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SUSTAINABLE FINANCE AND GREEN BANKING DISCLOSURE: UNLOCKING FIRM VALUE POTENTIAL

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ABSTRACT

This research examines the impact of green banking disclosure and sustainable finance on firm value, with institutional ownership as a moderating element. The data utilized are secondary data acquired from the annual and sustainability reports of banking firms listed on the Indonesia Stock Exchange from 2019 to 2023. The research used a purposive selection technique encompassing 12 banking institutions, yielding 60 observation units. Panel data regression analysis is performed utilizing STATA version 17 software. The results indicate that green banking disclosure does not substantially influence firm value, whereas sustainable finance favors firm value. Moreover, institutional ownership does not enhance the positive correlation between green banking disclosure and firm value but diminishes the positive correlation between sustainable finance and firm value. This work theoretically enhances the comprehension of green banking transparency, sustainable finance, and firm value interplay. The findings provide essential insights for banking institutions to augment openness in sustainability reporting and act as an assessment instrument for regulators, including the Financial Services Authority, to refine rules concerning sustainable financing.

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INTRODUCTION

Companies are organizations that contribute significantly to a country's economy. Every company aspires to achieve optimal performance to fulfill its business objectives. Optimal performance can be achieved when a company generates optimal profits. By maximizing profits, a company can ensure its sustainability in alignment with its vision, mission, and objectives. This applies to all companies, especially those listed on the Indonesia Stock Exchange (IDX). Companies listed on the IDX typically aim to optimize profits for distribution to shareholders and to enhance firm value. For publicly listed companies, stock prices reflect their value in the capital market (Suardana et al., 2020).

Firms with elevated firm value are more inclined to entice investors to acquire their shares. Stakeholders increasingly evaluate a company's financial and non-financial performance (Saraswati & Inata, 2021). Sustainability concerns have emerged as a critical component of non-financial performance. Fitri et al. (2024) demonstrate that CSR disclosures substantially influence firm value. Corporate social responsibility disclosure (CSR) is crucial since it enhances stakeholder confidence in a company's sustainability, influencing its valuation.

Climate change is a critical global sustainability challenge, marked by a 0.76°C rise in mean global temperature from 1899 to 2005, which has increased the frequency of extreme weather events like El Niño and cyclones, causing substantial losses (Perdana et al., 2023). In response, the Kyoto Protocol was established in 1997 under the UNFCCC, urging developed nations to reduce greenhouse gas emissions in line with their commitments (Perdana et al., 2023). The 2015 Paris Agreement established a global objective to restrict the increase in average temperatures to below 2°C above pre-industrial levels, with a target of limiting it to 1.5°C (Perdana et al., 2023). In alignment with these international initiatives, the Indonesian government introduced regulatory measures through the Financial Services Authority (OJK) with Regulation No. 51/POJK.03/2017 on Sustainable Finance. This rule requires public corporations, financial institutions, and issuers to promote sustainable development within the national economy while mitigating the effects of climate change (Romli & Zaputra, 2022).

One financial institution that adheres to this OJK regulation is the banking sector. Banks play a significant role in the national economy. In addressing sustainability issues, banks are now expected to participate in reducing environmental degradation, as mandated by the aforementioned OJK regulation. This participation can be realized by providing credit loans that promote environmental sustainability. As a result, companies can expand their operational activities and enhance their overall value.

Conversely, banks that fail to address sustainability issues may negatively impact their reputation and that of the companies they finance. Companies' involvement in sustainable activities significantly influences firm value (Perdana et al., 2023). Companies that fail to address sustainability issues in their operations will likely experience long-term impacts on their image and reputation. In contrast, companies with a strong reputation for environmental management tend to enhance their corporate value, attracting more investors to invest in their shares. It presents an opportunity for banks to attract investors and stakeholders by implementing environmentally sustainable practices. According to legitimacy theory, gaining legitimacy from stakeholders and the broader community requires companies to pay close attention to prevailing norms in their environment (Asyura et al., 2023; Bui et al., 2020). Banking companies whose activities do not align with environmental and social norms may experience a decline in corporate value. Therefore, analyzing firm value concerning sustainability issues is essential for further investigation.

Previous studies examining firm value have been conducted both internationally and in Indonesia. At the international level, prior research has explored the relationship between firm value and CSR (Jadiyappa et al., 2021; Masmoudi & Barhoumi, 2023; Willim et al., 2020). Other studies have investigated firm value concerning green banking disclosures (Arfiyani & Sasongko, 2023; Auwa et al., 2024; Khan et al., 2021; Pratiwi et al., 2023) and sustainable finance (Abousamak et al., 2023; Perdana et al., 2023). In Indonesia, studies have analyzed firm value concerning CSR (Gaol et al., 2021; Tirtagiri & Sufina, 2024), green banking disclosures (Hastuti & Kusumadewi, 2023; Karyani &

Obrien, 2020; Romli & Zaputra, 2022; Tiara & Jayanti, 2022; Winarto et al., 2021), and sustainable finance (Dihardjo & Hersugondo, 2023; Marheni, 2022; Suryaningsih & Handayani, 2022).

