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Original Paper

Board Decision-making Logic, Equity Nature, and Bank Environmental Lending

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Abstract

This article explores the impact of bank governance on bank environmental lending, using a manually collected sample of China's city commercial banks from 2008 to 2018. The empirical results show that government ownership can promote bank environmental lending and a board of directors with a preference for social logic can positively moderate the relationship between them. In addition, the positive moderating effect is more pronounced in banks with state-owned shareholders as the largest shareholder and banks located in provincial capital cities. This paper is beneficial for expanding the understanding of the interaction between equity nature and board decision-making process in bank governance.

Keywords

board decision-making logic, equity nature, bank environmental lending, institutional logic

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1. Introduction

Exploring the impact of different governance mechanisms on bank credit allocation is beneficial for guiding banks to increase the loans in supporting green business, which has a positive effect on environmental protection. Existing studies have examined the influencing factors of green governance from the perspective of non-financial enterprises, while insufficient attention has been paid to banks. The relevant research on bank environmental lending also focuses more on the effects than on the influencing factors. Therefore, this paper tries to investigate the impact of equity nature and board decision-making logic on bank environmental lending.

Government ownership is pervasive around the world (La Porta et al., 2002) and can have a significant impact on bank credit allocation. State-owned equity is considered an important governance mechanism that can strengthen the social logic (Wang & Jin, 2007; Estrin et al., 2009). Research has shown that state-owned shareholders place greater emphasis on social logic and focus more on achieving social goals, thereby strengthening corporate environmental responsibility (Cormier & Gordon, 2001; Li et al., 2012) compared to the private shareholders. Meanwhile, the board of directors is the core mechanism of bank governance, playing a supervisory and decision-making role (Sumner and Webb, 2005; Andres & Vallelado, 2008). Therefore, this article believes that the board decision-making logic will also have an impact on bank environmental lending.

In order to examine the role of equity nature and board decision-making logic in influencing bank environmental lending, this paper uses a sample of China's city commercial banks (CCBs) from 2008 to 2018. Evidence from China's banking industry will be able to shed light on the green governance mechanisms of emerging economies. The empirical results show that government ownership can promote bank environmental lending and a board of directors with a preference for social logic can positively moderate the relationship between them. Further analyses show that the positive moderating effect is more pronounced in banks with state-owned shareholders as the largest shareholder and banks located in provincial capital cities. In addition, the results are robust after several tests.

This study contributes to the literature in the following aspects. First, this article enriches empirical evidence on the impact of bank governance mechanisms on bank environmental performance. Second, the analysis introduces an indicator to measure the decision-making logic of the board, which is conducive to expanding the relevant research on institutional logic. Third, the interaction between equity nature and the board of directors is examined, which is beneficial for opening up the black box of the board.

2. Theoretical Analysis and Hypotheses

In the operation of the banking sector, there are requirements for both social logic and commercial logic (Lounsbury, 2002; Foreman & Whetten, 2002; Battilana & Dorado, 2010). On the one hand, the banking sector plays a crucial role in maintaining economic development and social stability, naturally assuming a certain social responsibility, and correspondingly facing stricter regulation. In terms of promoting environmental protection, the green finance policies committed to leveraging the capital allocation function of the banking sector to guide clean production in enterprises requires banks to follow the social logic. On the other hand, the banking sector needs to pursue sufficient profits to maintain its daily operation, thus also facing the requirement of commercial logic, as an organization pursuing profit maximization.

The conflict between social logic and commercial logic can affect bank credit allocation. The conflicts between logics may be effectively alleviated when one logic overcomes the other logics. Therefore, the institutional arrangements that support social logic can enhance the role of social logic in bank credit

allocation and thereby improve bank environmental performance.

