

## The Effect of Corporate Governance on Green Banking Disclosure in Indonesian Islamic Banking for the 2019-2021 Period

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### ABSTRACT

This study aims to examine the effect of corporate governance on the disclosure of green banking in Islamic banking in Indonesia for the 2019-2021 period. This study looks at Islamic banking registered with the Otoritas Jasa Keuangan (OJK) as a population, and the sample consists of 9 Islamic banks selected through purposive sampling. During the observation period, this study assessed green bank disclosures through the annual reports of Islamic banks. The content analysis method was used to conduct this evaluation. Multiple linear regression analysis was used to examine the causal relationship between green bank disclosure and corporate management. The results of this study found that there is an influence between the size of the board of commissioners on green banking disclosure in Islamic banking in Indonesia. as well as the sharia supervisory board has an effect on green banking disclosure.

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## **INTRODUCTION**

Environmental issues have become important in every industry, including the financial sector. Industrialization tends to exploit natural resources on a large scale and causes damage and environmental pollution that has adverse effects. Environmental awareness is needed in various parties with environmental problems that can threaten the sustainability of natural resources. As part of corporate social responsibility, every industry is expected to build a good environment.

Along with the rapid economic development, it can affect the quality of an environment. Companies whose activities are not environmentally friendly can cause the quality of an environment to decline over time if not addressed. In addition, government regulations are needed to set policies that govern the industry to control how business activities affect the environment. The regulation concerning environmental protection and management contained in UU No. 32 of 2009 is the legal basis for green banking practices in Indonesia. In relation to the previous statement, Bank Indonesia's response explains that the concept of green banking emphasises the use of natural resources in an environmentally friendly manner.

Compared to other financial sectors, banking has the lowest level of environmental pollution (Fajar Adhitya, S.P.d. et al., 2021). However, as a bank whose activities provide loans to debtors, it must review whether the activities carried out by debtors positively impact the social environment. Thus, banks must participate in protecting the environment to avoid damage and create a positive social environment. According to Setiadi et al., (2023), banking efforts that prioritize environmental friendliness in carrying out each activity are known as green banking. Banks that do green banking raise their own standards and influence other industries to be socially responsible for the environment.

One important aspect of Islamic banking is environmentally conscious banking, which provides a basis for protecting nature. Through the implementation of environmentally conscious banking practices, green banking seeks to reduce the negative impact it has on the environment (Bose et al., 2018). The adoption of green banking practices means that it is not only beneficial to the environment, but also benefits the company in terms of operational efficiency, decreased manual errors and fraud vulnerability and decreased costs of banking activities (Handajani, 2019). Green banking can be a solution for the banking industry by reducing the decline in environmental quality to create better environmental quality.

Banks are responsible for reporting on sustainability as part of their operational activities relating to their performance in the economic, social and environmental fields, which is called a sustainability report. This is in accordance with Article 10 of POJK No. 51/2017, which stipulates that banks must prepare a Sustainability Report.. In Asfahaliza & Anggraeni (2022), it is explained that although some banks have announced themselves as green banks through various practices and reports, there needs to be a precise

measurement to show which banks have or have not implemented green banking. However, the disclosure of sustainability reports can help to find out.

The concept of *maqashid as-syariah* is conceptually related to green banking. Economic activities based on *maqashid as-syariah* are economic activities that have sustainable goals (Cupian et al., 2023). Islamic banking aims to benefit everyone and achieve mutual benefit in this world and in the hereafter. Green banking and a green economy should be a top priority in Islamic banking.

Corporate governance is an essential aspect of realizing the concept of green banking. Bank governance is critical in the financial industry as they have to deal with long-term business pressures and social and environmental risks as well as investor returns. Corporate governance can also ensure that banks carry out green banking practices transparently and accountable and maintain equality between the various parties that have a stake in the company, including shareholders, other stakeholders, creditors, and other external stakeholders and internal stakeholders. Corporate governance can also help prevent failures in the company and increase its value. Therefore, implementing good corporate governance is critical in green banking practices.

This study aims to provide empirical evidence regarding the effect of corporate governance on green banking disclosure practices. This study uses the number of boards of commissioners and the number of sharia supervisory boards as independent variables based on the company's management mechanism. The systematics in this study begins with the introduction, followed by the theoretical framework and hypothesis development, research methods, and results and discussion.