This study investigates the influence of green banking disclosures and sustainable finance on firm value in Indonesia. Rising greenhouse gas emissions have driven the increase in the average global temperature (Perdana et al., 2023). With support from international agreements and OJK regulations in Indonesia, companies are encouraged to disclose sustainability-related information. This initiative serves as a corporate contribution toward mitigating the impacts of climate change caused by rising global temperatures.

Green banking disclosures are a means for banks to mitigate environmental challenges. In Indonesia, green banking practices are established in PBI No. 14/15/PBI/2012, promoting environmentally sustainable banking practices (Hastuti & Kusumadewi, 2023). Prior research on the effects of green banking encompasses studies by Karyani & Obrien (2020) and Winarto et al. (2021), which demonstrated that green banking favorably influences firm value. In contrast, Romli & Zaputra (2022) identified a detrimental effect on firm value, whereas Tiara & Jayanti (2022) observed no significant correlation between green banking and firm value. The discrepancies in previous findings underscore the necessity for additional research regarding the influence of green banking disclosures on firm value.

Sustainable finance makes investment decisions in the financial sector while considering governance, social, and environmental factors. Sustainable finance can be a means for banks to contribute to mitigating climate change by limiting credit provision to environmentally harmful companies. Sustainable finance promotes long-term investments and projects that benefit companies and the economy (Azadda et al., 2024). In Indonesia, the government has regulated sustainable finance through OJK Regulation No. 51/POJK.03/2017. Research by Abousamak et al. (2023) found a positive impact of sustainable finance on firm value, while Suryaningsih & Handayani (2022) reported no significant effect of this association. These inconsistencies necessitate further investigation into the impact of sustainable finance on firm value.

This study differs from other research using institutional ownership as a moderating variable. Few studies have examined the influence of green banking disclosures and sustainable finance on firm value, considering institutional ownership as a moderating factor. Institutional ownership pertains to corporation shares held by institutions or organizations (Liniarti et al., 2019). In stakeholder theory, institutional ownership contributes to the oversight and alignment of managerial performance with shareholder interests. Institutional investors apply their knowledge to implement rigorous control of internal corporate operations, thereby ensuring shareholders of managerial success. Effective governance frequently provokes favorable shareholder reactions, resulting in elevated stock prices and augmented firm worth. Institutional ownership enhances managerial accountability and transparency, increasing investor confidence and promoting positive company results.

Legitimacy theory suggests that for a company's activities to be accepted by the public, it must disclose its sustainability activities related to the environment and society (Erawati & Cahyaningrum, 2021). Companies adopting environmental disclosure practices can influence public perception and legitimacy (Fauziah et al., 2024). The company can then utilize this public legitimacy to increase its value (Marheni, 2022). Green banking disclosure is one way for banks to gain legitimacy. Banks that openly disclose green banking information are well-received by the public because such disclosures integrate environmental aspects into their operational activities. Consequently, banks practicing green banking can quickly gain public legitimacy.

Public legitimacy for green banking practices increases investors' trust and positive perception of the bank, encouraging them to invest in its shares. It also positively impacts the firm value of the bank. Karyani & Obrien (2020) stated that green banking practices positively influence firm value. Similar findings by Hastuti & Kusumadewi (2023), Khan et al. (2021), and Winarto et al. (2021) demonstrated that green banking disclosure positively affects firm value. Thus, applying green banking disclosure reduces information asymmetry and provides long-term benefits for the company's stakeholders.

H_1 : The Green Banking Disclosure Positively Impacts Firm Value

Legitimacy theory posits that companies can quickly gain social legitimacy when their activities align with prevailing social values (Romli & Zaputra, 2022). Sustainable finance, which prioritizes environmental, social, and governance (ESG) aspects, reflects a company's effort to align its activities with these social values (Xi et al., 2022).

In banking companies, sustainable finance is vital in directing capital to fund environmentally beneficial projects (Chang et al., 2022). In other words, sustainable finance is a financial approach that integrates ESG considerations into every investment and financing decision. The greater the sustainable finance disclosure by a company, the higher its firm value. Investors are more attracted to companies that implement sustainability practices.

Companies can thus use sustainable finance to maintain their business continuity. Abousamak et al. (2023) found that sustainable finance positively influences firm value. Consistent with this, studies by Artika et al. (2023), Marheni (2022), and Perdana et al. (2023) confirm the positive impact of sustainable finance on firm value. When companies engage in more transparent, sustainable finance practices, positive responses are more likely from investors.