Government ownership is considered an important governance mechanism that can strengthen the social logic. Compared to private shareholders who focus more on economic goals, state-owned shareholders focus more on social logic and pursue more diversified development goals, including environmental protection, stable employment, improving social welfare and so on (Lin et al., 1998; Li et al., 2012; Milhaupt, 2020). Existing researches have shown that state-owned organizations bear multiple objectives, and their business goals would shift from maximizing profits to maximizing employment and social welfare, especially in transitional economies (Williamson, 1985). Cormier and Gordon (2001) also argue that state-owned organizations have higher visibility and require more social support, thus placing greater emphasis on environmental and social responsibility.

As for the banking sector, state-owned shareholders can participate more deeply in bank governance and strengthen the role of social logic in bank operations, resulting in better environmental and social performance. For example, Sapienza (2004) have found that the loan interest rates of state-owned banks are generally lower than those of private banks, and they are more likely to invest in enterprises located in impoverished areas. Berger et al. (2005) also indicate that state-owned ownership can promote banks' lending to the public sector. The quantitative green development assessment indicators system in China, which has explicitly included green development in the performance evaluation system, further strengthens the state-owned shareholders' concern for environmental protection. Thus, this paper believes that government ownership can strengthen the role of the social logic in bank credit allocation and proposes the following hypothesis:

H1: Government ownership can promote bank environmental lending.

In addition to directly participating in bank governance, shareholder can also supervise management and influence the operation of the bank by appointing directors representing their interests to the board (Pascual-Fuster & Crespí-Cladera, 2018). The more directors appointed to the board, the stronger the shareholder’s influence on board decision-making. The deployment of directors by state-owned and non-state-owned shareholders can affect the overall decision-making logic of the board, as the directors’ cognition and behavior are shaped by the institutional logic derived from existing work experiences and specific trainings (Scott, 2003). Furthermore, the "imprint" formed by specific institutional logic on individuals will shape the behavior patterns and decision-making preferences of actors over a long period of time (Battilana & Dorado, 2010). Considering that state-owned shareholders place greater emphasis on social logic, the more directors they appoint to the board, the more they can enhance the influence of social logic on board decisions, thus further strengthening the role of state-owned equity in promoting bank environmental lending. Based on the above analysis, this paper proposes the following hypothesis:

H2: A board of directors with a preference for social logic can positively moderate the relationship between government ownership and bank environmental lending.

3. Research Design

3.1 Sample and Data Sources

The hand-collected sample covers China's city commercial banks over the period 2008-2018. The financial and governance data are sourced from bank annual reports and corporate social responsibility reports. The economic and environmental conditions of the cities wherein the headquarters of the CCBs are located, which are obtained from the Urban Statistical Yearbook of China, are also controlled in the empirical models. After excluding the observations with missing data, this paper obtains a final imbalanced panel sample consisting of 541 observations from 92 CCBs.

3.2 Model Specification and Variable Definitions

The paper uses the following regression models to test the previous hypotheses:

$$enviratio=\alpha_0+\alpha_1 govshare+\alpha_2 controls+\sum year+\delta \quad (1)$$

$$enviratio=\beta_0+\beta_1 govshare+\beta_2 develogic+\beta_3 govshare*develogic+\beta_4 controls+\sum year+\delta \quad (2)$$

Specifically, model (1) is built to test the relationship between government ownership and bank environmental lending and model (2) is built to test the moderating effect of board decision-making logic.

In models (1) and (2), the dependent variable *enviratio* represents bank environmental lending (Zhou et al., 2020), calculated as the number of loans issued to environmental, water conservancy, and public facilities, which is a standardized category of loan in banks' official reports, divided by the total loans made by the bank. The key independent variable *govshare* in the above models is defined as the ownership percentage held by the state-owned shareholders among the top ten shareholders disclosed in the annual report.

