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# The Impact of Sustainable Finance and Green Bond Implementation on Firm Value and Investor Trust in the Manufacturing Industry in Central Java

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**ABSTRACT**

This study examines the impact of Sustainable Finance and Green Bond Implementation on Firm Value and Investor Trust in the manufacturing industry in Central Java. Employing a quantitative approach with 143 samples, data were collected using a Likert scale (1–5) and analyzed through Structural Equation Modeling - Partial Least Squares (SEM-PLS). The results reveal that both Sustainable Finance and Green Bond Implementation significantly enhance Firm Value and Investor Trust. Green Bond Implementation, in particular, demonstrates a stronger influence on these variables, highlighting its critical role in driving sustainable development and corporate credibility. Model fit indices and predictive relevance metrics confirm the robustness of the proposed model. These findings underscore the importance of sustainability in corporate finance and its implications for stakeholder relationships. The study provides valuable insights for companies and policymakers seeking to integrate sustainability into their financial strategies.



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## 1. INTRODUCTION

The global shift toward sustainability has driven the adoption of sustainable finance and green bonds in corporate strategy. Sustainable finance incorporates environmental, social, and governance (ESG) principles into financial decision-making, enhancing corporate resilience and aligning with global sustainability goals [1], [2]. Green bonds, a key component, fund environmentally beneficial projects like renewable energy and clean transportation, improving ESG performance and reducing financing costs, especially in developed regions [3], [4]. However, challenges such as regulatory gaps and the need for standardized ESG metrics persist [1]. Integrating ESG strategies into corporate governance strengthens competitiveness and community engagement while supporting regional sustainability [5]. Addressing financial constraints and awareness gaps

requires incentives and capacity-building programs [5].

The Indonesian manufacturing industry plays a vital role in economic development but faces significant environmental sustainability challenges. The introduction of sustainable finance and green bonds is seen as a potential solution to promote corporate responsibility and investor trust, although empirical studies on their impact, particularly in Central Java, remain limited. Green economic policies have been shown to enhance the growth effects of MSME development programs, suggesting similar strategies could benefit larger manufacturing firms by fostering economic stability and growth [6]. The integration of green practices, such as Green Intellectual Capital (GIC) and Environmental Management Accounting (EMA), has been linked to improved business performance and sustainability in the manufacturing sector [7]. However, firms with high environmental sustainability scores often face financial constraints, especially smaller and newer companies, posing challenges in adopting sustainable practices without sufficient financial support [8]. Despite these constraints, companies with strong sustainability practices tend to have lower debt levels, indicating potential long-term financial health benefits [8]. Green finance and regulation currently have no significant effect on investment decisions in Indonesian manufacturing companies, suggesting a gap between policy intentions and practical outcomes, as cash flow and profitability remain the primary drivers of investment decisions [9]. The Environmental Kuznets Curve (EKC) model suggests a reversible relationship between economic growth and environmental quality, indicating that sustainable practices could lead to reduced environmental degradation as GDP increases, while the concept of Green GDP provides a more comprehensive measure of economic progress in the context of sustainable development [10].

This study aims to fill this gap by exploring how the implementation of sustainable finance and green bonds influences company value and investor confidence within the manufacturing industry in Central Java. The research is motivated by the need to understand the interplay between sustainability-driven financial strategies and business performance, as well as their implications for investor behavior. The significance of this study lies in its potential to provide valuable insights for companies, investors, and policymakers. For companies, the findings will highlight the benefits of integrating sustainability into financial practices and demonstrate how green bonds can be leveraged to attract environmentally conscious investors.

## 2. LITERATURE REVIEW

### *2.1 Sustainable Finance*

Sustainable finance, integrating environmental, social, and governance (ESG) criteria into financial decision-making, is vital for corporate strategy, supporting environmental preservation, social equity, and economic stability. In Indonesia, regulations like OJK Regulation No. 51/POJK.03/2017 mandate sustainable finance adoption, highlighting its role in addressing environmental challenges and economic growth. The manufacturing sector, with its high environmental impact, benefits from green finance, which supports low-carbon economies and green technologies [11], [12], while ESG practices enhance corporate performance and social welfare [11]. Businesses must balance agility and resilience through sustainable financial planning and risk management (Putri et al., 2025), with financial tools like sustainability-linked loans and green bonds aligning

profitability with sustainability goals [13]. Regulatory efforts, such as the U.S. SEC's ESG disclosure rules and the European Commission's SFDR, seek to improve ESG reporting and curb greenwashing, though inconsistencies remain a challenge [14]. Sustainable finance also drives societal transformation, supporting renewable energy, decarbonization, digitalization, and social well-being [13].

