

CHAPTER II LITERATURE REVIEW

2.1 Literature Review

2.1.1 Sustainable Finance

Sustainable Finance is a concept that encompasses the integration of Environmental, Social, and Governance (ESG) factors when making financing and investment decisions in the financial sector (Schumacher et al., 2020). The integration of ESG factors enables the support of sustainable economic activities and projects from the long-term point of view. Environmental factors may include taking action on climate change through mitigation and adaptation efforts, preserving biodiversity, preventing pollution, and advocating for a circular economy. The main focus of social aspects is to address social inequality, promote social inclusion, handle labor relations, invest in human capital, and provide support to communities (Streimikiene et al., 2023).

In implementing sustainable development goals, Traditional finance is insufficient and unsuitable because it focuses solely on financial return and risk and Traditional Finance does not consider a three-dimensional sustainable development perspective, including environmental and social (Fullwiler, 2016; Schoenmaker, 2017). The traditional finance approach to shareholder wealth maximization is no longer a valid guide to the creation of sustainable wealth because of its focus on short-term results which has had the unintended consequence of forcing many firms and institutions to externalize their social and environmental costs (Zairis et al., 2024).

2.1.2 Sustainable Development Goals (SDG)

The Sustainable Development Goals (SDGs), established in 2015 by all United Nations member countries as part of the 2030 Agenda for Sustainable Development, provide a global framework to tackle pressing challenges through 17 interlinked goals.

These objectives strive to harmonize economic development, social inclusion, and environmental sustainability, with the ultimate aim of ensuring "peace and prosperity for people and the planet" by the year 2030 (UNDP, n.d).

The 17 goals are underpinned by 169 targets that address critical areas such as poverty eradication, health, education, gender equality, clean energy, and climate action. Each goal is categorized under three dimensions of sustainability, namely economic, environmental, and social dimensions. Firstly, economic dimension focuses on fostering inclusive economic systems and resilient infrastructure, with examples prominent in SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation, and Infrastructure). Secondly, social dimension aims to eliminate inequalities and ensure access to basic human needs, with examples exist in SDG 1 (No Poverty), SDG 2 (Zero Hunger), and SDG 4 (Quality Education). Lastly, environmental dimension prioritizes on planetary health, urging nations to combat climate change and protect ecosystems, with examples prominent in SDG 13 (Climate Action) and SDG 14 (Life Below Water) (UN, n.d.).

The SDGs provide a transformative roadmap for sustainable development, but their success depends on inclusive governance, innovation, and shared accountability. As the 2030 deadline approaches, accelerating progress will require scaling localized initiatives, enhancing data transparency, and strengthening multilateral partnerships (UN, n.d.).

2.1.3 Bank & Banking Institutions

A bank is a financial institution that offers a variety of services related to money. To put it simply, a bank acts as a middleman between people or businesses that have extra money (depositors) and those who need to borrow money (borrowers). Banking institutions play a critical role in the global economy, serving as intermediaries that facilitate financial transactions, promote economic growth, and ensure financial stability. They encompass various types of banks, each with distinct functions and services tailored to meet the diverse needs of individuals, businesses, and governments (Faure, 2013).

At their core, banking institutions are designed to manage money and facilitate transactions within the economy. Banking institutions perform several essential functions, such as acting as intermediaries between savers and borrowers, providing the infrastructure for payment systems that allow for the transfer of money between parties, helping individuals and businesses manage financial risks through various products such as insurance, derivatives, and hedging services, and even offering investment products that help clients grow their wealth over time (UCCU, 2023).

Moreover, banking institutions can be categorized into several types based on their functions, with 3 institutions being the most common in the economy, namely Commercial Bank, Investment Bank, and Central Bank. Commercial Banks are the most common type of bank that serves the general public and small to medium-sized businesses. Commercial banks accept deposits, provide loans, offer checking accounts, and facilitate everyday banking needs. Investment Banks focus on providing services to large corporations and institutional investors. They assist with complex financial transactions such as mergers and acquisitions (M&A), underwritten securities, and offer advisory services for large-scale projects. Then, Central banks are pivotal in maintaining a stable financial system within a country. They regulate monetary policy,

control inflation, manage currency reserves, and oversee commercial banks to ensure overall economic stability (Cole, 2019).

