

The Effects of Sustainability Disclosure and Islamic Social Reporting on Financial Performance: The Mediating Role of Green Financing in Indonesian Islamic Commercial Banks

Wildan Hilmawan^{1*}, Lina Yulianti², Neneng Wahyuni³

UIN Sunan Gunung Djati Bandung, Indonesia^{*1, 2, 3}

^{*1}email: wildanhufadz@gmail.com

²email: lina.yulianti@uisgd.ac.id

³email: nenengwahyuni@uinsgd.ac.id

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Abstract: This study examines the mediating role of Green Financing in the relationship between Green Banking Disclosure (GBD), Islamic Social Reporting (ISR), and financial performance (Return on Assets/ROA) of Islamic Commercial Banks (Bank Umum Syariah/BUS) in Indonesia. Using a quantitative explanatory approach with panel data regression (Fixed Effect Model and Common Effect Model) and Baron & Kenny mediation procedure confirmed by Sobel Test, this study analyzes seven BUS over the 2021–2025 period (35 panel observations). Results indicate: (1) GBD negatively and significantly affects Green Financing ($\beta = -37.002$, $p = 0.027$); (2) ISR has no significant effect on Green Financing ($p = 0.538$); (3) GBD has no direct effect on ROA ($p = 0.121$); (4) ISR has no significant effect on ROA ($p = 0.279$); (5) Green Financing positively and significantly affects ROA ($\beta = 0.070$, $p = 0.000$); (6) Green Financing mediates the effect of

Abstrak: Penelitian ini bertujuan menguji peran mediasi Green Financing dalam hubungan antara Green Banking Disclosure (GBD) dan Islamic Social Reporting (ISR) terhadap kinerja keuangan (Return on Assets/ROA) Bank Umum Syariah (BUS) di Indonesia. Menggunakan pendekatan kuantitatif eksplanatori dengan metode regresi data panel (Fixed Effect Model dan Common Effect Model) dan uji mediasi Baron & Kenny yang dikonfirmasi Sobel Test, penelitian ini menganalisis tujuh BUS selama periode 2021–2025 (35 observasi panel). Hasil menunjukkan: (1) GBD berpengaruh negatif signifikan terhadap Green Financing ($\beta = -37.002$, $p = 0.027$); (2) ISR tidak berpengaruh signifikan terhadap Green Financing ($p = 0.538$); (3) GBD tidak berpengaruh langsung terhadap ROA ($p = 0.121$); (4) ISR tidak berpengaruh signifikan terhadap ROA ($p = 0.279$); (5) Green Financing berpengaruh positif signifikan

GBD on ROA (Z-Sobel = -2.193, significant); and (7) Green Financing does not mediate the ISR-ROA relationship. These findings suggest that the transmission mechanism of GBD to BUS profitability operates indirectly through green financing realization, with important implications for Bank Indonesia's Green Macroprudential Liquidity Incentive (KLM Hijau) policy and OJK sustainability reporting regulation.

Keywords: Green Banking Disclosure; Islamic Social Reporting; Green Financing; Return on Assets; Islamic Commercial Banks; Mediation; Fixed Effect Model.

terhadap ROA ($\beta = 0.070$, $p = 0.000$); (6) Green Financing terbukti memediasi pengaruh GBD terhadap ROA (Z-Sobel = -2.193, signifikan); dan (7) Green Financing tidak memediasi pengaruh ISR terhadap ROA. Temuan ini mengindikasikan bahwa mekanisme transmisi GBD terhadap profitabilitas BUS bersifat tidak langsung dimediasi oleh realisasi porsi pembiayaan hijau dan memberikan implikasi penting bagi evaluasi kebijakan KLM Hijau Bank Indonesia serta penguatan regulasi sustainability reporting OJK pada perbankan syariah.

Kata Kunci: Green Banking Disclosure; Islamic Social Reporting; Green Financing; Return on Assets; Bank Umum Syariah; Mediasi; Fixed Effect Model.

