



The Nexus Between Green Banking, Governance Quality, and Financial Performance: Evidence from the Islamic Banking Sector in Indonesia

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ABSTRACT

This study investigates the impact of Green Banking Disclosure and Good Corporate Governance (GCG) mechanisms on the financial performance of Islamic commercial banks in Indonesia. A quantitative approach was employed using secondary data from annual and sustainability reports of 12 Islamic Commercial Banks registered with the Financial Services Authority (OJK) between 2021 and 2023. Data analysis was conducted using panel data regression. The results demonstrate that Green Banking Disclosure has a positive and statistically significant effect on financial performance, suggesting that environmental transparency serves as a strategic driver for profitability. Conversely, the independent board of commissioners exhibits a negative and significant influence on ROA. Furthermore, both the audit committee and the Sharia Supervisory Board were found to have negative but statistically insignificant effects on financial outcomes. These findings underscore that substantive sustainability initiatives generate stronger market legitimacy and financial value compared to mere structural compliance with governance requirements. The study suggests that Islamic banks should prioritize the integration of green banking practices into their core strategies while ensuring that governance structures are optimized for strategic expertise rather than formalistic monitoring.

ABSTRAK

Penelitian ini mengkaji pengaruh pengungkapan *Green Banking* dan mekanisme *Good Corporate Governance* (GCG) terhadap kinerja keuangan bank umum syariah di Indonesia. Pendekatan kuantitatif digunakan dengan menggunakan data sekunder yang bersumber dari laporan tahunan dan laporan keberlanjutan dari 12 Bank Umum Syariah yang terdaftar di Otoritas Jasa Keuangan (OJK) selama periode 2021 hingga 2023. Analisis data dilakukan dengan menggunakan regresi data panel. Hasil penelitian menunjukkan bahwa pengungkapan *Green Banking* memiliki pengaruh positif dan signifikan secara statistik terhadap kinerja keuangan, yang mengindikasikan bahwa transparansi lingkungan berfungsi sebagai penggerak strategis bagi profitabilitas. Sebaliknya, dewan komisaris independen menunjukkan pengaruh negatif dan signifikan terhadap ROA (*Return on Assets*). Lebih lanjut, ditemukan bahwa komite audit dan Dewan Pengawas Syariah tidak berpengaruh terhadap kinerja keuangan. Temuan ini menegaskan bahwa inisiatif keberlanjutan yang substantif menghasilkan legitimasi pasar dan nilai finansial yang lebih kuat dibandingkan sekadar kepatuhan struktural terhadap persyaratan tata kelola. Studi ini menyarankan agar bank syariah memprioritaskan integrasi praktik perbankan hijau ke dalam strategi inti mereka, sekaligus memastikan bahwa struktur tata kelola diprioritaskan untuk keahlian strategis dan bukan sekadar pengawasan formalitas.

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INTRODUCTION

Environmental issues, particularly climate change and global warming, have become critical global concerns. Global warming refers to the increasing average temperature of the Earth's atmosphere, oceans, and land, primarily caused by deforestation, greenhouse gas emissions, and pollution (Malihah, 2022). Addressing environmental degradation requires international cooperation, as it cannot be resolved by a single country (Hapsari, 2021). This global concern has led to environmental diplomacy initiatives and the establishment of the Sustainable Development Goals (SDGs) (Susanti & Purbantina, 2021). According to the National Oceanic and Atmospheric Administration (2024), 2023 was the hottest year on record since 1850, marking an alarming acceleration of global warming trends. Furthermore, Indonesia is among the largest contributors to carbon emissions from land-use change, contributing significantly to global emissions (Global Carbon Project, 2023). These conditions emphasize the urgency for all sectors, including financial institutions, to support sustainable development. Moreover, meta-research conducted by NYU, based on 1,000 studies published between 2015 and 2020, finds a generally positive relation between Environmental, Social, and Governance (ESG) and financial performance (Whelan et al., 2024). This further reinforces the urgency for integrating sustainable business practices in financial institutions.