H_2 : Sustainable Financing Enhances Firm Value

Stakeholder theory suggests that a company is considered successful when it fulfills the information needs of its stakeholders (Alipour et al., 2019). From this perspective, institutional ownership, as a company's stakeholder, can influence corporate activities by holding the company accountable for providing benefits to other stakeholders. Institutional investors prioritize corporate governance, long-term financial performance, sustainability practices, and transparency in corporate disclosures. Institutional ownership serves multiple parties by ensuring these aspects and protecting the company's reputation.

Institutional ownership that meets stakeholders' needs, such as ethical business conduct, risk management, and environmental responsibility, will receive positive responses from investors and shareholders. Green banking practices, which integrate environmental, social, and normative aspects into corporate operations, exemplify initiatives that meet stakeholders' growing demand for sustainable business strategies. Institutional ownership is crucial in supporting and encouraging green banking practices, recognizing their importance in maintaining corporate legitimacy and competitiveness.

Institutional shareholders, particularly those with extensive experience in the financial and banking sectors, actively monitor managers' performance to ensure alignment with stakeholder interests. Their influence fosters greater transparency in disclosing sustainability-related information, such as green banking disclosures. By enhancing corporate accountability, institutional ownership helps assure investors, strengthening their confidence in the company's long-term stability and sustainability. Therefore, institutional ownership is a key factor in shaping corporate success by addressing stakeholders' expectations and reinforcing responsible business practices.

H_3 : Institutional Ownership Enhances The Favorable Correlation Between Green Banking Disclosure and Firm Value

Stakeholder theory emphasizes creating value for stakeholders involved in a company (Cristofel & Kurniawati, 2021). Stakeholders are individuals or organizations interested in or affected by corporate actions (Dihardjo & Hersugondo, 2023). Institutional ownership, representing a large portion of company shares held by institutions or organizations, positions institutional investors as key stakeholders capable of influencing firm value. Institutional ownership has more incentives and resources to oversee managerial conduct and promote advantageous modifications.

Companies with institutional ownership are more likely to influence firm performance. The institutions often prefer companies committed to sustainable business practices. Sustainable finance is one such commitment that aligns with institutional ownership preferences (Perdana et al., 2023). From the perspective of institutional ownership, sustainable finance is essential for companies. Thus, institutional ownership enhances corporate transparency in disclosing sustainability information.

Institutional ownership is expected to actively supervise managerial conduct as a principal stakeholder in financial and banking firms. This monitoring forces banks to offer more extensive disclosures concerning sustainable finance. A more significant allocation of sustainable finance in a bank's portfolio elicits investors' favorable responses, increasing the firm's value.

H_4 : Institutional Ownership Enhances The Favorable Correlation Between Sustainable Finance and Firm Value

RESEARCH METHODS

This study examines banking firms listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, given their critical involvement in sustainability matters, especially in financing environmentally impacting enterprises. Secondary quantitative data, comprising financial, annual, and sustainability reports from 2019 to 2023, were obtained from the IDX website (www.idx.co.id) and official corporate websites. The secondary data, acquired indirectly from third persons and documents, constitute the foundation of the research. This study employed a purposive sampling strategy to select conventional banks listed on the IDX during the study period. The selection criteria ensured data availability and completeness. As of December 31, 2023, 43 conventional banks were listed on the Indonesia Stock Exchange (IDX). However, 31 banks had incomplete data for at least one of the years from 2019 to 2023, making them unsuitable for inclusion in a balanced panel dataset. Only banks with complete financial, annual, and sustainability reports for all five years were considered to maintain consistency. Consequently, 12 banks met the inclusion criteria, resulting in 60 firm-year observations over the study period.

The final sample is deemed adequate and representative of the Indonesian banking sector for several reasons. First, the purposive sampling approach ensured the selection of banks with complete and consistent financial disclosures, enhancing the reliability of the findings. By focusing on banks that continuously report financial, annual, and sustainability information, the study provides a robust assessment of the relationship between green banking disclosure, sustainable finance, and firm value. Second, although the number of sampled banks may appear limited, they represent some of Indonesia's largest and most influential financial institutions. These banks account for a significant portion of the financial sector's total assets, lending activities, and sustainability initiatives. Given that larger banks are typically at the forefront of adopting sustainable finance practices due to regulatory requirements and stakeholder expectations, their inclusion ensures that the sample captures key entities shaping firm value and green banking disclosures.

Moreover, the panel data structure (with repeated observations over multiple years) strengthens the study's validity by allowing for an analysis of both cross-sectional and time-series variations. This design helps control for unobserved heterogeneity across banks while capturing temporal trends in sustainability practices and financial performance. The Fixed Effect Model (FEM) further ensures that firm-specific characteristics that remain constant over time do not bias the results. Thus, despite the sample size constraints, the careful selection process, industry relevance, and methodological rigor collectively support the sample's adequacy in providing meaningful insights into the role of green banking disclosure, sustainable finance, and institutional ownership in shaping firm value.