### 2.2 *Green Bonds*

Green bonds are pivotal financial instruments that fund environmentally beneficial projects, such as renewable energy and pollution control, while enhancing corporate credibility and attracting ESG-focused investors. The Indonesian government's issuance of sovereign green bonds, or Green Sukuk, demonstrates a national commitment to climate goals under the Paris Agreement. These bonds mobilize private capital for clean energy projects, playing a crucial role in addressing climate change and advancing sustainable development [15], [16]. Additionally, green bonds improve a company's reputation and reduce capital costs by appealing to environmentally conscious investors [15], [17]. However, challenges remain, such as the need for standardized metrics and certifications to verify environmental impacts, as well as ensuring transparency and accountability to prevent greenwashing and maintain investor confidence [18], [19]. Integrating green bonds with other financial instruments can strengthen the renewable energy financing ecosystem, while the global expansion of green bond markets continues to provide opportunities for sustainable investment [16], [18].

### 2.3 *Company Value*

The value of a company is shaped by multiple factors, including financial performance, corporate governance, and sustainability practices, with recent research emphasizing the increasing role of sustainability in enhancing firm value by mitigating risks, strengthening brand reputation, and fostering stakeholder trust. This aligns with [20], who highlight the positive impact of sustainability on market valuation. Financial performance, particularly profitability, liquidity, and solvency, significantly affects firm value, with good corporate governance (GCG) playing a moderating role—strengthening the relationship between profitability and solvency while potentially weakening the link between liquidity and firm value [21]. In the food and beverage sector, institutional and public ownership, along with audit committees, significantly influence firm value, with institutional ownership having the strongest effect, underscoring the importance of external supervision and governance [22]. Corporate sustainability also contributes to market value, as demonstrated by companies like Microsoft and Intel, where strong CSR initiatives enhance stakeholder engagement and market performance [23]. ESG performance further strengthens

firm value, with a more pronounced impact in Indonesia than in Singapore, suggesting regional differences in ESG priorities and market responses [24], [25]. Integrating sustainable finance and green bonds into corporate strategies aligns business operations with investor and consumer expectations for environmental responsibility, reinforcing long-term company value.

### 2.4 *Investor Confidence*

Investor confidence in Indonesia's manufacturing sector is increasingly shaped by sustainable finance practices, particularly through the integration of ESG factors and green bonds, as ESG-focused companies attract stable and loyal investors by demonstrating long-term value creation and sustainability. Green bonds signal a company's commitment to environmental responsibility, enhancing investor trust and engagement, which is vital for driving capital inflows and fostering industry growth. ESG ratings positively impact investor confidence by being linked to better financial performance and stable dividend policies [26], while sustainability disclosures, including ESG reporting, influence investor sentiment and corporate valuation, underscoring the importance of transparency [27]. Green bonds play a crucial role in mobilizing private capital for sustainable projects, providing a transparent and environmentally compliant investment option appealing to socially responsible investors [16]. Despite their relatively small market share, green bonds have shown resilience during market turmoil, acting as a safe haven and diversifier for investors in volatile markets [28]. Integrating green bonds with other financial instruments can strengthen the renewable energy financing ecosystem, aligning with global sustainability goals and attracting institutional investors [16]. The rapid expansion of the green bond market signals a shift in corporate sustainability approaches, positively influencing investor perceptions and confidence in the manufacturing sector [15].

### 2.5 *Theoretical Framework*

This study is grounded in stakeholder theory and signaling theory. Stakeholder theory emphasizes the importance of balancing the interests of various stakeholders, including investors, employees, customers, and the community, in achieving long-term organizational success [29]. Sustainable finance and green bonds align with stakeholder theory by addressing environmental and social concerns while delivering economic value.