## THEORETICAL REVIEW

### *Institutional Theory*

Institutional theory has a role in explaining that external factors, such as social and environmental factors, influence every action of individuals and organizations. Institutional theory explains the relationship between organizations and their environment, namely how organizations carry out their business structures and processes to adjust to environmental factors.

Institutional isomorphism and institutional pressure on organizations will cause organizational change towards homogeneity (Meyer & Rowan, 1977). *Isomorphism* is a process that encourages one unit in a population to resemble another unit in the face of similar environmental conditions. (DiMaggio & Powell, 1983). It is further stated that there are three *isomorphic* forms: *mimetic*, *coercive* and *normative*.

*Isomorphic mimetic* is a form of organizational action that imitates other organizations when there is uncertainty. *Isomorphic coercive* relates to legitimacy issues that indicate that an organization adopts another organization due to the influence of regulations passed by regulators, and the influence of state pressure from other organizations or the wider community. Moreover, finally, *Isomorphic normative* relates to the prevailing norms. *Isomorphic normative* is when people adopt various forms because of the organization's professional demands while claiming they are superior (Alfiandri et al., 2019).

Changes in the organizational environment occur due to homogeneity, which ultimately causes a stimulus or obstacle to new organizational practices, such as disclosing green banking. Institutional theories such as *isomorphic mimetic*, *isomorphic normative*, and *isomorphic coercive* can help explain why banks adopt green banking disclosures.

In addressing issues related to sustainability, banks can respond by implementing green banking and publicizing it. By doing so, banks can ensure that their business practices align with the standards of business ethics in the financial banking industry.

#### *Corporate governance*

In the banking system, corporate governance organises mechanisms that protect all beneficiaries in this area. On the other hand, Islamic banking can apply the principles of corporate governance well (Senan et al., 2021). According to Ridwan & Mayapada, (2022), The traditional approach indeed views that corporate governance is an act only to protect shareholder value from acts of expropriation by managers. Today, however, corporate governance is viewed from a broader perspective, encompassing management, shareholders, and the board of directors, as well as other company stakeholders.

The internal control mechanism of the company is known as the corporate governance mechanism. This mechanism aims to make sure that the company's management applies GCG principles, such as Accountability, Responsibilities, Transparency, and Reasonableness in managing the company.

Companies usually have a Board of Commissioners, Board of Directors, General Meeting of Shareholders, and committees under the Board of Commissioners. Shariah governance should be managed based on the Quran and Sunnah, the most essential sources of Islam. In general, the structure of an Islamic company consists of two parts: shariah governance and corporate governance. Shariah governance governs compliance with shariah fatwas or opinions against shariah rules and regulations applicable to goods and services. (Jan et al., 2021).

The Islamic governance structure has a unique feature not found in conventional banking, namely the Sharia supervisory board. As a result, there are two types of boards of directors used in Islamic banking: an Islamic board of directors and a conventional board of directors. One of the important elements of Islamic regulation and financing is the obligation of the sharia supervisory board to ensure that sharia rules are applied in the banking process.

#### *Green Banking*

According to Rahmiati & Agustin, (2022), green banking is a financing concept or credit provider that simultaneously prioritizes economic, environmental, social, and technological sustainability aspects. Green banking focuses not only on financial responsibility, but also on the environment and contributes to improving the welfare of society.

Recently, the application of green banking has been growing as a response to participate in overcoming environmental problems. Banks provide funding

for projects and investments that can potentially cause environmental damage (Handajani et al., 2019). Therefore, the role of banks becomes crucial when talking about environmental issues when providing credit. According to Febiola et al., (2023), green banking is a bank whose operational activities are environmentally friendly and have environmental responsibility and performance. With green banking, banks prioritize the fulfilment of sustainability as a strategy pursued in lending or other operational activities.

Article 10 of POJK No. 51 of 2017 stipulates that banks must prepare a Sustainability Report related to green banking practices. Sustainability reporting at banks is used as an approach that supports sustainable development goals and climate change. With this regulation, banks in Indonesia, including Islamic banks, must disclose sustainability reports that can encourage green banking practices in Indonesian banking.