This study uses *develogic* to represent the board decision-making logic. Considering that state-owned shareholders place greater emphasis on the social logic, the more directors appointed by state-owned shareholders to the board, the stronger the influence of the social logic in board decision-making process. Therefore, to explore the impact of board decision-making logic, we categorize bank directors into two major groups based on the nature of their appointing entities: directors appointed by state-owned shareholders and directors appointed by non-state-owned shareholders. The value is assigned as 2, if the number of directors appointed by state-owned shareholders is greater than that of directors appointed by non-state-owned shareholders; the value is assigned as 1, if the number of directors appointed by state-owned shareholders is equal to that of directors appointed by non-state-owned shareholders; the value is assigned as 0, if the number of directors appointed by state-owned shareholders is less than that of directors appointed by non-state-owned shareholders.

Controls is a vector of variables that are related to bank environmental lending. Specifically, bank financial characteristic variables include bank size (*asset*, the natural logarithm of the CCBs' assets), capital adequacy ratio (*car*), loan-to-deposit ratio (*ldratio*), and listing status (*list*, which equals 1 if the CCB is listed and 0 otherwise). Bank governance features include the nature of the largest shareholder (*gov*, which equals 1 if the largest shareholder is state-owned and 0 otherwise), board independence

(*indep*, the proportion of independent directors on the board), and CEO duality (*dual*, which equals 1 if the chairman also serves as the president and 0 otherwise). Macroeconomic conditions are measured by the GDP growth rate of the city where the bank's headquarter is located (*ggdp*), while local environmental conditions are measured by industrial wastewater discharge (*pollution*, the natural logarithm of industrial wastewater discharge). To mitigate the influence of outliers, all continuous variables used are winsorized at the 1% and 99% levels. Σ represents year fixed effects and indicates the residual.

3.3 Summary Statistics

Table 1 shows the descriptive statistics of the main variables. The proportion of bank environmental loans (*enviratio*) ranges from 0.06% to 21.89%, indicating substantial variation among sample banks. The average and maximum values of the state-owned shareholding ratio (*govshare*) are 22.20% and 87.07%, respectively. Regarding board decision-making logic (*develogic*), the average value is 0.66, suggesting that in most banks, the number of directors appointed by non-state-owned shareholders exceeds that of directors appointed by state-owned shareholders. Considerable variation also exists in the financial performance and governance characteristics of the sample banks, as well as in regional economic conditions and environmental conditions.

Table 1. Summary Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
enviratio(%)	541	4.82	4.35	0.06	21.89
govshare(%)	541	22.20	18.09	0	87.07
develogic	541	0.66	0.82	0	2
asset	541	25.49	1.06	22.40	28.19
car(%)	541	13.35	2.91	6.37	33.35
ldratio	541	0.61	0.12	0.28	0.90
list	541	0.14	0.34	0	1
gov	541	0.63	0.48	0	1
indep(%)	541	25.36	10.42	0	44.44
dual	541	0.07	0.26	0	1
ggdp(%)	541	9.43	3.48	-2.1	18.2
pollution	541	8.97	0.95	6.23	11.11

4. Empirical Results

4.1 Main Results

Table 2 reports the impact of government ownership and its interaction with board decision-making logic on banks' environmental lending. Among them, columns (1) and (4) include only the main

independent variables in the model, column (2) presents the effects of all control variables on banks' environmental lending, while columns (3) and (5) display the full results including all variables, respectively. As shown in the table, government ownership significantly promotes bank environmental lending at the 1% level across all models. Taking column (3) as an example, a 1% increase in the proportion of government ownership leads to an approximately 0.074% increase in the proportion of environmental loans issued by banks. The results in columns (4) and (5) report the moderating effect of board decision-making logic. The results indicate that boards whose decision-making logic supports a social logic orientation exert a significant positive moderating effect.

