Impact of Green Financing for the Corporate Governance in the Banking Industry

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Abstract: The term sustainability does not limit to environmental sustainability; it also is about economic sustainability as well. The banking industry has a significant role in sustainable economics. However, there are rear instances where the banking industry, which is the backbone of the financial flow of the economy, concern about the environment. Green finance is the latest concept which is discussed among many sustainable development discussions. This concept of green finance is the latest concept in the financial industry which merges environment sustainability with economic sustainability.

The banking industry is the backbone of the financial flow of the economy. Therefore, the banking governance is highly regarded and considered important for the value maximization. The study discusses how the latest concept of green financing contributes to corporate governance in the banking industry. This study is a systematic literature review by analyzing 69 quality journal articles written about green finance, banking industry corporate governance and the impact of applicability of green finance on the corporate governance in the banking industry. The literature screened six valid journal articles and studied in-depth to prove the objectives of the research. Many scholars and researches have discussed and debated on the effectiveness and impacts of environmental action. Further, many studies proved that environmental practices are able to generate a positive effect on the organization by reducing environmental footprints. It was proved that the reduction of environmental footprints causes reduction of cost and increase in organization performance. Hence the study ultimately proves the applicability of green financing is a reduction of environmental footprints and implementation of sustainable value framework. Throughout the study, the research deeply discuss the concept of green financing and how it is being practiced in the banking industry to add value for the banking industry.

Harming the environment through economic activities has become a common issue in the world. Therefore, it was understood that many issues such as an increase in carbon emission, global warming, acid rains and many negative environmental impacts have occurred. The banking industry is the backbone of the economic sector can contribute immensely to sustainability. Hence, The research was mainly done to understand the concept of green finance in-depth and its applicability to the banking industry. Further to understand the impact of green finance concept to the corporate governance in the banking industry. Focusing attention on the balance between economy and environment adds value to the banking industry as well as it is a contribution to sustainable development as well. Hence, it is clear that the banking industry contributed immensely for the achievement of sustainable development goals with the implementation of green finance concept.

The research revealed that the concept of green finance directly supports sustainable development goals. Green financing is the banking industry supports finance in retail banking, corporate/ investment finance, assets management and insurance. Therefore, this shows that this concept moulds the entire green supply chain in the economic sector. Therefore, the implementation of green financing is a development for the banking industry by adding stakeholder value for the baking sector. On the other hand, this is a development concept of sustainability of the economy and the environment. Further, the study revealed that the financial services industry, add value to the entire economy by initiating applicability of the green concept. Hence the implementation of green finance in the banking industry has a great impact on banking governance. The study revealed that the applicability of green finance, not only improve the sustainable economy but also it has a great impact on banking governance as well. Hence this study contributes to the development of the banking industry as well as contributes to sustainable development as well. Hence this research paper can be taken as a guideline for the implementation of economic and environmental sustainability to the entire banking industry and ultimately the entire sustainability concept protected.

Keywords: Banking Governance; Development Banking; Development Finance; Green Finance; Sustainable Development.

Introduction

Corporate governance has been defined as the system by which organizations are directed and controlled. (1) Generally, board of directors are responsible for the governance of the companies. Board of directors are appointed by the shareholders of the company. That is generally the shareholders appoint board of directors and the auditors to satisfy the objectives of shareholders (1) . Hence board of directors make sure the appropriate governance structure is in place. Sometime ago the primary objective of an organization is the shareholder's interest. Organization's board of directors took decisions for the purpose of improving the profitability for the purpose of act on justification for the shareholder's investment. However, this concept have slowly changed with the development of financial management later on. Today organizations are more concentrating on long term benefit of satisfying stakeholders of the company. Stakeholders are the various group in the society who have an interest over the organization decisions. Therefore satisfying the objectives of the stakeholders is a sustainability concept (16). Therefore, the board of directors should not only concentrate on the profit but also the satisfaction of all the stakeholder's objectives. Therefore, the corporate governance is about the performance of board of directors to set the value of the company. (10) Therefore companies in recent have focused not only the economic concepts but also the environment concepts as well by increasing their ecological foot prints with their business activities.

