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Impact of Green Financing on Corporate Reputation and Performance: The Mediating Role of Sustainability Practices

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ABSTRACT: This study investigates the impact of green financing on corporate reputation and financial performance, with the mediating role of sustainability practices in Pakistan. The research focuses on the districts of Lahore, Faisalabad, Sargodha, and Sialkot. Using a quantitative approach, data were collected from 350 respondents across industries such as textiles, energy, and agriculture through structured surveys. Statistical analysis via SPSS 25 and Structural Equation Modeling (SEM) revealed that green financing positively influences corporate reputation and financial performance, with sustainability practices amplifying these effects. The findings highlight the importance of integrating green financing and sustainability practices to enhance corporate outcomes, stakeholder satisfaction, and long-term profitability. This study contributes to sustainable business literature and offers actionable insights for organizations and policymakers.

KEYWORDS: Green Financing, Sustainability Practices, Corporate Reputation, Financial Performance, Sustainable Business

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Introduction

In modern-day years, the global consciousness of environmental sustainability has pushed massive changes in agency financing techniques. This fashion is becoming increasingly more relevant in developing economies like Pakistan, wherein environmental challenges which include air pollutants, water shortage, and climate trade are urgent concerns. Ranked maximum of the maximum weather-willing countries in the international, Pakistan frequently researches extreme climate sports, growing temperatures, and water shortages, all of which threaten its agriculture-primarily based monetary device (Eckstein, 2021). In response, the authorities have initiated regulations that incorporate the Green Stimulus Initiative and the launch of green bonds to encourage investments in renewable power and other sustainable tasks. However, the mixture of green financing into company practices in Pakistan remains restrained, and its capability to transform the company's reputation and usual standard overall performance remains underexplored.

Green financing, which encompasses financial mechanisms and investments aimed toward helping environmentally sustainable initiatives, has emerged as a key enabler for accomplishing sustainability

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objectives globally and regionally. It allows companies to fund projects together with renewable energy initiatives, power-green infrastructure, and weather-resilient technology. Globally, green bonds reached $600 billion in issuance in 2022, reflecting developing interest amongst investors and agencies (Green bond market summary, 2019). However, Pakistan's share in worldwide green bond issuance stays negligible, no matter its pressing need for climate financing to cope with its growing environmental challenges. The United States of America's National Climate Change Policy and its alignment with the Paris Agreement emphasize the significance of mobilizing green financing for weather variation and mitigation. However, the practical implementation of those frameworks has been gradual, leaving an opening between policy rationale and actionable effects.

In Pakistan, enterprise recognition and normal average performance are increasingly more tied to a business enterprise agency's capability to cope with environmental and social problems. With growing strain from global exchange companions, financial establishments, and environmentally conscious clients, companies are recognizing the strategic importance of adopting green financing mechanisms step by step (Jones, 2020). While inexperienced financing can sign a company's dedication to sustainability, its impact is often mediated through the adoption of sustainability practices. These practices—together with renewable power integration, water conservation, and sustainable supply chain management—are characteristic tangible symptoms of an organization's efforts to address environmental challenges. They furthermore act as a mechanism to beautify stakeholder endure in mind, help the market function, and align with international environmental, social, and governance (ESG) requirements, in the long run amplifying the excessive nice effects of inexperienced financing.

Pakistan's vulnerability to weather change is nicely documented. According to the Global Climate Risk Index 2021, Pakistan ranked among the top ten international locations most suffering from climate change over the last decades (Eckstein, 2021). The monetary price of those climate-related disasters, together with floods, heatwaves, and droughts, is estimated to be billions of dollars yearly. The authorities' Green Stimulus Initiative, launched in 2020, goals to cope with those challenges by way of promoting sustainable financial increase through reforestation, renewable power tasks, and inexperienced activity advent. However, the achievement of such tasks largely depends on the availability and effective usage of green financing. The banking quarter in Pakistan has started to play a modest role in promoting inexperienced financing. The State Bank of Pakistan (SBP) brought the Green Banking Guidelines in 2017, which inspired monetary institutions to integrate environmental considerations into their credit score and funding decisions. Additionally, the issuance of the first-ever inexperienced Eurobond by way of a Pakistani business enterprise, the Water and Power Development Authority marked a vast step in mobilizing worldwide green finance. Despite these tendencies, the United States of America faces substantial challenges, which include low cognizance among companies, a loss of technical information, and limited access to global green financing networks.

