Milkiyah
Jurnal Hukum Ekonomi Syariah
p-ISSN 2962-7613; e-ISSN 2549-8312

DOI: 10.46870/milkiyah.v4i1.1468

Corporate Governance and Sustainability in Islamic Banking: The Mediating Role of Green Banking Practices

Mister Candera*

Universitas Muhammadiyah Palembang, South Sumatera, Indonesia

Muhammad Ridhwan Ab. Aziz

Universitas Sains Malaysia, Negeri Sembilan, Malaysia

Efrina Masdaini

Universitas Muhammadiyah Palembang, South Sumatera, Indonesia

Aditya Teguh Mahendra

Universitas Muhammadiyah Palembang, South Sumatera, Indonesia

Rico Apriandika

Universitas Muhammadiyah Palembang, South Sumatera, Indonesia

ABSTRACT

The banking sector plays a strategic role in advancing sustainable business practices through green banking initiatives, which reduce environmental risks and enhance banks' reputations amid growing global concerns about climate change. This study examines corporate governance and sustainability performance in Islamic banks, with green banking as a mediator. The data were collected from 158 middle and upper management employees in Islamic banking institutions in South Sumatra, Indonesia. This study used mediation path analysis to assess the effect of corporate governance on sustainability performance directly and through green banking practices indirectly. The results confirm a positive relationship between corporate governance framework and sustainability performance in Islamic banks, suggesting that strengthening governance structures directly improves sustainability outcomes. Moreover, green banking practices partially mediate the nexus between corporate governance and sustainability performance, indicating that corporate governance indirectly improves sustainability performance by promoting green banking initiatives. These findings show the necessity of aligning corporate governance frameworks with green banking initiatives to achieve long-term sustainability goals in Islamic banking.

Keywords: Corporate Governance, Green Banking, Islamic Bank, Sustainability

Received: 14 April 2025
Revised: 18 May 2025; 30 May 2025
Accepted: 01 June 2025

Published: Vol. 4, No. 1, 2025, pp. 28-42

Corresponding author: Mister Candera, email: mister_candera@um-palembang.ac.id

INTRODUCTION

Islamic banking, as a financial institution, has focused on social and environmental issues through various types of financing, such as productive, business, investment, and consumption financing. Kasmiati (2021) reveals that working capital and investment financing remain relatively low compared to other forms of financing. This is due to slow growth and the limited use of *mudarabah* contracts (Akbar et al., 2022; Yudistira, 2019).

Given its alignment with ethical principles, Islamic banking holds significant potential to support government initiatives addressing economic, social, and environmental challenges, particularly the Sustainable Development Goals (SDGs). To strengthen its role in sustainable development, there must be a rebalancing of financing priorities to better promote long-term societal and ecological well-being.

The increasing emphasis on the SDGs has fuelled academic interest in sustainable banking practices. The existing literature has explored sustainability, focusing on the concept (e.g., Forcadell & Aracil, 2017; Scholtens, 2009; Yip & Bocken, 2018; Birindelli et al., 2015; Brogi & Lagasio, 2019; Forcadel & Aracil, 2019; San-Jose et al., 2011; Ruiz et al., 2014). Other studies examine environmental awareness, attitudes and behaviour, organisational performance, Corporate Social Responsibility (CSR), and different influencing factors (Miah & Rahman, 2022; Gadenne et al., 2011; Cheah & Phau, 2011). While many studies have explored sustainability in manufacturing, which is a sector that has a direct impact on the environment, less attention has been paid to banking, which affects sustainability indirectly through financing decisions. For Islamic banks, adopting sustainable practices offers reputational benefits, attracts ethically minded investors (Yusuf et al., 2023), and positions these institutions as leaders in ethical finance. This leads to the need to examine how Islamic banking can uniquely contribute to the SDGs, bridge critical gaps in the current literature and offer actionable insights to align financial strategies with the global sustainability agenda.

Biswas (2011) emphasises the intermediary role of banks in promoting sustainable economic development. This is in line with Guang-Wen & Siddik (2022, 2023), who underline the important role of banks in achieving the Sustainable Development Goals (SDGs). Such contributions can be realised through technological innovations, such as green banking, blockchain, and digital banking (Nassiry, 2023), as well as investments in environmentally focused projects such as renewable energy and green industrial development (Akter & Siddik, 2018). In particular, Islamic banking integrates green practices into its operations, prioritising environmental protection, resource conservation, energy efficiency, and ethical ecosystem stewardship (Uddin & Ahmmed, 2018). Furthermore, Mohammad & Abduh (2022) highlight Islamic finance as an important tool to advance SDG 9, which aims to foster resilient infrastructure and sustainable industrialisation.

Table 1 Environmental performance in Islamic banking in Indonesia in 2023

Banks	Environmentally Friendly Operational Activities (%)			
	Electricity	Fuel	Water	Paper
Bank Muammalat Indonesia	20.50	14.37	20.31	7.91
BTPN Syariah	-39.20	44.57	-	77.56
Mega Syariah	6.84	50.36	23.04	8.69
Bukopin Syariah	-138.32	-258.06	-31.44	-
Bank Panen Dubai Syariah	28.06	-5.47	31.59	35.68
Bank Victoria Syariah	-86.47	-	-	-93.33
Bank Syariah Indonesia	37.92	-143.48	-4.44	15.05

Source: Adapted from respective Islamic bank's sustainability reports (2023)

Most of the Islamic banks in Indonesia have successfully implemented environmentally friendly operational practices. For example, Bukopin Syariah has significantly reduced its consumption of electricity, fuel and water. Similarly, Bank Syariah Indonesia reported a remarkable reduction in fuel usage, while Bank Victoria minimised its reliance on electricity and paper. However, not all Islamic banks have made the same progress in sustainable operations. As shown in Table 1, Islamic banks continue to experience increased consumption of electricity, fuel, water and paper. This trend is most likely related to the stabilisation of the post-pandemic economy, as banks resume normal activities and expand operational capacity. These activities highlight the need for Islamic banks to balance operational growth with sustainable environmental commitments, even amidst economic recovery. This study bridges theory and practice, offering a culturally sensitive, Islamic finance-driven roadmap to address the unique needs of island communities while advancing Indonesia's maritime development goals. In Maluku, this model could fund a waqf-based cold storage facility managed by local fishermen, improving income stability (economic empowerment) while adhering to Islamic ethics (no interest) and environmental stewardship (reducing waste). Through Sharia-based financing strategies that integrate local socio-ecological conditions with the MCDA quantitative analysis framework, this study also enriches the literature of Islamic finance oriented towards sustainable development through the integration of Islamic ethics and SDGs, and support the GMF agenda and the achievement of SDGs with adaptive, equitable, and sustainable financing solutions, especially for marginalised maritime communities. Theoretically, the result of this study contributes to the development of an evaluation model based on the integration of *Maqashid Sharia* and SDGs. Practically, the resulting policy recommendations are designed to address the specific challenges of the archipelago, emphasising the principles of equity, local context relevance, and socio-ecological adaptation.