When the world highly concentrates on the concept of economy, the industrialization began. Due to the industrialization nations became developed with their economic activities. As a result, the environment balance was threatened because of certain activities in the economic development. Carbon emission, environmentally weighted material, sustainable process index, water consumption, ecological footprints are the indicators of green concepts. (24)

Many organizations in today trying to increase their environmental balance with various activities and increase value for their organization. Therefore organizations plan to apply green concepts at policy level and expect sustainable growth for their organization (14) . However organizations have not realized how far their green concepts have a value for their corporate governance. The green financing is a latest concept which has introduced to the banking industry. (23) Green financing is a wider concept which applies financial flows for climate change mitigation, climate change adaptation and other environmental sustainability. (3). This is a latest concept introduced by the Central bank of Sri Lanka to the entire banking industry. Therefore this concept is absorbed by Sri Lankan banking sector recently. However this concept is practiced and embraced by various other countries in the world. Financial sector has a large role to play in encouraging the ecological sustainability. With the implementation of green finance concepts banks have contributed for policy making process with green loans, green investments, green bonds and many financial instruments related to green concept. Therefore banks actively involved in bringing together both the world of finance and business with ecological friendly behavior.

Hence the application of green financing is expected to add value to the banking industry. Therefore the purpose of this literature survey is to identify and analyze previous scholar's views about the green finance concept in the banking sector and identify its effect to the corporate governance in the banking industry. This is a latest concept which was introduced within previous decade. Therefore the literature related to this concept is fairly latest. Therefore this literature survey will be done with latest scholarly articles about the subject.

Background

The contribution of financial services sector to the global economy is large. Generally in any economy banks play a major role in development of businesses and facilitating the economy by traditional lending, financial facilitating and many rage of intermediary functions and role as a investor. (12) However it is common fact that the environment is threatened due to industrialization. Hence economic activities of many companies are harmful for the environment, which results the environmental sustainability is threatened (15). Therefore banks have taken social responsibility by committing towards sustainable economy and transition towards a sustainable financial system. (8) The financial services industry is expecting to add value for the economy by initiating in applicability of green concept in all the industries them contributing in financial facilitation. It is expected that banks are the most suitable for the activation of green concept and they are the facilitators of economy. Therefore automatically when green concepts are applied for selection criteria for loans, investments, and other intermediary facilities, the business sector tend to follow green concepts in their businesses as well. (2)

However application of green financing for the financial services institution will add value to the financial institution as well (26). Focusing attention on the balance between economy and the environment adds value for the stakeholders in the perspective of bank as an organization. (8). Therefor this gives the indication that the contribution in green financing will increase stakeholder interest and ultimately add value for the corporate governance as well (27). However this concept is still under development stage and not many have researched on the topic. Therefore this review will discuss about the dimensions of green financing, overview about the bank's role in green financing and its effect on corporate governance in the banking sector.

Method of Analysis

This study is a systematic literature review based on green financing and corporate governance in the banking industry. Therefore the study has typical systematic review methodological analysis and framing the research question identified above. Therefore the research have gathered quality journal articles about the areas specified in the research question and to cover up the objectives of the research. This research philosophy is interpretivism research. That is the researcher assumes that the reality of the research aim is within the people's intervention. Further this is a deductive approach research. That is the research is conducted on already developed theory. The research is based on secondary data. Therefore researcher has collected mandatory secondary data from previous journals and articles. Further the research was conducted with quality journal articles to make sure the reliability of data. Further the research was conducted with latest journal articles from 2008- 2018 to make sure the validity of the research. That is the research findings are updated and latest findings. Further this research is a mix of qualitative and quantitative analysis. Qualitative data will be obtained from valid journal articles and previous researches. Quantitative data will be gained from bank's published financial statements by analyzing profitability, liquidity and gearing status of the banks to prove corporate governance. Therefore information was gathered from published accounts, referring stock exchange details and reliable web sites.