Signaling theory highlights the role of information disclosure in reducing information asymmetry and building trust between companies and investors [30]. The issuance of green bonds and the adoption of sustainable finance practices serve as signals of a company's commitment to sustainability, thereby enhancing investor confidence and market value.

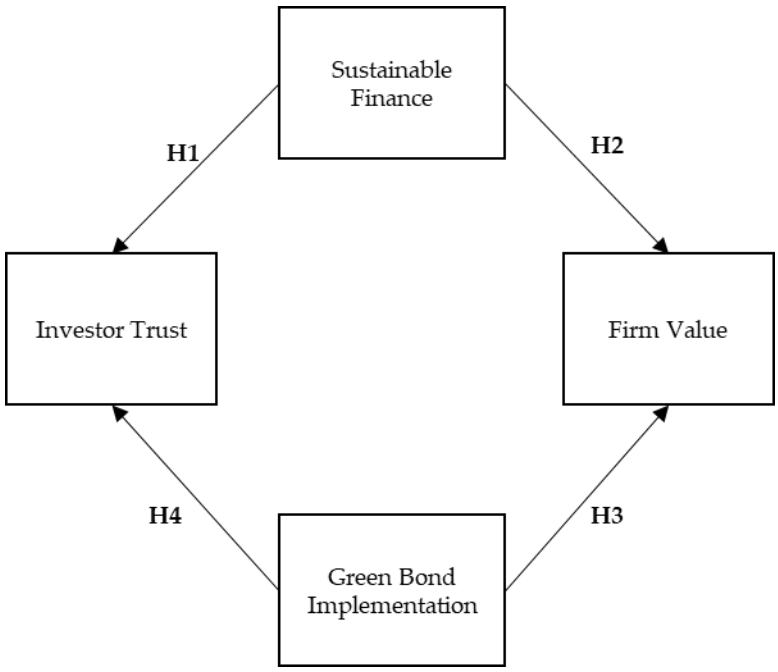


Figure 1. Conceptual Framework

### *2.6 Research Gap*

While existing studies have explored the general impact of sustainable finance and green bonds on corporate performance, there is limited research on their specific effects on company value and investor confidence in the Indonesian manufacturing sector. Central Java, as a key industrial region, presents a unique context for examining these relationships. This study seeks to address this gap by providing empirical evidence on the role of sustainable finance and green bonds in shaping business outcomes and investor behavior within the manufacturing industry.

## 3. METHODS

### 3.1 Research Design

This study employs a quantitative research design to examine the impact of sustainable finance and green bonds on company value and investor confidence in the manufacturing industry in Central Java. Quantitative methods are suitable for this research as they allow for the systematic analysis of relationships among variables using statistical techniques. The study adopts a cross-sectional approach, collecting data at a single point in time to assess perceptions and behaviors related to the research constructs.

### 3.2 Population and Sample

The population of this study includes manufacturing companies in Central Java that have implemented sustainable finance practices and/or issued green bonds. The sample size consists of 143 respondents, comprising key stakeholders such as company executives, financial managers, and investors with direct involvement in sustainable finance and green bond initiatives.

A purposive sampling technique was used to ensure that the respondents possess relevant knowledge and experience regarding the study's variables. This approach enhances the reliability and validity of the data by selecting participants who can provide informed perspectives on sustainable finance, green bonds, company value, and investor confidence.

### 3.3 Data Collection

Primary data were collected using a structured questionnaire designed to measure key constructs of the study, which was divided into four sections: Sustainable Finance, assessing the extent to which companies integrate environmental, social, and governance (ESG) criteria into their financial practices; Green Bonds, evaluating the issuance, utilization, and reporting of green bonds for funding environmentally beneficial projects; Company Value, measuring the perceived value of the company in terms of financial health, market performance, and stakeholder trust; and Investor Confidence, capturing the level of trust and confidence investors have in the company's financial and sustainability practices. Responses were measured on a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). The questionnaire was pretested with a small group of respondents to ensure clarity and relevance, with adjustments made based on their feedback.