A. Introduction

Environmental sustainability has become one of the main agendas in global financial governance. Financial institutions, including Islamic banks, face pressure from various stakeholders to focus not only on financial performance but also on the social and environmental impacts of their operations (Horisch et al., 2020). The adoption of green accounting not only mitigates environmental damage but has also been shown to improve financial performance and firm value, and it contributes directly to the achievement of the Sustainable Development Goals (SDGs) (Tripalupi et al., 2024). In Indonesia, Bank Indonesia, through the Green Macroprudential Liquidity Incentive Policy (Kebijakan Insentif Likuiditas Makroprudensial, KLM Hijau), actively encourages Islamic Commercial Banks (Bank Umum Syariah, BUS) to increase the share of environmentally oriented financing (Indonesia, 2023).

Islamic banking in Indonesia occupies a strategic position because it operates under dual accountability expectations. From a regulatory standpoint, the Financial Services Authority (Otoritas Jasa Keuangan, OJK) requires sustainability reporting through OJK Regulation (POJK) No. 51/POJK.03/2017, while Bank Indonesia promotes green financing through the KLM Hijau (Keuangan, 2017). In addition, the establishment of a large entity, Bank Syariah Indonesia (BSI), in 2021 through the merger of three state-owned Islamic banks was an important milestone that calls for a comprehensive post-merger performance evaluation, one that must go beyond conventional profit measures (Yulianti et al., 2026).

In addition to the environmental dimension, BUS operate under Shariah accountability expectations, which are operationalized through Islamic Social Reporting (ISR). Haniffa (2002) argued that conventional social reporting is inadequate for Islamic institutions because it does not capture adherence to Islamic values. The ISR Index developed by Othman et al. (2009) and adapted by (Fitria & Hartanti, 2010) comprises six dimensions with 43 indicator items and has been widely adopted in Islamic accounting research in Southeast Asia.

However, the relationship among GBD, ISR, and the financial performance of BUS in Indonesia remains inconsistent. Andriani (2025) found a significant positive effect of ISR on the ROA of BUS, whereas Shofiyatun et al. (2024) found no significant effect. According to Horisch et al. (2020), this inconsistency is likely attributable to the absence of a mediating variable that explains the transmission mechanism. In a recent study of commercial banks in China, Gazi et al. (2025) demonstrated that green financing activities mediate the relationship between green banking practices and both green CSR and profitability. However, a similar mediation model has not been tested on Indonesian BUS within the framework of Bank Indonesia's KLM Hijau policy and the Maqasid al-Shariah perspective.

Four research gaps are identified. First, no study has tested a green financing mediation model on Indonesian BUS. Second, studies that integrate GBD and ISR

simultaneously in a single causal model remain very limited. Third, the 2021–2025 period encompasses the full implementation of POJK 51, the establishment of BSI, and Bank Indonesia’s KLM Hijau policy, which have not been widely studied. Fourth, the interpretation of empirical results from the perspective of Maqasid al-Shariah, as a framework of Islamic accountability values, remains rare in the Indonesian Islamic accounting literature.

This study is grounded in three theoretical frameworks. Legitimacy Theory (Dowling & Pfeffer, 1975; Suchman, 1995) explains why BUS are motivated to engage in GBD and ISR to maintain their social contract with two layers of stakeholders (regulatory and Sharia). Stakeholder Theory (Freeman, 1984; Horisch et al., 2020) explains the transmission mechanism through which disclosure builds stakeholder trust, which ultimately increases profitability. Horisch et al. (2020) extend this theory by proposing nature as a legitimate stakeholder, which is relevant to the context of green financing. Maqasid al-Shariah (Al-Ghazali, 1997; Al-Syatibi, 2004) serves as an analytical lens for interpreting the findings in terms of Islamic values. The principle of *hifz al-nasl* (protection of generations) is linked to environmental responsibility (GBD and green financing), whereas *hifz al-mal* (protection of wealth) requires responsible asset management (ISR and ROA).

Green Banking Disclosure refers to the disclosure of environmental information by banking institutions, covering environmental policies, energy consumption and emissions, and green financing portfolios (Bose et al., 2017). Based on POJK 51/2017 and the GRI Standards 2021, GBD is measured using a 20-item Environmental Disclosure Index through content analysis. Legitimacy Theory predicts that BUS with higher GBD will allocate more financing to green sectors as an expression of consistency between disclosure and real action (Suchman, 1995). Gazi et al. (2025) confirmed that green banking practices have a positive effect on green financing activities. Accordingly, the following hypotheses are formulated:

H1: Green Banking Disclosure has a positive and significant effect on Green Financing.