This research encompasses four categories of variables: dependent, independent, moderating, and control factors. Each variable is delineated and quantified as follows. The dependent variable is firm value, indicative of the public evaluation of the company's performance, quantified by its stock price (Arfiyani & Sasongko, 2023). Enhanced public trust in the corporation elevates the demand for its shares and conversely. Maximizing sustainable firm value signifies the company's effectiveness in generating more value for stakeholders (Rahman et al., 2022). The PBV assesses the valuation of a firm to Book Value (PBV), computed as :

$$\text{PBV} = \frac{\text{Market Value Per Share}}{\text{Book Value Per Share}}$$

The independent variables are green banking disclosures and sustainable finance. Green banking disclosure is a framework for financial institutions to report their ecologically sustainable practices transparently (Khan et al., 2021). The Green Banking Disclosure Index (GBDI) measures it, comprising 21 information items derived from Bose et al. (2018). The equation is:

$$\text{GBDI} = \sum_{\text{i}=1}^{\text{n}} \text{di}$$

GBDI is the Green Banking Disclosure Index, n is the total items of green banking information, and di = Score (1 if disclosed, zero if not disclosed). Sustainable finance is financial services that integrate ESG (Environmental, Social, and Governance) considerations (Abousamak et al., 2023; Perdana et al., 2023). It is measured by the ratio of credit disbursed for sustainable business activities to total credit disbursed by the bank, calculated as:

$$\frac{\text{Credit disbursed or sustainable business activities}}{\text{credit disbursed by the bank.}}$$

The moderating variable is institutional ownership, defined as the proportion of shares that institutions possess. According to Fitri & Hakim (2024) and Jiang et al. (2021), share ownership is held by institutional entities, including governments, foreign institutions, trust funds, insurance companies, banks, investment firms, and other institutions.

$$\text{Institutional Ownership} = \frac{\text{Share Owned by Institutional}}{\text{Shares Outstanding}}$$

The control variables encompass profitability and firm size. Profitability, as assessed by Return on Assets (ROA), reflects the efficacy of asset use in creating profit (Tirtagiri & Sufina, 2024). The equation is:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Firm size is quantified by the natural logarithm of total assets (Ln Total Assets), as per Melinda & Wardhani (2020). The equation is:

$$\text{Size} = \text{Log Natural Total Asset}$$

This research used a multivariate linear regression model for panel data. Gujarati (2022) explains that in panel data regression analysis, the selection of the best model depends on a series of tests comparing the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The Chow Test determines whether the Fixed Effect Model is more appropriate than the Common Effect Model. In contrast, the Lagrange Multiplier (LM) Test assesses whether the Random Effect Model is more appropriate than the Common Effect Model. Suppose the Hausman Test results indicate that the null hypothesis is rejected. In that case, the Fixed Effect Model is more appropriate because it overcomes the possibility of correlation between the independent variables and individual effects.

In contrast, if the null hypothesis is accepted, the Random Effect Model is considered more efficient in estimation. After selecting the best model, Gujarati (2022) emphasize the importance of classical assumption tests to ensure the regression model meets the BLUE (Best Linear Unbiased Estimator) characteristics. Normality test is conducted to evaluate residual distribution, multicollinearity test to detect linear relationship between independent variables by looking at Variance Inflation Factor (VIF), autocorrelation test to identify relationship pattern between residuals using Durbin-Watson or Breusch-Godfrey test, and heteroscedasticity test to ensure constant residual variance through White test or Breusch-Pagan test. Gujarati suggests using Generalized Least Squares (GLS), robust standard errors, or variable transformation to keep estimation valid and reliable if an assumption violation is found. The regression model employed in this study is organized as follows:

$$\begin{aligned}\text{PBV}_{it} = \alpha + \beta_1\text{GBD}_{it} + \beta_2\text{SF}_{it} + \beta_3\text{INST} + \beta_4(\text{INST}_{it}{}^{*}\text{GBD}_{it}) + \beta_5(\text{INST}_{it}{}^{*}\text{SF}_{it}) \\ + \beta_6\text{ROA}_{it} + \beta_7\text{SIZE}_{it} + e_{it}\end{aligned}$$

RESULTS AND DISCUSSION

Descriptive statistical analysis in this study aims to provide a detailed overview of the research variables. This method describes the characteristics of each variable using statistical parameters such as mean, standard deviation, maximum, and minimum values:

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev	Min	Max
PBV	60	1.4990	1.3342	0.3385	5.0376
GBD	60	0.8270	0.1805	0.3333	1
SF	60	0.2637	0.1618	0.0094	0.7012
INS	60	0.5415	0.4061	0	0.9729
ROA	60	1.4921	0.9509	-0.33123	3.4556
SIZE	60	33.2138	1.4691	29.262	35.3155

Source: Data Processed, 2024

The table presents descriptive statistics for the variables analyzed in the study, providing insights into their distribution and characteristics. For the dependent variable, firm value is proxied by Price to Book Value (PBV). The data shows an average of 1.499, indicating that, on average, the market value of the banks is 1.5 times their book value. The standard deviation of 1.334 suggests moderate variability, with a minimum value of 0.339 and a maximum of 5.038, reflecting significant differences in market valuations among the banks. For Green Banking Disclosure (GBD), an independent variable, the average disclosure score is 0.827, meaning banks disclose about 82.7% of the required green banking information. The standard deviation is relatively low at 0.181, indicating consistent disclosure levels. The minimum Score is 0.333, showing that some banks provide minimal information, while the maximum Score of 1 indicates full compliance by particular banks.

