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Exploring the Impact of Corporate Governance on the Disclosure of Green Banking Practices: A Comprehensive Literature Review

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ABSTRACT

Green banking plays a crucial role in the sustainable operations of financial institutions, and the disclosure of these practices can significantly impact their economic performance and reputation. In this analysis, we explore the impact of corporate governance on the disclosure of green banking practices through an extensive review of existing literature. As a critical internal control mechanism, corporate governance is anticipated to play a pivotal role in enabling transparent and accountable disclosures related to green banking. This literature review delves into green banking, disclosure practices, and the corporate governance factors that influence these practices. The findings from this study will shed light on how corporate governance can effectively support transparency and accountability in green banking practices across various banking environments.

Keywords: Corporate Governance, Green Banking Disclosure, Transparency, Environmental Sustainability

INTRODUCTION

Recently, there has been increasing public awareness of the risks posed by climate change (You & Volz, 2021).So, global attention to sustainability issues is increasing. Various industrial sectors, including banking, play an essential role in a country (Sharma & Choubey, 2022).They began to compete to show their contribution to the environment. In this case, green banking practices emerged as a form of support for environmental sustainability from the banking sector. Green banking supports the concept of sustainability with various practices, such as reducing the environmental impact of banking operations themselves and providing credit for environmentally friendly projects (Zhang et al., 2022). The success of green banking practices is determined by how transparent the banking sector is in disclosing its green banking practices. Therefore, corporate governance is needed.

Corporate governance is a process and principle determining how a company manages its operations. In this context, corporate governance also regulates policies regarding the disclosure of green banking practices (Almashhadani & Almashhadani, 2023). It is essential to ensure that stakeholders have received information about the green banking practices that have been carried out. Good corporate governance has been proven to mitigate adverse impacts on the banking sector (El-Chaarani et al., 2022), so that corporate governance is a rule that applies to management, direction and organisation(Almashhadani & Almashhadani, 2023).It is highly expected to ensure that green banking disclosures are carried out honestly, accurately, and by applicable regulations.

Previous research on how corporate governance affects green banking disclosure has shown varying results. Cupian et al. (2023) research shows that the board influences green

banking disclosure as part of corporate governance. Research conducted by Tanuwijaya (2022) shows different results, showing that the board of directors does not influence green banking.

Due to the differences in research results, it is necessary to study how corporate governance impacts green banking disclosure more deeply. Therefore, a literature review will cover various studies examining the relationship between corporate governance and green banking disclosure. This article aims to summarise the findings and identify areas where corporate governance can be further improved to support transparency and accountability. This article also aims to provide a comprehensive overview of how corporate governance affects green banking disclosure by evaluating the results of various previous studies.

This article is expected to significantly contribute to understanding the relationship between corporate governance and green banking disclosure. Summarising various studies and findings provides a comprehensive overview of how corporate governance oversight structures and policies can impact transparency and accountability in sustainability reporting.

LITERATURE REVIEW

Corporate Governance

Corporate governance is a set of rules that ensures the company is run correctly, following the rules and interests of all stakeholders, to achieve long-term results (Tran et al., 2020).Through its four pillars—transparency, accountability, reliability, and fairness—corporate governance must balance economic and social goals and the interests of the company and society (Aryan et al., 2022). Compliance with governance is also essential for the banking sector to achieve legitimacy in society (Zulfikar et al., 2020).

Corporate governance has internal control; it is represented by the board structure. On one board system, although it is not clear separation duties, non-executive directors are responsible to supervise performance of executive directors. Meanwhile on two board system, commissioners have supervisory function. While for external control, many institutions issued regulation, guidelines, and standards (Kusumaningtias et al., 2016).

Corporate governance is an internal measure for managing company activities. It can be used as a reference for monitoring company activities to increase the efficiency of the company's business operations (Tran et al., 2020)Effective corporate governance will benefit the company, improve its performance, increase its value, and increase investor confidence (Heriansyah, 2024). In addition, good governance practices also result in transparent and quality information disclosure (Lin & Qamruzzaman, 2023).

Board of Directors

The board of directors is the main governing body of the company. It is responsible for leading and managing the bank and setting its strategic direction (Clara L, nd)They also ensure that the company operates according to its long-term goals. The board of directors also represents the company in matters outside and inside (Andhitya Rahmawati et al., 2017).

As the company manager, the board of directors has the right to determine company guidelines and regulations, including guidelines for good corporate governance.(Naila F., nd). Research conducted by(Setiawan et al., 2018)shows that the more experienced board directors have better judgment, which can increase environmental sustainability disclosure.

Board of Commissioners

The board of commissioners is part of the organisation that provides supervision and direction to the board of directors. Supervising commissioners will increase managers' confidence that the company's management has acted as the party that appointed them in the interests of shareholders (Sumanto et al., 2014).

The board of commissioners also acts as a supervisor and guarantor who ensures that company management has carried out its duties properly, responsibly, and by regulations (Andhitya Rahmawati et al., 2017). They assess the effectiveness of the implemented strategy and provide strategic recommendations if necessary. The more commissioners there are, the more critical they will be, so they will be better able to control the board of directors' decisions, including regarding demands for sustainability disclosure (Naila F., nd).