2.1.4 Sustainability Reporting in Financial Institutions

The increasing number of non-financial reporting guidelines has changed how companies are expected to handle sustainability matters. This shift means businesses are now more accountable for including and addressing environmental, social, and governance issues in their operations. The five most popular sustainability reporting frameworks and standards that have been continuously used by many institutions and individuals around the world are the Global Reporting Initiative (GRI), Climate Disclosure Project (CDP), Sustainability Accounting Standard Board (SASB), International Integrated Reporting Council (IIRC) or Integrated Reporting (IR) and Climate Disclosure Standards Board (CDSB) (Goswami et al., 2023).

Each of these five frameworks and standards have its own characteristics, however it can be organized into 2 major groups. GRI is focusing more on the multi-stakeholder factors, meanwhile IR, SASB, CDP, and CDSB are focusing more on the investor and capital provider focus. Furthermore, the definition of materiality by GRI goes beyond just solely focusing on financial material information. Instead, it emphasizes that topics considered material should not be overlooked simply because they are not recognized as financial material by the organization. On the other hand, IR, SASB, CDP, CDSB, and TCFD are all describing the integration of financial material information alone (Goswami et al., 2023). Out of the five frameworks that has been used globally, GRI appears to have become the common language for sustainability reporting as it provides indicator-based guidelines to produce standalone corporate sustainability reports or information within annual reports for a wide range of stakeholders since early 2000 (GRI, 2016).

2.1.5 GRI

The Global Reporting Initiative (GRI) Standards is a notable international nonprofit organization that offers a broad framework for sustainability reporting applicable to organizations of various sizes and across numerous sectors. Over the years, the developed standards have continuously progressed, beginning with the initial version released in 2000 and followed by subsequent versions in 2002 (G2), 2006 (G3), and 2013 (G4) (Adams et al., 2022).

In 2016, GRI was established as the inaugural global standard for sustainability reporting, resulting in the publication of the GRI sustainability reporting standards (GRI, 2016). These standards consist of a collection of norms and guidelines categorized into four series: GRI 100, GRI 200, GRI 300, and GRI 400. The GRI 100 outlines how to present general information about the organization and its associated enterprises, whereas GRI 200, along with series 300 and 400, provides topic-specific standards related to economic, environmental, and social disclosures.

GRI's Global Sustainability Standards Board (GSSB) is committed to creating a sustainable future through an independent, multi-stakeholder approach to developing a universal framework for reporting on impact. This framework facilitates informed discussions and choices regarding organizational effects. The GRI Standards are now globally recognized as the most extensively utilized and thorough guidelines for sustainability reporting (Adams et al., 2022).

2.2 Previous Research

Table 2. 1 Previous Research

Author(s)	Research Title	Result	Similar	Difference
Mochamad Roland Perdana, Achmad Sudiro, Kusuma Ratnawati and Rofiaty Rofiaty (2023)	Does Sustainable Finance Work on Banking Sector in ASEAN: The Effect of Sustainable Finance and Capital on Firm Value with Institutional Ownership as a Moderating Variable	The research investigates whether sustainable finance and capital influence the firm value of banks listed in ASEAN stock markets between 2015 and 2021. It also examines how institutional ownership moderates these relationships. The findings from this study found out that the inclusion of sustainable finance in a bank's portfolio significantly	This study explores sustainable finance as a mechanism to align financial activities with environmental and social goals. Furthermore, both studies utilize ESG considerations as a foundational basis. Furthermore, both studies acknowledge the growing importance of sustainable finance	This study only focuses on institutional banking as their research object. Other than that, this study discusses whether institutional ownership may influence banking institutions toward their sustainable finance practices and not specifically discusses the sustainability

		enhances the firm's value. Banks that prioritize sustainable finance benefit from improved operational efficiency and compliance with international sustainability standards, ultimately impacting firm value. Another factor that is also included in this research is capital, which also has a significant positive effect on firm value, emphasizing its role in maintaining stability and investor confidence. All-	in the ASEAN region, mainly in the banking sector. Not only that, both studies also show similarities in the methodology of research, with using Quantitative research methods to measure the data obtained to make the research.	performance of each bank.
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		in-all, institutional ownership strengthens the relationship between sustainable finance and firm value, indicating that institutional investors encourage banks to adopt sustainable practices. However, institutional ownership does not moderate the relationship between capital and firm value.		
Setiani Putri Hendratno, Etty Murwaningsari, Juniati Gunawan (2022)	Implementation of Sustainable Banking: Study in Indonesia and Singapore	The results explore the implementation of sustainable banking practices in Indonesia and Singapore, focusing	This study has similar geographical scope, focusing specifically on Indonesia and	This study has different research purposes because it's aiming to develop a comprehensive

