 2024 (eviews13)

The table shows that the results of the Chow test show that the probability value is $0.0000 < 0.05$, so it can be concluded that H1 is accepted, H0 is rejected, and the appropriate

model to use is the Fixed Effect Model (FEM) compared to the Common Effect Model (CEM).

Hausman Test**Table 3. Hausman Test**

<i>Test Summary</i>	<i>Chi-Sq. Statistic</i>	<i>Chi-Sq. d.f.</i>	<i>Prob.</i>
<i>Cross-section random</i>	2.269981	5	0.8107

Source: Processed by researchers, 2024 (eviews13)

The table shows the results of the Hausman test; namely, the random cross-section probability value is $0.8107 > 0.05$, so it can be concluded that H_0 is accepted and H_1 is

rejected. The appropriate model to use in this study is the Random Effect Model (REM) compared to the Fixed Effect Model (FEM).

Lagrange Multiplier Test

Table 4. Lagrange Multiplier Test

	<i>Cross-section</i>	<i>Time</i>	<i>Both</i>
Breusch-Pagan	13.86466	0.634978	14.49963
	(0.0002)	(0.4255)	(0.0001)

Source: Processed by researchers, 2024 (eviews13)

The table shows the results of the Lagrange multiplier test, namely the value of the cross-section probability of $0.0002 < 0.05$, so it can be concluded that H_1 is accepted, H_0

is rejected, and the appropriate model to use is the Random Effect Model (REM) compared to the Common Effect Model (CEM).

Panel Data Regression Analysis

Table 5. Random Effect Model (REM) Test

<i>Variable</i>		<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
C		6.607820	2.647598	2.495779	0.0143
X1		-0.005270	0.015793	-0.333700	0.7394
X2	DKI	-3.460840	3.045496	-1.136380	0.2587
	KA	-0.314954	0.323497	-0.973592	0.3328
X3	NPL	-0.322688	0.128162	-2.517808	0.0135
	ROA	-0.368851	0.120376	-3.064170	0.0029

Source: Processed by researchers, 2024 (eviews13)

In the table, panel data regression shows the Random Effect Model (REM) approach. The equation of the Random Effect Model (REM) results table of the EViews 13 model

is: Company Value = $6.607820 - 0.005270$ (GF) $- 3.460840$ (DKI) $- 0.314954$ (KA) $- 0.322688$ (NPL) $- 0.368851$ (ROA)

Partial Test (t-Test)

Table 6. Partial Test (t-Test)

<i>Variable</i>		<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
C		6.607820	2.647598	2.495779	0.0143
X1		-0.005270	0.015793	-0.333700	0.7394
X2	DKI	-3.460840	3.045496	-1.136380	0.2587
	KA	-0.314954	0.323497	-0.973592	0.3328
X3	NPL	-0.322688	0.128162	-2.517808	0.0135
	ROA	-0.368851	0.120376	-3.064170	0.0029

Source: Processed by researchers, 2024 (eviews13)

The table shows whether there is a partial influence between the independent and dependent variables. However, before that, a calculation is needed with t_{table} , namely using $df = n - k = 99 - 6 = 93$ with a confidence level of 95% or a significance level (α) = 5% so that the t_{table} is 1.98580.

Based on the table, green finance (X1) shows that the $t_{count} < t_{table}$ value is $-0.333700 < 1.98580$, while the probability value is $0.7394 > 0.05$. So, it can be concluded that there is no partial influence between green finance and company value.

Good corporate governance (X2) on the independent board of commissioners indicator shows that $t_{count} < t_{table}$ is $-1.136380 < 1.98580$, while the probability value is $0.2587 > 0.05$. So, it can be concluded that there is no partial influence between the independent board of commissioners on the

company's value. In addition, the audit committee indicator shows that $t_{count} < t_{table}$, which is $-0.973592 < 1.98580$, while the probability value is $0.3328 > 0.05$. So, it can be concluded that there is no partial influence between the audit committee and the company's value. Financial performance (X3) on the Non-Performing Loan (NPL) indicator shows that $t_{count} > t_{table}$, which is $-2.517808 > 1.98580$, while the probability value is $0.0135 < 0.05$. So, it can be concluded that NPL negatively influences the company's value. In addition, the Return on Asset (ROA) indicator shows that $t_{count} > t_{table}$, which is $-3.064170 > 1.98580$, while the probability value is $0.0029 < 0.05$. So, it can be concluded that ROA negatively influences company value.