Green Banking

Green Banking is a banking practice designed to support environmental sustainability as a form of bank initiative to consider environmental sustainability in daily activities (Sharma & Choubey, 2022)by reducing the negative impact of company operations on the environment(Bukhari et al., 2020)Moreover, it began implementing various policies, such as investment activities in environmental products and services to protect ecosystems and prevent climate change (Chen et al., 2022).

Green banking is also a concept in which the banking sector conducts its activities based on sustainability (Andry et al., nd). In the banking context, this includes implementing environmentally friendly practices in banking sector operations, such as reducing paper use with digital services, improving energy efficiency, recycling, and providing environmentally responsible loans (Mir & Bhat, 2022).

Reporting and disclosure are essential aspects of green banking because they can convey transparent information about how banks operate while still paying attention to the environment to stakeholders. Clear disclosure can also increase banks' credibility and attract investors. Transparency is also crucial to building trust and a bank's reputation (Steuer & Troger, 2022).

Green banking disclosure is also important because environmentally friendly actions have the potential to reduce the ratio of non-performing loans, positively impact environmentally friendly performance, and increase the company's profitability (Zulfikar et al., 2020).

Stakeholder Theory

Stakeholder theory emphasises the importance of considering various parties in an organisation. This theory assumes that by considering the interests of various parties involved, the company will achieve better performance, thereby improving its reputation (Aracil et al., 2021).

According to stakeholder theory, decisions should be made considering the impact on various parties. Thus, this theory emphasises that companies should focus on financial profits, business ethics, environmental sustainability, etc (Tran et al., 2020).

This theory emphasises effective and transparent communication so that relationships with various related parties run smoothly. Disclosure of company performance becomes a communication tool with stakeholders to ensure a company's sustainability and responsibility

(Heriansyah, 2024). Based on this theory, the environment becomes one of the stakeholders of conventional banks (Zhou et al., 2021).Companies must disclose their performance transparently, financially and non-financially, to gain stakeholders' greater trust and support (Aryan et al., 2022).

Legitimacy Theory

Legitimacy theory is a conceptual framework that explains how companies seek to gain and maintain legitimacy from society and their stakeholders by conforming to external expectations (Pietro S., nd).This theory encourages companies to consider the environment when carrying out activities according to the applicable values and norms (Andry et al., nd).

Legitimacy theory also assumes that companies must be able to maintain their social function by fulfilling society's social needs. That way, the surrounding environment will more readily accept the company's business activities (You & Volz, 2021)Through transparent disclosure of green banking, the banking sector is expected to meet the expectations of the social sphere and gain public trust (Sharma & Choubey, 2022).

METHODS

To examine the impact of corporate governance on the disclosure of green banking practices, this study uses a literature study method. Where this method collects, evaluates, and synthesises the results of research that other researchers have conducted (Heriansyah, 2024).

Literature was collected from various sources, such as Google Scholar, Scopus, and other online media, using specific keywords to produce relevant output, such as 'corporate governance', 'green banking', and 'green banking practices'. The criteria for prioritised literature were those published in the last five years.

After various literature that meets the criteria has been collected, descriptive and synthetic data processing is carried out on the various literature to provide a comprehensive picture (Habibi et al., nd) regarding the impact of corporate governance on green banking disclosure.

RESULTS

Table 1. Previous Research

No	Title	Author	Year	Results
1	The Influence of Corporate Governance on Green Banking Disclosure (Study on Banking Companies in Indonesia Listed on the IDX) Period 2018 – 2020)	San Petro, Rini Octavia, Muhammad Ichsan Diarsyad	2023	The Board of Commissioners has a significant favourable influence on Green Banking Disclosure. This study did not find a significant influence between Independent Commissioners and Green Banking Disclosure and found that Institutional Ownership has a significant negative influence on Green Banking Disclosure.

2	The Influence of Corporate Governance on the Green Banking Disclosure Index in Islamic Banking Period 2016-2019 Study	Cupian, Fakhri Afif Mulyana, Sarah Annisa Noven	2023	The number of boards significantly influences the green banking disclosure index. The presence of a sharia supervisory board does not significantly influence the green banking disclosure index. The number of boards, including Sharia supervisory boards, positively influences the green banking disclosure index.
3	The Influence of Independent Board of Commissioners, Audit Committee, and Foreign Ownership on Green Banking Disclosure (Study on Banking in Indonesia 2017-2021)	Henry Agustin, Henry Agustin	2022	This study found a significant influence of the audit committee on green banking disclosure practices in Indonesian banking and did not find any influence of the independent board of commissioners or foreign ownership on green banking disclosure practices.
4	The Influence of Gender Diversity of Directors and Size of Board of Commissioners on Disclosure of Green Banking Practices	Joshua Gainer Sihombing, Willy Sri Yuliandhari	2022	Gender diversity of directors and the size of the board of commissioners simultaneously affect the disclosure of green banking practices. Gender diversity of directors partially does not affect the disclosure of green banking practices, while the size of the board of commissioners has a positive effect on the disclosure of green banking practices.
5	The Influence of Board of Commissioners Size, Commissioners' Gender Diversity and Institutional Ownership on Green Banking Disclosure	Krissana, Theresia Nevi Oksa	2023	The size of the board of commissioners has a positive effect on green banking disclosure, while the variables of gender diversity of commissioners and institutional ownership do not.
6	What drives green banking disclosure? An institutional and corporate governance perspective	Sudipta Bose, Habib Zaman Khan, Afzalur Rashid & Shajul Islam	2018	The study finds that corporate governance mechanisms (e.g., board size and institutional ownership) positively affect the level of green banking disclosure. However, it also finds no relationship between the presence