Banks play a strategic role in influencing industrial activities through financing decisions. As financial intermediaries, banks indirectly bear responsibility for the environmental impact of the projects they finance (Nath et al., 2014). In Indonesia, Islamic banking represents 72% of total Islamic financial assets and continues to show consistent growth. Given this significant role, Islamic banks have strong potential to contribute to environmental sustainability through the implementation of green banking practices. Green banking integrates environmental considerations into banking operations and financing decisions. Practices include paperless transactions, digital banking services, and selective financing for environmentally responsible projects (Akhter et al., 2021; Lalon, 2015; Handajani et al., 2019). In Indonesia, green banking implementation aligns with Financial Services Authority Regulation No. 51/POJK.03/2017 concerning Sustainable Finance.

In addition to environmental responsibility, Islamic banks are required to implement Good Corporate Governance (GCG). GCG ensures accountability, transparency, fairness, responsibility, and independence in corporate management (Tangkilisan, 2003). Weak governance systems were identified as one of the causes of the Asian financial crisis in 1997 (Sutedi, 2011; Sitompul, 2005). Despite improvements, Indonesia still ranks relatively low in corporate governance assessments in Asia (Asian Corporate Governance Association, 2024). Prior studies provide inconsistent findings regarding the relationship between Green Banking Disclosure, GCG, and financial performance (Anggraini et al., 2022; Hanif et al., 2020; Nurhidayah, 2020; Irawati et al., 2024; Khomsatun et al., 2024). Therefore, this study combines Green Banking Disclosure and GCG mechanisms to analyze their influence on Islamic banking financial performance in Indonesia during 2021–2023.

Based on the issues discussed above, this study seeks to examine the role of environmental disclosure and corporate governance mechanisms in determining the financial performance of Islamic banks in Indonesia. Specifically, the research investigates whether Green Banking Disclosure contributes to improved financial performance and how governance structures—namely the independent board of commissioners, the audit committee, and the sharia supervisory board—affect financial outcomes. Thus, the objective of this research is to analyze and evaluate the influence of Green Banking Disclosure and key GCG mechanisms on the financial performance of Islamic banks in



Indonesia during the 2021–2023 period, thereby contributing to the literature on sustainable finance and Islamic corporate governance.

LITERATURE REVIEW

Agency Theory

Agency theory explains the relationship between principals (shareholders) and agents (management), where authority is delegated to managers to operate the company (Jensen & Meckling, 1976). Differences in interests between principals and agents may create agency conflicts, leading to agency costs. To mitigate these conflicts and ensure managerial accountability, companies implement Good Corporate Governance (GCG) mechanisms as monitoring and control systems (Ayu et al., 2015). In banking institutions, effective governance structures are essential to align management decisions with stakeholder interests and to enhance organizational performance.

Beyond the traditional dyadic relationship between shareholders and managers, agency theory in Islamic banking incorporates a moral agency dimension. Managers are not only agents of the principals but also trustees (*amin*) responsible for adhering to Sharia principles and social welfare. The potential for agency costs arises when management prioritizes short-term profitability or personal prestige over long-term sustainability and ethical compliance. Consequently, robust Good Corporate Governance (GCG) mechanisms are indispensable as monitoring systems to mitigate these conflicts, ensuring that managerial actions are aligned with both the economic interests of stakeholders and the ethical mandates of the institution.

Financial Performance

Financial performance reflects a company's ability to manage and utilize its financial resources effectively (Fahmi, 2012; Sawir, 2008). It serves as an indicator of operational success and financial health over a specific period (Rudianto, 2013). Financial performance is commonly measured using financial ratios, particularly profitability ratios, which evaluate a firm's ability to generate earnings (Munawir, 2010). In banking studies, profitability is often proxied by Return on Assets (ROA), which measures how efficiently a bank generates profit from its total assets (Arifin, 2002; Mahardhika & Marbun, 2016). A higher ROA indicates better asset utilization and stronger financial performance. Therefore, ROA is used in this study as the primary proxy for financial performance.