Environmental performance is influenced by factors such as corporate governance (Walls et al., 2012) and green banking practices (Rehman et al., 2021; Shaumya & Arulrajah, 2017; Chen et al., 2022). Further studies show that corporate governance mechanisms directly shape green banking initiatives (Bose et al., 2017; Handajani et al., 2019; Issa et al., 2022). Based on this foundation, the objective of this study is to set up the approach, linking legitimacy theory to the variables.

The study design is different from prior research because it analyses the relationship between corporate governance, green banking practices, and sustainability performance in the Islamic banking sector using the lens of legitimacy as a theoretical framework. This distinction is the positioning of green banking as a mediator. Therefore, this study aims to test the nexus between corporate governance and sustainability performance in Islamic banks, with green banking as a mediator. The findings highlight the two-contribution aspect, including environmental commitment and business performance. These are useful for stakeholders, including policymakers and financial strategists, with actionable insights into how governance frameworks can align with sustainability goals to drive strategic decision-making.

Literature Review and Hypothesis Development

Legitimacy Theory

O'Donovan (2002) states that firms can operate successfully if socially accepted. Legitimacy is important for social and political stability because authority would face rejection without it. When it connects legitimacy theory to banking sustainability, legitimacy can determine stakeholder acceptance. Organisations should comply with societal norms (Abbas et al., 2021; Wilson & Knighton 2021; Yin et al. 2023; Olateju et al. 2021), while factors influencing banking legitimacy include compliance, ethics, transparency, and CSR. The practical implications, for banks in maintaining legitimacy, lead to investor support, good reputation, and customer retention.

Suchman (1995) explained that in carrying out its operations, every organisation is expected to comply with the values, norms, and social expectations that apply in the environment in order to gain recognition and support from the community. It implies that integrating green banking with strong governance helps banks meet demands, enhance reputation, and ensure long-term sustainability (Dienes et al., 2016; Mallin, 2019; Saha & Akter, 2021).

Sustainability Performance

Banks with strong sustainability performance can drive environmental and social awareness. To adopt effective sustainability practices and report performance transparently, robust environmental measures must be implemented. Various studies on sustainability performance in the banking sector cover aspects such as environmental and social risk management and sustainable investment, as well as reporting and transparency (Pangestu & Hati, 2024; Oktaviani et al., 2023; Abuatwan, 2023; Zyznarska-Dworczak et al., 2023; Korzeb et al., 2019; Doğan & Kılıç, 2022).

The sustainability variable can be observed in environmental performance, as it relates to waste management, natural resource use, and carbon emissions. A bank that successfully manages its environmental impact tends to gain a strong reputation among stakeholders. For instance, Quintana-García et al. (2022) found that environmental innovation and cleaner production initiatives improved corporate reputation by strengthening stakeholder perceptions of commitment to environmental sustainability and legitimacy. Furthermore, ESG (Environmental, Social, and Governance)-compliant processes in the banking sector can enhance market performance and mitigate reputational risks (Mango et al., 2023).

Green Banking Practice

Green banking practices have an impact on sustainability performances (Budiarto et al., 2023; Jain & Sharma, 2023; Abuatwan, 2023). Banks can develop products and services that promote environmentally friendly practices among customers, such as offering loans for renewable energy projects, supporting small and medium enterprises, and providing investment products. Green banking's role in environmental protection and reducing carbon footprints can be viewed through providing specific products like low-interest loans for solar projects. This practice encourages environmentally conscious funding and sustainable internal procedures in order to assist both environmental protection and sustainable economic development (Gabriela, 2021; Stojanovic, 2020).

Therefore, green banking opens new markets by funding diverse initiatives leading to the increase of the performance.
H1: Green banking practices positively affect bank sustainability performance.

Corporate Governance

Governance plays a crucial role in banking due to its economic significance and impact on public trust. Islamic banks relate to the economic sustainability (Jan et al., 2025) and tend to be more transparent than conventional banks, largely due to their unique governance structure that emphasises ethical practices and openness (Shehadeh et al., 2024).

Effective governance can reduce risk and ensure regulatory compliance (Wakarmamu, 2015), as well as enhance performance (El-Chaarani et al., 2022). It also promotes decision-making that aligns with stakeholders' interests. Specific governance mechanisms, such as board structure, institutional ownership, and gender diversity, influence sustainable practices (Ahmar et al., 2024; Mukhibad et al., 2024; Petro et al., 2023; Widodo et al., 2023). Consequently, Islamic banking governance can shape green banking initiatives.
H2: Corporate governance positively affects green banking practices

Banking governance plays a key role in shaping sustainability performance. It facilitates long-term strategic decision-making and enhances green banking disclosures (Ahmar et al., 2024). Corporate performance is linked to distinct sustainability initiatives (Ioannou & Serafeim, 2019), which improve reputation (Juliansyah et al., 2023) and directly strengthen sustainability outcomes (Khan et al., 2023; Abdulrahim et al., 2020). Thus, effective corporate governance can promote green banking transparency, encourage greater environmental responsibility, and drive sustainable banking practices. As a result, corporate governance serves as a critical factor influencing sustainability performance.
H3: Corporate governance positively affects bank sustainability performance

Sustainability principles are integrated into banking business strategies to prioritise initiatives supporting the environment when corporate governance is implemented. With good corporate governance, green banking policies can be implemented effectively. Independent commissioners and institutional ownership can ensure that green banking practices are not compromised for short-term profits (Petro et al., 2023; Rahmawati et al., 2023). Therefore, effective governance through the implementation of green banking tends to affect sustainability performance.
H4: Corporate governance influences bank sustainability performance with green banking practices as a mediator

The framework for research is presented in Figure 1 as follows:

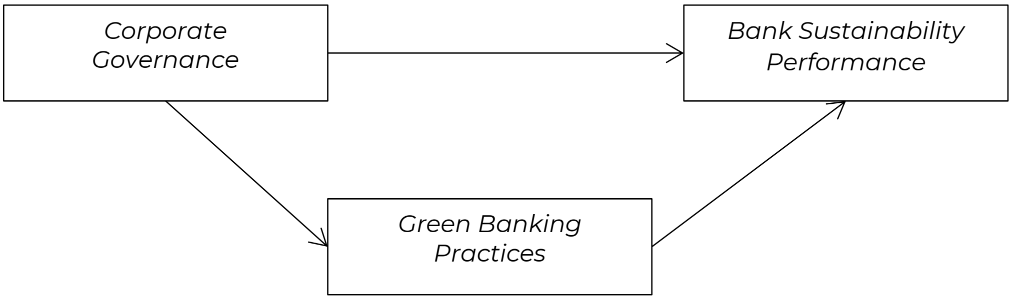

Figure 1 Mediation path analysis

METHOD

Research Design and Data

The population consists of all middle and upper management employees in Islamic Commercial Banks, Islamic Business Units, and Islamic Rural Banks operating in South Sumatra. A purposive sampling technique was used to select 158 respondents who met the criteria. Non-probability sampling was applied through the convenience method due to ease of accessibility, geographical proximity, availability at any given time and willingness of participants to take part in the study (Etikan & Babatope, 2019).

This study collected primary data through a Likert scale survey. Data was collected using a 5-point Likert scale questionnaire ranging from 1 = 'strongly disagree' to 5 = 'strongly agree'. The questionnaire was distributed through Google Forms.

Research Variables

This research has corporate governance (independent variable) and sustainability performance (dependent variable), with green banking practices likely as the mediating variable based on hypotheses. Table 1 shows research variables.

Table 1 Research variables

Variable	Definition	Indicator	Source
Bank Sustainability Performance	The level of achievement of the bank in integrating ESG aspects into its operational activities and strategies, such as environmental impact management.	Minimise energy consumption	Guang-Wen & Siddik (2022)
		Minimise carbon emissions	
		Compliance with environmental standards	
		Training on environmental protection for employees	
Corporate Governance	Systems, principles, and processes that regulate the relationship between management and stakeholders in order to create fair, transparent, responsible, and accountable governance	Bank's commitment to fairness and equality	Widodo et al. (2023); Ahmar et al. (2024)
		Bank's commitment to avoid illegal activities	
		Ensure that board members are experienced and competent	
		Independence and realism of internal auditors	
		Bank's commitment to have experienced internal auditors	
		Periodic and continuous evaluation	
		Transparency and accuracy of information	
		Minimize energy consumption	
Green Banking Practices	banking policies, programs, and activities designed to minimize negative impacts on the environment	Utilisation of digital banking	Andarsari & Firdiansyah, (2020)
		Implementation of e-billing	
		Utilisation of information technology	
		Transparency of features	
		Financing of environmentally friendly projects	
		Environmental impact analysis (AMDAL)	
		Green building	
		Efficient consumption of materials	
		Waste processing and utilization	
		Infrastructure provision	
		Customer education	
		Online services	
		Handling and resolution of customer complaints	
		Company regulations	
		Policy for disbursing environmental development funds	
		Consideration of environmental aspects	
		Commitment to environmentally friendly banking	
		Training and education policies	
		Green movement policies for employees	

Note: Data compiled and analysed by author (2024)

Data Analysis

SEM (Structural Equation Modelling) is a tool used in this research to test hypotheses by using Smart-PLS version 3. PLS-SEM was chosen as the most dominant SEM to be used (Liao & Widowati, 2021). Using it, the outside model is examined prior to the inside model (Hair et al., 2014). This study uses the significance at the 10% level. The equation model can be described as follows.

$$GB_{Practices} = \beta_1 CG + \varepsilon$$

$$Sustainability = \beta_3 GB_{Practices} + \beta_2 CG + \varepsilon$$

Where,
Sustainability = Bank Sustainability Performance
$GB_{Practices}$ = Green Banking Practices
CG = Corporate Governance
ε = Error Term
$\beta_1, \beta_2, \beta_3$ = Parameter

RESULTS AND DISCUSSION

Descriptive Statistics

The respondents' characteristics were analysed based on bank type, length of service, education level, and certified competency, as shown in Table 2. The majority of respondents worked in Islamic Business Units, with 5 to 10 years of experience.

Table 2 Characteristics of respondent

Characteristics of Respondent	Frequency (N)	Percentage (%)
Bank Type		
Sharia Commercial Bank	72	45.6
Sharia Business Unit	84	53.2
Sharia People's Financing Bank	1	0.6
Sharia Regional Development Bank	1	0.6
Total	158	100
Length of Work		
Less than 5 years	0	
5 years to 10 years	102	64.6
More than 10 years	56	35.4
total	158	100
Level of education		
Masters	96	60.8
Magister	50	31.6
Doctoral	12	7.6
Total	158	100
Competency certification		
Once	60	38.0
Never	98	62.0
Total	158	100

Source: Authors' calculation (2024)

Table 3 shows that the average respondent's answer was high on the bank sustainability performance variable; corporate governance; and green banking. This means that most banks operate with environmental sustainability.

Table 3 Descriptive statistics analysis

	Bank Sustainability Performance	Corporate Governance	Green Banking
Mean	4.17	4.28	4.29
Median	4.25	4.38	4.29
Standard Deviation	0.69	0.76	0.71
Minimum	3.00	3.00	3.00
Maximum	5.00	5.00	5.00

Source: SEM Output (2024)
Note: Number of observations=158

Reliability and Validity Test

Reliability was assessed using Cronbach's Alpha and Composite Reliability (CR). As shown in Table 4, a variable is considered reliable if its Cronbach's Alpha exceeds 0.6 and its CR value surpasses 0.7 (Hair et al., 2014).

Table 4 Reliability test result

Variable	Cronbach's Alpha	Composite Reliability
Corporate Governance	0.952	0.960
Bank Sustainability Performance	0.903	0.932
Green Banking	0.983	0.984

Source: SEM output (2024)

Data validity testing uses the AVE (Average Variance Extracted) value. The indicator is valid when the AVE value is more than 0.6 (Hair et al., 2014), as shown in Table 5.

