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The Effect of Good Corporate Governance, Green Banking Disclosure, and Non Performing Financing on the Financial Performance of Islamic Commercial Banks in Indonesia

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ABSTRACT

Sustainable financial performance is an important concern for Islamic Commercial Banks in Indonesia. This study examines the effects of Good Corporate Governance (GCG), Green Banking Disclosure (GBD), and Non Performing Financing (NPF) on financial performance (ROA) during 2020–2024 using panel data regression with the Random Effect Model on 9 banks (45 observations), processed using EViews 13. The results show that Good Corporate Governance has a positive and significant effect, Non Performing Financing has a negative and significant effect, while Green Banking Disclosure has no significant effect on ROA. Simultaneously, the three variables significantly affect financial performance.

Keywords: *Financial Performance, Good Corporate Governance, Green Banking Disclosure, Islamic Commercial Banks, Non Performing Financing.*

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Introduction

Islamic Commercial Banks are financial institutions that conduct fund collection and distribution activities based on sharia principles, as stipulated in Law Number 21 of 2008. The development of the Islamic banking industry requires Islamic Commercial Banks to continuously improve their financial performance. However, the average Return on Assets (ROA) of Islamic Commercial Banks during the 2020–2024 period was 1.78%, which was lower than that of Conventional Commercial Banks at 2.28% (OJK, 2024). This difference indicates that the optimization of assets to generate profits in Islamic Commercial Banks still needs to be strengthened. Financial performance can be influenced by several factors, including the implementation of Good Corporate Governance (GCG), Green Banking Disclosure (GBD), and Non-Performing Financing (NPF).

Good Corporate Governance plays an important role in improving the effectiveness of supervision and management accountability. Although its implementation has been strengthened through OJK regulations, the implementation of GCG among Islamic Commercial Banks remains varied. Previous studies have produced inconsistent findings.

Several studies found that GCG has a positive and significant effect on ROA (Tiara Novia Amelinda, 2021;(Salina, Nur Diana, 2021;Okoye, 2020), while other studies found insignificant or negative effects (Dewi et al., 2021;Khofifah, 2024;Siti Nur Indah Sari, 2020). In addition to GCG, Green Banking Disclosure represents the banking sector's commitment to environmental sustainability. Environmental disclosure is expected to increase transparency and stakeholder trust (Nisa et al., 2024). However, previous studies examining the effect of GBD on ROA have also reported diverse findings (Wahid Wachyu Adi Winarto, Tri Nurhidayah, 2021;Sara Senja Setyo, 2022;Siti Ernawati, 2024). Meanwhile, Non-Performing Financing reflects financing risk that may reduce profitability due to the increased formation of loss provisions (Wulandari Kuswahariani, Hermanto Siregar, 2020). Although the NPF ratio of Islamic Commercial Banks decreased from 3.13% in 2020 to 2.08% in 2024, previous studies have reported different findings regarding its effect on ROA (Idham Masri Ishak, 2022;Lukman Hakim, Mutia Pamikatsih, 2023;Retno Puji Astuti, 2022).

The differences in previous research findings, along with limitations in research objects and observation periods, indicate a research gap regarding the factors influencing the financial performance of Islamic Commercial Banks. Therefore, this study aims to analyze the effect of Good Corporate Governance, Green Banking Disclosure, and Non-Performing Financing on financial performance, as proxied by ROA, both partially and simultaneously, among Islamic Commercial Banks in Indonesia during the 2020–2024 period. This study is expected to contribute to the development of the Islamic banking literature and provide considerations for bank management and regulators in improving financial performance sustainably.

Literature Review

Agency Theory

This study employs Agency Theory proposed by Jensen and Meckling (1976), which explains the relationship between principals and agents in organizational management. In Islamic banking, management acts as an agent responsible for managing the resources and funds entrusted by shareholders and other stakeholders. Differences in interests between principals and agents may create agency conflicts, while information asymmetry can make it difficult for principals to fully monitor management activities. These problems can be minimized through effective corporate governance, adequate supervision, and transparent disclosure of information. Therefore, Agency Theory provides a relevant theoretical basis for examining the role of Good Corporate Governance, Green Banking Disclosure, and financing risk management in improving the financial performance of Islamic Commercial Banks.

Good Corporate Governance and Financial Performance

Good Corporate Governance (GCG) refers to governance mechanisms that emphasize transparency, accountability, responsibility, independence, and fairness in bank management. Effective implementation of GCG can strengthen managerial oversight, reduce agency conflicts, and encourage management to utilize bank assets more effectively and efficiently. Better governance is therefore expected to contribute to improved financial performance.

