

Green Innovation and default risk: Evidence from China

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Abstract

This paper investigates the impact of green innovation to default risk by analyzing a dataset comprising 28,603 firm–year observations, spanning from 2012 to 2022, utilizing data from China's A-list market. Our study reveals that green innovation exhibits an inverse impact on firms' default risk, as indicated by the market–based distance of default. These findings remain robust under baseline regression and two-stage least square analysis, mitigating concerns regarding reverse causality. Furthermore, we observe that the negative impact of green innovation on default risk is more significant for big firms than small firms with small market capitalization. Next, our analysis highlights that the negative impact of green innovation on default risk primarily stems from the profitability of the firm rather than leverage. In summary, this study, shedding light on the economically significant impact between eco–innovation and credit risk, furnishes valuable insights for policymakers, corporate executives, investors, and other stakeholders.

Keywords: Bankruptcy risk, Eco-innovation, Economy, Leverage, Profitability