Sustainable Finance (SF), another independent variable, shows an average allocation of 26.37% of bank credit to sustainable finance activities. The standard deviation of 0.162 highlights variability among banks, with allocations ranging from a minimum of 0.94% to a maximum of 70.12%, suggesting varying levels of commitment to sustainability practices. Institutional Ownership (INST), a moderating variable, has an average of 54.15%, indicating that institutional investors own a significant portion of the sampled banks' shares. The data shows wide variability, with a standard deviation of 0.406. Some banks have no institutional ownership, while others have up to 97.29%, demonstrating substantial institutional control in some instances.

Return on Assets (ROA), a control variable indicative of profitability, averages 1.492%, demonstrating the efficiency of banks in profit generation. The standard deviation of 0.951 signifies significant variability, with values spanning from a low of -0.331%, indicating losses in particular banks, to a maximum of 3.456%, underscoring substantial profitability in others. Firm Size (SIZE), an additional control variable, is determined as the natural logarithm of total assets, yielding an average value of 33.21. The standard deviation of 1.469 indicates a minimal variance in bank sizes, with the lowest and highest values of 29.262 and 35.315, respectively, reflecting disparities in asset scale within the sample.

The regression research examined the correlation between green banking transparency and sustainable finance, with institutional ownership as a moderating variable. Firm size (SIZE) and profitability (ROA) were control variables. This study conducted model selection tests, including the Chow Test, Lagrange Multiplier (LM) Test, and Hausman Test, with results indicating that the most appropriate model is the Fixed Effect Model (FEM).

Table 2. Regression Model Selection Summary

Test	Objective	Result
Chow	Determine the appropriate model between CEM and FEM	Prob > F = 0.0000 < 0.05 ➔ Select FEM
Lagrange Multiplier	Determine the appropriate model between CEM and REM	Prob = 0.0000 < 0.05 ➔ Select REM
Hausman	Determine the final model between FEM and REM	Prob > Chi2 = 0.0000 < 0.05 ➔ Select FEM

Source: Data Processed, 2024

Additionally, classical assumption tests were performed, including normality tests, which confirmed that the data is usually distributed, and multicollinearity tests, where VIF values were below 10, indicating no multicollinearity issues. Autocorrelation and heteroskedasticity tests initially detected issues, but these were addressed using robust treatment, ensuring that the regression model remains valid and can be interpreted accurately. The results of the multiple linear regression analysis are summarized below :

Table 3. Summary of Hypothesis Testing Results

Variable	Coefficient	t	Prob.	
C	-9.1351	-2.64	0.0115	***
GBD	2.1065	1.13	0.1405	
SF	2.5066	1.91	0.0415	**
INST	19.1996	3.06	0.0055	***
INST*GBD	-0.9052	-0.56	0.295	
INST*SF	-3.9155	-2.39	0.018	**
ROA	0.3159	3.33	0.0035	***
SIZE	-1.2758	-1.61	0.068	*
Number of Obs	60			
R-square	0.7149			
Prob > F	0.0398			

Source: Data Processed by STATA, 2024

The Influence of Green Banking Disclosure on Firm Value

This study's findings reveal that green banking disclosure does not significantly affect firm value, leading to the rejection of the first hypothesis (H1). This result diverges from the anticipations of legitimacy theory, which emphasizes the significance of public acknowledgment and stakeholder approval in augmenting firm value. The hypothesis posits that transparent green banking methods will likely foster favorable attitudes among stakeholders, potentially enhancing firm value through increased support. These findings align with prior research conducted by Arfiyani & Sasongko (2023), Pratiwi et al. (2023), and Tiara & Jayanti (2022), all of which determined that green banking disclosure does not significantly influence firm value.

This study's assessment of green banking disclosure involved comparing reported green banking data with 21 disclosure indicators following the methodology established by Bose et al. (2018). Banks received a score of 1 for revealing a particular green banking initiative in their annual or sustainability reports and a score of 0 if no information was disclosed. The mean green banking disclosure score for the studied banks was 82%, signifying that most banks participated in green banking disclosure. Bank Oke Indonesia revealed merely 7 of the 21 KPIs from 2019 to 2021, underscoring the necessity for enhanced transparency and a more remarkable dedication to addressing the remaining issues.