From the perspective of Agency Theory, effective GCG can reduce conflicts of interest between management and shareholders by strengthening monitoring and accountability mechanisms. When management is subject to effective supervision and accountability, the potential for opportunistic behavior can be reduced, allowing bank resources to be managed more effectively. This condition may ultimately improve the bank's profitability and financial performance. Previous studies by Amelinda and Rachmawati (2021), Salina and Mawardi (2021), and Okoye et al. (2020) found that GCG has a positive effect on financial performance. Based on the theoretical arguments and previous empirical findings, the first hypothesis is formulated as follows:

H1: Good Corporate Governance has a positive effect on the financial performance of Islamic Commercial Banks.

Green Banking Disclosure and Financial Performance

Green Banking Disclosure (GBD) refers to the disclosure of information concerning banking

policies and activities related to environmental sustainability. From the perspective of Agency Theory, environmental disclosure can increase corporate transparency and reduce information asymmetry between management and stakeholders. Greater transparency may strengthen stakeholder trust and enhance the bank's reputation, which may subsequently contribute to improved financial performance.

The disclosure of green banking practices also demonstrates the bank's commitment to environmental sustainability and responsible business practices. Such disclosure can provide stakeholders with information regarding the bank's environmental policies, green financing activities, and other environmentally responsible initiatives. Although the financial benefits of green banking may not be realized immediately, consistent implementation and disclosure may support the bank's long-term reputation and sustainability. Previous studies by Winarto et al. (2021) and Setyoko and Wijayanti (2022) found that Green Banking Disclosure has a positive effect on financial performance. However, Ernawati and Utami (2024) and Siddiq et al. (2024) found that Green Banking Disclosure does not have a significant effect on financial performance. These differences in empirical findings provide a basis for further examination of the relationship between GBD and financial performance. Therefore, the second hypothesis is formulated as follows:

H2: Green Banking Disclosure has a positive effect on the financial performance of Islamic Commercial Banks.

Non Performing Financing and Financial Performance

Non-Performing Financing (NPF) reflects the level of problematic financing and is an important indicator of financing quality and credit risk management in Islamic banks. A high NPF ratio indicates an increase in problematic financing, which can increase the risk of default and require banks to establish higher loss provisions. Consequently, increasing NPF may reduce income and profitability and negatively affect financial performance.

From the perspective of Agency Theory, a high level of NPF may indicate inadequate managerial supervision and ineffective control over financing activities. Weak monitoring and risk management may increase the likelihood of problematic financing and create additional costs for the bank. Therefore, effective financing supervision and risk management are important for maintaining asset quality and financial performance. Previous studies by Ishak and Pakaya (2022), Hakim et al. (2023), and Khofifah and Mariana (2024) found that Non-Performing Financing has a negative effect on financial performance. Based on the theoretical arguments and previous empirical findings, the third hypothesis is formulated as follows:

H3: Non-Performing Financing has a negative effect on the financial performance of Islamic Commercial Banks.

Method

This research use approach quantitative with panel data regression. Population study consists of of the 14 Islamic Commercial Banks registered with the Financial Services Authority 2020–2024 period. The sample was selected use purposive sampling technique based on criteria consistency publication report finance annual report sustainability and governance reports during period research. Based on criteria From this, 9 Sharia Commercial Bank were obtained with 45 observations which formed balanced panel data.

Data used is secondary data obtained through method documentation from report finance annual report sustainability, Good Corporate Governance reports, the official websites of each bank, and the Financial Services Authority. Good Corporate Governance is measured use score composite self-assessment according to POJK Number 17 of 2023, Green Banking Disclosure is measured using the Green Banking Disclosure Index based on 21 indicators (Bose et al., 2017), while Non Performing Financing is measured use ratio financing problematic to total financing. Financial performance proxied with ROA, namely ratio profit clean to total assets.

Data analysis was performed using EViews 13. Selection of regression model done through the Chow Test, Hausman Test, and Lagrange Multiplier Test for determine the CEM, FEM, or REM model. Testing hypothesis done through the t-test, F-test, and Adjusted R^2 at the level

significance of 5%, with the regression model : $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$.

Results and Discussion

The analysis was conducted on 45 observational data sets obtained from annual reports, Good Corporate Governance reports, and sustainability reports of Islamic Commercial Banks for the period 2020–2024. Descriptive statistics for each variable are presented in Table 1.