### 3.4 Data Analysis

The collected data were analyzed using Structural Equation Modeling - Partial Least Squares (SEM-PLS) with SmartPLS software, a robust statistical technique suitable for analyzing complex relationships among latent variables, particularly with small to medium sample sizes. The data analysis followed three main steps: Measurement Model Evaluation, which involved assessing reliability using Cronbach's alpha and composite reliability (CR) with a threshold of 0.7, examining convergent validity through average variance extracted (AVE) with a minimum of 0.5, and ensuring discriminant validity using the Fornell-Larcker criterion and cross-loadings; Structural Model Evaluation, which included analyzing path coefficients to determine the strength and direction of relationships, evaluating hypothesis significance using bootstrapping with 5,000 resamples, and assessing the coefficient of determination ($R^2$) to measure the model's explanatory power; and Hypothesis Testing, where hypotheses were considered supported if the t-statistic exceeded 1.96 at a 95% confidence level.

## 4. RESULTS AND DISCUSSION

### 4.1 Demographic Profile of Respondents

The study surveyed 143 respondents, primarily executives, financial managers, and investors in the manufacturing industry in Central Java. Key demographic findings indicate that 67% of respondents were male and 33% female, with the majority (58%) aged between 30 and 40 years. Additionally, 62% had more than five years of experience in finance or investment roles, and in terms of education, 73% held a bachelor's degree while 22% had a postgraduate degree.

### 4.2 Measurement Model Evaluation

The measurement model was assessed to ensure the constructs' reliability and validity. Key results for the constructs—Sustainable Finance, Green Bond Implementation, Firm Value, and Investor Trust—are presented in terms of factor loadings, Cronbach's Alpha, composite reliability (CR), and average variance extracted (AVE).

Table 1. Measurement Model Assessment

| Variable | Code | Loading Factor | Cronbach's Alpha | Composite Reliability | Average Variant Extracted |
|---|---|---|---|---|---|
| Sustainable Finance | SF.1 | 0.889 | 0.917 | 0.941 | 0.800 |
| | SF.2 | 0.901 | | | |
| | SF.3 | 0.884 | | | |
| | SF.4 | 0.904 | | | |
| | GB.1 | 0.884 | 0.842 | 0.904 | 0.758 |

| | | | | | |
|---|---|---|---|---|---|
| Green Bond Implementation | GB.2 | 0.866 | | | |
| | GB.3 | 0.862 | | | |
| Firm Value | FV.1 | 0.850 | 0.858 | 0.914 | 0.779 |
| | FV.2 | 0.900 | | | |
| | FV.3 | 0.898 | | | |
| Investor Trust | IT.1 | 0.865 | 0.916 | 0.941 | 0.799 |
| | IT.2 | 0.930 | | | |
| | IT.3 | 0.915 | | | |
| | IT.4 | 0.863 | | | |

*Source: Data Processing Results (2025)*

The measurement model evaluation Factor loadings, reliability analysis, and convergent validity were assessed to ensure the robustness of the measurement model. All factor loadings exceeded 0.7, confirming strong convergent validity, with Sustainable Finance (0.884–0.904), Green Bond Implementation (0.862–0.884), Firm Value (0.850–0.900), and Investor Trust (0.863–0.930). Reliability analysis using Cronbach's Alpha and composite reliability (CR) showed high internal consistency across all constructs: Sustainable Finance ($\alpha$ = 0.917, CR = 0.941), Green Bond Implementation ($\alpha$ = 0.842, CR = 0.904), Firm Value ($\alpha$ = 0.858, CR = 0.914), and Investor Trust ($\alpha$ = 0.916, CR = 0.941). Convergent validity, evaluated through average variance extracted (AVE), confirmed strong construct representation, with values above 0.75 for all constructs: Sustainable Finance (0.800), Green Bond Implementation (0.758), Firm Value (0.779), and Investor Trust (0.799).

Discriminant validity measures the extent to which constructs are distinct and uncorrelated with one another. The Heterotrait-Monotrait (HTMT) ratio is a robust method for assessing discriminant validity. The HTMT threshold is typically set at 0.85 (a stricter threshold of 0.90 is also acceptable depending on the research context).