Table 2. Main Results

	(1)	(2)	(3)	(4)	(5)
VARIABLES	enviratio	enviratio	enviratio	enviratio	enviratio
govshare	0.080***		0.074***	0.064***	0.057***
	(0.012)		(0.013)	(0.011)	(0.014)
govshare*develogic				0.025*	0.029**
				(0.015)	(0.014)
develogic				0.336	0.241
				(0.212)	(0.214)
asset		1.523***	1.232***		1.220***
		(0.294)	(0.269)		(0.272)
car		-0.082*	-0.074*		-0.071
		(0.048)	(0.045)		(0.045)
ldratio		0.234	0.225		0.302
		(1.508)	(1.453)		(1.458)
list		0.645	1.112*		1.137*
		(0.631)	(0.608)		(0.616)
gov		1.192***	-0.129		-0.020
		(0.329)	(0.387)		(0.402)
indep		-0.087***	-0.072***		-0.075***
		(0.021)	(0.017)		(0.017)
dual		-0.305	0.103		0.213
		(0.661)	(0.669)		(0.642)
ggdp		0.231***	0.208***		0.195***
		(0.064)	(0.058)		(0.060)
pollution		0.129	0.313		0.362*
		(0.208)	(0.201)		(0.204)

year	yes	yes	yes	yes	yes
Constant	4.709***	-33.035***	-29.016***	4.843***	-28.914***
	(1.329)	(6.655)	(5.823)	(1.480)	(5.952)
Observations	541	541	541	541	541
R-squared	0.203	0.255	0.321	0.214	0.332

Notes. *** p<0.01, ** p<0.05, * p<0.1. Robust standard errors are in parentheses.

Figure 1 intuitively demonstrates the promoting effect of government ownership and the moderating effect of board decision-making logic. The figure indicates that the influence of government ownership on bank environmental lending is consistently significantly greater than zero. Regarding the positive moderating effect of board decision-making logic, Figure 1 visually demonstrates that boards more supportive of the social logic significantly increase the marginal effect of government ownership on bank environmental lending. Specifically, when the board decision-making logic is assigned a value of 0, the marginal effect of state-owned shareholding on environmental lending is 0.0382; when the board decision-making logic is assigned a value of 1, the marginal effect increases to 0.0670; and when it is assigned a value of 2, the marginal effect further rises to 0.0959. As the board decision-making logic shifts from supporting commercial logic to increasingly supporting social logic, the marginal effect of state-owned shareholding in promoting banks' environmental lending correspondingly shows a significant increase.

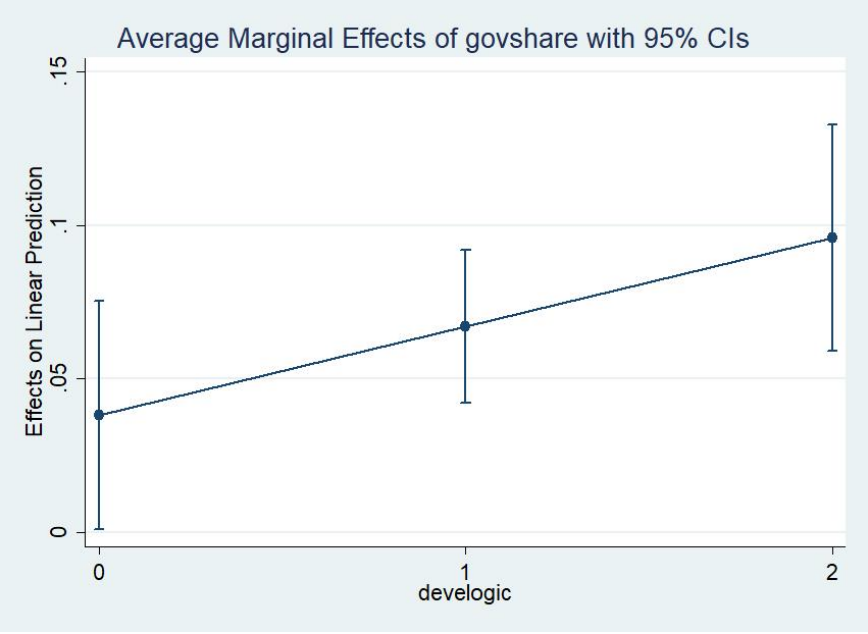

Figure 1. The Visual Diagram

4.2 The Influence of the Dominant Logic of the Largest Shareholder

The largest shareholder often exerts a more significant influence than other shareholders due to their