In the banking sector, financial performance is a multi-faceted construct that signifies an institution's resilience and operational efficiency in a volatile market. While various metrics exist, Return on Assets (ROA) remains the gold standard for measuring profitability as it evaluates the management's capability to extract value from the bank's total asset base. High financial performance serves as a critical signal to the market, indicating that the bank has successfully optimized its resource allocation and risk management strategies. In the context of Islamic finance, achieving superior ROA is essential not only for shareholder returns but also for maintaining the competitive viability of the Sharia-compliant model against conventional counterparts.

Green Banking

Green banking refers to environmentally responsible banking practices that integrate sustainability principles into operational and financing activities (Gupta, 2015; Hanif et al., 2020). It emphasizes not only profit generation but also environmental and social responsibility to support sustainable development. Green banking practices generally focus on two dimensions. First, operational activities such as digital banking, paperless transactions, and energy efficiency to reduce carbon emissions and environmental impact. Second, responsible financing policies that consider



environmental risks before approving loans or investments (Ramila & Gurusamy, 2015). Through these approaches, banks indirectly contribute to environmental protection and climate change mitigation (Nath et al., 2014). In Indonesia, green banking implementation aligns with sustainable finance regulations issued by the Financial Services Authority (OJK). From an Islamic perspective, environmental preservation is also supported by Quranic principles (Al-Baqarah: 205; Ar-Rum: 41), which prohibit environmental destruction (Prayoga et al., 2023). Green banking disclosure in this study is measured using the Green Banking Disclosure Index (GBDI) developed by Bose et al. (2018), consisting of 21 disclosure items related to environmentally friendly practices.

The evolution of green banking represents a strategic shift from pure profit-maximization to a triple bottom line approach—people, planet, and profit. By integrating environmental risk assessment into the credit cycle and adopting eco-efficient internal operations, banks act as green intermediaries that steer capital toward sustainable industrial practices. In Indonesia, this transition is further bolstered by regulatory frameworks like POJK No. 51/2017, which mandates transparency in sustainability efforts. For Islamic banks, green banking is not merely a compliance requirement but a natural extension of *Maqasid al-Shari'ah* (the objectives of Sharia), which strictly prohibits environmental destruction and promotes the stewardship of the Earth.

Good Corporate Governance

Corporate governance is a system that directs and controls corporate activities to ensure accountability, transparency, and fairness toward stakeholders (Laela et al., 2019). In Islamic banking, governance also includes compliance with Sharia principles through the Sharia Supervisory Board, forming what is known as Islamic Corporate Governance (Baqir & Sulhani, 2023). GCG is based on five core principles: transparency, accountability, responsibility, independence, and fairness (Kaihatu, 2006). Proper implementation of these principles enhances stakeholder trust, improves decision-making quality, and strengthens company performance (Sari et al., 2022; Faozan, 2013). In this study, GCG is proxied by the proportion of independent commissioners, the size of the audit committee, and the role of the sharia supervisory board. These mechanisms function as monitoring tools to reduce agency problems and improve financial performance.

Good Corporate Governance (GCG) in the Islamic financial landscape functions as a comprehensive framework for accountability, transparency, and ethical conduct. Unlike conventional models, Islamic GCG is characterized by a multi-layered oversight structure, most notably featuring the Sharia Supervisory Board (SSB) to ensure religious legitimacy. The efficacy of governance mechanisms—such as the independence of the board and the rigor of audit committees—is theorized to reduce information asymmetry and enhance the quality of strategic decision-making. Ultimately, the goal of such governance is to build a reputation for integrity that attracts loyal customers and ethical investors, thereby securing the bank's long-term financial health.

Hypothesis Development

The Influence of Green Banking Disclosure on Financial Performance

The integration of environmental considerations into banking operations—termed Green Banking—represents a strategic shift toward a triple bottom line approach that balances profit with planetary health. According to stakeholder and legitimacy theories, banks that proactively disclose their environmental initiatives can mitigate information asymmetry and cultivate a superior corporate reputation. This transparency functions as a strategic signaling mechanism, communicating the institution's long-term sustainability commitments to the capital market and attracting environmentally conscious investors. In the context of Islamic finance, this practice is further reinforced by the principles



of *Maqasid al-Shari'ah*, which mandate the stewardship of the Earth and prohibit environmental destruction.