Tabel 5 Loading and AVE scores

Variable	Indicator	Symbol	Loading	AVE
Bank Sustainability Performance	Minimise energy consumption	BEP_1	0.873	0.775
	Minimise carbon emissions	BEP_2	0.878	
	Compliance with environmental standards	BEP_3	0.887	
	Training on environmental protection for employees	BEP_4	0.883	
Corporate Governance	Bank's commitment to fairness and equality	CG_1	0.826	0.749
	Bank's commitment to avoid illegal activities	CG_2	0.888	
	Ensure that board members are experienced and competent	CG_3	0.886	
	Independence and realism of internal auditors	CG_4	0.895	
	Bank's commitment to have experienced internal auditors	CG_5	0.811	
	Periodic and continuous evaluation	CG_6	0.881	
	Transparency and accuracy of information	CG_7	0.849	
	Minimize energy consumption	CG_8	0.884	
Green Banking Practices	Utilisation of digital banking	GP_1	0.907	0.767
	Implementation of e-billing	GP_2	0.870	
	Utilisation of information technology	GP_3	0.921	
	Transparency of features	GP_4	0.902	
	Financing of environmentally friendly projects	GP_5	0.888	
	Environmental impact analysis (AMDAL)	GP_6	0.868	
	Green building	GP_7	0.840	
	Efficient consumption of materials	GP_8	0.823	
	Waste processing and utilization	GP_9	0.891	
	Infrastructure provision	GP_10	0.724	
	Customer education	GP_11	0.893	
	Online services	GP_12	0.921	
	Handling and resolution of customer complaints	GP_13	0.913	
	Company regulations	GP_14	0.907	
	Policy for disbursing environmental development funds	GP_15	0.890	
	Consideration of environmental aspects	GP_16	0.861	
	Commitment to environmentally friendly banking	GP_17	0.860	
	Training and education policies	GP_18	0.853	
	Green movement policies for employees	GP_19	0.890	

Source: SEM output (2024)

Validity testing is also proven from the outer weight value. A higher-order constructs can be obtained from the outer weight and p-value of each item. Table 6 shows that the indicators have a significance value smaller than the alpha. Therefore, the indicators are valid and can be continued in the subsequent analysis.

Tabel 6 Outer weight dan significance values

Model	Original Sample	t- Statistics
BEP_1 <-Bank_Sustainability_Performance	0.873	30.126***
BEP_2 <-Bank_Sustainability_Performance	0.878	33.493***
BEP_3 <-Bank_Sustainability_Performance	0.887	51.881***
BEP_4 <-Bank_Sustainability_Performance	0,883	43.579***
CG_1 <-Corporate_Governance	0.826	25.426***
CG_2 <-Corporate_Governance	0.888	46.164***
CG_3 <-Corporate_Governance	0.886	42.697***
CG_4 <-Corporate_Governance	0.895	46,691***
CG_5 <-Corporate_Governance	0.811	22.944***
CG_6 <-Corporate_Governance	0.881	39.800***
CG_7 <-Corporate_Governance	0.849	35.266***
CG_8 <-Corporate_Governance	0.884	37.076***
GBP _1 <-Green_Banking	0.907	70.801***
GBP _2 <-Green_Banking	0.870	43.049***
GBP _3 <-Green_Banking	0.921	64.412***
GBP _4 <-Green_Banking	0.902	48.944***
GBP _5 <-Green_Banking	0.888	41.466***
GBP _6 <-Green_Banking	0.868	39.370***
GBP _7 <-Green_Banking	0.840	27.820***
GBP _8 <-Green_Banking	0.823	19.264***
GBP _9 <-Green_Banking	0.891	43.861***
GBP _10 <-Green_Banking	0.724	12.854***
GBP _11 <-Green_Banking	0.893	43.377***
GBP _12 <-Green_Banking	0.921	69.190***
GBP _13 <-Green_Banking	0.913	59.325***
GBP _14 <-Green_Banking	0.907	50.664***
GBP _15 <-Green_Banking	0.890	27.279***
GBP _16 <-Green_Banking	0.861	20.824***
GBP _17 <-Green_Banking	0.860	21.087***
GBP _18 <-Green_Banking	0.853	25.669***
GBP _19 <-Green_Banking	0.890	36.010***

Source: SEM output (2024)
Note: Number of observations=158, *** significant at 0.01

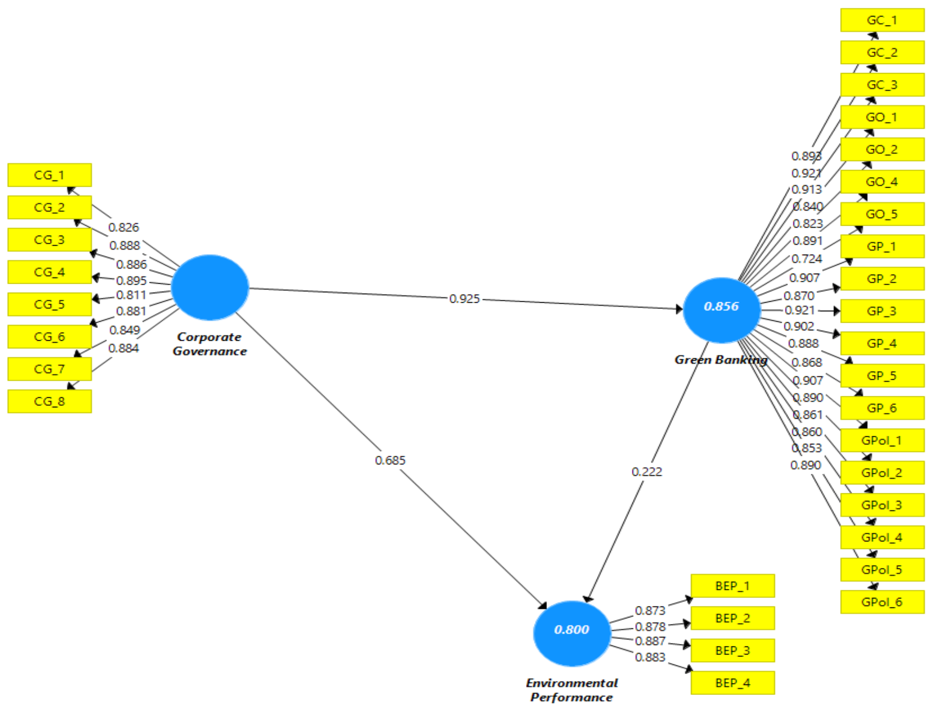

Figure 2 SEM Mediation path analysis

Model Fit and Hypothesis Testing Result

Model fit testing is based on SRMR and NFI values, as shown in Table 6. The SRMR value of 0.045 < 0.10, while NFI value is 0.799 indicating a minimally acceptable model fit, for robust confirmation (Hu & Bentler, 1999).