		on Environmental, Social, and Governance (ESG) dimensions. It evaluates how well banks in these countries disclose their sustainability efforts using a newly developed comprehensive sustainable banking framework by integrating multiple global standards, namely SUSBA, SASB, GRI G4, and UNEP FI. Key findings from this study found out that the level of bank compliance in Indonesia looks pretty	Singapore, highlighting these two countries as key representatives of sustainability practices in the ASEAN banking sector. Furthermore, the core subject in both studies is the banking industry in Indonesia and Singapore. Not only that, the GRI (Global Reporting Initiative) framework is used or acknowledged in both works as a reference point or	sustainable banking framework by combining various existing frameworks (SUSBA, SASB, GRI G4 FSSS, and UNEP FI) and adding stakeholder engagement and digital transformation as pillars. This study also uses different methods in gathering data as it employs a qualitative method using interviews and content analysis of sustainability reports.
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		high, which may be seen from compliance with regulations. Top-scoring banks in Indonesia are CIMB Niaga (43.39%), BCA (41.77%), and BRI (41.61%), with these banks fell into the "Partially Applied" category (41–75%). All others showed "Limited Disclosure" (1–40%). No bank reached "Well Applied" (76–99%) or "Fully Applied" (100%) category. Indonesian banks showed strongest areas in purpose and people pillars which may	benchmark for analyzing sustainability reporting practices.	
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		exist due to regulatory encouragement from OJK. Meanwhile, Indonesian banks showed weakest areas in digital transformation and stakeholder engagement. In contrast, Singaporean banks showed a moderate level of compliance with DBS Singapore (32.42%), UOB Singapore (23.55%), and OCBC Bank (20.48%). These three banks had Limited Disclosure across all pillars. In terms of strongest pillar,	
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		Singaporean banks showed Products as their best example, which may exist because it's supported by Singapore's Green Finance Action Plan and grant incentives. Meanwhile, Singapore also showed weak compliance in digital transformation and stakeholder engagement, similar to Indonesian counterparts.		
Lawrence Loh & Thomas Thomas (2018)	Sustainability Reporting in ASEAN Countries (Indonesia,	The research result found out that in adopting globally recognized frameworks,	This study shares a common geographical focus on the ASEAN	This study provides a broader overview of sustainability reporting across

	Malaysia, Philippines, Singapore and Thailand)	Malaysia and Singapore ranked the highest with both countries scored a score of 61% adoption, respectively. Then, it is closely followed by Philippines that scored 52.3%, Thailand with 46.0% and Indonesia positioned at last place with 37.0%. Most of the companies listed in Malaysia and Singapore adhered to standard frameworks in their reports, possibly because of the sustainability reporting guidelines implemented by the	region. This indicates an interest in understanding sustainability-related issues within the context of Southeast Asian countries. Furthermore, both works acknowledge the importance of sustainability reporting in firms and companies, further implicating that ESG implementation must be in line with	multiple ASEAN countries (Indonesia, Malaysia, Philippines, Singapore, and Thailand) and across all sectors, not just the banking industry. Moreover, this study primarily provides an overview and assessment of the current state of sustainability reporting in the selected ASEAN countries, and in this case the study examines the
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		stock exchanges in each country. The overall analysis done by this research concluded that Malaysia listed companies scored the highest disclosure ratings, with Singapore in 2nd place while Indonesia listed companies scored the lowest disclosure ratings.	sustainability reporting.	condition in the year 2018. While it includes comparisons, the focus is on describing the broader trends and challenges.
GRI ASEAN & Centre for Governance and Sustainability (2022)	Climate Reporting in ASEAN (State of Corporate Practices)	This report is a region-wide assessment that explores the climate-related disclosure practices of leading publicly listed	Both studies are set within the context of ASEAN countries, specifically discussing the state, importance and	This study takes a broader approach, examining climate-related reporting practices across various sectors in

