CHAPTER I

INTRODUCTION

This chapter consists of background of study, problems formulation, research objectives, research scopes, and outline of report.

1.1 Background

Environment is external conditions including ecosystems, natural, and physical resources, economic, aesthetic, social, and cultural that influences or be influenced by the changes of the environment itself (New Zealand Environment Act, 1986; in Larsson, 1999). Nowadays, the environment faces some serious problems which lead to the emergence of an imbalance between its components. This issue known as environmental degradation or environmental damage. One of the current environmental problems in the world is the increasing of global average temperature, known as global warming (Gaulder and Pizer, 2006).

According to the Department for Communities and Local Government: London (2007), greenhouse gas emissions are the main cause of the increasing of temperature of the earth's surface. The facts show the concentration of greenhouse gases in the atmosphere, especially carbon dioxide, has increased 40% since the industrial revolution begun in the 1750s (Houghton, 2011). This increasing is expected to be continue for the next years.

A green concept has been proposed by Rachel Carson through the book *Silent Spring* in 1962 to overcome this issue (Culver *et al*, 2012). By considering the environment in every aspects of development, this concept is expected to achieve several goals, i.e. reducing greenhouse gases emissions, increasing forest carbon stocks, conserving biodiversity, and supporting the economic growth.

The green concept has become an important issue in all aspects of development, including in manufacturing industry. This concept known as green industry. Green industry is an industry concept that promotes efficiency and effectiveness in the use of resources in a sustainable manner so that industrial development and environmental conservation can be run in balanced and beneficial to society (Kementrian Perindustrian, 2012). The implementation of green industry will substantially contribute to environmental improvement efforts that intensively conducted in recent century.

Indonesia as one of the countries that has a high consistency in the response to the issues of environmental degradation has established some regulations regarding green industry, such as Undang-Undang No.32 2009 about the Environmental Protection and Management. The regulation states that every business and/or activities that have an important impact on the environment must have an environmental impact analysis.

However, the implementation of green industry in Indonesia is still low (Kementrian Perindustrian, 2012). The lack of regulations as well as the lack of commitment from the industry cause this program still can not be applied appropriately. The implementation of this program should involve all relevant stakeholders, including financial institutions especially banks as a source of funds of the business.

Banks are the main source of long-term funding to various industries such as cement, fertilizers, nuclear power, steel, oil and gas, paper etc., where their processes and product can damage the environment. Therefore, the role of bank as a financial intermediary is very important to change the economic development becomes greener and more responsible (Bank Indonesia, 2013).

Banks can affect the environment directly and indirectly. During their daily business activities, such as the use of paper, electricity, air conditioning, lighting, and the use of other electronic equipments, banks contribute directly to

an increasing of greenhouse gas emissions. While the indirect impact given by financing businesses that provide some serious impacts on the environment, such as plantation business that do illegal logging, industries that produce damage waste to the environment, and do not apply the environmental management system. Therefore, the green concept becomes a need for a bank.

The development of green concept in banking business, known as green banking. Green banking means using all the resources of banks with a responsibility and a sense of caring, avoid wastes, and provide priority to choose become sustainable (Sharma et al, 2014). Green banking concept was developed to reduce the environment impacts, both direct and indirect impacts. By adopting the principles of sustainable development that ensures undertaken development have a balance on three point of view (Triple Bottom Line), i.e. Profit, People and Planet, the application of green banking will not interfere banking activities, on the contrary it will give more advantages, both in tangible and intangible (Arman, 2012; in Ayu, 2013).

Green banking policies have established rapidly both nationally and internationally. Green banking policies in international scale, such as UN Global Compact, Equatorial Principle, Principle for Responsible Investment, Bank Track, Banking Environment Initiative, and Global Reporting Initiative (Panjaitan, 2015). While in the national scale, Bank Indonesia as the central bank in Indonesia has made a strategic plan to establish Bank Indonesia Regulation No. 14 2012 which states that banks should consider the protection of environment in assessing asset quality (PBI No.14/15/PBI/2012). The mission of Bank Indonesia in the establishment of this regulation is to achieve and maintain the stability of rupiah by maintaining monetary stability and financial stability for supporting sustainable economic development.

Otoritas Jasa Keuangan (OJK) states that eight banks which have the largest assets in Indonesia has committed to become a prime mover in financing the environmentally friendly project or green banking (galamedianews.com,

2015). The commitment is expressed in the signing of green banking pilot project by eight banks, namely Bank Mandiri, BNI, BRI, BRI Syariah, BCA, Bank Muamalat, BJB, and Bank Artha Graha Internasional. It aims to support the preparation of the competence of the banks regarding the target in the Roadmap Sustainable Finance in Indonesia period 2014-2019. However, green banking concept is still relatively new in Indonesia, so that the implementation of this program is very low, thus it is necessary to develop some corrective actions for all aspects of the problem (Ayu, 2013).

Bank A and Bank B are the two public banks that have implemented the green banking and actively running their business process in Padang City. As the committed banks in implementing the green banking, these two banks have made several initiatives and products to promote the environmental protection mission. However, based on the results of a preliminary survey by distributing questionnaires to 20 customers of these two banks regarding their understanding of green banking in general, it is known that only few customers who know about green banking. The results of the preliminary survey show the level of customers' knowledge towards green banking is still at a poor level. This value states that the knowledge level of customers towards green banking is low.

This fact can impede the implementation of green banking in these two banks, because the implementation of green banking should involve all stakeholders, including customers (Panjaitan, 2015). Knowledge and awareness of customers towards green banking will influence the success of its implementation. In addition, one of benefits of the implementation of green banking can not be obtained by these two banks, because the customers do not know the green banking concept they are implementing. In fact, banks that have implemented the green banking should be able to gain more customers, because according to a study by Javelin Strategy and Research, 43% customers prefer to do business with a bank that have implemented the green concept (Green Wiki, 2013; in Rahman and Barua, 2016).

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1.2   Problems Formulation

The problem formulations of this research are:

1.   What the level of the customers' knowledge and awareness towards green banking at public banks in Padang

2.   How to improve the customers' knowledge and awareness towards green banking at public banks in Padang.

1.3   Research Objectives

The objectives of this research are:

1.   To determine the level of customers' knowledge and awareness towards green banking at public banks in Padang.

2.   To suggest the recommendations to improve the level of customers' knowledge and awareness towards green banking at public banks in Padang.

1.4   Research Scopes

This research is conducted to two public banks that have implemented green banking in Padang, i.e. Bank A and Bank B.

1.5   Outline of Report

Outline of this proposal final project are as follows:

CHAPTER I   INTRODUCTION

This chapter contains background of the study, problem formulation, research objectives, research scopes, as well as outline of the report.

CHAPTER II   LITERATURE REVIEW

This chapter contains the theories related to the problem in this study from the various sources of literature, including green concept, green banking, knowledge and awareness, questionnaire, sampling technique, data analysis, as well as fishbone diagram.

CHAPTER III   RESEARCH METHODOLOGY

This chapter contains steps in solving problems that include preliminary study, literature study, problem identification, problem formulation, questionnaire design, questionnaire validation, sample determination, distributing the questionnaire, data collection, data processing, cause identification, recommendations, discussions, and conclusions.

CHAPTER IV   RESULTS

This chapter contains data collection, data processing, cause identification using Fishbone diagram, and recommendations to increase the customers' knowledge and awareness level towards green banking.

CHAPTER V   DISCUSSIONS

This chapter discusses the results of the study that consist of customers' knowledge level and customers' awareness level.

CHAPTER VI   CONCLUSIONS

This chapter contains conclusions of the research and suggestions for future research.