Table 6 Model fit result

Indices	Estimated Model
SRMR	0.045
NFI	0.799

Source: SEM Output (2024)
Note: SRMR 0.045<0.10 and NFI 0.799>0.780

Table 7 Hypothesis testing result

Relationship	Original Sample	t-Statistics	p-Values
Direct Effect			
Corporate Governance →Green Banking	0.925	79.412	0.000
Green Banking → Bank Sustainability Performance	0.222	1.911	0.057
Corporate Governance → Bank Sustainability Performance	0.891	50.314	0.000
Indirect Effect			
Corporate Governance → Green Banking -> Bank Sustainability Performance	0.206	1.906	0.057

Source: SEM Output (2024)
Note: ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively

The results show all statistically significant at the 10% level (p<0.10). Three key direct relationships have positive and significant effects. Corporate governance affects positively and significantly green banking and bank sustainability performance. Related to indirect effect, the results confirm a significant positive effect of Corporate Governance on Sustainability Performance, mediated through Green Banking practices.

Table 8 Hypothesis result

	Hypotesis	Result
H_1	Green banking practices positively affect bank sustainability performance	Accepted
H_2	Corporate governance positively affects green banking practices	Accepted
H_3	Corporate governance influences bank sustainability performance	Accepted
H_4	Corporate governance influences bank sustainability performance with green banking practices as a mediator	Accepted

Note: Data compiled and analysed by authors (2024)

Corporate Governance and Sustainability through the Mediating Role of Green Banking Practices

The relationship between corporate governance, green banking, and sustainability performance shows all are statistically significant at the 10% level (p<0.10). Corporate governance has a significant positive effect on green banking (H1 accepted). This positive relationship indicates that improved CG leads to enhanced green banking practices. Effective CG in Islamic banking incorporates core principles like transparency, accountability, responsibility, and Sharia compliance. Consequently, banks with strong corporate governance are better positioned to identify and mitigate environmental risks, safeguarding long-term financial stability. The result supports the previous scholars (Handajani, 2019; Cupian et al., 2023; Petro et al., 2023). Corporate governance has a very important role in green banking practices. Effective corporate governance in Islamic banking is the key driver for implementing green banking practices, which simultaneously enhance the bank's Sharia-compliant reputation, build public trust, create green investment opportunities, and contribute to environmental sustainability.

In relation to H_2, which is accepted, it confirms that green banking positively and significantly affects banks' sustainability performance. The implementation of green banking fosters sustainability and environmental responsibility through concrete initiatives, such as funding renewable energy projects, digitising services to reduce paper usage, and conserving energy in offices. These practices directly reduce a bank's carbon footprint while also enhancing its reputation.

This finding aligns with Dewi (2023), demonstrating green banking's positive impact on environmental performance. It further elaborates on the mechanisms through which green banking improves sustainability performance, such as by enhancing reputation and customer loyalty, improving risk management, and driving innovation in products and services. Consequently, the finding positions banks as key actors in facilitating the transition to a greener economy by integrating sustainability principles into their operations and strategy.

The results also confirm a significant positive indirect effect of corporate governance on sustainability performance, mediated through green banking practices (H3 accepted). Corporate governance directly and significantly enhances bank sustainability performance by enforcing green banking. The practice can show environmental compliance, manage risks, enable green practices, and build long-term stakeholder value. The results are in line with Werastuti (2022) and Rohmandika (2024), in which corporate governance influences bank sustainability performance. Effective corporate governance supports bank sustainability from an operational and reputational perspective as well as contributes to long-term value creation for all stakeholders. Banks with effective direct deposit structures, independent audit committees, and comprehensive risk management policies consistently demonstrate better performance in terms of corporate social responsibility (CSR) and environmental stewardship.

These findings show that improved corporate governance practices can strengthen commitment to environmental issues. This supports legitimacy theory, because corporate governance functions as an internal mechanism to manage public perception of a bank's social and environmental performance. The presence of green banking as a mediating variable clarifies how corporate governance leads to legitimacy, not only from internal policies but also real practices that can be assessed by the public. In addition, green banking practices may operate as an indirect mediator in the relationship between corporate governance and bank sustainability performance. Effective corporate governance ensures bank decisions advance both financial objectives and environmental well-being. While the pathways linking governance to long-term outcomes can be complex, green banking operationalises this commitment through environmentally prioritised practices, including financing sustainable projects, managing ecological risks in lending, and reducing operational footprints. Crucially, sound governance embeds risk management that enables banks to respond flexibly to sustainability demands. When banks use sound risk management practices, they become more responsive to the need to operate in a flexible manner.

CONCLUSION

Corporate governance drives sustainability performance through green banking as a mediator. The role of corporate governance directly has effects on green banking practices; meanwhile, both corporate governance and green banking enhance sustainability performances. In terms of indirect effect, green banking practices can mediate the relationship between corporate governance and bank sustainability performance.

The results have implications for the Islamic banking industry to maintain sustainability through good corporate governance implementation and green banking practices. This serves as important information for stakeholders, including customers, investors, and the general public, to invest. This research also provides implications for banking companies to be able to lead the strength of sustainability commitments and improve business strategies by adopting green technology and offering various environmentally friendly financial products.

The research has various limitations, including the very large population, increasing the difficulty of collecting data. Additionally, the variables used are limited to sustainability performance, which is only represented by environmental performance. For further study, other variables can be considered as measures of sustainability performance. It can also be considered by comparing green banking practices between countries. This should be carried out to see how differences in regulations and culture influence the relationship between corporate governance, green banking, and sustainability performance.

Acknowledgements

The author is grateful to all employees of Islamic Banking in South Sumatra for voluntarily participating in this research. In addition, the author is grateful to Diktilitbang PP Muhammadiyah for funding this research based on the contract letter for Funding and Implementation of Muhammadiyah National Research Grants Batch VII 2024 Number: 0258.494/I.3/D/2024, as well as the leadership of the Muhammadiyah University of Palembang for rendering support.

References

Abbas, A., Rayyani, W. O., & Syahadat, E. F. (2021). The tenet of corporate social responsibility for environment and its practice in Indonesia. *Asian People Journal*, 4(1), 1-10. https://doi.org/10.37231/apj.2021.4.1.230.