		companies across six ASEAN countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. The findings of this study indicate that companies in Malaysia, Singapore, and Thailand exhibited greater strength in reporting on climate-related issues, as demonstrated by their higher overall scores. The superior performance of these three countries in climate-related reporting can be attributed to a mix	progress of corporate sustainability reporting and sustainable finance. Not only that, both studies also mention the absence of a unified sustainability or climate reporting framework in ASEAN. This results in diverse practices across countries, often influenced by national policies, stock exchange rules, and	ASEAN countries. This study discusses key areas such as reporting framework, materiality, risks and opportunities, governance, strategy, targets, and performance. Lastly, this study includes countries like Malaysia, Philippines, Thailand, and Vietnam, in addition to Indonesia and Singapore.
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		of regulatory requirements and engagement with stakeholders. On average, ASEAN companies achieved an overall TCFD alignment score of 36%, which suggests that while some level of climate-related disclosure is occurring, it remains limited in depth and consistency. Singapore leads the region with the highest average alignment at 49%, followed by Malaysia (42%) and Thailand (37%).	international benchmarks.	
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		Meanwhile, countries like Vietnam and the Philippines showed significantly lower levels of alignment, with Vietnam at the bottom of the list, scoring only 17%.		
Maryanti Maryantia, Muhammad Hasbi Abbas, Muhammad Aksan Tenrisau, Hasnidar (2024)	BANKING SUSTAINABILITY IN INDONESIA	This study explores the role of public banking companies in Indonesia on promoting environmentally responsible economic development. It focuses on sustainability practices within the Indonesian banking sector, utilizing	This study revolves around the concept of sustainable finance and ESG (Environmental, Social, and Governance) integration in the banking industry, recognizing banks as key players in	This study focuses solely on public banking in Indonesia as its research object. Furthermore, it focuses heavily on practical initiatives by public banks (e.g., Creative Homes, eco-friendly credit policies, AMDAL

		explanatory methods to analyze sustainability and financial reports of banks listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. The key findings to this research found out that Public Banks in Indonesia has actively embraced sustainable finance, aligning with POJK No. 51/POJK.03/2017, which mandates financial institutions to incorporate environmental, social, and governance (ESG)	advancing environmentally and socially responsible economic development.	requirements, water usage data).
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		considerations. This commitment includes preserving biodiversity, natural resources, and contributing to climate change mitigation through environmentally responsible financing. Other than that, Public Banks in Indonesia ensures its credit financing policy supports eco-friendly sectors and prohibits financing for environmentally damaging projects. Internal regulations demand that borrowers submit Environmental	
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		Impact Analysis (AMDAL) or equivalent documentation and meet proper ratings issued by the Ministry of Environment. Furthermore, Public Banks support digital economic ecosystems by fostering SMEs and start-ups through the establishment of Creative Homes. These centers serve as hubs for education, digitalization, and market access, particularly in the sectors of fashion (e.g., Batik, Songket), food, and	
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		crafts. Lastly, Public banks have shown green banking practices and from 2016 to 2019, there was a 31% increase in recycled water usage and a reduction in drinkable water dependency from 85% to 69%.		
Iwan Suhardjo and Meiliana Suparman (2024)	Employee Engagement and Green Finance: An Analysis of Indonesian Banking Sustainability Reports	This study explores the relationship between employee engagement, green finance initiatives, and ESG (Environmental, Social, and Governance) risk ratings within the Indonesian banking industry. Key findings in	This study has a strong emphasis on Environmental, Social, and Governance (ESG) factors as core components to evaluate banks' sustainability efforts and performance.	This study revolves more on the Human Resources scope, specifically examining the employee engagement strategies and their alignment with ESG factors. Furthermore, this