Table 2. Discriminant Validity

| | FV | GB | IT | SF |
|---|---|---|---|---|
| Firm Value | | | | |
| Green Bond Implementation | 0.793 | | | |
| Investor Trust | 0.701 | 0.660 | | |
| Sustainable Finance | 0.692 | 0.653 | 0.524 | |

*Source: Data Processing Results (2025)*

All HTMT values fall below the conservative threshold of 0.85, confirming that each construct is sufficiently distinct. The highest HTMT value is observed between Firm Value and Green Bond Implementation (0.793), indicating a manageable correlation, while the lowest HTMT value is between Investor Trust and Sustainable Finance (0.524), demonstrating strong discriminant validity and minimal overlap between these constructs.

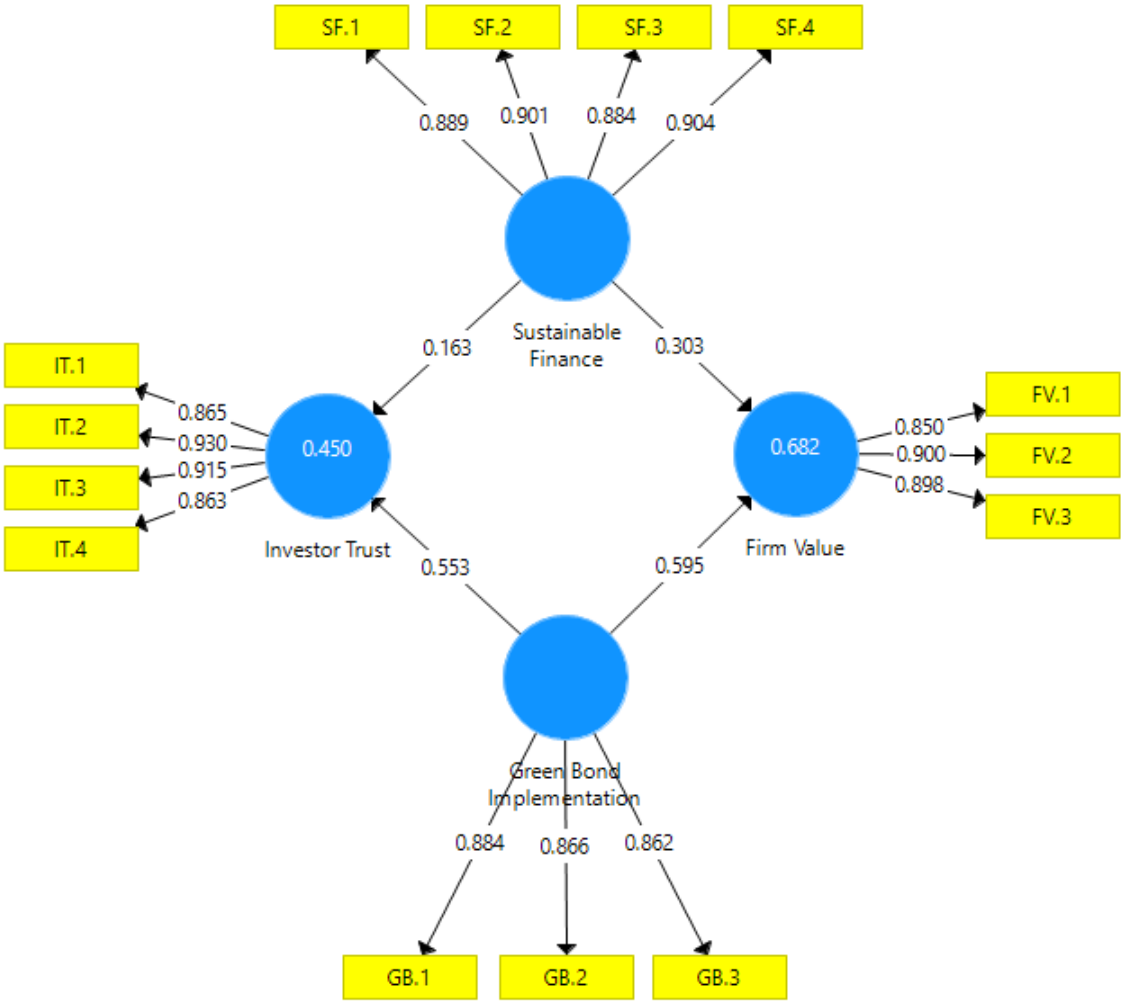


Figure 2. Model Results

*Source: Data Processed by Researchers, 2025*

### 4.3 Model Fit Evaluation

Model fit assessment ensures that the proposed structural model aligns with the observed data. The model fit indices evaluated in this study include the Standardized Root Mean Square Residual (SRMR), d_ULS (Unweighted Least Squares Discrepancy), d_G (Geodesic Discrepancy), Chi-Square, and Normed Fit Index (NFI). The following discusses the results for both the saturated and estimated models.

Table 3. Model Fit Results Test

| | Saturated Model | Estimated Model |
|---|---|---|
| SRMR | 0.068 | 0.079 |
| d_ULS | 0.484 | 0.650 |
| d_G | 0.575 | 0.604 |
| Chi-Square | 356.389 | 369.721 |
| NFI | 0.770 | 0.761 |

*Source: Process Data Analysis (2025)*

The model fit was assessed using multiple indicators, confirming an acceptable alignment between the hypothesized model and the data. The Standardized Root Mean

Square Residual (SRMR) values of 0.068 for the saturated model and 0.079 for the estimated model fall below the 0.08 threshold, indicating minimal residual discrepancies. Both d_ULS (Unweighted Least Squares Discrepancy) and d_G (Geodesic Discrepancy) values are relatively low, further supporting the model's validity. The Chi-Square values of 356.389 (saturated model) and 369.721 (estimated model) reflect a reasonable level of discrepancy between observed and expected covariance matrices, considering the sample size of 143. Additionally, the Normed Fit Index (NFI) values of 0.770 for the saturated model and 0.761 for the estimated model, though below the conventional 0.90 threshold, remain acceptable for exploratory research or moderately complex models.