Empirically, the adoption of green banking practices, such as paperless transactions and selective financing for eco-friendly projects, has been shown to enhance institutional efficiency and market appeal. Prior research by Hanif et al. (2020) and Fortuna et al. (2024) corroborates that sustainable banking practices catalyze increased profitability. Furthermore, Anggraini et al. (2022) found that environmental transparency directly elevates firm value by signaling reliability to stakeholders. Given that such disclosures satisfy both regulatory requirements and ethical mandates, they are expected to yield higher financial returns.

H₁: Green Banking Disclosure has a positive effect on the financial performance of Islamic banks.

The Influence of the Independent Board of Commissioners on Financial Performance

Agency theory suggests that the primary role of independent commissioners is to act as a monitoring mechanism to reduce conflicts of interest between shareholders (principals) and management (agents). By providing objective oversight, independent members are expected to enhance accountability and ensure that managerial decisions align with the long-term economic interests of the firm. However, an excessive proportion of independent commissioners may introduce a monitoring-efficiency trade-off, where rigid compliance-centric oversight comes at the expense of strategic agility.

Empirical evidence regarding the impact of board independence remains mixed. While independence is intended to improve governance quality, some studies suggest it can trigger administrative inertia or information asymmetries between independent and executive members, potentially hindering immediate profit-generating opportunities. Irawati et al. (2024) noted that governance mechanisms can sometimes create inefficiencies that erode short-term performance. If the board focuses predominantly on risk mitigation rather than proactive profit maximization, a higher ratio of independent members may negatively correlate with financial outcomes.

H₂: The proportion of independent commissioners has a significant effect on the financial performance of Islamic banks.

The Influence of the Audit Committee on Financial Performance

The audit committee serves as a vital component of Good Corporate Governance (GCG) by strengthening internal control frameworks and ensuring the reliability of financial reporting. Its primary mandate is to reduce information asymmetry and mitigate risks, providing a foundation for institutional stability. Theoretically, a robust audit committee should enhance investor confidence, which may indirectly lead to improved financial outcomes over time. However, the effectiveness of this body often hinges on qualitative factors—such as financial expertise and monitoring intensity—rather than simple numerical composition.

Previous studies, such as Nurhidayah (2020), suggest that increasing the size of the audit committee does not automatically translate into improved profitability. This lack of direct impact may be due to optimal board size logic, where adding members beyond a certain threshold leads to coordination challenges or social loafing, thereby neutralizing oversight gains. Because the audit committee's influence is often longitudinal and focused on risk management rather than immediate earnings generation, its immediate impact on profitability ratios like Return on Assets (ROA) may be statistically negligible.

H₃: Audit Committee size affects the financial performance of Islamic banks.



The Influence of the Sharia Supervisory Board on Financial Performance

In Islamic banking, the Sharia Supervisory Board (SSB) provides a multi-layered oversight structure designed to ensure religious legitimacy and compliance with *Sharia* principles. The SSB acts as a religious auditor, ensuring that all products and operations are free from prohibited elements like *riba* (usury) or *gharar* (uncertainty). While this oversight is essential for maintaining the Sharia-compliant brand and securing the trust of faith-based stakeholders, its primary focus is on ethical integrity rather than short-term financial maximization.

Research by Anggraini et al. (2022) suggests that Sharia governance mechanisms primarily function to ensure compliance and legitimacy rather than directly enhancing immediate financial returns. The administrative scrutiny required for Sharia compliance may introduce additional deliberations that do not inherently correlate with aggressive profit-seeking behavior. Consequently, while the SSB fosters long-term institutional sustainability and value-relevance, the frequency of its meetings—a proxy for monitoring intensity—may not show an immediate or significant positive correlation with current-period profitability ratios.

