The Impact of Good Corporate Governance and Green Banking Implementation on Company Profitability Levels, according to the 2021-2022 Stock Exchange Report

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Abstract: This study aims to analyze the effect of Good Corporate Governance (GCG) and Green Banking implementation on profitability levels of banking sector companies listed on the Indonesia Stock Exchange (IDX) during 2021-2022. The profitability indicator used is Return on Assets (ROA), while GCG is measured through institutional ownership, independent board of commissioners, and audit committee. Green Banking is measured using the Green Banking Index. The research population consists of 47 conventional banking companies listed on the IDX, with a sample of 28 companies selected using purposive sampling technique, resulting in 56 observations over two years. Data analysis employed multiple linear regression using SPSS version 29. The results show that Institutional Ownership has a significant positive effect on profitability (sig. 0.027 < 0.05), while Green Banking, Independent Board of Commissioners, and Audit Committee do not significantly affect profitability. These findings provide empirical evidence supporting stakeholder theory, emphasizing the important role of institutional investors in improving bank performance. This research contributes to the literature on corporate governance and sustainable banking practices in Indonesia.

Keywords: Good Corporate Governance, Green Banking, Profitability, Return on Assets, Banking.

I.   Introduction

Profitability ratio is a ratio that describes the company's ability to earn profits through all existing capabilities and resources such as sales activities, cash, capital, number of employees, number of branches, and so on (Syafri, 2008). This ratio assesses the company's ability to seek profit (Kasmir, 2012). Profitability describes whether a business entity has good opportunities or prospects in the future. The higher the profitability of a business entity, the more guaranteed the company's ability to maintain its survival (Hermuningsih, 2014). Law Number 10 of 1998 article 1 paragraph 3 explains that a bank is a business entity that collects funds from the public in the form of deposits and distributes them to the public in the form of credit and other forms to improve the standard of living of many people. Apart from its functions and roles, banks certainly have objectives in carrying out operational activities, namely to generate high profitability values, where profitability is a ratio used to measure the bank's ability to generate profits.

Based on the profitability graph with return on asset indicators for banking listed on the Indonesia Stock Exchange from 2019 to 2022, it can be seen that the state of banking profitability is in a fluctuating condition. In the graph, it can be seen that the lowest profitability level occurred in 2022 with a value of 1.70% and the highest profitability level occurred in 2020 with a value of 2.50%. Meanwhile, from 2019 to 2022, the profitability level decreased by 0.8%. The state of profitability depicted in the graph above can be concluded that banks are still not good at maintaining their profitability. It is important to research profitability in banks because profitability is the main indicator of a bank's financial health supporting the sustainability and development of banking. Prasetyo, (2015) stated that a company's performance will increase when its profitability increases. Banks that are financially stable can provide confidence to customers, investors, and regulators regarding operational sustainability and financial health, this is in accordance with Stakeholder theory. One way that can be done to improve profitability is by analyzing factors that can affect profitability, including Good Corporate Governance (GCG) and Green Banking.

In PBI No. 13/1/PBI/2011 and SE No. 13/24/DPNP dated October 25, 2011, the indicators for assessing bank health are RGEC which consists of Risk (R), Good Corporate Governance (G), Earnings (E) and Capital (C). Organizations are required to implement good corporate governance practices, this is strengthened by the issuance of general guidelines for Good Corporate Governance (GCG) by the National Committee on Governance Policy (KNKG) which requires every organization whose shares have been listed on the stock exchange, state companies,

regional companies, companies that collect and manage public funds, and companies that have widespread impact on the environment to implement Good Corporate Governance (GCG) practices (Tim KNKG, 2006).

The implementation of Good Corporate Governance (GCG) aims to increase profits in the company. By knowing the influence and impact that will be obtained by the company if implementing Good Corporate Governance (GCG), the company can consider the important role of implementing Good Corporate Governance (GCG) in a company to get large profits and can minimize negative impacts that arise for the company. Previous research conducted by Rimardhani et al., (2016) in their research using Good Corporate Governance (GCG) variables consisting of institutional ownership, independent board of commissioners, board of directors and audit committee on profitability using profitability ratio Return on Asset (ROA) found that institutional ownership partially has a positive effect on ROA.