Table 4. Coefficient Model

| | R Square | Q2 |
|---|---|---|
| Firm Value | 0.682 | 0.676 |
| Investor Trust | 0.450 | 0.441 |

*Source: Data Processing Results (2025)*

The model's explanatory and predictive power was evaluated using $R^2$ and $Q^2$ values. Firm Value exhibited an $R^2$ of 0.682, indicating that 68.2% of its variance is explained by Sustainable Finance and Green Bond Implementation, demonstrating strong explanatory power. Investor Trust had an $R^2$ of 0.450, meaning 45.0% of its variance is accounted for by the independent variables, representing moderate explanatory power and suggesting the presence of additional influencing factors. Predictive relevance was assessed using $Q^2$ values, with Firm Value achieving a high $Q^2$ of 0.676, confirming the strong predictive capability of the model for this variable. Investor Trust had a $Q^2$ of 0.441, indicating moderate predictive relevance, suggesting that while the independent variables significantly impact Investor Trust, other factors may also play a role.

### 4.4 Structural Model

The structural model evaluates the relationships between the independent variables (Sustainable Finance and Green Bond Implementation) and the dependent variables (Firm Value and Investor Trust). The analysis focuses on the path coefficients, their statistical significance (T Statistics and P Values), and the strength of relationships.

Table 5. Hypothesis Testing

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics | P Values |
|---|---|---|---|---|---|
| Green Bond Implementation -> Firm Value | 0.595 | 0.594 | 0.077 | 7.745 | 0.000 |
| Green Bond Implementation -> Investor Trust | 0.553 | 0.552 | 0.085 | 6.526 | 0.000 |
| Sustainable Finance -> Firm Value | 0.303 | 0.306 | 0.093 | 3.269 | 0.001 |
| Sustainable Finance -> Investor Trust | 0.263 | 0.265 | 0.090 | 2.815 | 0.003 |