The disclosure of information about environmentally friendly activities in banking is measured by the Green Banking Disclosure Index (GBDI) formulated by Bose et al., (2018). This GBDI consists of 21 information-disclosing bank practices that are environmentally friendly. Therefore, this study uses GBDI as a reference for green banking disclosures rather than using the regulations of Article 10 POJK No. 51 of 2017 which discusses the regulations for implementing sustainable finance in general, and there are no indicators that refer to green banking disclosure information.

#### *Board of Commissioners and Green Banking Disclosure*

Based on the institutional theory used as the basis for this study regulates how internal parties, such as the board of the bank, interact with other people and the environment. The ability of the board of commissioners to interact with wider interest groups and external parties can be enhanced by a larger number of board members and a wide range of experience and expertise in banking.

According to Bose et al., (2018), increasing the board size increases the disclosure of green banking in banks. This is in line with research (Cupian et al., 2023; Handajani, 2019; Petro et al., 2023; Rahmiati & Agustin, 2022), which states that the size of the board of commissioners has a positive influence on green banking, which means that the increasing number of boards of commissioners operating in banking will increase green banking. By increasing the size of the board of commissioners, banks will prioritize operational activities related to green banking disclosure, and by issuing new products, banks can support more green banking disclosures.

H1: The size of the Board of Commissioners affects Green Banking Disclosure

#### *Sharia Supervisory Board and Green Banking Disclosure*

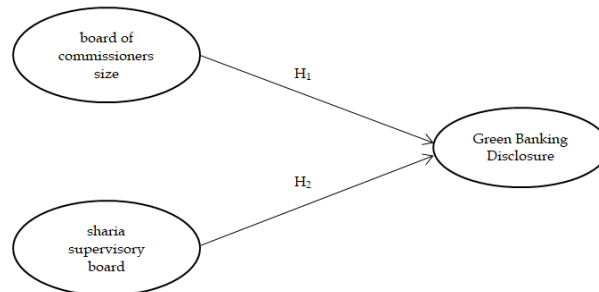
The Sharia Supervisory Board (DPS) is responsible for the supervision and oversight of activities carried out by Islamic banking to ensure that these activities comply with sharia principles and applicable regulations. The Sharia Supervisory Board is responsible for monitoring green banking practices. This includes supervising goods and services, ensuring that fatwas issued by the National Syariah Council are implemented, and providing advice and counsel

to Islamic banking management on social and environmental aspects. (Wahyu & Anwar, 2020). In addition, the DPS is also in charge of ensuring that green banking activities are carried out by the provisions of sustainable finance regulations.

According to Febriyane et al., (2023), Stating that green banking disclosures affect banking governance practices and Islamic banking financial performance. DPS's involvement in encouraging environmentally friendly banking is in line with Sharia principles that emphasize environmental sustainability and social responsibility. Therefore, DPS plays a vital role in encouraging Islamic banks to integrate green banking practices into their operations and contribute to the overall goal of environmental sustainability.

H2: Sharia supervisory board affects the disclosure of green banking.

Based on the hypothesis in this study, the researcher describes the research conceptual framework as follows.



Picture 1. conceptual framework

## METHODOLOGY

This research uses a quantitative approach by identifying and describing green banking disclosure practices in Islamic banking in Indonesia. In this research, researchers tested the internal determinants of corporate governance mechanisms proxied by the number of sharia supervisory boards and boards of commissioners. The population of this research is the Islamic banking financial industry registered with the Otoritas Jasa Keuangan (OJK) from 2019-2021. The sample is Islamic banking, which discloses information regarding green banking disclosure items in the annual report of Islamic banking for 2019-2021.

### Data

The 2019-2021 annual reports of Islamic banking are the secondary data sources used in this study. Data processing in this study used digital computer devices using the SPSS application. To explain the various aspects of green financial practices, this study uses 21 indicators of the Green Banking Disclosure Index (GBDI).

The stages of data collection carried out to achieve research objectives are:

- 1) Identifying banks that report green banking disclosures consecutively from 2019 - 2021. The samples of this research are:

Table 1. Sampling criteria

No	Sampling criteria	Total
1	Islamic banks registered with the Otoritas Jasa Keuangan during 2019-2021	13
2	Banks that do not report green banking information in their annual reports	(4)
3	Total sample banks	9
4	Total observations 3 years (3 x 9)	27

source : secondary data (processed)

- 2) Conduct content analysis and describe aspects of green banking disclosure aspects, by looking at the Green Banking Disclosure Index (GBDI) indicators created by Bose et al., (2018). The measurement method is to calculate the disclosure aspects of green banking information reported by banks through annual reports. If the banking company discloses green banking reporting, it will be given a score of 1 and a score of 0 otherwise.