Table 1. Results of Descriptive Statistical Tests

Variabel	Mean	Median	Maximum	Minimum	Std. Dev.
GCG (X1)	1,927778	2,000000	3,000000	1,000000	0,420610
GBD (X2)	0,778222	0,800000	1,000000	0,330000	0,177525
NPF (X3)	2,264222	1,810000	9,540000	0,500000	1,556332
ROA (Y)	2,165333	1,600000	11,43000	0,020000	2,626013

The average Good Corporate Governance (GCG) score was 1.93, while the average Green Banking Disclosure (GBD) index was 0.78, indicating that approximately 78% of the green banking indicators were disclosed. The average Non Performing Financing (NPF) was 2.26%, although its values ranged from 0.50% to 9.54%. Meanwhile, the average Return on Assets (ROA) was 2.17%, with a standard deviation of 2.63, indicating considerable variation in profitability among the sampled banks.

Panel Data Estimation Model Selection

The selection of the best estimation model was carried out through three stages of testing. The Chow test produced a cross-section probability of 0.0000 (<0.05), so the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). The Hausman test then produced a random cross-section probability of 0.9894 (>0.05), indicating that the Random Effect Model (REM) is more appropriate than the FEM. Because the results of the Chow and Hausman tests differed, the testing was continued with the Lagrange Multiplier (LM) test, which produced a Breusch-Pagan value of 0.0000 (<0.05), so the selected model was REM. Based on these three stages of testing, the Random Effect Model (REM) was determined as the panel data regression estimation model in this study.

Classical Assumption Test

Before testing the hypothesis, a classical assumption test was conducted to ensure the regression model was suitable for use. The results of the normality test using the Jarque-Bera method produced a probability value of 0.066808 (> 0.05), so that the residuals were declared normally distributed. The multicollinearity test using the correlation matrix showed that all correlation coefficients between independent variables were below 0.80 (X1–X2: −0.153946; X1–X3: 0.124256; X2–X3: −0.152004), so that the model did not experience symptoms of multicollinearity. The heteroscedasticity test using the Glejser Test produced a probability value for each variable above 0.05 (X1: 0.8993; X2: 0.0788; X3: 0.6485), which indicated that the model was free from symptoms of heteroscedasticity. The Durbin-Watson autocorrelation test yielded a value of 1.477480, which ranges from −2 to +2, confirming that the model is free from autocorrelation. With all classical assumptions met, the panel data regression model is suitable for hypothesis testing.

Panel Data Regression Results and Hypothesis Testing

The results of panel data regression estimation with the Random Effect Model are presented in Table 2.

Variabel	Koefisien	Std. Error	t-Statistik	Prob.
C	-0,408211	0,135961	-3,002418	0,0102
GCG (X1)	1,517139	0,602788	2,516870	0,0258
GBD (X2)	1,226576	0,609190	2,013454	0,0652
NPF (X3)	-0,463386	0,144573	-3,205210	0,0069

ROA = -0.408211 + 1.517139 GCG + 1.226576 GBD - 0.463386 NPF + e

A constant value of -0.408211 indicates that if Good Corporate Governance, Green Banking Disclosure, and Non Performing Financing are

zero, financial performance (ROA) is estimated to decrease by 40.8%. The Good Corporate Governance regression coefficient of 1.517139 indicates that every one-point increase in Good Corporate Governance will increase ROA by 1.52%, assuming other variables remain constant (ceteris paribus). The Green Banking Disclosure regression coefficient of 1.226576 indicates that every one-point increase in the Green Banking Disclosure index will increase ROA by 1.23%. The Non Performing Financing regression coefficient of -0.463386 indicates that every 1% increase in Non Performing Financing will decrease ROA by 0.46%.

The Effect of Good Corporate Governance on Financial Performance

Good Corporate Governance has a positive and significant effect on financial performance, with a coefficient of 1.517139 and a probability value of 0.0258 (<0.05). Therefore, H1 is accepted: Good Corporate Governance has a positive and significant effect on the financial performance of Islamic Commercial Banks. This finding is in line with Agency Theory, where the implementation of Good Corporate Governance functions as an effective control mechanism to minimize conflicts of interest between principals and agents. The consistent application of the principles of transparency, accountability, and independence encourages management to act in line with stakeholder interests, resulting in more efficient asset management and increased bank profitability. This result is consistent with the findings of Amelinda and Rachmawati (2021) who found that Good Corporate Governance implementation has a positive and significant effect on the ROA of Islamic Commercial Banks in Indonesia, and is in line with Okoye et al. (2020) on commercial banks in Nigeria.