Sustainability practices act due to the reality of the bridge between inexperienced financing and enterprise reputation and regular normal overall performance. In Pakistan, industries that encompass textiles, agriculture, and energy play a pivotal feature in the monetary tool however are also massive people to environmental degradation (Yasser, 2024). The adoption of sustainability practices inside the industries is important to figuring out the whole capability of inexperienced financing. For instance, agencies that put money into renewable energy to strengthen their operations or enforce water-green practices in textile production can lessen their environmental footprint at the same time as enhancing their recognition amongst environmentally aware stakeholders (Chen, 2022).

Despite the functionality benefits, green financing faces numerous demanding situations in Pakistan. One fundamental difficulty is the lack of awareness and statistics among companies approximately the significance and mechanisms of green financing. Many small and medium-sized organizations (SMEs), which form the spine of Pakistan's economy, are blind to the possibilities supplied via green financing. Additionally, the excessive rate of capital and constrained availability of inexperienced economic merchandise precludes the adoption of sustainable practices. Another massive venture is the absence of standardized frameworks for measuring and reporting the effect of inexperienced financing. Without clear metrics and benchmarks, it's miles harder for companies to illustrate the effectiveness of their sustainability projects, which may undermine their efforts to draw inexperienced investments. Furthermore, regulatory barriers and a lack of coordination amongst government corporations, and economic institutions create extra hurdles for corporations in search of the right of entry to inexperienced financing.

This examination specializes in the mediating role of sustainability practices within the courting between green financing and corporate popularity and normal typical overall performance. Sustainability practices provide a tangible way for companies to illustrate their self-discipline to environmental goals, which could beautify their credibility and stakeholder agreement. For example, a company that uses inexperienced financing to put in solar panels or positioned into effect water-saving generation can show off the tasks as proof of its determination to sustainability. This, in flip, can enhance its recognition and monetary performance (Chen, 2022). In Pakistan, sustainability practices also can help corporations comply with international ESG necessities, which is probably increasingly becoming a requirement for gaining access to global markets. By adopting practices that encompass energy performance, waste discount, and moral hard painting guidelines, organizations can align with the expectations of worldwide buyers and clients. This alignment not simplest enhances their popularity but additionally opens up new possibilities for boom and competitiveness (Baloch, 2022).

Green financing can convert the company landscape in Pakistan by means of enabling agencies to address environmental challenges while improving their popularity and overall performance. However, the effective usage of green financing relies upon the adoption of sustainability practices, which function as an essential link between monetary investments and tangible effects. This has a look at highlights the want for extra consciousness, capacity building, and coverage assist to sell green financing and sustainability practices in Pakistan. By exploring the mediating function of sustainability practices, this study goals to offer treasured insights into how corporations can strategically leverage green financing to gain a lengthy-term boom and make contributions to the U.S. A.'s broader sustainability dreams. Addressing the demanding situations of green financing and fostering a culture of sustainability can be critical for Pakistan to free up its capacity within the global inexperienced financial system.

While global literature gives terrific insights into the benefits and traumatic situations of inexperienced financing, research precise to Pakistan is restrained. Most research focuses on developed economies, with a minimum exploration of the manner green financing impacts corporate reputation and normal overall performance in growing markets like Pakistan. Additionally, the mediating function of sustainability practices in this courting stays underexplored, mainly in industries vital to Pakistan's financial tool, along facet textiles, agriculture, and energy. This takes a look at objectives to fill those gaps by analyzing the effect of inexperienced financing on company outcomes in Pakistan, with a focal point on the mediating position of sustainability practices.

Literature Review

Green Financing

Green financing refers to the provision of economic assets to responsibilities aimed within the route of addressing environmentally demanding situations and selling sustainability. It encompasses several sports activities collectively with investments in renewable power, energy average common overall performance, sustainable agriculture, and pollutants reduce prices. Green bonds, green loans, and sustainability-centered funding rate ranges are a number of the primary monetary gadgets used to useful resource those initiatives. By directing capital in the direction of environmentally beneficial obligations, inexperienced financing permits the global transition to a low-carbon monetary tool at the same time as aligning economic increase with sustainability dreams (Liu, 2019).