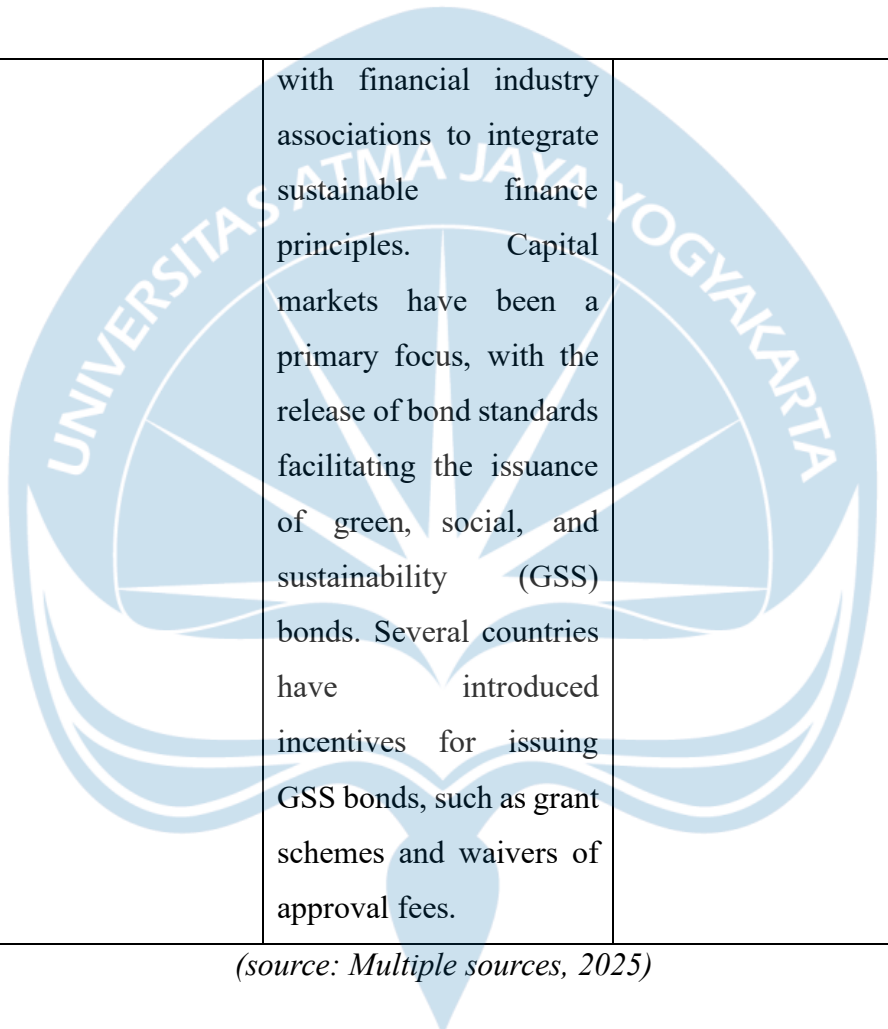
		this research found out that Indonesian banks prioritize training, labor rights, and diversity as key strategies to engage employees in green finance initiatives. These practices align with the principles of stakeholder theory, which emphasize the importance of considering employees as critical stakeholders in achieving sustainability goals. Not only that, but employee engagement practices are consistently reported across materiality (relevance of	Not only that, but this study also uses comparative study method to contrastly explain the difference between Indonesian banks and other research object included in this research.	study also has different research objects, mainly comparing Indonesian banks with non-banking institutions.
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		sustainability issues), strategy, and performance metrics. This consistency suggests a structured approach to integrating employee engagement into sustainability efforts. Furthermore, compared to non-banking institutions, Indonesian banks exhibit a stronger focus on employee engagement parameters such as training and labor rights. This emphasis is attributed to the regulated nature of the	
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		banking industry, which demands higher compliance with sustainability standards. However, the study finds no clear evidence of a direct link between employee engagement practices, green finance and ESG risk ratings in Indonesian banks. Current ESG rating methodologies appear to prioritize the quality of sustainability reporting over the actual implementation of impactful practices like	
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		employee engagement and green finance.		
Swisa Ariyapruchya and Ulrich Volz (2023)	Sustainable finance in Southeast Asia	This study explores the progress, challenges, and opportunities of sustainable finance within the ASEAN region. Most ASEAN countries have committed to achieving carbon neutrality by 2050, signaling a strong dedication to addressing climate change. However, the advancement of sustainable finance activities varies across countries due to	Both studies examine sustainable finance within the ASEAN region, highlighting the region's commitment to addressing climate change and promoting environmentally responsible financial systems. Both acknowledge that implementation of sustainable finance varies across	This study mainly discusses the broader ASEAN overview of sustainable finance, focusing on the macro-level progress and challenges in the region. Moreover, this study showed less emphasis on explaining the theoretical frameworks and sustainability reporting used to implement sustainable finance