Several factors may explain the lack of a significant relationship between green banking disclosure and firm value. One explanation is the presence of greenwashing, where banks provide misleading or false information about their environmental activities to gain social legitimacy and build a positive public image. Empirical studies have shown that such practices exist in the banking sector, affecting stakeholder trust and financial outcomes (Birindelli et al., 2024). Greenwashing often reflects a superficial attempt to enhance corporate reputation without genuine transparency, which can lead to negative market responses. Investors, wary of potential reputational risks, are less likely to support companies suspected of engaging in greenwashing practices (Mustalahti, 2022).

Another factor is the limitations in the regulatory framework for green banking disclosure. While Financial Services Authority Regulation Number 51/POJK.03/2017 mandates the implementation of sustainable finance. Still, it does not provide specific and detailed guidelines on how financial institutions should comprehensively disclose their green banking practices, potentially leading to inconsistencies in reporting (Financial Services Authority Regulation Number 51/POJK.03/2017, 2017). This lack of clarity hinders the ability of banks to meet societal expectations and earn investor trust through transparent sustainability reporting. As legitimacy theory suggests, inadequate transparency can undermine public legitimacy, rendering disclosures less impactful in enhancing firm value.

Furthermore, the absence of an independent institution to oversee green banking disclosure practices in Indonesia exacerbates the problem. Empirical evidence suggests that companies lack the incentive to provide detailed and meaningful disclosures without strict supervision and enforcement, leading to reporting inconsistencies and reduced transparency (Firmansyah & Kartiko, 2024). Consequently, green banking disclosure is not yet widely considered a critical factor in investment decisions by Indonesian investors (Wulandari et al., 2024). It underscores the necessity of more robust regulatory standards, enhanced oversight, and greater transparency to ensure that green banking disclosures effectively contribute to firm value. Empirical findings suggest that well-regulated and transparent green banking practices can improve investor confidence and corporate sustainability performance, reinforcing their role in long-term value creation (Firmansyah & Kartiko, 2024).

The Influence of Sustainable Finance on Firm Value

The results demonstrate that sustainable finance enhances firm value, hence corroborating the adoption of the second hypothesis (H2). This outcome is consistent with previous research conducted by Abousamak et al. (2023), Marheni (2022), and Perdana et al. (2023), all of which also recognized a favorable correlation between sustainable financing and firm value. Legitimacy theory posits that corporations willingly reveal their actions to conform to social norms and rules, cultivating a favorable reputation among stakeholders. Sustainable finance represents a long-term strategy integrating environmental, social, and governance (ESG) factors into financial decision-making. Sustainable finance exemplifies ethical corporate conduct and compliance with ESG standards by allocating financing and investments to sustainability-focused initiatives (Perdana et al., 2023).

In this study, banking companies allocated an average of 26.37% of their total credit to sustainable business activities, reflecting their commitment to sustainability. Bank BRI stood out with the highest allocation, dedicating 70.12% of its credit to sustainability initiatives, showcasing its strong dedication to environmentally and socially responsible practices. This finding aligns with legitimacy theory, highlighting the role of transparency in sustainability practices to strengthen a company's image and stakeholder trust. The positive effect of sustainable finance on firm value can also be attributed to regulatory frameworks that promote integrating sustainability principles. For instance, Financial Services Authority Regulation No. 51/POJK.03/2017 mandates financial institutions to incorporate sustainability principles into their operations and reporting. However, while this regulation establishes a framework for disclosing credit allocations to sustainable businesses, its interpretation and implementation vary across institutions. Some financial institutions adopt a more proactive stance, using the regulation to enhance transparency and align financial activities with sustainability objectives. In contrast, others comply with minimal disclosure requirements, leading to inconsistencies in sustainability reporting and corporate accountability (Financial Services Authority Regulation Number 51/POJK.03/2017, 2017).

Banks enhance their reputation and strengthen their competitive position by adopting and transparently reporting sustainable finance practices. Investors increasingly value banks that demonstrate a commitment to ESG principles, which enhances market confidence and supports long-term growth. Sustainable finance, therefore, positions banks as responsible and visionary institutions, fostering stronger trust and support from stakeholders and ultimately increasing firm value.

The Moderating Role of Institutional Ownership on The Influence of Green Banking Disclosure on Firm Value

This analysis indicates that green banking disclosure does not substantially increase firm value, even at elevated levels of institutional ownership, resulting in the rejection of the third hypothesis (H3). Stakeholder theory emphasizes the necessity of acknowledging the interests of many stakeholders in formulating company goals and performance (Freeman et al., 2021). In this context, institutional ownership signifies the interests of financial institutions and other entities, establishing it as a principal stakeholder with significant influence over business policies, including green banking initiatives. Significant institutional ownership is believed to improve monitoring and reduce managerial opportunism (Rahman et al., 2022), which theoretically strengthens the relationship between green banking disclosure and firm value. However, the findings of this study indicate that institutional ownership does not moderate this relationship, suggesting a potential misalignment between institutional shareholders' preferences and green banking initiatives. It could be due to institutional investors prioritizing short-term financial returns over long-term sustainability commitments, limiting the expected positive impact of green banking disclosures on firm value.