Abdulrahim, M. O., Sukoharsono, E. G., Saraswati, E., & Subekti, I. (2020). Investigating the impact of organizational culture and corporate governance on sustainability performance with strategic posture as mediating variable. *The International Journal of Business & Management*, *8*(7), 166-184. http://dx.doi.org/10.24940/theijbm/2020/v8/i7/BM2007-048

Abuatwan, N. (2023). The impact of green finance on the sustainability performance of the banking sector in Palestine: the moderating role of female presence. *Economies*, *11*(10), 247. https://doi.org/10.3390/economies11100247

Ahmar, N., Al Rahmah, L., & Darminto, D. P. (2024). Green banking disclosure from the perspective of corporate governance, financial slack and human resource slack in Indonesia. *Banks and Bank Systems*, *19*(2), 101. http://dx.doi.org/10.21511/bbs.19(2).2024.08

Akbar, A., Jiang, X. & Akbar, M. (2022), Do working capital management practices influence investment and financing patterns of firms?, *Journal of Economic and Administrative Sciences*, 38(1), 91-109. https://doi.org/10.1108/JEAS-07-2019-0074

Alshehri, A. F. (2024). Corporate governance and financial performance of Islamic banks: new international evidence. *Journal of Banking Regulation*, 1-15. https://doi.org/10.1057/s41261-024-00261-y.

Andarsari, P. R., & Firdiansyah, Y. (2020). Penerapan Praktik green banking pada bank bumn di Indonesia. Jurnal Eksekutif, 17(2), 233–246.

Birindelli, G., Ferretti, P., Intonti, M., & Iannuzzi, A.P. (2015). On the drivers of corporate social responsibility in banks: evidence from an ethical rating model. *Journal of Management & Governance, 19*, 303-340. https://doi.org/10.1007/S10997-013-9262-9

Biswas, N. (2011). Sustainable green banking approach: The need of the hour. *Business Spectrum*, *1*(1), 32-38. https://doi.org/10.4236/ojbm.2024.123102

Bose, S., Khan, H.Z., Rashid, A., & Islam, S. (2018). What drives green banking disclosure? An institutional and corporate governance perspective. *Asia Pacific Journal of Management, 35*, 501-527. https://doi.org/10.1007/S10490-017-9528-X

Brogi, M., & Lagasio, V. (2019). Environmental, social, and governance and company profitability: Are financial intermediaries different?. *Corporate Social Responsibility and Environmental Management*, *26*(3), 576-587. https://doi.org/10.1002/CSR.1704

Budiarto, A., Durya, N. P. M. A., Alfiana., Butar, R. S. B. (2023). Analysis of the effect of green banking on banking environmental and financial performance In Indonesia. *JEMSI (Jurnal Ekonomi, Manajemen, Dan Akuntansi)*, 9 (6). 2459-2463. https://doi.org/10.35870/jemsi.v9i6.1655

Cheah, I., & Phau, I. (2011). Attitudes towards environmentally friendly products: the influence of ecoliteracy, interpersonal influence and value orientation. *Marketing Intelligence & Planning, 29*, 452-472. https://doi.org/10.1108/02634501111153674

Chen, J., Siddik, A. B., Zheng, G. W., Masukujjaman, M., & Bekhzod, S. (2022). The effect of green banking practices on banks' environmental performance and green financing: An empirical study. *Energies*, *15*(4), 1292. https://doi.org/10.3390/en15041292

Cupian, C., Mulyana, F. A., & Noven, S. A. (2023). Pengaruh corporate governance terhadap green banking disclosure index di perbankan syariah periode 2016-2019 Studi Kasus : Bank Mandiri Syariah, Bank Bni Syariah, Bank Bca Syariah, Bank Bri Syariah, Bank Mega Syariah Dan Bank Muamalat. *Jurnal Ilmiah Ekonomi Islam*, *9*(2), 2385–2392. https://doi.org/10.29040/jiei.v9i2.8932

Dewi, Ratna Kusuma. (2023). Analisis pengaruh implementasi green banking terhadap kinerja keuangan dan kinerja lingkungan perbankan. *Jurnal Ekonomi Manajemen Dan Bisnis (JEMB)*, *1*(1), 1-10. https://jurnalistiqomah.org/index.php/jemb/article/view/7

Dienes, D., Sassen, R., & Fischer, J. (2016). What are the drivers of sustainability reporting? A systematic review. *Sustainability Accounting, Management and Policy Journal*, 7(2), 154–189. https://doi.org/10.1108/SAMPJ-08-2014-0050

Doğan, B., & Kılıç, M. B. (2022). Assessment of corporate sustainability performance with entropy and grey relatioanal analysis: an application in the banking sector. *Journal of Mehmet Akif Ersoy University Economics and Administrative Sciences Faculty*, 9(3), 2027-2057. https://doi.org/10.30798/makuiibf.1097637

El-Chaarani, H., Abraham, R., & Skaf, Y. (2022). The impact of corporate governance on the financial performance of the banking sector in the MENA (Middle Eastern and North African) region: An immunity test of banks for COVID-19. *Journal of Risk and Financial Management*, *15*(2), 82. https://doi.org/10.3390/jrfm15020082

Etikan, I., & Babatope, O. (2019). A basic approach in sampling methodology and sample size calculation. *Med Life Clin*, *1*(2), 1006.

Forcadell, F. J., & Aracil, E. (2019). Can multinational companies foster institutional change and sustainable development in emerging countries? A case study. *Business Strategy & Development*, *2*(2), 91-105. https://doi.org/10.1002/BSD2.45

Forcadell, F.J., & Aracil, E. (2017). European banks' reputation for corporate social responsibility. *Corporate Social Responsibility and Environmental Management, 24*, 1-14. https://doi.org/10.1002/CSR.1402

Gabriela, B. C. (2021). Towards better involvement in green banking practices: evidence from Romania. *Management of Sustainable Development*, *13*(1), 9-13. http://dx.doi.org/10.54989/msd-2021-0002

Gadenne, D., Sharma, B., Kerr, D.V., & Smith, T.F. (2011). The influence of consumers' environmental beliefs and attitudes on energy saving behaviours. *Energy Policy, 39*, 7684-7694. https://doi.org/10.1016/J.ENPOL.2011.09.002

Guang-Wen, Z., & Siddik, A. B. (2022). Do corporate social responsibility practices and green finance dimensions determine environmental performance? An Empirical Study on Bangladeshi Banking Institutions. *Frontiers in Environmental Science*, *10*, 890096. https://doi.org/10.3389/fenvs.2022.890096