Research conducted by Mawardi, (2019) using Good Corporate Governance (GCG) variables consisting of board of commissioners, independent board of commissioners, audit committee, board of directors, institutional ownership, managerial ownership on profitability using profitability ratio Return On Asset (ROA) shows that the board of commissioners, independent board of commissioners, audit committee, institutional ownership and managerial ownership do not affect profitability while the board of directors affects profitability and this research is also consistent with research conducted by (Istighfarin & Wirawati, 2015).

Rimardhani et al., (2016) stated that the high or low number of audit committees in a company does not affect company profitability. Istighfarin & Wirawati, (2015) stated that the formation of an audit committee in a company is only limited to fulfilling regulations that require companies to have an audit committee. Mawardi, (2019) stated that the function of the audit committee is to supervise fraud that occurs in the company, not to increase company profits, this causes the audit committee not to affect profitability. From several previous studies, there are differences in research results (research gap) regarding Good Corporate Governance (GCG) on profitability.

Banks are profit-oriented institutions while the environment is a system that has no financial value. Although banking and the environment are in two different worlds, both have the same interests, namely sustainability or social responsibility, so commitment and cooperation are needed in achieving these interests by integrating environmental and social management aspects that can be poured into financial statements using the green banking concept.

Green Banking is translated as an effort by banks to prioritize sustainability in lending or operational activities. Some banks have tried to conduct early selection of financing proposed by prospective debtors. Banks have full rights to reduce financing or not, depending on the extent to which the activities to be financed with bank loans impact the environment (Zhang et al., 2022). The first regulation in Indonesia that focuses on green banking practices was issued by Bank Indonesia through PBI Number 14/15/PBI/2012 concerning Quality Assessment of Commercial Bank Assets. In this regulation, national banking is required to consider and assess environmental factors as a requirement for providing credit (Karyani & Obrien, 2020).

Research on the effect of green banking implementation on bank profitability has been widely conducted in developed countries but is still a new issue and has not been widely conducted in Indonesia, so this research needs to be done to provide results in the form of knowledge about the benefits of green banking implementation, especially the authors want to know how much influence green banking implementation has on profitability (ROA).

Rachman & Saudi, (2021) in their research stated that there is a positive interaction between green banking implementation and bank profitability. In this study, the approach used to see green banking implementation is the green banking index. In connection with this, Ramila & Gurusamy, (2015) also found that the implementation of green banking, seen from the use of RTGS, NEFT, ECS, and Mobile Banking, can create sustainable banking. Unlike the two previous studies, research conducted by Karyani & Obrien, (2020) found that green banking implementation has a negative effect on bank profitability, especially in publicly owned banks. This can happen because the more pressure received by banks in disclosing green banking practices, the greater the costs that need to be incurred. In line with this, Bessong & Tapang, (2012) explained that banking activities that are changed to paperless will incur considerable costs so that they negatively affect bank profitability.

Research on the effect of Good Corporate Governance (GCG) and Green Banking implementation on Profitability has still not been widely conducted. This research focuses on analyzing the effect of Good Corporate Governance (GCG) consisting of board of commissioners, independent board of commissioners, audit committee, board of directors, institutional ownership, managerial ownership and the effect of Green Banking implementation on Profitability by paying attention to the relationship between variables based on Stakeholder theory.

II.   Literature Review

A. Stakeholder Theory

Stakeholder theory based on the thinking of Freeman et al., (2010) which explains that stakeholders are a collection of individuals who can significantly influence the success or failure of a company. Donaldson & Preston, (1995) who are supporters of this theory also argue that stakeholder theory will expand the company's responsibilities, which is not only focused on investors but on all stakeholders. In carrying out its operational activities, the company cannot be separated from the role of stakeholders consisting of employees, investors, the surrounding environment, government, and others (Wrespatiningsih et al., 2022). According to (Harrison & Wicks, 2013), stakeholder theory explains that in addition to operating for its own interests, companies also need to think about the interests of their stakeholders. Stakeholders who can consist of shareholders, creditors, the community, government, consumers, analysts, suppliers, and others play a large role in the establishment of a company (Jensen, 2002). Therefore, companies need to build stakeholder trust to be interested in being part of the company.