The banking companies sampled in this study demonstrate a high average green banking disclosure (GBD) score of 82%, reflecting a strong commitment to green banking practices. Banks such as Bank Central Asia (BCA), Bank Negara Indonesia (BNI), Bank Rakyat Indonesia (BRI), Bank Danamon, Bank Mandiri, and CIMB Niaga achieved the highest disclosure score of 1, indicating full disclosure of all green banking indicators. Despite this, the anticipated moderating role of institutional ownership does not materialize.

Multiple variables may elucidate why institutional ownership does not mitigate the association between green banking disclosure and firm value. One reason is the short-term financial focus of institutional investors. These investors often prioritize immediate financial returns, emphasizing explicit and tangible profits directly influencing their investment outcomes (Petro et al., 2023). This short-term orientation detracts from their attention to sustainability initiatives, such as green banking, which may not yield immediate financial benefits. As a result, even though green banking disclosure can enhance corporate image and support sustainability, it often does not align with the primary objectives of institutional investors who favor immediate financial outcomes.

High levels of institutional ownership may also constrain managerial flexibility in sustainability disclosures. Pressure from institutional investors to meet short-term performance expectations can limit management's ability to focus on long-term growth initiatives, such as comprehensive green banking disclosures (Rahayu & Wahyudi, 2024). Additionally, the relatively low transparency in green banking practices may further diminish the moderating role of institutional ownership. Insufficient or unclear disclosure of green banking activities makes it difficult for institutional investors to evaluate their potential impact on firm value. This lack of detailed information can lead to uncertainty, reducing the willingness of institutional investors to support green banking disclosures actively.

The absence of transparency in green banking procedures eventually constrains institutional ownership's capacity to effectively influence the relationship between green banking disclosure and firm value. Institutional investors may be reluctant to support sustainability projects due to inadequate knowledge, hence reducing their moderating impact. This study highlights the necessity for more thorough and open disclosures to match institutional ownership interests with long-term sustainability objectives and improve the efficacy of green banking methods in generating firm value.

The Moderating Role of Institutional Ownership on The Influence of Sustainable Finance on Firm Value

This study concludes that institutional ownership diminishes the beneficial impact of sustainable financing on firm value, leading to the rejection of the fourth hypothesis (H4). Stakeholder theory posits that corporations must optimize earnings for investors while generating advantages for other stakeholders. As a pivotal stakeholder, institutional ownership can significantly impact business strategies and sustainability policies, encompassing sustainable finance practices. This analysis reveals that, contrary to the expectation that institutional ownership enhances the favorable effect of sustainability measures on business value, it weakens the link between sustainable financing and firm value.

The average sustainable finance (SF) value for the banking companies in the sample was 26.37%, indicating that, on average, approximately one-fourth of total credit was allocated to sustainable business activities. Bank BRI demonstrated the highest sustainable finance value, reaching 70.12% in 2022, reflecting a strong commitment to sustainability by directing significant credit towards sustainable business initiatives. Conversely, Bank Danamon recorded the lowest value of 0.94% in 2019, indicating minimal integration of sustainable finance practices during that year.

The analysis shows that sustainable finance significantly enhances firm value, with greater adoption correlating with higher firm value. However, including institutional ownership as a moderating variable weakens this positive relationship, suggesting that institutional ownership reduces the effectiveness of sustainable finance in improving firm value.

This weakening effect may be attributed to the short-term focus of institutional investors. Such investors often prioritize immediate financial returns over long-term sustainability goals (Hadiansyah et al., 2022). They pressure management to emphasize financial performance, which directly impacts their investments, rather than on sustainability initiatives that may require longer to yield results (Krisnawanto & Solikhah, 2020). This preference underscores their orientation toward financial outcomes rather than environmental or social benefits.

From the stakeholder theory perspective, this short-term focus prioritizes specific stakeholder groups, particularly those seeking immediate financial gains (Hidayat et al., 2021). This emphasis diverts attention from sustainability strategies, such as environmental management and social responsibility that could contribute to long-term value creation. As a result, the market and investor responses to sustainable finance initiatives remain limited despite the growing trend of incorporating sustainability considerations into long-term investment decisions.