absolute advantage in shareholding, and its preferences are a key factor affecting bank behavior. Therefore, this paper will next discuss the influence of the dominant logic of the largest shareholder. Specifically, state-owned shareholders tend to prefer a social logic, while non-state-owned shareholders lean toward a commercial logic. This section divides the sample into two groups based on whether the nature of the largest shareholder's equity is state-owned or not for separate discussion.

The detailed results are shown in Table 3. Columns (1) and (2) repeat the test of how state-owned shareholding affects banks' environmental lending, while columns (3) and (4) report the results regarding the role of board decision-making logic. Columns (1) and (3) present the analysis results for the subsample where the largest shareholder is state-owned, and columns (2) and (4) show the empirical results for the subsample where the largest shareholder is non-state-owned. As can be seen from the table, state-owned shareholding significantly promotes bank environmental lending at the 1% level. This indicates both the robustness of the research findings and that state-owned shareholding can strengthen the influence of the social logic in bank loan allocation, with its promoting effect not being influenced by the ownership nature of the largest shareholder. In contrast, the positive moderating effect of boards adhering to a social logic exists only in banks where the largest shareholder is state-owned. These results are consistent with the understanding that the board, as a supervisory and decision-making body safeguarding shareholder interests, is influenced by shareholder preferences in its functioning.

Table 3. The Influence of the Dominant Logic of the Largest Shareholder

VARIABLES	(1) State-owned enviratio	(2) Non-state-owned enviratio	(3) State-owned enviratio	(4) Non-state-owned enviratio
govshare	0.069***	0.081***	0.045***	0.081***
	(0.015)	(0.025)	(0.014)	(0.027)
govshare*develogic			0.042**	0.031
			(0.016)	(0.032)
develogic			-0.056	0.687
			(0.290)	(0.527)
asset	1.455***	0.492	1.430***	0.516
	(0.346)	(0.372)	(0.347)	(0.386)
car	-0.113*	0.044	-0.100	0.042
	(0.066)	(0.062)	(0.065)	(0.060)
ldratio	0.401	-0.903	0.135	-0.845
	(2.265)	(1.701)	(2.263)	(1.701)
list	0.374	2.459***	0.280	2.498***

	(0.819)	(0.809)	(0.826)	(0.847)
indep	-0.117***	0.027	-0.115***	0.021
	(0.025)	(0.023)	(0.024)	(0.024)
dual	-0.706	2.289**	-0.519	2.216**
	(0.884)	(0.910)	(0.821)	(0.870)
ggdp	0.296***	0.055	0.291***	0.049
	(0.083)	(0.080)	(0.086)	(0.080)
pollution	0.261	0.659*	0.291	0.676*
	(0.259)	(0.337)	(0.261)	(0.343)
year	yes	yes	yes	yes
Constant	-34.135***	-12.685*	-33.451***	-12.819
	(7.801)	(7.580)	(7.653)	(8.077)
Observations	342	199	342	199
R-squared	0.313	0.445	0.327	0.456

Notes. *** p<0.01, ** p<0.05, * p<0.1. Robust standard errors are in parentheses.

4.3 The role of Institutional Environment

The external institutional environment in which an organization operates plays a crucial role in its survival and development, as organizations are inevitably influenced by elements of this institutional context. Provincial capital cities typically face stricter constraints and greater social scrutiny, and they often bear more diversified development goals and higher societal expectations. Consequently, preferences for environmental quality may be stronger in such cities. Following this logic, the requirements for environmental legitimacy may be higher in provincial capital cities than in non-capital cities.