The application of good corporate governance (GCG) principles such as transparency, accountability, responsibility, independence, and fairness has important to meet stakeholder expectations. With consistent implementation of GCG, stakeholder trust in banks will increase which ultimately can improve bank performance and profitability. Meanwhile, the implementation of green banking such as environmentally friendly credit distribution and financing of sustainable projects is an effort by banks to operate responsibly towards society and the environment. Green banking is in line with current stakeholder expectations who want environmental sustainability. Thus, the implementation of GCG and green banking together can meet the expectations of bank stakeholders which ultimately contributes positively to reputation, image and customer loyalty of banks, which leads to improved bank performance and profitability in the long term. This is the relationship between stakeholder theory and GCG and green banking issues in the banking sector.

B. Profitability

Hartono & Nuvitasari (2025) defines profitability as the company's skill to achieve profit, where in this case it is related to total sales of assets or own capital. Every company, including banking, must pay serious attention to its profitability performance. This is because profitability is the main focus that must be obtained by a banking since it was first formed. The most important thing to support the sustainability and development of a banking is the profitability achieved. Prasetyo, (2015) said, a company's performance will increase when its profitability increases.

There are several indicators used to measure a company's ability to make a profit. Kasmir, (2018) explains including: One, gross profit margin: A ratio that shows relative profit by subtracting net sales from cost of goods sold. Two, net profit margin: A ratio that shows the company's net income on sales by comparing profit after interest and taxes with sales. Three, return on Assets (ROA): A ratio that can explain how much net profit is relative compared to the total assets owned by the company. Return on Assets (ROA) is a ratio that specifically shows how much earning after tax the company is able to obtain for the value of each asset it has. The formula used is:

ROA = Earnings after Tax / Total Asset.

C. Good Corporate Governance (GCG)

Hasanudin, (2023) stated that the implementation of Good Corporate Governance (GCG) is needed to maintain consistency and public trust in a company. GCG can be seen from the main objectives of establishing a company other than the company value presented but how the company achieves the predetermined profit target. Corporate governance is a concept for improving company performance through supervision or monitoring of management performance and ensuring management accountability to stakeholders based on a regulatory framework (Nasution & Setiawan, 2007). The Forum for Corporate Governance in Indonesia (FCGI) (2003) explains that the corporate governance system provides effective protection for shareholders and creditors so that they are confident they will obtain returns on their investments correctly. Corporate governance also helps create a conducive environment for the creation of efficient and sustainable growth in the corporate sector.

Assessment of the implementation of GCG principles (Wahyudin & Solikhah, 2017), which contains eleven GCG Implementation Assessment Factors including: Implementation of the duties and responsibilities of the Board of Commissioners, Implementation of the duties and responsibilities of the Board of Directors, Completeness and implementation of Committee duties, Handling of conflicts of interest, Implementation of compliance function, Implementation of internal audit function, Implementation of external audit function, Implementation of risk management including internal control systems, Provision of funds to related parties and provision of large funds (large exposures), Transparency of financial and non-financial conditions of the Bank, GCG implementation reports and internal reporting and Bank strategic plans.

Several indicators that can be used by researchers to measure good corporate governance include institutional ownership, independent board of commissioners, and audit committee (Cristiana et al., 2021; Ningrum, 2021). Institutional ownership has the ability to monitor and discipline managers so that it can affect company performance in achieving company goals. According to Dharwadkar et al., (2008), companies with large institutional ownership indicate their ability to monitor management. The greater the institutional ownership, the more efficient the utilization of company assets and it is also expected to act as prevention of waste carried out by management. Institutional ownership has meaning for management supervision that aims to encourage increased supervision of management. Institutional ownership is the proportion of share ownership at the end of the year owned by institutions, such as insurance, banks or other institutions (Tarjo, 2008). The formula used is:

Institutional Ownership = Number of Institutional Shares / Total Outstanding Shares.

Independent Board of Commissioners is a member of the board of commissioners who is not affiliated with the board of directors, other members of the board of commissioners and controlling shareholders, and is free from business relationships or other relationships that can affect their ability to act independently or act solely in the interests of the company (PBI Number 8/14/PBI/2006 concerning Amendments to PBI Number 8/4/PBI/2006 concerning Implementation of GCG for Commercial Banks). The formula used is:

Independent Board of Commissioners = Number of Independent Commissioners / Total Members of Board of Commissioners

Audit Committee is a committee formed by the Board of Commissioners to carry out professional and independent supervision duties to increase the credibility of financial statements, increase the adequacy and effectiveness of internal control systems, facilitate the function of internal auditors, and help the board of commissioners carry out effective supervision (Minister of BUMN Decree Number: Kep-103/MBU/2002). The audit committee is measured by the number of audit committee members owned by the company.