Guang-Wen, Z., & Siddik, A. B. (2023). The effect of Fintech adoption on green finance and environmental performance of banking institutions during the COVID-19 pandemic: the role of green innovation. *Environmental Science and Pollution Research International, 30*, 25959 - 25971. https://doi.org/10.1007/s11356-022-23956-z

Hair, Joe F, Sarstedt, M., Hopkins, L., & Kuppelwieser, V. (2014). Partial least squares structural equation modeling (PLS-SEM) An emerging tool in business research. *European Business Review*, 26(2), 106–121. https://doi.org/10.1108/EBR-10-2013- 0128

Handajani, L., Rifai, A., & Husnan, L. H. (2019). Study of the initiation of green banking practices at state-owned bank. *Jurnal Economia*, *15*(1), 1-16. https://doi.org/10.21831/ECONOMIA.V15I1.21954

Hu, L. T., & Bentler, P. M. (1999). Cutoff criteria for fit indexes in covariance structure analysis: Conventional Criteria versus New Alternatives. Structural Equation Modeling, 6, 1-55. http://dx.doi.org/10.1080/10705519909540118

Ioannou, I., & Serafeim, G. (2019). Corporate sustainability: a strategy? *Harvard Business School Accounting & Management Unit Working Paper*, (19-065). https://doi.org/10.2139/ssrn.3312191

Issa, J. Sehen, Abbaszadeh, M. R., & Salehi, M. (2022). The impact of Islamic banking corporate governance on green banking. *Administrative Sciences*, *12*(4), 190. https://doi.org/10.3390/admsci12040190

Jain, P., & Sharma, B.K., (2023). Impact of green banking practices on sustainable environmental performance and Profitability of Private Sector Banks. International *Journal of Social Ecology and Sustainable Development*, 14 (1). http://dx.doi.org/10.4018/IJSESD.330135

Jan, A.A., Lai, F.-W., Shah, S.Q.A., Tahir, M., Hassan, R. and Shad, M.K. (2025), Does Islamic corporate governance prevent bankruptcy in Islamic banks? Implications for economic sustainability, Management & Sustainability: An Arab Review, 4(1), 168-195. https://doi.org/10.1108/MSAR-02-2023-0009.

Juliansyah, A.I., Suprihatin, T.S., & Senjiati, I.H. (2016). Analisis implementasi kode etik (code of conduct) good corporate governance dalam pencapaian best practice islamic bank pada bank umum syariah di Indonesia. Volume 2 (2): 549-555

Kasmiati, K. (2021). Dinamika pembiayaan perbankan syariah dalam mengembangkan dunia usaha. *LABATILA: Jurnal Ilmu Ekonomi Islam*, *5*(02), 140-151. https://doi.org/10.33507/labatila.v5i01.393

Khan, S., Nisar, M., Sohail, M., Awan, M. M. U., Rehman, A. U., & Yasir, M. (2023). Impact of islamic corporate governance on sustainability performance in Islamic banks of Pakistan: moderating role of insider ownership and institutional ownership. *International Journal of Business and Economic Affairs*, *8*(2), 52-65. https://doi.org/10.24088/IJBEA-2023-82005

Korzeb, Z., & Samaniego-Medina, R. (2019). Sustainability performance. A comparative analysis in the polish banking sector. *Sustainability*, *11*(3), 653. https://doi.org/10.3390/su11030653

Liao, S., & Widowati, R. (2021). A supply chain management study: a review of theoretical models from 2014 to 2019. *Operations and Supply Chain Management*, 14(2), 173–188. https://doi.org/10.31387/oscm0450295

Mallin, C. A. (2019). *Corporate Governance* (6th ed.). Oxford: Oxford University Press.

Mango, F., Murè, P., Cardi, M., Paccione, C., & Bittucci, L. (2023). Supervisory sanctions, ESG practices, and banks' reputation: a market performance analysis of sanctioned banks. *Corporate Ownership and Control*, *20*(3), 343-350. https://doi.org/10.22495/cocv20i3siart9

Miah, M.D., Rahman, S.M., & Haque, M. (2018). Factors affecting environmental performance: evidence from banking sector in Bangladesh. *International Journal of Financial Services Management, 9*, 22-38. https://doi.org/10.1504/IJFSM.2018.10011001

Mohammad, M.S. & Abduh, Muhamad. (2022). The role of islamic finance in achieving the SDG number 9: Build Resilient Infrastructure, Promote Sustainable Industrialization and Foster Innovation. *IQTISHADIA*, 15 (1), 89-106. http://dx.doi.org/10.21043/iqtishadia.v15i1.13747

Mukhibad, H., Setiawan, D., Aryani, Y.A. & Falikhatun, F. (2024). Corporate governance and Islamic bank risk – do the directors' and the Shariah board's diversity attributes matter? *Corporate Governance*, 24(5), 1213-1234. https://doi.org/10.1108/CG-08-2022-0348.

Nassiry, D. (2018). *The role of fintech in unlocking green finance: Policy insights for developing countries* (No. 883). ADBI working paper. https://doi.org/10.1007/978-981-10-8710-3_27-1

O'Donovan, G. (2002), Environmental disclosures in the annual report: Extending the applicability and predictive power of legitimacy theory. *Accounting, Auditing & Accountability Journal*. 15(3), 344-371. https://doi.org/10.1108/09513570210435870

Oktaviani, A., Herawaty, V., Yohana, Y., & Isnaini, N. (2023). Pentingnya laporan keberlanjutan bagi perbankan di indonesia. *Jurnal Akuntansi Multiparadigma*, 14(1), 182-191. doi:http://dx.doi.org/10.21776/ub.jamal.2023.14.1.13

Olateju, D.J., Olateju, O.A., Adeoye, S.V., & Ilyas, I.S. (2021). A critical review of the application of the legitimacy theory to corporate social responsibility. *International Journal of Managerial Studies and Research*. https://doi.org/10.20431/2349-0349.0903001

Pangestu, J. C., & Hati, D. P. (2024). Analisa Faktor Yang Mempengaruhi Financial Sustainability Ratio Sektor Perbankan Di Bei Periode 2019-2022. *Owner: Riset Dan Jurnal Akuntansi*, *8*(3), 3007-3017. https://doi.org/10.33395/owner.v8i3.2302