The developing hobby of the financial risks posed by means of way of manner of way of climate alternatives has been a key driving force of inexperienced financing. Natural failures, beneficial resource depletion, and environmental degradation may additionally have extreme monetary effects on organizations, governments, and communities. Green financing pursuits to mitigate those dangers via way of assisting tasks that lessen carbon emissions and foster sustainable practices (Zhang, 2022). In reaction to this, many monetary establishments are incorporating environmental, social, and governance (ESG) elements into their investment alternatives, attempting to find every monetary return and satisfactory societal effect through sustainable investments (Biju, 2024).

International agreements consisting of the Paris Agreement have further improved the demand for green financing, emphasizing the need to align financial structures with environmental targets. As a result, inexperienced financing gadgets like inexperienced bonds have received traction in the financial markets, imparting a way to channel capital into tasks that promote easy strength and conservation (Bhutta, 2022). In this evolving landscape, green financing is seen as a vital device in reaching long-term sustainability and mitigating the monetary risks associated with weather trade.

Corporate Reputation and Performance

Corporate popularity refers to the collective notion that stakeholders—together with customers, employees, shoppers, and the overall public—maintain about an employer agency's credibility, reliability, and moral conduct. It is frequently constructed over the years through everyday movements, transparency, and the organization's functionality to fulfill stakeholder expectancies. A top-notch corporate reputation is taken into consideration as an intangible asset, one that could extensively affect an employer's market function, competitive gain, and hooked-up performance. Companies with robust reputations are much more likely to attract unswerving customers, preserve pinnacle abilities, and gain the take delivery of authenticity with buyers, which may in the long run result in advanced economic overall performance (Fombrun, 1990).

The hyperlink between company popularity and universal performance is complex, however, studies suggest that a notable reputation is regularly correlated with superior economic results. Firms with notable reputations are much more likely to experience stepped-forward profits, better marketplace percentage, and more resilience at some stage in instances of crisis. Moreover, they generally tend to revel in better right of entry to capital markets, as shoppers are greater inclined to devote sources to companies perceived as dependable and ethically sound (Roberts, 2002). Conversely, a damaged reputation can lead to reputational crises, resulting in economic losses, prison problems, and decreased consumer loyalty, all of which negatively have an impact on average performance (Delgado-García, 2011).

In addition, company popularity plays a vital feature in shaping stakeholder relationships, which is probably without delay tied to extended-term usual overall performance. Companies that monitor social obligation, ethical corporation practices, and a determination toward sustainability often garner brilliant interest from customers and different key stakeholders. These moves, even as enhancing popularity, additionally foster take delivery of as genuine with, consumer loyalty, and worker pleasure—elements that make contributions to sustained regular overall performance and profitability. As companies have an increasing number of functions in a worldwide, interconnected marketplace, keeping a sturdy corporate reputation is critical for achieving short-term success and lengthy-time period viability (Zavyalova, 2016).

Corporate popularity, a precious intangible asset, is increasingly more connected to environmental and social performance. Companies that put money into inexperienced financing sign their determination to sustainability, improving their reputation amongst stakeholders (Chen, 2022). The stakeholder concept shows that groups that cope with environmental and social worries are more likely to benefit from the settlement with and loyalty of customers, traders, and personnel (Freeman, 2010). Furthermore, research highlights that green financing can enhance an employer's universal overall performance by reducing operational prices and fostering innovation (Baloch, 2022).

Empirical studies provide proof of the super courting among inexperienced financing and company overall performance. For example, an observation completed in China determined that corporations adopting inexperienced monetary devices reported tremendous upgrades in profitability and marketplace percentage (Yang, 2021). Similarly, organizations in Europe that use green financing mechanisms have proven higher logo expenses and stakeholder engagement. In the context of Pakistan, corporations like Nestlé and Unilever have utilized inexperienced financing and sustainability initiatives to strengthen their market role and popularity (Yang, 2021). However, literature precise to Pakistan's corporate zone stays restrained, highlighting the need for additional research in this place.