				of independent directors on the board and green banking disclosure.
7	CORPORATE GOVERNANCE AND GREEN BANKING DISCLOSURE: (Case study of Banks in Indonesia for the period 2018 and 2019)	Bella Asmara Magic	2020	Three independent variables whose hypothesis has a positive effect are the number of Board of Commissioners, the number of Board of Directors, and the number of Independent Board of Commissioners. The other three variables, Institutional Ownership, Company Size, and Profitability, do not significantly affect green banking disclosure.
8	The Impact of Islamic Banking Corporate Governance on Green Banking	Jabbar Sehen Issa, Mohammad Reza Abbaszadeh, Mahdi Salehi	2022	The results indicate that corporate governance in Islamic banking has had a positive effect on green banking. This means that the increase of corporate governance mechanisms in Iraqi Islamic banking increases the level of attention of Iraqi Islamic banks to green banking matters.
9	The Influence of Board of Commissioners Size, Independent Board of Commissioners and Institutional Ownership on Green Banking Disclosure	Vincentius Farrell Hendrawan		The study's results show that the Board of Commissioners' variable size positively affects green banking disclosure, the independent Board of Commissioners variable does not, and the institutional ownership variable has a negative effect.
10	Corporate Governance and Green Banking Disclosure: A Study on Banks in Indonesia	Lily Handajani	2019	This study found that the size of the board of commissioners significantly influenced the disclosure of green banking practices. However, the presence of independent commissioners and institutional ownership had no influence.

DISCUSSION

In recent years, there has been increasing attention to how corporate governance affects the disclosure of green banking practices, which is part of corporate social and environmental responsibility. Green banking disclosures include information on how banks manage and mitigate environmental impacts and support sustainability initiatives (Oncioiu et

al., 2020).Recent research shows corporate governance significantly impacts how banks report their green activities transparently.

The relationship between the Board of Directors and Green Banking disclosure

Based on previous research, the board of directors is vital in directing and overseeing green banking disclosure in a company (Zulfikar et al., 2020).Green banking refers to banking practices that support environmental sustainability. The board of directors ensures that the green banking policy has been implemented effectively and transparently. They must also ensure that these practices align with the company's long-term goals and are adhered to by all parties (Menicucci & Paolucci, 2022).

The board of directors must also establish policies and strategies supporting the company's commitment to green banking. This includes the company's internal policies on investing in environmentally friendly projects, managing risks, and reporting environmental impacts (Sehen Issa et al., 2022).

The board of directors ensures that green banking reporting lists achievements and identifies areas for improvement. Transparent reporting will maintain effective communication with stakeholders, thus building their trust and improving the company's reputation (Menicucci & Paolucci, 2022).

The relationship between the Board of Commissioners and Green Banking disclosure

Research shows that the board of commissioners has a vital role in a company. They must ensure that decisions and policies taken by the board of directors follow applicable regulations. This includes environmentally friendly practices and reporting that is disclosed accurately and transparently (Karyani & Obrien, 2020).

The board of commissioners should oversee green banking reporting to ensure that the information to be disclosed to stakeholders is in accordance with regulations. They must also ensure the relevance of the disclosure of green banking practices so that the reports presented provide a clear picture of the company's green banking practices (Rahmiati & Agustin, 2022).

Impact on Green Banking Disclosure

The board of directors and commissioners have an essential role in corporate governance, especially in the context of green banking disclosure. Green banking disclosure requires transparency regarding the company's banking practices. Both bodies must ensure that the reports presented are accurate and that all actions taken are in line with the principles of sustainability (Gainer et al., 2022).

CONCLUSION

Various articles have been reviewed, and it can be concluded that overall corporate governance, mainly represented by the Board of Directors and Board of Commissioners, contributes to the transparency and accountability of green banking disclosure. An effective organisational structure with its respective functions and responsibilities encourages more complete and accurate disclosure of green banking practices. Through the right decisions by the board of directors and based on supervision carried out by the board of commissioners,

more points are disclosed in the sustainability report, indicating the better quality of the report.

This study has several shortcomings, including the limitations of the literature, primarily articles in developing countries. Thus, the results may differ when compared to different conditions or contexts. These findings have important implications for policymakers, companies, especially in the banking sector, and investors who want to involve environmental sustainability in all activities to realise the company's long-term goals.

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