The Quasi-Moderator Role of Institutional Ownership in The Relationship Between Green Banking Disclosure, Sustainable Finance, and Firm Value

The findings of this study indicate that institutional ownership functions as a quasi-moderator in the relationship between green banking disclosure, sustainable finance, and firm value. A quasi-moderator directly influences the dependent variable and moderates the relationship between the independent and dependent variables (Sharma et al., 1981). Thus, institutional ownership significantly impacts firm value while shaping the effects of green banking disclosure and sustainable finance on firm performance. The direct impact of institutional ownership on firm value reflects its role in strengthening corporate governance, monitoring managerial decision-making, and reducing agency costs. Prior studies have emphasized that institutional investors enhance shareholder value by implementing stricter oversight mechanisms (Drobetz et al., 2025; Wu et al., 2022), leading to more effective risk management and financial stability. In the banking sector, institutional ownership is often associated with improved financial transparency, reduced information asymmetry, and greater investor confidence, contributing to higher firm valuation.

However, when institutional ownership moderates the relationship between green banking disclosure and firm value, the results suggest that it does not enhance this relationship. This finding implies that while green banking disclosure has the potential to increase firm value through improved reputation and operational sustainability, institutional investors do not actively strengthen this effect. One possible explanation is the short-term financial focus of institutional investors, which prioritizes immediate returns over long-term sustainability initiatives (Petro et al., 2023). It aligns with the argument that institutional investors, particularly those with a transient investment horizon, tend to emphasize short-term financial performance rather than long-term environmental and social commitments (Porter & Linde, 1995). Furthermore, limited transparency in green banking disclosures may lead to difficulties in assessing their direct financial impact, causing institutional investors to remain neutral in supporting such initiatives. In the context of sustainable finance, institutional ownership weakens the positive effect of sustainable finance on firm value. This inverse moderating effect suggests that although sustainable finance positively influences firm value, the presence of large institutional investors does not necessarily reinforce this relationship. One explanation is that institutional investors exert pressure on management to prioritize financial outcomes that yield immediate returns rather than allocating resources to sustainable finance projects, which may take longer to generate measurable financial benefits (Hadiansyah et al., 2022). From a stakeholder theory perspective, this finding underscores the tendency of institutional investors to prioritize their financial interests over broader corporate sustainability goals, leading to a misalignment between institutional ownership and long-term value creation (Hidayat et al., 2021).

Additionally, these findings highlight the dual role of institutional ownership in influencing firm value. On the one hand, institutional ownership enhances firm value through improved governance mechanisms and effective managerial oversight. On the other hand, its moderating role in sustainability initiatives suggests that the short-term financial focus of institutional investors may hinder the optimization of long-term benefits from green banking disclosure and sustainable finance. These insights emphasize the need for greater transparency in sustainability reporting and a better alignment between institutional investor expectations and corporate sustainability strategies to maximize the effectiveness of green banking and sustainable finance initiatives in driving firm value (Adu et al., 2024; Rahman et al., 2023).

CONCLUSION

This study empirically examines the impacts of green banking disclosure and sustainable finance, the interplay between institutional ownership and green banking disclosure, and the interplay between institutional ownership and sustainable finance on firm value. Secondary data from 12 banking firms listed on the Indonesia Stock Exchange (IDX) between 2019 and 2023 were utilized in this research. The analysis was conducted using a Fixed Effect Model (FEM) in panel data regression, which accounts for unobserved heterogeneity among entities and controls for individual firm-specific characteristics that remain constant over time. The FEM was chosen based on the Hausman test results, which indicated that a fixed effects approach was more appropriate than a random effects model. This methodology allowed the study to isolate the effects of independent variables on firm value while controlling for firm-specific factors that might bias the results.

The findings reveal that green banking disclosure does not significantly affect firm value. It may be attributed to insufficient regulatory clarity and inadequate monitoring, which do not encourage broader disclosure practices. In contrast, sustainable finance positively affects firm value, suggesting that a strong regulatory framework supports its implementation. Institutional ownership does not enhance the relationship between green banking disclosure and firm value, possibly due to the short-term financial orientation of institutional investors. Moreover, institutional ownership weakens the positive influence of sustainable finance on firm value, indicating a prioritization of financial returns over environmental considerations.

This research acknowledges several limitations. The study focuses exclusively on conventional banking institutions in Indonesia, limiting the generalizability of its findings to other financial sectors or global markets. Additionally, the availability of sustainability reporting and firm disclosures constrained the sample size, impacting the robustness of the results. However, using purposive sampling is not a limitation; it is a methodological choice to ensure the selection of firms with complete and relevant data for this study.

Based on these findings, several recommendations are proposed. Future research should expand the sample size to include a broader range of banks, enabling greater generalizability of the results. Examining government ownership as a moderating factor could provide additional insights into the relationship between sustainability practices and corporate performance. Regulatory bodies such as the Financial Services Authority (OJK) should establish standardized disclosure frameworks for green banking, strengthen oversight of sustainable finance practices, and implement investor education programs to highlight the significance of sustainability in financial decision-making. Banking institutions in Indonesia are encouraged to enhance transparency in sustainability reporting and integrate sustainable finance strategies more effectively to strengthen firm value while aligning with broader sustainability objectives. Investors are advised to incorporate sustainability considerations into their investment decisions to achieve financial returns while fostering environmental and social sustainability.

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