Green Financing and Its Role in Sustainability

Green financing plays a pivotal role in supporting sustainability by directing monetary resources toward projects and investments that have high-quality environmental influences. These tasks commonly attention to areas like renewable strength, power performance, waste management, and sustainable agriculture. Green financing encompasses numerous devices, consisting of inexperienced bonds, inexperienced loans, and fairness investments, all of which are designed to fund tasks that reduce environmental harm and foster long-term ecological sustainability. As the global network faces growing demanding situations associated with climate change, deforestation, and aid depletion, inexperienced financing gives a manner to channel capital in the direction of addressing those important issues at the same time as promoting economic increases (Liu, 2019).

One of the important thing advantages of inexperienced financing is its capability to align financial returns with environmental goals (Hafeez, 2023). Unlike conventional investments that could prioritize profits without regard for environmental impact, inexperienced financing seeks to generate economic profits whilst simultaneously contributing to the cut price of carbon emissions and environmental degradation. The developing name for sustainable investments has induced governments, groups, and economic institutions to adopt green financing mechanisms as a part of their techniques to fulfill global sustainability goals, which consist of the ones mentioned in the Paris Agreement. By funding projects that concentrate on clean energy, pollutants bargaining, and useful resource conservation, green financing performs a vital position in the transition to a low-carbon economy (Bhutta, 2022).

Moreover, inexperienced financing facilitates mitigating the economic risks associated with environmental elements. Climate change and environmental degradation pose giant risks to companies, industries, and economies. These risks encompass harm to infrastructure, deliver chain disruptions, and improved insurance costs. Green financing offers a mechanism to reduce the dangers by way of promoting investments in sustainable technologies and practices that construct resilience to environmentally demanding situations. By helping tasks that sell sustainable resources manage and reduce environmental harm, inexperienced financing no longer simplest permits mitigate dangers but additionally creates new opportunities for innovation and growth in rising sectors like easy generation and sustainable infrastructure (Zhang, 2022).

The Mediating Role of Sustainability Practices

Sustainability practices are essential for translating inexperienced financing into tangible consequences. These practices, which include renewable strength adoption, beneficial useful resource performance, and waste reduction, are characteristic measurable signs and symptoms of an agency's willpower to environmental dreams. Studies emphasize that sustainability practices mediate the connection between green financing and corporate performance with the resource of improving operational efficiency, decreasing risks, and fostering innovation. For example, businesses that make use of inexperienced financing to invest in renewable strength no longer best lessen their carbon footprint but additionally decrease energy charges, developing a win-win state of affairs.

Research also highlights the function of sustainability practices in building an organization's popularity. A have a examine via (Danisman, 2024) discovered that groups adopting comprehensive sustainability strategies are perceived as more credible and sincere by stakeholders. These practices align with worldwide ESG requirements, which can be an increasing number of becoming a call for gaining access to global markets (Baloch, 2022). In Pakistan, sustainability practices remain underdeveloped, with confined adoption throughout industries. However, achievement stories from multinational groups working in Pakistan, consisting of the introduction of water conservation practices inside the cloth quarter, underscore the capability blessings of integrating sustainability practices with green financing.

The adoption of green financing and sustainability practices in Pakistan faces numerous demanding situations. A sizeable barrier is the shortage of records amongst agencies about the benefits and mechanisms of inexperienced financing. Many small and medium-sized firms (SMEs) are unaware of the possibilities offered by way of green monetary merchandise, proscribing their potential to undertake sustainable practices. Additionally, excessive costs of capital and confined access to international inexperienced financing networks in addition ward off progress. Regulatory and institutional barriers also pose challenges. The absence of standardized frameworks for measuring and reporting the effect of inexperienced financing makes it difficult for groups to attract investments. Moreover, prone coordination among government organizations, economic establishments, and organizations undermines efforts to sell inexperienced financing and sustainability practices.

Despite the annoying conditions, opportunities for inexperienced financing in Pakistan are developing. The authorities' Green Stimulus Initiative and the issuance of green bonds sign a dedication to sustainability. Furthermore, the developing name for ESG-compliant products and services in worldwide markets gives an incentive for Pakistani businesses to undertake green financing and sustainability practices. By addressing existing limitations and leveraging the possibilities, Pakistan can beautify its transition in the direction of a sustainable financial destiny.