#### *Analysis Method*

The results of this study are described through descriptive statistical analysis. In addition, the regression equation model used as an unbiased estimate is identified through the classical assumption test. Before hypothesis testing, the data obtained in this study must first be tested using the classical assumption test. Multiple linear regression analysis method was used in this research to investigate the relationship between green banking disclosure and corporate management mechanism. The regression model of the research is as follows:

$$Y = \alpha + \beta_1 \cdot X_1 + \beta_2 \cdot X_2 + e$$

Description:

Y = Green Banking Disclosure

$\alpha$  = Constant

$\beta_1$  = The regression coefficient x1

$\beta_2$  = The Regression coefficient x2

X1 = Size of the Board of Commissioners

X2 = Sharia Supervisory Board

e = error

## RESULTS

### *Descriptive Statistics*

This research uses the sharia supervisory board and the size of the board of commissioners as independent variables. Green banking disclosure, also known as the green banking disclosure index (GBDI), is the dependent variable in this research. Table 2 below shows the results of descriptive statistical testing.

Table 2. Descriptive Statistics

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
Board of Commissioners Size	27	2,00	9,00	3,7037	1,40917
Sharia Supervisory Board	27	1,00	4,00	2,1852	,55726
GBDI	27	,381	,905	,63139	,146831
Valid N (listwise)	27				

Source: secondary data (processed)

As a result of descriptive statistics, Table 2 shows that the highest GBDI is 0.905 and the lowest is 0.381. The average disclosure (mean) is 0.63139 and the standard deviation is 0.146831. Of the 21 indicators made by Bose et al., (2018), only 63.14% are fulfilled. This shows that Islamic banking does a lot in green banking disclosure.

The highest number of board members is 9 and the lowest is 2, with an average (mean) of 3.7 or 3-4 in Islamic banking. Regarding the Sharia supervisory board, the highest number is 4, and the lowest is 1, with an average (mean) of about 2 Sharia supervisory boards in Islamic banking companies.

#### *Green Banking Disclosure Items in Bank Annual Reports*

In Islamic banking annual reports, green banking disclosures are used with 21 items or indicators created by Bose et al. (2018) to determine the presentation of green banking disclosures on each Green Banking Disclosure indicator, which is presented in table 3.

Based on the findings that green banking is mentioned in banks' annual reports, it can be seen that all sample Islamic banks disclose information about bank policies towards environmental preservation, namely with a percentage of 100% and information on environmentally friendly bank products also received a percentage of 100%. In addition, the indicator on the role as an environmentally friendly bank gets a percentage of 100%, which means that all sample Islamic banks have revealed that the bank has preserved the environment.

Most Islamic banks disclose information on reducing paper use with a percentage of 85%. More than 50% of the sample banks disclose the implementation of policies and technologies to reduce environmental damage in the bank's internal electronic office operations, energy conservation in running operations such as the implementation of energy efficient lighting, efforts to reduce climate change impacts and emissions, green branch arrangements, bank involvement in encouraging employees to be environmentally friendly and the actual amount expended on green banking programs. More than 70% of the sample banks have also reported that they use different pages in the annual report to report on green business.

Other indicators are also of concern to each bank when disclosing green banking. However, less than 50% of the sample banks have done so such as the bank's involvement in supporting environmental program facilities, financing environmentally friendly projects, bank initiatives and involvement in building

a net on environmental issues, information on how to create a climate change fund, and Green marketing is incorporated into internal communication media. Even less than 25% of the sample banks disclosed information on organizing activities for environmental awareness for the community, rewarding environmentally friendly activities, and determining the budget allocated for green banking.