D. Green Banking

Green Banking is translated as an effort by banks to prioritize sustainability in lending or operational activities. Some banks have tried to conduct early selection of financing proposed by prospective debtors. Banks have full rights to reduce financing or not, depending on the extent to which the activities to be financed with bank loans impact the environment (Thompson, 1998).

According to Karyani & Obrien, (2020), Green Banking is measured using the Green Banking Index which consists of several indicators: 1. Whether the company has a special environmental policy 2. Whether the company reports environmental activities in its annual report 3. Whether the company has environmental-based financing/credit 4. Whether the company provides incentives for environmental-friendly financing 5. Whether the company implements paperless/online banking 6. Whether the company has obtained environmental certification. The Green Banking Index is calculated by giving a score of 1 if the indicator is fulfilled and 0 if not fulfilled, then dividing by the total indicators.

E. Research Hypothesis.

Based on the theoretical framework and previous research, the hypotheses in this study are:

- **H1**: Institutional Ownership has a positive effect on profitability
- **H2**: Independent Board of Commissioners has a positive effect on profitability
- **H3**: Audit Committee has a positive effect on profitability
- **H4**: Green Banking implementation has a positive effect on profitability

III.   Research Methods

A. Research Design

This research uses a quantitative approach with associative research type. The population in this study are all conventional banking companies listed on the Indonesia Stock Exchange (IDX) during the 2021-2022 period, totaling 47 companies. The sampling technique used is purposive sampling with the following criteria: One, conventional banking companies listed on the Indonesia Stock Exchange during the 2021-2022 period. Two, companies that published complete annual reports during the 2021-2022 period. Three, companies that have complete data related to research variables. Four, companies that have positive profitability during the research period. Based on these criteria, 28 companies were obtained as research samples, so the total data observed was 56 (28 companies x 2 years).

B. Variable Operationalization

This study applies several independent variables and dependent variables consisting of dependent Variable: Profitability (Y) Measured using Return on Assets (ROA) ratio Formula: ROA = Earnings after Tax / Total Assets. 2.   Independent Variables: One, green banking (X1) with measured using Green Banking Index Formula: GBI

= Total score obtained / Total maximum score. Two, institutional ownership (X2) with Formula: IO = Number of Institutional Shares / Total Outstanding Shares. Three independent board of commissioners (X3) with Formula: IBC = Number of Independent Commissioners / Total Members of Board of Commissioners. Four, audit committee (X4) Measured by the number of audit committee members.

C. Data Analysis Technique

        The data analysis technique used is multiple linear regression analysis with SPSS version 29 software. Before testing the hypothesis, classical assumption tests were conducted including normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. Hypothesis testing was conducted using the t-test (partial test) with a significance level of 0.05.

IV. Results

A. Descriptive Statistical Analysis

        The results shown in Table 1 describe the description of each research variable, including: One, green banking (X1): minimum value 0.33, maximum 1.00, mean 0.7552, standard deviation 0.22021. Two, institutional ownership (X2): minimum value 0.30%, maximum 1.00%, mean 0.7295%, standard deviation 0.1872%. Three, independent board of commissioners (X3): minimum value 1.00%, maximum 1.50%, mean 1.7198%, standard deviation 0.3596%. Four, audit committee (X4): minimum value 2, maximum 8, mean 3.28, standard deviation 1.295. Five, profitability/ROA (Y): minimum value -0.3%, maximum 0.7%, mean 0.0182%, standard deviation 0.01920%.

Table 1. Descriptive Statistical Analysis Test Results

Descriptive Statistics							
	N	Range	Minimum	Maximum	Mean		Std. Deviation
	Statistics	Statistics	Statistics	Statistics	Statistics	Std. Error	Statistics
X1	56	.67	.33	1.00	.7552	.02943	.22021
X2	56	.70	.30	1.00	.7295	.02501	.18716
X3	56	1.50	1.00	2.50	1.7198	.04807	.35969
Y	56	6	2	8	3.82	.173	1.295
Valid N	56	.09	-.03	.07	.0182	.00257	.01920

B. Classical Assumption Test Results

- The results shown in table 2 for the normality test using used the Kolmogorov-Smirnov test, obtained Asymp.Sig. (2-tailed) value of 0.063 > 0.05, indicating that the data is normally distributed