Sample Selection

The researches searched the data for the study by searching on valid journal articles from google scholar, emerald insight and research gate. Further, these data obtained from academic and professional journals and many are peer-reviewed articles. The researcher has selected, green finance, the definition of green finance, benefits of green finance, corporate governance, sustainability and effect of green finance to the corporate governance as keywords. Therefore the research objectives were fulfilled by analysing data available in the secondary data source as follows,

Search Criteria	Value
Research database	Emerald Insight, Research gate, google scholar, UN official web site, Asian Development Bank official web site, World Bank publications, Sri Lanka government Central Bank publication.
Source Type	Academic Journals Trusted web sites Professional publications.
Search keywords.	Green Finance Green finance definition Corporate governance Corporate governance and sustainability.
Search Limit.	Peer-reviewed articles, trusted web sites, and official publications.
Time frame	2000 and later.

Figure 1: Sampling method

Green finance is the latest concept which is introduced by the United Nations, world bank, Asia Development bank through central banks in many countries. Therefore there is no much peer-reviewed articles still. However, there are latest but nourished data available in all three bodies' official web sites.

Inclusion and Exclusion Process

The researcher has analyses 22 journal articles and peer-reviewed articles for the literature review and understood the concept of green financing, green finance activities, corporate governance and the connection between green finance and corporate governance. However, the researcher found that specific articles repeat the same data and certain instances. Therefore the evaluation of articles was done with PRISMA method. PRISMA method there are four stages of screening data. Those are identification, screening, eligibility and inclusion. As per the identification stage, the researcher identified the number of literature reviewed was 29. However, after screening by removing duplication andthe number of records excluded due to the content, abstracts and title were 12. These 12 articles were selected for the eligibility criteria. Thereafter, certain documents were included with reasoning for being in line with the objectives, research questions and the research aim. The PRISMA diagram for the selection and inclusion of literature is as follows,