*Source: Process Data Analysis (2025)*

The analysis revealed significant relationships between Green Bond Implementation, Sustainable Finance, Firm Value, and Investor Trust. Green Bond Implementation had a strong positive effect on Firm Value (0.595, P = 0.000), with a T statistic of 7.745, confirming its critical role in enhancing both perceived and actual firm

value in the manufacturing industry. Similarly, Green Bond Implementation positively influenced Investor Trust (0.553, P = 0.000, T = 6.526), demonstrating that adopting green bonds boosts investor confidence by signaling environmental responsibility and long-term sustainability. Sustainable Finance also exhibited a moderate positive impact on Firm Value (0.303, P = 0.001, T = 3.269), suggesting that sustainable financial practices contribute to firm value through improved operational efficiency and investor alignment. Additionally, Sustainable Finance positively affected Investor Trust (0.263, P = 0.003, T = 2.815), highlighting that ethical and responsible financial management enhances investor confidence. These findings underscore the importance of integrating sustainable financial strategies and green bonds in strengthening both firm value and investor trust.

**Discussion**

The study found that Sustainable Finance significantly influences both Firm Value and Investor Trust. The positive and significant path coefficient for Sustainable Finance -> Firm Value ($\beta = 0.303$, T = 3.269, P = 0.001) suggests that firms integrating sustainability into their financial practices can enhance their value. This finding is consistent with prior research, indicating that sustainable finance reduces financial risks and aligns with stakeholder expectations, leading to increased valuation [31]–[33].

Moreover, Sustainable Finance positively impacts Investor Trust ($\beta = 0.263$, T = 2.815, P = 0.003). This demonstrates that transparent and responsible financial practices contribute to building trust among investors. Investors perceive firms with robust sustainable finance frameworks as more reliable and committed to long-term growth, which strengthens the relationship between the company and its stakeholders.

Green Bond Implementation emerged as the most influential factor in this study. Its impact on Firm Value ($\beta = 0.595$, T = 7.745, P < 0.001) highlights the effectiveness of green bonds in enhancing a firm's market valuation. By issuing green bonds, firms demonstrate a strong commitment to environmental sustainability, which not only attracts environmentally conscious investors but also positions the firm as a leader in sustainable practices [34], [35].

Similarly, Green Bond Implementation significantly influences Investor Trust ($\beta = 0.553$, T = 6.526, P < 0.001). The findings suggest that green bonds serve as a credible signal of the firm's adherence to environmental and social governance (ESG) principles. This fosters investor confidence and strengthens the firm's reputation in the financial market.

**Theoretical and Practical Implications**

The findings contribute to the growing body of literature on sustainable finance and green bonds by demonstrating their dual impact on financial and reputational outcomes. For practitioners, the study underscores the importance of integrating sustainability into financial decision-making to enhance firm value and build investor trust.

Manufacturing firms are encouraged to adopt green bonds as a strategy to improve financial performance and align with global sustainability standards. Policymakers and regulators should consider providing incentives and frameworks to facilitate the adoption of sustainable finance practices across industries.

**Limitations and Recommendations for Future Research**

While the study provides valuable insights, it is limited to the manufacturing sector in Central Java. Future research could explore other industries and regions to enhance generalizability. Additionally, incorporating longitudinal data could provide a deeper understanding of the long-term effects of sustainable finance and green bonds on firm performance.

The study focuses on Firm Value and Investor Trust as outcomes. Expanding the scope to include operational performance,

environmental impact, and employee satisfaction could provide a more comprehensive view of the benefits of sustainable practices.

## 5. CONCLUSION

This study underscores the significant influence of Sustainable Finance and Green Bond Implementation on Firm Value and Investor Trust. Sustainable Finance fosters corporate credibility and enhances investor relationships, while Green Bond Implementation emerges as a key driver of firm valuation and stakeholder trust. The robust model fit and predictive relevance metrics validate the study's findings, providing a reliable framework for assessing the impact of sustainability-oriented financial strategies.

The practical implications are profound: manufacturing firms must integrate sustainability into their financial practices to meet stakeholder expectations and enhance competitiveness. Green bonds, in particular, serve as effective tools for signaling environmental commitment and attracting investment. Policymakers should incentivize the adoption of sustainable finance practices to foster economic and environmental sustainability.

Future research should expand the scope to other industries and regions, as well as explore additional performance metrics, such as environmental impact and employee engagement, to gain a more holistic understanding of sustainability's benefits. This study offers a foundation for advancing sustainability in corporate finance, benefiting firms, investors, and society at large.

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