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test			
			Unstandardized Residual
N			51
Normal Parameters [a,b]	Mean		.00000000
	Std. Deviation		.06126352
Most Extreme Differences	Absolute		.120
	Positive		.120
	Negative		-.103
Test Statistic			.120
Asymp. Sig. (2-tailed) [c]			.062
Monte Carlo Sig. (2-tailed) [d]	Sig.		.063
	99% Confidence Interval	Lower Bound	.057
		Upper Bound	.069
a. Test distribution is Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			
d. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 215962969			

- The results shown in table 3 for all independent variables have VIF values < 10 and Tolerance values > 0.1, with the following results: One, green Banking (X1): VIF 1.269, Tolerance 0.788. Two, institutional ownership (X2): VIF 1.103, Tolerance 0.907. Three, independent board of commissioners (X3): VIF 1.243, Tolerance 0.805. Four. audit committee (X4): VIF 1.119, Tolerance 0.894.

Table 3. Multicollinearity Test Results

Coefficients[a]								
		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1.	(Constant)	.006	.112		.056	.955		
	SQRT_X1	-.006	.079	-.013	-.081	.936	.788	1.269
	SQRT_X2	.194	.085	.333	2.277	.027	.907	1.103
	SQRT_X3	-.039	.072	-.084	-.0541	.591	.805	1.243
	SQRT_X4	.008	.031	.038	.260	.769	.894	1.119
a. Dependent Variable: SQRT_Y								

- The results shown in Figure 1 for the heteroscedasticity test show that the points are scattered in the Scatterplot image and are formed randomly without forming a particular pattern, this indicates the absence of heteroscedasticity.
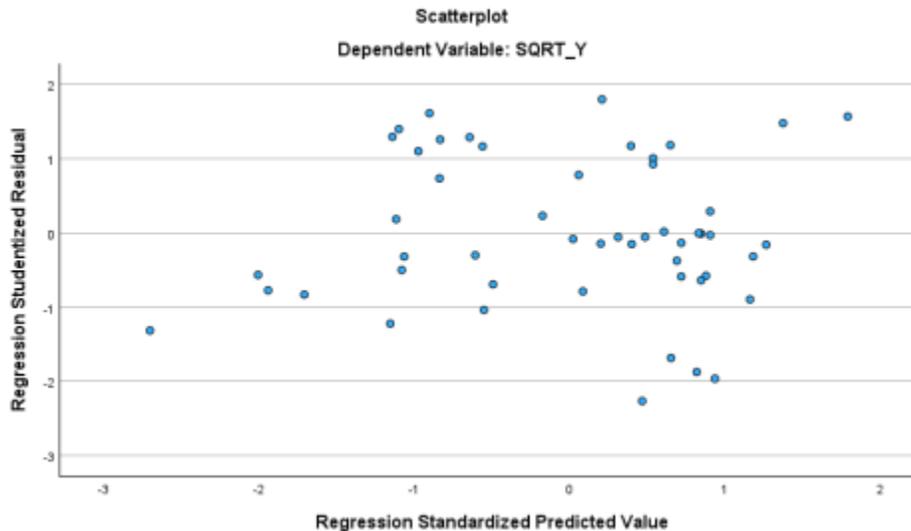

Figure 1. Scatterplot

- The Autocorrelation Test in this study uses the provisions of the Durbin Watson Value between -2 and +2, where the results shown in Table 4 show that the Durbin Watson value is 1.266 and is between the specified values, thus indicating that the data does not experience autocorrelation symptoms.

Model Summary[b]					
Model	R	R-Square	Adjusted R Square	Std. Error of the Estimate	Durbin Watson
1	.325[a]	.106	.028	.06387	1.393
a. Predictors: (Constant), SQRT_X4, SQRT_X2, SQRT_X3, SQRT_X1					
b. Dependent Variable: SQRT_Y					

C. Multiple Linear Regression Analysis

The results shown in table 3 are known to be the model the regression equation obtained is:

ROA = 0.006 - 0.006 X1 + 0.194 X2 - 0.039 X3 + 0.008 X4

Interpretation: - Constant (a) = 0.006: Without the influence of all independent variables, the predicted ROA value is 0.006% - Coefficient X1 = -0.006: Implementation of green banking will decrease ROA by 0.006% - Coefficient X2 = 0.194: Each 1% increase in institutional ownership will increase ROA by 0.194% - Coefficient X3

= -0.039: Each 1% increase in independent board of commissioners will decrease ROA by 0.039% - Coefficient X4 = 0.008: Each increase of 1 audit committee member will increase ROA by 0.008%.