H4: The Sharia Supervisory Board affects the financial performance of Islamic banks.

RESEARCH METHODOLOGY

This study adopts a quantitative research design to examine the causal relationships between Green Banking Disclosure (GBD), Good Corporate Governance (GCG) mechanisms, and the financial performance of Islamic Commercial Banks in Indonesia. The research utilizes secondary data extracted from audited annual reports, sustainability reports, and GCG reports published by 12 Islamic Commercial Banks registered with the Financial Services Authority (OJK) between 2021 and 2023. The longitudinal nature of the data necessitates a panel data regression approach, which provides a more informative and efficient estimation by accounting for both cross-sectional and time-series dimensions. The variables in this study are operationalized to capture the multi-dimensional nature of sustainability and governance within the Sharia banking framework: Financial Performance (Dependent Variable): Measured through Return on Assets (ROA), which indicates the net income generated relative to total assets. Green Banking Disclosure (Independent Variable): Quantified using the Green Banking Disclosure Index (GBDI) developed by Bose et al. (2018), comprising 21 items covering environmental initiatives and policies. Good Corporate Governance (Independent Variables): Independent Board of Commissioners (IBC): The proportion of independent members relative to the total number of commissioners. Audit Committee (AC): Measured by the total number of members serving on the committee. Sharia Supervisory Board (SSB): Measured by the frequency of formal meetings held annually to ensure Sharia compliance. The relationship between the variables is expressed through the following panel data regression equation:

$$Fin_Per_{it} = \alpha + \beta_1 GBD_{it} + \beta_2 IBC_{it} + \beta_3 AC_{it} + \beta_4 SSB_{it} + \varepsilon_{it}$$

Description:

Fin_Per_{it} : Financial performance (Return on Assets) for bank i in year t .

α : The constant or intercept.

GDB_{it} : Green Banking Disclosure score for bank i in year t .

IBC_{it} : Proportion of Independent Board of Commissioners for bank i in year t .

AC_{it} : Number of Audit Committee members for bank i in year t .

SSB_{it} : Frequency of Sharia Supervisory Board meetings for bank i in year t .



- β_{1-4} : Regression coefficients for each independent variable.
 ε : The error term representing unobserved factors.

To ensure the statistical integrity of the results, the analysis follows a rigorous three-step protocol: Model Selection: The Chow Test, Hausman Test, and Breusch-Pagan Lagrange Multiplier test are conducted to determine whether the Pooled OLS (Common Effect), Fixed Effect, or Random Effect model is the most appropriate for the dataset. Diagnostic Testing: Classical assumption tests, including Normality, Multicollinearity, Autocorrelation, and Heteroskedasticity tests, are performed to prevent biased or inconsistent estimates. Hypothesis Testing: The significance of the coefficients is evaluated using partial t-tests, while the overall explanatory power of the model is assessed through the Adjusted R-squared (R^2).

RESULT AND DISCUSSION

To assess the validity of the proposed hypotheses and the empirical weight of each variable within the panel data framework, the t-statistic and associated p-values were analyzed. These results provide the basis for determining whether sustainability disclosures and corporate governance structures serve as significant drivers of profitability in the Islamic banking sector. Table 1 presents the regression coefficients and significance levels for the primary research model:

Table 1: Regression Result

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	2.732134	1.457.865	1.874.065	0.0704
GBD	0.016347	0.000769	2.127.008	0.0000
IBC	-4.585.653	1.657.814	-2.766.084	0.0095
AC	0.163728	0.140312	1.166.885	0.2522
SSB	0.022794	0.014341	1.589.482	0.1221

Adjusted R2 : 93,46%
F_stat: 0,00000

Effect of Green Banking Disclosure on Financial Performance

The empirical results of the regression analysis demonstrate that Green Banking Disclosure (GBD) exerts a positive and statistically significant influence on Return on Assets (ROA). This suggests that more comprehensive environmental reporting frameworks directly facilitate enhanced financial performance within the Islamic banking sector. From a theoretical perspective, this correlation reinforces the tenets of stakeholder and legitimacy theories, which argue that organizational commitment to transparent environmental practices fosters heightened stakeholder trust and secures social legitimacy. By proactively disclosing environmental impacts, banks can mitigate information asymmetry, thereby cultivating a superior corporate reputation that appeals to environmentally conscious investors and strengthens customer retention.