The Effect of Green Banking Disclosure on Financial Performance

Green Banking Disclosure has no significant effect on financial performance, with a coefficient of 1.226576 and a probability value of 0.0652 (>0.05). Therefore, H2 is rejected: Green Banking Disclosure has no significant effect on the financial performance of Islamic Commercial Banks. From an Agency Theory perspective, Green Banking Disclosure disclosure is essentially a form of management transparency to owners and stakeholders to reduce information asymmetry. However, its effect on ROA is not yet significant, possibly because the implementation of green banking is more oriented towards social responsibility, regulatory compliance, and long-term image improvement, so its impact on profitability has not been directly seen during the study period. The costs of implementing green banking, such as investing in green technology and preparing sustainability reports, are also still considered an additional burden that has not had a direct impact on short-term profitability, while market literacy on the long-term benefits of Green Banking Disclosure is still low. This finding is in line with Rahmamita and Kahar (2024) who found that green banking disclosure did not have a significant effect on bank operational financial performance, both ROA and ROE.

The Effect of Non Performing Financing on Financial Performance

Non Performing Financing has a negative and significant effect on financial performance, with a coefficient of -0.463386 and a probability value of 0.0069 (<0.05). Therefore, H3 is accepted: Non Performing Financing has a negative and significant effect on the financial performance of Islamic Commercial Banks. From an Agency Theory perspective, high Non Performing Financing reflects weak supervision and control carried out by management as an agent in managing financing entrusted by the principal. When the financing analysis and supervision process does not run optimally, the risk of non performing financing increases and the quality of productive assets decreases, so banks must provide larger loss reserves and bear the risk of default, which ultimately suppresses profits and ROA. These results are in line with the findings of Hakim et al. (2023) which show that Non Performing Financing has a negative and significant effect on ROA because high non performing financing lowers credit quality and reduces bank income.

Simultaneous Test and Coefficient of Determination

Table 3. Results of the F Test and the Coefficient of Determination

Indicator	Mark
R-squared	0.613560
Adjusted R-squared	0.494655
F-statistic	5,160092
Prob(F-statistic)	0.010327
Durbin-Watson stat	1,477480

The F-test shows that Good Corporate Governance, Green Banking Disclosure, and Non Performing Financing simultaneously have a significant effect on financial performance, with an F-statistic of 5.160092 and a probability value of 0.010327 (<0.05). The R-squared value of 0.613560 indicates that the three independent variables jointly explain 61.36% of the variation in ROA, while the Adjusted R-squared of 0.494655 indicates that the model explains 49.47% of ROA variation after adjustment for the number of variables and observations. The remaining variation is attributable to other factors outside the model.

Conclusion

Based on the results of the analysis and discussion, Good Corporate Governance (GCG) has a positive and significant effect on the financial performance of Islamic Commercial Banks in Indonesia during the 2020–2024 period, with a regression coefficient of 1.517139 and a probability value of 0.0258 (<0.05). Green Banking Disclosure (GBD) has a positive but statistically insignificant effect on financial performance, with a regression coefficient of 1.226576 and a probability value of 0.0652 (>0.05). Meanwhile, Non-Performing Financing (NPF) has a negative and significant effect on financial performance, with a regression coefficient of -0.463386 and a probability value of 0.0069 (<0.05). Therefore, H1 and H3 are accepted, while H2 is rejected.

Simultaneously, GCG, GBD, and NPF have a significant effect on the financial performance of Islamic Commercial Banks, as indicated by an F-statistic of 5.160092 and a probability value of 0.010327 (<0.05). The model has an R-squared value of 0.613560 and an Adjusted R-squared value of 0.494655, indicating that 49.47% of the variation in ROA is explained by GCG, GBD, and NPF, while the remaining 50.53% is explained by other factors outside the model.

These findings indicate that strengthening corporate governance and improving financing risk management are important for maintaining the financial performance of Islamic Commercial Banks. Therefore, Islamic banks should strengthen the implementation of GCG, improve financing supervision and risk management to control NPF, and enhance the implementation and disclosure of green banking practices. Future research is encouraged to include additional variables, extend the observation period, and expand the sample to provide more comprehensive evidence on the determinants of Islamic banking financial performance.

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