Simultaneous Test (f-Test)

Table 7. Simultaneous Test (f-Test)

<i>F-statistic</i>	3.080864
<i>Prob(F-statistic)</i>	0.012834

Source: Processed by researchers, 2024 (eviews13)

The table shows whether there is a simultaneous influence between all independent variables on the dependent variable. However, before that, a calculation is needed with f table, namely employing $df_1 = k - 1 = 6 - 1 = 5$ and $df_2 = n - k = 99 - 6 = 93$, with a confidence level of 95% or a significance

independent variables on the dependent variable.

level (α) = 5% which then obtained f table which is 2.31 which then produced f count > f table which is $3.080864 > 2.31$, while for the probability value is $0.012834 < 0.05$. So, it can be concluded that there is a simultaneous influence between all

Coefficient of Determination Test (R^2)

Table 8. Coefficient of Determination Test

<i>R-squared</i>	0.142101	Mean dependent var	0.949331
<i>Adjusted R-squared</i>	0.095977	S.D. dependent var	2.407549

Source: Processed by researchers, 2024 (eviews13)

Table 8 shows that the adjusted r-square value or coefficient of determination is 0.095977 or 9.5977%, indicating that the independent variable can explain the dependent variable by 9.5977%. Other variables outside the research will explain the remaining 90.4023% or not studied in the model.

a. The Influence of Green Finance on Company Value in the Banking Industry in Indonesia

The results of the study show that green finance does not have a partial effect on company value in Indonesia's banking industry. These results can be seen from the t

count < t table value, which is $-0.333700 < 1.98580$, while the probability value is $0.7394 > 0.05$, which means that H1 is rejected and H0 is accepted. Green finance cannot be indeed implemented in Indonesian banking because banking in Indonesia still uses several operations that have an impact on nature, such as the use of AC all day as air conditioning, using tables and chairs made of wood from felling trees, and so on which are still detrimental or have an impact on nature. However, this green finance focuses on financing in banking that prioritizes being environmentally friendly. So far, not all banks

have fully implemented green finance, so this green finance does not affect company value.

b. The Influence of Good Corporate Governance on Company Value in the Banking Industry in Indonesia

Based on the study's results, the independent board of commissioners indicator shows that the independent board of commissioners does not affect company value. These results can be seen from the t count $< t$ table $-1.136380 < 1.98580$, while the probability value is $0.2587 > 0.05$, meaning that H_1 is rejected and H_0 is accepted. In addition, the audit committee indicator shows that the audit committee does not affect company value. These results can be seen from the t count $< t$ table value, namely $-0.973592 < 1.98580$, while the probability value is $0.3328 > 0.05$, meaning that H_1 is rejected and H_0 is accepted. So, it can be concluded that there is no partial influence between the independent board of commissioners on company value in the banking industry in Indonesia. This is on the independent board of commissioners indicator due to the ineffective selection of the independent board of commissioners where many members of the independent board of commissioners cannot show their independence or are not independent, which causes the supervisory function not to run well so that the existence of an independent board of commissioners does

not affect the company's value. In addition, on the audit committee indicator, the audit committee in a company is still limited in fulfilling the established rules even though the audit committee plays a very important role in determining how the company performs.

c. The Influence of Financial Performance on Company Value in the Banking Industry in Indonesia

Based on the study's results, the Non-Performing Loan (NPL) indicator shows that Non-Performing Loan (NPL) affects company value. These results can be seen from t count $> t$ table, which is $-2.517808 > 1.98580$, while the probability value is $0.0135 < 0.05$, meaning that H_1 is accepted and H_0 is rejected. In addition, the Return on Asset (ROA) indicator shows that Return on Asset (ROA) affects company value. These results can be seen from the t count $> t$ table, which is $-3.064170 > 1.98580$, while the probability value is $0.0029 < 0.05$, meaning that H_1 is accepted and H_0 is rejected. So, it can be concluded that good corporate governance negatively influences company value in Indonesia's banking industry. This is in the Non-Performing Loan (NPL) indicator because the higher the risk of a Non-Performing Loan (NPL), the higher the level of failure to fulfill obligations by debtors, which can cause losses to be borne by the company, and of course this will affect the value of the company. In addition, in the

Return on Asset (ROA) indicator, the increasing Return on Asset (ROA) in the company will attract more investors who will increase the company's stock price so that high stock prices will reflect that the company's value is also high.

d. The Influence of Green Finance, Good Corporate Governance, and Financial Performance Simultaneously on Company Value in the Banking Industry in Indonesia

The study results show that green finance, good corporate governance, and financial performance simultaneously affect company value. The results can be seen from $f_{count} > f_{table}$, which is $3.080864 > 2.31$, while the probability value is $0.012834 < 0.05$. This means that H_1 is accepted and H_0 is rejected. So, it can be concluded that there is a simultaneous influence between all independent variables and the dependent variable in Indonesia's banking industry.

The results of this study indicate that, based on the scope of green finance, good corporate governance and financial performance are interrelated. The results of the R^2 test show that the adjusted r-square value or coefficient of determination is 0.095977 or 9.5977%, indicating that the independent variable can explain the dependent variable by 9.5977%. Other variables outside the research

will explain the remaining 90.4023% or not studied in the model.

5. CONCLUSIONS

The results of this study indicate that green finance and good corporate governance do not affect the company's value in the banking industry in Indonesia. In contrast, financial performance affects the company's value in Indonesia's banking industry. In addition, green finance, good corporate governance, and financial performance simultaneously affect the company's value in Indonesia's banking industry. This is because the independent variable can explain the dependent variable by 10.014%, so this study indicates that good corporate governance and financial performance are also interrelated based on the scope of green finance.

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