Accordingly, this section divides the sample into two groups for discussion based on whether the banks are located in provincial capital cities. The results are presented in Table 4, where columns (1) and (2) show the impact of state-owned shareholding on bank environmental lending, and columns (3) and (4) demonstrate the moderating effect of board decision-making logic on this relationship. Columns (1) and (3) present the results using the subsample of banks headquartered in provincial capital cities, while columns (2) and (4) display the empirical results for the subsample of banks headquartered in non-capital cities. As can be seen from the table, state-owned shareholding significantly promotes bank environmental lending, indicating that state-owned shareholding effectively reinforces the role of social logic in bank loan allocation and remains unaffected by external environmental pressures. However, boards that support a social logic exert a positive moderating effect only in banks located in provincial capital cities, with no significant effect observed in banks located in non-capital cities.

Table 4. The Role of Institutional Environment

	(1)	(2)	(3)	(4)
	Provincial capital cities	Non-capital cities	Provincial capital cities	Non-capital cities
VARIABLES	enviratio	enviratio	enviratio	enviratio
govshare	0.082***	0.063***	0.030*	0.058***
	(0.022)	(0.014)	(0.017)	(0.018)
govshare*develogic			0.063***	-0.012
			(0.016)	(0.019)
develogic			-0.305	0.451
			(0.311)	(0.333)
asset	3.571***	-0.173	3.668***	-0.154
	(0.502)	(0.332)	(0.529)	(0.335)
car	0.066	-0.050	0.091	-0.034
	(0.080)	(0.056)	(0.080)	(0.057)
ldratio	-4.369	1.242	-2.506	1.279
	(3.210)	(1.333)	(3.295)	(1.338)
list	-1.605*	3.174***	-1.862*	3.395***
	(0.934)	(0.735)	(0.990)	(0.762)
gov	-0.933	0.364	-0.612	0.499
	(0.644)	(0.465)	(0.649)	(0.507)
indep	-0.050	-0.037*	-0.058	-0.039**
	(0.035)	(0.020)	(0.036)	(0.019)
dual	-0.928	0.812	-0.878	0.794
	(1.158)	(0.829)	(1.142)	(0.826)
ggdp	0.471***	0.172**	0.464***	0.157**
	(0.111)	(0.071)	(0.112)	(0.070)
pollution	0.077	0.471**	0.041	0.476**
	(0.354)	(0.232)	(0.368)	(0.232)
year	yes	yes	yes	yes
Constant	-88.605***	1.518	-90.799***	0.663
	(12.054)	(7.459)	(12.220)	(7.716)
Observations	237	304	237	304
R-squared	0.393	0.269	0.419	0.276

Notes. *** p<0.01, ** p<0.05, * p<0.1. Robust standard errors are in parentheses.

4.4 Robustness Tests

To verify the credibility of the empirical results, this section conducts several robustness checks.

First, this paper excludes restructured banks. Considering that the restructuring of CCBs may lead to changes in the location of their headquarters, making it difficult to accurately identify their operational regions, this section removes samples of banks that underwent restructuring into province-wide unified banks and retests the research hypotheses. The results are presented in columns (1) and (2) of Table 5. The findings align with the earlier analysis, demonstrating the robustness of the research results.

Second, this paper excludes listed banks. Listed banks may be subject to additional influences from capital markets and other factors, which could potentially confound the findings. To ensure the robustness of the results, this section further excludes samples of listed banks and repeats the tests. The results are presented in columns (3) and (4) of Table 5, showing that all the results are consistent with the earlier findings.

Third, this paper changes the model specification. To mitigate potential biases arising from regional differences, this section introduces additional control variables into the analysis, including whether the city where a bank is located is in the western region (*xbdq*), whether it is a provincial capital (*shenghui*), and a proxy for the local industrial structure (*secindustry*, measured as the proportion of the secondary industry in GDP). The findings in columns (5) and (6) of Table 5 further confirm the robustness of the empirical results.