Petro, S., Octavia, R., & Diarsyad, M.I. (2023). Pengaruh corporate governance terhadap green banking disclosure (studi pada perusahaan perbankan di indonesia yang terdaftar di BEI periode 2018-2020). *Jurnal Ilmiah Ekonomi Global Masa Kini*. https://doi.org/10.36982/jiegmk.v14i1.2814

Quintana-Garcia, C., Marchante-Lara, M., & Benavides-Chicón, C. G. (2022). Towards sustainable development: Environmental innovation, cleaner production performance, and reputation. *Corporate Social Responsibility and Environmental Management*, *29*(5), 1330-1340. http://dx.doi.org/10.1002/csr.2272

Rahmawati, I. N., & Yuliani, R. (2023). Profitabilitas sebagai pemoderasi pengaruh corporate governance terhadap pengungkapan green banking. *Reviu Akuntansi Dan Bisnis Indonesia*, *7*(2), 464-482. https://doi.org/10.18196/rabin.v7i2.19741

Rehman, A., Ullah, I., Afridi, F.E., Ullah, Z., Zeeshan, M., Hussain, A., & Rahman, H.U. (2021). Adoption of green banking practices and environmental performance in Pakistan: a demonstration of structural equation modelling. *Environment, Development and Sustainability, 23*, 13200 - 13220. https://doi.org/10.1007/s10668-020-01206-x

Rohmandika, M. S. (2024). Sharia bank's attention related to sustainability performance, through financial performance, good corporate governance, and risk management. *SULTANIST: Jurnal Manajemen dan Keuangan*, *12*(1), 19–26. https://doi.org/10.37403/sultanist.v12i1.564

Ruiz, B., Esteban, Á., & Gutiérrez, S. (2014). Determinants of reputation of leading spanish financial institutions among their customers in a context of economic crisis. *Business Research Quarterly, 17*, 259 - 278. https://doi.org/10.1016/j.brq.2014.04.002

Saha, A. K., & Akter, S. (2021). Corporate governance and sustainability performance: The moderating effect of stakeholder pressure. *Journal of Cleaner Production*, 278, 123900. https://doi.org/10.1016/j.jclepro.2020.123900

San-Jose, L., Retolaza, J.L., & Gutiérrez-Goiria, J. (2011). Are ethical banks different? a comparative analysis using the radical affinity index. *Journal of Business Ethics, 100*, 151-173. https://doi.org/10.1007/S10551-011-0774-4

Scholtens, B. (2009). Corporate Social Responsibility in the international banking industry. *Journal of Business Ethics, 86*, 159-175. https://doi.org/10.1007/S10551-008-9841-X

Shaumya, K., & Arulrajah, A. (2017). The impact of green banking practices on bank's environmental performance: Evidence from Sri Lanka. *Journal of Finance and Bank Management*, *5*(1), 77-90. https://doi.org/10.15640/JFBM.V5N1A7

Shehadeh, M., Ahmed, F., Hussainey, K. & Alkaraan, F. (2024). Nexus between corporate governance and FinTech disclosure: a comparative study between conventional and Islamic banks. *Competitiveness Review*, Vol. ahead-of-print No. ahead-of-print. https://doi.org/10.1108/CR-05-2024-0089.

Stojanović, D. (2020). Sustainable economic development through green innovative banking and financing. *Economics of Sustainable Development*, *4*(1), 35-44. http://dx.doi.org/10.5937/ESD2001035S

Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3), 571–610. https://doi.org/10.5465/amr.1995.9508080331

Uddin, M. N., & Ahmmed, M. (2018). Islamic banking and green banking for sustainable development: Evidence from Bangladesh. *Al-Iqtishad Journal of Islamic Economics*, *10*(1), 97-114. http://dx.doi.org/10.15408/aiq.v10i1.4563

Wakarmamu, T.. (2015). The Role of good corporate governance banking sector in supporting risk management principles as the implementation of prudential. *European Journal of Business and Management, 7*, 223-231.

Walls, J.L., Berrone, P., & Phan, P.H. (2012). Corporate governance and environmental performance: is there really a link? *Southern Medical Journal, 33*, 885-913. https://doi.org/10.1002/SMJ.1952

Werastuti, D. (2022). Apakah good corporate governance berperan dalam meningkatkan kinerja keberlanjutan?. *Jurnal Akuntansi Multiparadigma,* *13*(1), 153-163. doi:http://dx.doi.org/10.21776/ub.jamal.2021.13.1.12

Widodo, N. F. P., Burhany, D. I., Sumiyati, S., & Dahtiah, N. (2023). Enhancing financial performance of Islamic banks in Indonesia: the mediating effect of green banking disclosure on corporate governance practices. *Indonesian Journal of Economics and Management*, *3*(3), 495-508. https://doi.org/10.35313/ijem.v3i3.4886

Wilson, C., & Knighton, D. (2021). Legitimacy, autonomy and trust: a recipe for organizations to operate in the public interest. *Corporate Communications: An International Journal*, *26*(4), 773-792. https://doi.org/10.1108/CCIJ-03-2021-0029

Yin, Q., Zheng, S., & Fu, Z. (2023). Survival in the Fissure: Strategies of private news organizations in the social media era in China. *Journalism Studies, 25*, 970 - 989. https://doi.org/10.1080/1461670X.2023.2274588

Yip, A.W., Yip, A.W., Bocken, N.M., Bocken, N.M., & Bocken, N.M. (2018). Sustainable business model archetypes for the banking industry. *Journal of Cleaner Production, 174*, 150-169. https://doi.org/10.1016/J.JCLEPRO.2017.10.190

Yudistira, Era. 2019. Analisis Kendala Penyaluran pembiayaan mudharabah pada bank syariah di Indonesia. (2019). *FINANSIA : Jurnal Akuntansi Dan Perbankan Syariah*, *2*(2), 159-170. https://doi.org/10.32332/finansia.v2i2.1649

Yusuf, M., Dasawaty, E.S., Esra, M.A., Apriwenni, P., Meiden, C., & Fahlevi, M. (2024). Integrated reporting, corporate governance, and financial sustainability in Islamic banking. *Uncertain Supply Chain Management*. 12. 273-290. http://10.5267/j.uscm.2023.9.022

Zyznarska-Dworczak, B., Fijałkowska, J., Garsztka, P., Mamić Sačer, I., Mokošová, D., & Sandulescu, M. (2023). Sustainability performance efficiency in the banking sector. *Economic Research-Ekonomska Istraživanja, 36*. https://doi.org/10.1080/1331677X.2023.2218473