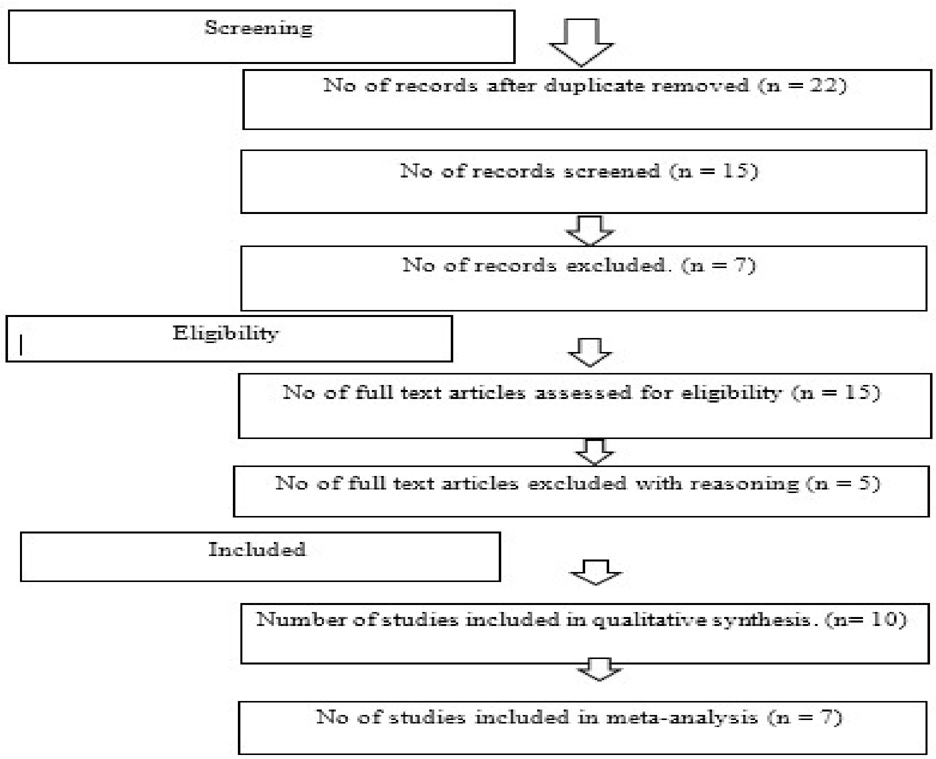

Figure 2: Prisma Diagram

Author & Year	Theme	Method	Sample Size	Platform	Industry.
Simon Dikau & Ulrich Volz, 2018.	Central Banking Climate change & Green banking.	Working paper	It is not specified.	Secondary Data.	Banking Industry.
Guler Aras, David Crowther 2008.	Governance & Sustainability.	Survey	100 firms.	Secondary Data.	FTST 100 firms.
Judd Snerson 2009.	Green is good: Sustainability, Profitability and a new paradigm for corporate governance.	Article.	It is not specified.	Secondary Data.	It is not specified.
Ivan Miroshnychenko, Roberto Barontini, Francesco Testa 2017.	Green practices and financial performance: A global outlook	Research. Survey.	3490 firms.	Secondary data.	It is not specified.
Benjamin J. Richardson 2009.		Working paper.	Nor it is specified.	Secondary data.	Banking Industry.
	Climate finance & its governance.				
Douglas & Corgan 2006.	Corporate Governance & Climate change.	Research. Survey.	40 worlds largest banks.	Secondary data.	Banking Industry.
Fia Dialysa, Sekolah Tinqa Ilmu Ekonomi 2015.	Moving a low carbon economy through socially responsible financing.	Literature Survey.	It is not specified.	Secondary Data.	Banking Industry.

Figure 3: Thematic Review

Results and Discussion

According to the analysis, the researcher studied the concept of green financing, the concept of corporate governance and the effect of green finance for the corporate governance. Accordingly, the objectives of the research was fulfilled.

Understand the Concept of Green Financing

Green financing is the latest concept of banking introduced (12). That is the financial services industry as the intermediary between the economy and the environment. (4) Therefore the study discusses the term green finance as the financial product or service which supports the environment sustainability. In this was the financial sector concern about the environmental sustainability in every decision they take with regard to the financial flow. Hence, the study revealed that there are various banking products and services of green finance such as green investments, green loans, green leases, green bonds and other green products (8). Therefore the green finance creates a collaboration between the public and private partnership to protect the environment.

Evaluate the Dimensions of Green Financing for the Banking Sector

The concept of green finance has introduced in policy level to the banking industry in the recent years. Therefore banks are promoting environmental sustainable projects and promotes low carbon emission in businesses and energy efficient methods in businesses in project funding. Further the study revealed that the green financing has a concern about the climate change, global warming, and as well (11) . Further the concept of green finance spreads not only for lending but also several green investment products such as green bonding, green investments are being created. Therefore the study revealed that the green finance has several benefits of environment sustainability (18) . Further the study understood that the concept of green finance and the environmental sustainability increase the production efficiency as well as the long term profitability of the corporates (7) . Hence by promoting on green finance the financial services sector enhances the business sustainability and ultimately overall economic sustainability as well. Therefore the implementation of environmental sustainability will lead sustainable economy. The green finance has not only benefit to the economy and the environment as well. It has benefits to the baking sector itself as well. It creates a value for the entire banking sector by creating additional value to the baking business (19).

Therefore it is clear about the concept of green financing. Corporate governance is the framework of the business which govern the organization. Generally the shareholders of the corporates appoint board of directors for the business. Board of directors are responsible for the shareholders for the management. Therefore corporate governance is the regulatory framework for the business (13). This literature study discussed that, organizations used to consider about the shareholder interests satisfaction, and the profitability as the main concerns of corporate governance (22). However, with the latest development of the concept of corporate governance the expectations of shareholder interest is no longer the main and only concern of the business. The corporate governance in latest context consider about the stakeholder’s value maximization instead. However the study describes the organization corporate governance is based on three factors such as triple bottom line, gearing up framework and shareholder wealth maximization (20). Triple bottom line discusses that the organization corporate governance is based on, 01.Economic prosperity. 02. Environmental quality. 03. Social justice.