D. Hypothesis Testing Results (t-test)
   Referring to the data presented in table 3, several results can be drawn, including:
1. H1: Green Banking → Profitability t-value = -0.081, sig. = 0.936 > 0.05 Conclusion: Green Banking does not significantly affect profitability (H1 rejected)
2. H2: Institutional Ownership → Profitability t-value = 2.277, sig. = 0.027 < 0.05 Conclusion: Institutional Ownership has a significant positive effect on profitability (H2 accepted)
3. H3: Independent Board of Commissioners → Profitability t-value = -0.541, sig. = 0.591 > 0.05 Conclusion: Independent Board of Commissioners does not significantly affect profitability (H3 rejected)
4. H4: Audit Committee → Profitability t-value = 0.260, sig. = 0.796 > 0.05 Conclusion: Audit Committee does not significantly affect profitability (H4 rejected).

V.   Discussion

The research results show that Green Banking does not significantly affect profitability. This finding is consistent with research by (Karyani & Obrien, 2020) and (Bessong & Tapang, 2012) which stated that green banking implementation requires considerable costs, especially for transitioning to paperless operations and implementing environmental management systems. These costs can burden banks in the short term, thus not immediately increasing profitability. Although not significantly affecting profitability in the short term, green banking implementation remains important as part of the bank's social responsibility to stakeholders and the environment. In the long term, good green banking practices can improve the bank's reputation and attract environmentally conscious investors and customers.

Other findings also show that Institutional Ownership has a significant positive effect on profitability with a significance value of 0.027 < 0.05. This finding is consistent with research by (Rimardhani et al., 2016) and (Candradewi & Sedana, 2016). Institutional ownership has the ability to monitor and discipline management, thereby encouraging more efficient use of company assets. This finding reflects support for stakeholder theory which emphasizes the importance of corporate social responsibility to stakeholders, including institutional investors. With greater institutional ownership, supervision of management becomes more effective, which ultimately can improve bank performance and profitability.

Furthermore, the following findings show that Independent Board of Commissioners does not significantly affect profitability with a significance value of 0.591 > 0.05. This finding is consistent with research by (Mawardi, 2019) and (Istighfarin & Wirawati, 2015). Although not significantly affecting profitability, the existence of an Independent Board of Commissioners remains important as an effort by banks to fulfill their social responsibilities to stakeholders. This includes shareholders who want transparency and accountability, as well as employees who expect a professional and ethical work environment. Several reasons why the Independent Board of Commissioners does not significantly affect profitability can be seen from the GCG theory perspective, such as low awareness of issuers in implementing GCG, a culture has not been created that supports the implementation of GCG widely in the national business environment, and awareness has not been formed in the Indonesian market regarding the importance of implementing GCG in the short term.

Finally, the findings of this study show that Audit Committee does not significantly affect profitability with a significance value of 0.796 > 0.05. This finding is consistent with research by (Istighfarin & Wirawati, 2015; Mawardi, 2019; Rimardhani et al., 2016). Research result shows that the quantity of audit personnel does not have a significant effect on the company's ability to generate profits. Although having the number of personnel in accordance with established standards, this does not affect the level of company profitability. The limitations of the audit committee's duties and authority in supporting the board of commissioners are also factors that limit their influence on financial performance. Some researchers stated that the formation of an audit committee in a company is only limited to fulfilling regulations that require companies to have an audit committee. The function of the audit committee is more to supervise fraud that occurs in the company, not to increase company profits.

VI.   Conclusion

These findings provide empirical evidence supporting stakeholder theory, which emphasizes that companies need to pay attention to the interests of all stakeholders, not just profit maximization. The implementation of GCG and green banking is an effort by companies to fulfill their responsibilities to stakeholders, although not all of these practices directly affect profitability in the short term. Green Banking does not significantly affect the profitability of banking companies but remains important as part of corporate social responsibility and can

improve the bank's reputation in the long term. Institutional Ownership has a significant positive effect on the profitability of banking companies to monitoring management and encouraging efficient use of company assets. Independent Board of Commissioners does not significantly affect the profitability of banking companies but remains important for transparency and accountability. Audit Committee does not significantly affect the profitability of banking companies but can fulfilling regulations and supervising internal fraud rather than directly increasing company profits.

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