		differences in economic and financial development and institutional capacities. The COVID-19 pandemic has further complicated matters, as resources have been diverted towards immediate social and economic policies, potentially impacting long-term sustainable finance initiatives. At the country level, most countries have adopted an industry-led approach, with financial authorities collaborating	ASEAN countries, due to differences in institutional capacity, regulatory environments, and economic development levels. Furthermore, the analysis revolving around this study also uses comparative method across different countries in ASEAN.	across ASEAN countries.
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		with financial industry associations to integrate sustainable finance principles. Capital markets have been a primary focus, with the release of bond standards facilitating the issuance of green, social, and sustainability (GSS) bonds. Several countries have introduced incentives for issuing GSS bonds, such as grant schemes and waivers of approval fees.		
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(source: Multiple sources, 2025)

2.3 Conceptual Framework

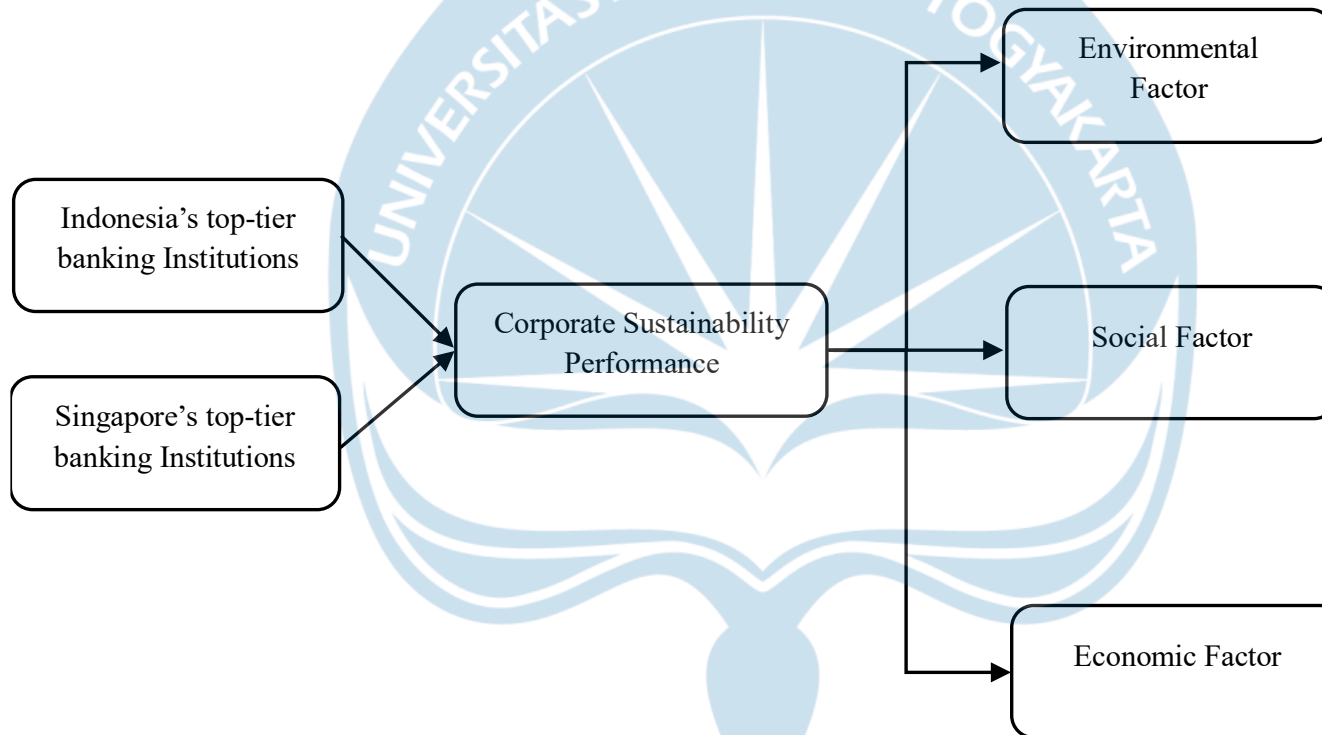


Figure 2. 1 Conceptual Framework
(source: Data processed, 2025)