As the main pillars of corporate governance. This study revealed that the environmental sustainability and economic sustainability both are equally has a tight relationship with the corporate governance of a business (17). Therefore it is clear with the previous study that the concept of corporate governance not limited to shareholders wealth maximisation and the financial profitability of the business (9) . The corporate governance is a broad concept which is concern about stakeholder value maximisiation by adding value to the business. This is much long term sustainability concept. Hence the corporate not only increase the profitability but also increase the market value of the business.

Understand whether green finance practices effect the corporate governance in banking industry.

The literature survey understood that there is a clear link between the corporate governance and the green financing in banks. Certain studies recommended that the concept of green finance and green banking has to be included as part of the corporate governance. The basic concept of corporate governance is the shareholder value maximisation and stakeholder value maximisation. This is a sustainable concept which organizations are concern about the society, environment and the corporate profitability. The study revealed that the concept of green finance increase the value of the business by creating value to the business and increasing long term profitability (9). Further the concept of sustainability increase the market value of the business as well. Hence automatically when the banking industry is concerning about the sustainability and implementing green finance, the value of banking industry goes up. Specially the banking industry being the main transactional agent between the private sector and public sector, the impact of greening banking products and services has a high value for the banking industry. Therefore it is clear that there is an effect of green finance for the corporate governance in the banking industry. Accordingly, the four objectives of the research was fulfilled and the researcher identified the concept of green financing, concept of corporate governance and identified that there is an effect of green financing for the corporate governance in the banking industry. Therefore the research question was answered and the aim of the research was fulfilled.

Conclusions

This research was conducted with the aim of understanding the effect of green financing for the corporate governance in the banking industry. Therefore the objectives of the research were, to identify the concept of green finance, to evaluate the dimensions of green financing, understand the concept of corporate governance and to understand the effect of green finance in the corporate governance in the banking industry. This study revealed that the concept of green finance is a latest concept which has recently introduced for the private and public sector. The concept of green finance evolved from the concept of environment sustainability. It is understood that the world has faced several climate and environmental issues due to acts of industrialization. Therefore as a solution for the environmental issues, many people are finding solutions for the environmental sustainability. Banks as the institutions which handle financial flow of the economy has a major control over the economic activities. Therefore the literature review was conducted to identify the previous scholar's articles about the concept of green financing and the corporate governance. Therefore the literature review was conducted based on the objectives of the study. That is the definition and the concept of green finance, corporate governance, green finance activities and the effect of green finance for the corporate governance. Therefore it was understood that the green finance is a broad concept based on the bank's intermediary action to have a collaboration between the environment and the economy. Further the previous scholarly articles found about the relationship between the green finance and the corporate sustainability.

The research was a systematic literature review. The researcher used only valid article s and journals and web sites for the research. Further the researcher make sure that the journal articles are latest articles are between 2000- 2018 to make sure the updated validity of the data. Further the journals selection was conducted only from valid and recognized sources to make sure the accuracy and validity of the data. This research is a deductive approach, proved based on the secondary data. Therefore the sample size is large and it considers the entire banking industry. The research philosophy is positivism. The researcher found 29 journal articles and screened using the PRISMA method. Therefore the final eligible journal articles were 7. Further thematic analysis was done to understand the content of the journal articles and evaluate the research findings.

These journal articles were evaluated in-depth and data analyzed based on the research findings and article descriptions. Therefore it was understood that there is a effect of green financing for the corporate governance in the banking industry. Hence, the objectives of the research was fulfilled and found out that there is a relationship between green finance and corporate governance in the banking industry.

Recommendation.

It was identified that the green finance concept implementation has an impact on the corporate governance of the banking industry. This research identified that the concept of green finance is an important concept which has to be implemented by every bank for the sustainability in economy and environment. The sustainability of environment is an important concept as there are several environmental issues which have become a threat for the sustainability of human being. Therefore it is recommended to apply the concept of green finance in each and every bank. Further the study revealed that there is a relationship between green finance and the corporate governance. Therefore it is clear that the implementation of green finance concept in banks will increase the shareholder value maximization and stakeholder value maximization. Therefore this will create long term economic sustainability.

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