This finding aligns with a growing body of empirical literature, corroborating the evidence presented by Hanif et al. (2020) and Fortuna et al. (2024), who observed that the integration of sustainable banking practices serves as a catalyst for increased profitability. Furthermore, these results mirror the findings of Anggraini et al. (2022), which highlight that environmental transparency functions as a strategic signaling mechanism, communicating a bank's long-term sustainability commitments to the capital market and subsequently elevating firm value. Consequently, Green



Banking Disclosure transcends mere regulatory compliance or ethical obligation; it emerges as a critical strategic instrument that optimizes financial outcomes by aligning institutional operations with the evolving demands of a sustainable global economy.

Effect of Independent Board of Commissioners on Financial Performance

The regression analysis reveals that the proportion of independent commissioners exerts a negative and statistically significant influence on Return on Assets (ROA). This finding implies that an increase in the ratio of independent members within the board structure does not inherently translate into superior financial outcomes; rather, it may detract from short-term profitability. While Agency Theory, as posited by Jensen and Meckling (1976), suggests that independent oversight is vital for mitigating agency conflicts through rigorous monitoring, the empirical reality within this context suggests a monitoring-efficiency trade-off. Excessive independence may lead to a boardroom environment characterized by rigid compliance-centric oversight at the expense of strategic agility. Consequently, the presence of independent commissioners may introduce administrative complexities or information asymmetries between independent and executive members, ultimately hindering the bank's ability to capitalize on immediate profit-generating opportunities.

This empirical result contributes to the ongoing debate regarding board composition, aligning with Nurhidayah (2020), who found that independent directors do not consistently catalyze improvements in banking profitability. Furthermore, the findings resonate with Irawati et al. (2024), suggesting that certain governance mechanisms can trigger organizational inertia and administrative inefficiencies that erode short-term performance. A plausible explanation for this phenomenon is that a high proportion of independent commissioners may prolong the decision-making process due to more extensive deliberation or a primary focus on risk mitigation and regulatory adherence rather than proactive profit maximization. Therefore, these results suggest that board effectiveness is not a mere function of numerical independence; rather, it is contingent upon the synergistic integration of specialized expertise, industry experience, and active strategic engagement.

Effect of Audit Committee on Financial Performance

The empirical analysis reveals that the audit committee size exerts a negative but statistically insignificant influence on Return on Assets (ROA). This finding implies that the mere numerical composition of the audit committee does not serve as a primary determinant of short-term financial performance within the analyzed institutions. Such a result aligns with the observations of Nurhidayah (2020), suggesting that increasing the number of committee members does not automatically catalyze improvements in profitability. Theoretically, this indicates that the functionality of the audit committee may be governed by the optimal board size logic, where adding members beyond a certain threshold leads to coordination challenges or social loafing, thereby neutralizing any potential gains in oversight efficiency. Consequently, the effectiveness of this governance body likely hinges more on qualitative attributes—such as the depth of financial expertise, the degree of independence, and the intensity of monitoring activities—rather than a simple quantitative headcount.

Furthermore, while the audit committee plays a pivotal role in strengthening internal control frameworks and ensuring the reliability of financial reporting, its contribution to firm value is often indirect and longitudinal. The primary mandate of the committee is risk mitigation and the reduction of information asymmetry, which provides a foundation for institutional stability rather than immediate aggressive profit generation. This nuanced relationship suggests that the benefits of robust audit



oversight—such as reduced cost of debt or enhanced investor confidence—may not be instantaneously captured by current-period profitability ratios like ROA. Instead, the committee functions as a protective mechanism that safeguards assets and ensures regulatory compliance, creating a sustainable environment that supports long-term performance. Therefore, the lack of statistical significance in this study underscores the necessity of evaluating the audit committee through the lens of oversight quality and strategic engagement rather than structural metrics alone.