Table 3. Green Banking Disclosure Indicators

No	Green Banking Disclosure Indicators	%
1	bank policy on environmental conservation	100%
2	Financing of green projects and monitoring activities.	30%
3	Reduction of paper use (paperless) and waste management	85%
4	Adoption of policies and technologies to reduce environmental damage in the bank's internal electronic office operations	93%
5	Use of environmentally friendly materials.	81%
6	Energy conservation in running business operations such as electricity savings through the application of energy-efficient lamps	93%
7	Efforts to reduce the impact of climate change and reduce emissions.	67%
8	Information on the bank's green products	100%
9	Bank's initiatives and involvement in networking on environmental issues.	37%
10	Competent evaluation of the impact caused by the client's business before sanctioning the financing facility.	81%
11	Organizing activities to raise environmental awareness for the community.	19%
12	role as an environmentally friendly bank, contribution to environmental improvement, and excellence in environmental reporting practices	100%
13	recognition of environmental conservation initiatives	4%
14	Bank's involvement in supporting facilities that are in line with environmental programs.	44%
15	Information on the establishment of a climate change fund.	44%
16	Green branch arrangements for operational efficiency purposes	56%
17	Internalization of green marketing in internal communication media.	33%
18	Bank's involvement in encouraging and training its employees on environmentally friendly movements.	96%
19	Amount of budget allocated annually for green banking practices.	15%
20	Actual amount spent on various green banking programs	70%
21	Use of a separate page for green banking reporting in the annual report.	78%

Source: secondary data (processed)

*Green Banking Disclosure Index*

Table 4. Development of Green Banking Disclosure Index (GBDI)

Index	Year			Mean
	2019	2020	2021	
GBDI	0,6138	0,6243	0,6561	<b>0,6314</b>

Source: secondary data (processed)

From Table 4, the content analysis results of green banking disclosure information that has been carried out by Islamic banks through the bank's annual report shows an increase in 2019, 2020, and 2021, namely 0.6138, 0.6243, and 0.6561, respectively. The average GBDI over three periods is 0.6314 or 63%. This shows that the sampled Islamic banks have realized how their actions have an impact on the environment. Therefore, the implementation of green banking can increase the bank's concern for the environment. This happens because of pressure from the government through regulations issued in the financial sector and stakeholders on environmental aspects to prioritize green banking in operating banking activities.

*Classical Assumption Test*

*Normality Test*

The results of the Kolmogorov-Smirnov normality test with SPSS 23, the value of Asymp. Sig (2-tailed) of 0.200 > 0.05, because the significance value is greater than 0.05 indicating that the data is normally distributed..123

Table 5. Normality Test Results  
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		27
Normal Parameters <sup>a,b</sup>	Mean	,0000000
	Std. Deviation	,13299552
Most Extreme Differences	Absolute	,090
	Positive	,090
	Negative	-,076
Test Statistic		,090
Asymp. Sig. (2-tailed)		,200 <sup>c,d</sup>

a. Test distribution is Normal.  
b. Calculated from data.  
c. Lilliefors Significance Correction.

Source: data processing results

*Multicollinearity Test*

Table 6. multicollinearity test results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Board of Commissioners Size	,626	1,597
	Sharia Supervisory Board	,626	1,597

Source: data processing results

The multicollinearity test results show that the multicollinearity assumption has been met or there are no symptoms; the independent variables have a tolerance value of 0.626 (> 0.10) and a VIF of 1.597 (< 10.00).

*Heteroscedasticity Test*

Table 7. heteroscedasticity test results

Variabel	T	Sig.
Board of Commissioners Size	-,157	,877
Sharia Supervisory Board	,869	,393

Source: data processing results

The heteroscedasticity test results table shows that there are no symptoms of heteroscedasticity. The board of commissioners size variable has a significance value of 0.877 above 0.05, and the sharia supervisory board variable has a significance value of 0.393 above 0.05.

*Autocorrelation Test*

The Durbin-Watson value is 1.997, and the DU value for n = 27 and k = 2 is 1.556. The DW value is between the DU and 4-DU values, namely 1.556 < 1.997 < 2.444, So it can be concluded that the regression model does not show symptoms of autocorrelation.