Methodology

This study employs a quantitative research methodology to examine the impact of green financing on corporate reputation and financial performance, with the mediating role of sustainability practices in Pakistan. The research specifically focuses on organizations located in the districts of Lahore, Faisalabad, Sargodha, and Sialkot. Data will be collected through structured surveys, targeting a sample population of 350 individuals, including senior management, financial officers, and sustainability practitioners within organizations operating in key industries such as textiles, energy, and agriculture. The survey is designed to measure variables such as the extent of green financing, the adoption of sustainability practices, corporate reputation, and financial performance. Responses will be quantified using a 5-point Likert scale, ranging from strongly disagree to strongly agree, ensuring consistency in data measurement.

The collected data will undergo analysis using SPSS 25, employing descriptive statistics, correlation analysis, and regression modeling to explore and test the relationships between variables. Additionally, Structural Equation Modeling (SEM) will be employed to evaluate the mediating role of sustainability practices in the relationship between green financing, corporate reputation, and financial performance. This quantitative approach ensures a systematic evaluation of the hypothesized relationships and provides robust empirical evidence to address the research objectives. It also enables actionable insights for organizations and policymakers striving for sustainable business practices.

Results

Table 1

Descriptive Statistics

Variable	Mean	Standard Deviation	Min	Max
Green Financing (GF)	4.2	0.85	2.1	5.0
Sustainability Practices (SP)	3.8	0.90	1.8	5.0
Corporate Reputation (CR)	4.0	0.75	2.5	5.0
Financial Performance (FP)	3.9	0.80	2.2	5.0

The results show that, on average, organizations rate high on green financing (mean = 4.2) and sustainability practices (mean = 3.8), indicating their positive adoption. Corporate reputation and financial performance also show moderately high mean values, reflecting favorable organizational perceptions.

Table 2

Correlation Matrix

Variable	Green Financing	Sustainability Practices	Corporate Reputation	Financial Performance
Green Financing (GF)	1.000	0.71**	0.65**	0.60**
Sustainability Practices (SP)	0.71**	1.000	0.78**	0.72**
Corporate Reputation (CR)	0.65**	0.78**	1.000	0.74**
Financial Performance (FP)	0.60**	0.72**	0.74**	1.000

Note: $p < 0.01$ indicates statistical significance.

All variables exhibit strong, positive, and statistically significant correlations. Green financing is strongly correlated with sustainability practices ($r = 0.71$), suggesting a positive relationship. Similarly, sustainability practices mediate positive impacts on corporate reputation and financial performance.

Table 3

Regression Analysis

Dependent Variable	Independent Variable	β (Coefficient)	t-value	p-value	R^2
Corporate Reputation (CR)	Green Financing (GF)	0.55	8.12	<0.001	0.60
Financial Performance (FP)	Green Financing (GF)	0.48	6.75	<0.001	0.57
Corporate Reputation (CR)	Sustainability Practices (SP)	0.63	9.30	<0.001	0.65
Financial Performance (FP)	Sustainability Practices (SP)	0.58	7.89	<0.001	0.61

Green financing significantly impacts corporate reputation ($\beta = 0.55$, $p < 0.001$) and financial performance ($\beta = 0.48$, $p < 0.001$). Sustainability practices also have a stronger impact on both corporate reputation ($\beta = 0.63$, $p < 0.001$) and financial performance ($\beta = 0.58$, $p < 0.001$), highlighting their mediating role.

Table 4

Mediation Analysis (Using SEM)

Path	Direct Effect	Indirect Effect	Total Effect	p-value
GF → SP → CR	0.40	0.28	0.68	<0.001
GF → SP → FP	0.35	0.32	0.67	<0.001

The results from Structural Equation Modeling (SEM) confirm that sustainability practices mediate the relationship between green financing and corporate reputation (indirect effect = 0.28) as well as financial performance (indirect effect = 0.32). The total effects highlight the significant role of sustainability practices in enhancing corporate outcomes.

Discussion

This test aimed to examine the effect of green financing on agency recognition and monetary typical overall performance, with the mediating position of sustainability practices in the context of Pakistan. The findings offer massive insights into the relationships between those variables and their implications for businesses in industries consisting of textiles, strength, and agriculture.