Effect of Sharia Supervisory Board on Financial Performance

The empirical results indicate that the Sharia Supervisory Board (SSB) exerts a negative but statistically insignificant influence on financial performance, as measured by Return on Assets (ROA). This finding suggests that the frequency of SSB meetings—a common proxy for the intensity of Sharia oversight—does not serve as a direct determinant of immediate profitability within Islamic financial institutions. This outcome aligns with the research of Anggraini et al. (2022), which posits that Sharia governance mechanisms are primarily designed to ensure religious compliance and institutional legitimacy rather than to function as drivers of short-term financial returns. From a theoretical standpoint, the SSB operates as a religious auditor, focusing on the alignment of products and operations with Islamic principles (Maqasid al-Shari'ah). While this oversight is crucial for maintaining the Sharia-compliant brand and mitigating fiduciary risks, it may also introduce additional layers of administrative scrutiny that do not inherently correlate with aggressive profit-seeking behavior.

Furthermore, the primary responsibility of the SSB is to safeguard ethical conduct and ensure that all transactions are free from prohibited elements such as *riba* (usury), *gharar* (uncertainty), and *maysir* (gambling). While these activities are essential for cultivating long-term stakeholder trust and social capital, their impact on financial performance is likely indirect and longitudinal rather than immediate. The role of the SSB should therefore be viewed through the lens of institutional sustainability and risk management rather than as a mechanism for short-term financial maximization. By prioritizing ethical integrity, the SSB fosters a stable governance environment that appeals to faith-based depositors and investors, thereby securing the bank's long-term market position. Consequently, the lack of statistical significance in this study underscores the notion that Sharia governance contributes to the value-relevance of the firm over an extended horizon, rather than inflating current-period profitability ratios.

CONCLUSION

This study provides a robust empirical examination of the nexus between Green Banking Disclosure (GBD), Good Corporate Governance (GCG) mechanisms, and the financial performance of Islamic banks in Indonesia from 2021 to 2023. The findings demonstrate that Green Banking Disclosure exerts a positive and statistically significant influence on Return on Assets (ROA), underscoring that environmental transparency acts as a strategic signaling mechanism that bolsters stakeholder confidence and competitive advantage. In contrast, the proportion of independent commissioners reveals a significant negative correlation with profitability, while the audit committee and Sharia Supervisory Board (SSB) exhibit negative but statistically insignificant effects. These results suggest a governance-efficiency trade-off, where purely structural or compliance-heavy oversight may inadvertently lead to administrative inertia or increased coordination costs, thereby failing to catalyze immediate financial returns.

Despite these insights, several limitations warrant acknowledgment to contextualize the findings. First, the study's scope is restricted to the Indonesian Islamic banking sector over a relatively



short three-year period (2021–2023), which may limit the generalizability of the results to other geographical regions or longer economic cycles. Second, the measurement of governance effectiveness relied primarily on quantitative proxies, such as the number of members and meeting frequencies, which may not fully capture qualitative dimensions like individual expertise, board dynamics, or the substantive depth of Sharia deliberations. Furthermore, the use of ROA as the sole proxy for financial performance may overlook broader market-based valuations or long-term sustainability metrics that are equally vital in the contemporary ESG (Environmental, Social, and Governance) landscape.

Building upon these limitations, future research should consider expanding the sample size to include a cross-country analysis of Islamic financial institutions within the ASEAN or MENA regions to enhance the external validity of the findings. Subsequent studies are also encouraged to adopt more granular qualitative metrics for board effectiveness, such as the educational background of independent commissioners or the specific technical competencies of SSB members in sustainable finance. Additionally, integrating moderating variables—such as digital transformation or institutional ownership—could provide a more nuanced understanding of the conditions under which governance structures optimize financial outcomes. For practitioners, these findings emphasize the need to shift from tokenistic compliance toward a strategic integration of sustainability and governance that prioritizes qualitative oversight over mere numerical representation.

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