Table 8. autocorrelation test results

DL	DU	DW	4-DU
1,240	1,556	1,997	2,444

Source: data processing results

### Multiple Regression Analysis

Table 9. results of Multiple Linear Regression Analysis

Variabel	Coefficients	t	Sig.
(Constant)	,393	23,821	,000
Ukuran Dewan Komisaris	-,009	-2,356	,027
Dewan Syariah Pengawas	,124	13,388	,000

Dependent variabel : GBDI  
 Signifikan pada  $\alpha = 5\%$

F test	116,736
Signifikansi F statistik	0,000 <sup>b</sup>
R Square	0,180
Adjust R Square	0,111
Standar error regresi	0,11501
Durbin-Watson statistik	1,997

Source: data processing results

The results of multiple linear analysis conducted in Table 9 show the equation model that can be developed as follows:  $GBDI = 0.393 - 0.009$  number of Board of Commissioners +  $0.124$  Sharia Supervisory Board size

### Coefficient of Determination

The results of testing the effect of corporate governance on green banking disclosure show that, with a low Adjusted R Square value of 0.111, the variable size of the board of commissioners and the Sharia supervisory board contributed 11.1% to the GBDI variable. In comparison, other variables not in this research contributed 89%

## DISCUSSION

### *The Influence Of The Board Of Commissioners On Green Banking Disclosure*

Since the significance value of 0.027 is less than 0.05, or 5%, the Board of Commissioners size variable has an impact on green banking disclosures, according to the test results shown in Table 9. The data processing results support the first hypothesis of this study. The addition of a board of commissioners will lead to more green banking disclosures. The results support Handajani (2019) which states that board size affects the disclosure of green banking; more boards that are diverse in competence and experience can help them talk to external parties about environmental initiatives. This study supports previous research by Bella Asmara S., (2020), which found that more boards of commissioners in banks result in better community and environmental responsibility systems.

This increasing board size influences the use of company resources, including activities related to environmental friendliness. This is based on the study of Bose et al., (2018), which stated that a higher number of commissioners is associated with increased disclosure of green banking.

### *The Influence Of The Sharia Supervisory Board On Green Banking Disclosure*

The research results show that the number of sharia supervisory boards affects the disclosure of green banking with a significance value of 0.000 ( $<0.05$ ). This is in accordance with the responsibilities of the Sharia Supervisory Board to conduct periodic reviews of the compliance of Sharia principles in the process of collecting and distributing funds and bank services. The Sharia Supervisory Board also reviews fund distribution activities such as financing to customers with the principle of benefit (maslahah) which has been regulated by MUI, namely financing that benefits the environment. This ensures that the bank's financing does not damage nature. Therefore, the sharia supervisory board has a responsibility to improve green banking disclosures..

The results support the second hypothesis-that the number of Islamic supervisory boards has an impact on green banking disclosures. This contradicts the research conducted by Cupian et al., (2023), who found that the number of Islamic supervisory boards has no impact on green banking disclosures because their duties are more focused on overseeing compliance with fiqh law to fulfill sharia principles.

### *Simultaneous Significance Test Results f*

It is possible that the variable size of the sharia supervisory board and the board of commissioners affects the GBDI variable simultaneously, according to the test results the significance value is 0.000  $<0.05$ . This suggests that increasing the size of boards of commissioners and sharia supervisory boards together helps to increase green banking transparency in Islamic banks. This result is in line with Cupian et al., (2023), who in their study found that  $H_0$  is accepted; this indicates that the independent variables affect green banking disclosure simultaneously.

## **CONCLUSIONS AND RECOMMENDATIONS**

The analysis shows that there is a connection between the number of commissioners and green banking disclosure. In other words, more board of commissioners means more green banking disclosures. The size of the Sharia supervisory board also influences bank green disclosure. Overall, the number of boards of commissioners and sharia supervisory boards increases green banking disclosures. However, each of these independent variables also influences green banking. The research results show that the trend of green banking disclosure has increased during the observation period.

## **FURTHER STUDY**

This study has limitations, such as a relatively small sample (9 samples) of Islamic banks in 2019-2021. This is because there are still Islamic banks that have not implemented green banking disclosures, and not all banks present information related to green banking in their annual reports of Islamic banks. In addition, there is a lower adjusted R square value of 11%, and variables outside the model influence the remaining part. For further research, researchers can add the number of samples by adding Islamic banks and the latest annual reports or sustainability reports from Islamic banks in Indonesia. Second, a

sample period should be added because researchers only took samples from 2019 to 2021. Third, adding other independent variables besides those used in this study, which can substantially affect the disclosure of green banking so that the resulting adjusted r square value increases.

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