

From Brand to Green: The Role of CSR on Green Bond Issuance

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In recent years, there has been an obvious surge in global efforts to utilize green finance to support green capital projects that would support the transition to more sustainable environments and societies. For China, the BRI goes hand in glove with green financing. Through corporate and institutional use of green finance, particularly the use of green bonds, China is emerging as a global leader in green finance.

This paper explores the underlying corporate strategic milestone of achieving and verifying green credentials through the issuing of green bonds. We conjecture that in order for a firm to maintain competitiveness, brand recognition, to enhance a product's image to extract a proper financial return, is a first-order condition. With the achievement of brand recognition, expanding and achieving transparency in corporate social responsibility (CSR) activities will become increasingly important because of both compliance and ethical concerns. Issuing a green bond is one way to create a more socially responsible/green capital structure. However, issuing green bonds to finance projects involves additional compliance and monitoring costs. Thus, choosing green bond financing can be a unique way for a firm to put an environmental focus on its overall CSR efforts.

Employing an international sample of green bond issues, we examine the connected processes of brand creation and environmental social responsibility through the lens of a two-stage framework. First, we investigate the probability of achieving global brand recognition, based on a range of firm-level financial characteristics. Then, we propose that branded firms with a strong CSR performance tend to be more likely to issue green bonds. The reason for this is that strong brand recognition magnifies the benefits to a firm of having a more socially responsible capital structure, and when the brand is strong enough the reputational benefits counterbalance the additional compliance and monitoring costs. Our two-stage regression results support our conjecture. We conclude that the issuing of green bonds is an important component of the CSR strategies pursued by branded companies.