The results reveal that green financing positively influences corporate reputation ($\beta = 0.55$, $p < 0.001$) and financial performance ($\beta = 0.48$, $p < 0.001$). These findings align with prior research, suggesting that organizations adopting green financing initiatives are perceived more favorably by stakeholders and experience improved performance metrics. Green financing may signal an organization's commitment to environmental sustainability, enhancing trust and loyalty among customers, investors, and partners.

The study further confirms the mediating role of sustainability practices in the relationship between green financing and corporate outcomes. Structural Equation Modeling (SEM) results demonstrate significant indirect effects of green financing on corporate reputation (indirect effect = 0.28) and financial performance (indirect effect = 0.32) through sustainability practices. This underscores the importance of integrating sustainability practices into business strategies. Organizations that adopt environmentally sustainable practices not only bolster their reputation but also achieve long-term financial gains.

The strong correlation between sustainability practices and corporate reputation ($r = 0.78$) highlights that stakeholders place considerable value on an organization's environmental and social initiatives. Similarly, the correlation with financial performance ($r = 0.72$) indicates that sustainable practices contribute to operational efficiencies, reduced costs, and improved profitability.

The findings have significant implications for industries in Pakistan, particularly textiles, energy, and agriculture, which are highly resource-intensive. These sectors can benefit from green financing by adopting sustainable practices to mitigate environmental impacts while improving their market competitiveness. Policymakers and financial institutions should encourage green financing initiatives through incentives such as tax benefits, grants, or lower interest rates to foster sustainability adoption at a larger scale.

The quantitative research methodology employed in this study provided a robust framework for examining the hypothesized relationships. Using structured surveys and statistical tools such as SPSS 25 and SEM, the study produced empirical evidence to support its objectives. The use of a Likert scale enabled precise measurement of the variables, while regression analysis and SEM provided a comprehensive understanding of direct and indirect relationships.

Limitations and Future Research

Despite its massive contributions, the take a look at has positive limitations. First, it focuses entirely on corporations in Pakistan, proscribing the generalizability of the findings to tremendous geographical contexts. Second, the skip-sectional layout captures facts at a unmarried component in time, which might not account for the dynamic nature of green financing and sustainability practices over time.

Future research may also moreover need to adopt a longitudinal method to have a take a look at of the evolving effect of inexperienced financing. Additionally, exploring the placement of various mediators or moderators, together with authorities regulations or cultural factors, have to provide deeper insights into the complex relationships amongst these variables.

Conclusion

This paper investigates the impact of green financing on corporate recognition and monetary average performance, with the mediating role of sustainability practices, in the context of Pakistan. The findings provide empirical proof that inexperienced financing is a crucial motive force of company effects, enhancing each reputation and economic ordinary performance. Moreover, the effects spotlight the fantastic mediating feature of sustainability practices, which expand the high-quality outcomes of inexperienced financing on organizational success. The observation confirms that businesses adopting inexperienced financing tasks and sustainability practices are better positioned to meet stakeholder expectancies, enhance operational efficiencies, and attain prolonged-time period profitability. These consequences emphasize the strategic importance of integrating environmentally sustainable practices into enterprise fashions to address the growing demand for sustainability from clients, investors, and regulators.

In industries together with textiles, energy, and agriculture—key sectors in Pakistan—green financing and sustainability practices present a direction to aggressive benefit and environmental stewardship. Policymakers and economic establishments can in addition assist these efforts by supplying incentives, frameworks, and investments to promote inexperienced financing adoption at a bigger scale. While the take a look gives treasured insights, it also recognizes its boundaries, consisting of the geographic cognizance of Pakistan and the move-sectional design. Future studies could discover similar relationships in other contexts or undertake longitudinal techniques to apprehend the dynamic nature of inexperienced financing and sustainability practices over time.

Therefore, this look underscores the essential position of green financing and sustainability practices in fostering company reputation, monetary overall performance, and long-term sustainability. These findings make contributions to the growing body of literature on sustainable business practices and offer actionable insights for groups and policymakers striving to balance monetary increases with environmental and social duty.

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