Table 5. Robustness Tests

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	enviratio	enviratio	enviratio	enviratio	enviratio	enviratio
govshare	0.075***	0.061***	0.067***	0.051***	0.079***	0.064***
	(0.013)	(0.014)	(0.013)	(0.014)	(0.013)	(0.014)
govshare* develogic		0.024*		0.033**		0.024*
		(0.014)		(0.014)		(0.014)
develogic		0.213		0.151		0.263
		(0.222)		(0.226)		(0.220)
asset	1.133***	1.141***	1.177***	1.156***	1.129***	1.133***
	(0.290)	(0.289)	(0.297)	(0.299)	(0.294)	(0.296)
car	-0.085*	-0.083*	-0.041	-0.036	-0.060	-0.058
	(0.046)	(0.046)	(0.045)	(0.043)	(0.046)	(0.046)
ldratio	-0.424	-0.324	0.077	0.124	0.252	0.308
	(1.399)	(1.410)	(1.526)	(1.530)	(1.484)	(1.491)
list	1.233*	1.234*	-	-	1.158*	1.195*

	(0.634)	(0.636)	-	-	(0.616)	(0.621)
gov	-0.304	-0.197	0.217	0.343	-0.226	-0.114
	(0.397)	(0.410)	(0.411)	(0.426)	(0.389)	(0.403)
indep	-0.077***	-0.079***	-0.069***	-0.070***	-0.068***	-0.071***
	(0.018)	(0.017)	(0.018)	(0.017)	(0.017)	(0.017)
dual	0.655	0.768	-0.132	-0.007	0.096	0.188
	(0.675)	(0.640)	(0.659)	(0.633)	(0.678)	(0.652)
ggdp	0.164***	0.154***	0.222***	0.213***	0.227***	0.212***
	(0.055)	(0.058)	(0.061)	(0.062)	(0.065)	(0.066)
pollution	0.490**	0.525***	0.338	0.383*	0.240	0.297
	(0.194)	(0.200)	(0.211)	(0.215)	(0.211)	(0.214)
xbdq	-	-	-	-	-1.042**	-0.935**
	-	-	-	-	(0.458)	(0.467)
shenghui	-	-	-	-	0.506	0.409
	-	-	-	-	(0.494)	(0.500)
secindustry	-	-	-	-	0.033	0.029
	-	-	-	-	(0.025)	(0.025)
year	yes	yes	yes	yes	yes	yes
Constant	-26.701***	-26.884***	-27.580***	-27.129***	-28.310***	-28.427***
	(6.259)	(6.351)	(6.427)	(6.491)	(6.946)	(7.044)
Observations	520	520	467	467	541	541
R-squared	0.319	0.327	0.311	0.325	0.330	0.339

Notes. *** p<0.01, ** p<0.05, * p<0.1. Robust standard errors are in parentheses.

5. Conclusions and Discussion

This study empirically analyzes the relationship between equity nature and bank environmental lending and explores the moderating effect of board decision-making logic by hand collected information on China's CCBs from 2008 to 2018. The findings indicate that state-owned shareholding effectively strengthens the role of social logic in bank loan allocation and promotes environmental lending, with its positive effect remaining consistent regardless of variations in the dominant logic of the largest shareholder or differences in external institutional environmental pressures. The positive moderating effect of boards that support social logic is more pronounced in contexts where the largest shareholder's dominant logic aligns with social logic and where external environmental legitimacy pressures are stronger. The conclusions remain robust after several robustness checks.

The results imply the important role of state-owned shareholding in promoting corporate environmental performance, especially for the banking sector, which bears certain social responsibilities. The decision-making logic of the board is also a critical factor influencing the allocation of loans. An

appropriate composition of directors adhering to both social and commercial logics should be fostered, enabling the board to integrate efficiency and developmental considerations in making decisions that best serve the bank's long-term growth.

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