H3: Green Banking Disclosure has a positive and significant effect on ROA.

ISR is a social reporting index based on Sharia principles that comprises six dimensions and 43 items (R. M. Haniffa, 2002; Othman et al., 2009). Stakeholder Theory predicts that BUS with high ISR will gain greater trust from Islamic investors, which ultimately increases profitability. Andriani (2025) found a positive effect of ISR on the ROA of BUS, while ISR that includes an environmental dimension is also expected to encourage the expansion of green financing (Gazi et al., 2025). Therefore:

H2: Islamic Social Reporting has a positive and significant effect on Green Financing.

H4: Islamic Social Reporting has a positive and significant effect on ROA.

Green Financing is the proportion of environmentally oriented financing in the total financing disbursed by BUS, in accordance with the Indonesian Sustainable Finance Taxonomy (Keuangan, 2021) and the KLM Hijau criteria of Bank Indonesia BI (2023). (Gazi et al., 2025) demonstrated that green financing activities mediate the relationship between green banking practices and green CSR. Ratnasari et al. (2021) found that the implementation of green banking has a positive effect on bank financial performance through the expansion of environmentally friendly financing. Following Baron & Kenny (1986), mediation is tested in four steps and confirmed by the Sobel Test. Therefore:

H5: Green Financing has a positive and significant effect on ROA.

H6a: Green Financing mediates the effect of GBD on the ROA of BUS.

H6b: Green Financing mediates the effect of ISR on the ROA of BUS.

Based on these gaps, this study proposes a model that examines the effects of GBD and ISR on ROA, with Green Financing as a mediating variable, for seven Indonesian BUS over the 2021–2025 period. The contributions of this study are as follows: (1) the first empirical evidence of a green financing mediation model in

Indonesian BUS; (2) the integration of Legitimacy Theory, Stakeholder Theory, and Maqasid al-Shariah as an interpretive framework; and (3) direct policy implications for the evaluation of Bank Indonesia's KLM Hijau.

B. Research Method

This study employs a quantitative explanatory approach using annual panel data regression (Baltagi, 2021). The population comprises all BUS operating in Indonesia and registered with the OJK. The sample was selected using purposive sampling (Sugiyono, 2019) according to the following criteria: (1) fully operating during 2021–2025; (2) consistently publishing annual reports and sustainability reports; and (3) having identifiable green financing data. The final sample consists of seven BUS: PT Bank Syariah Indonesia Tbk (BSI), PT Bank Muamalat Indonesia, PT BCA Syariah, PT BTPN Syariah Tbk, PT Bank Mega Syariah, PT Bank BJB Syariah, and PT Bank Panin Dubai Syariah Tbk, which yields 35 observations in a balanced panel (7 banks × 5 years).

Table 1. Operationalization of Research Variables

Variable	Symbol	Measurement	Scale	Source
Green Banking Disclosure	GBD (X1)	GBD Score = $(\sum \text{GRI 300 items} / 20) \times 100\%$; content analysis of Annual Report & SR	Ratio (0–1)	Initiative, (2021); Keuangan (2017)
Islamic Social Reporting	ISR (X2)	ISR Score = $(\sum \text{ISR items} / 43) \times 100\%$; content analysis of Annual Report & SR	Ratio (0–1)	Fitria & Hartanti, (2010); Othman et al. (2009)
Green Financing	GF (Z)	GF (%) = $\text{Green Financing} / \text{Total Financing} \times 100\%$; Annual Report + SR + Notes to the Financial Statements	Ratio (%)	Gazi et al. (2025); Keuangan (2021)
Return on Assets	ROA (Y)	ROA (%) = $\text{Net Income} / \text{Total Assets} \times 100\%$; Audited Annual Financial Statements	Ratio (%)	Andriani, (2025); Kismawadi (2024)
Bank Size	SIZE (K1)	SIZE = $\text{Ln}(\text{Total Assets in Million Rp})$	Ratio	Kismawadi (2024)

Variable	Symbol	Measurement	Scale	Source
Non-Performing Financing	NPF (K2)	NPF (%) = Non-Performing Financing / Total Financing × 100%	Ratio (%)	Shofiyatun et al. (2024)

Source: Processed data, 2026

Following the Baron & Kenny (1986) procedure for mediation testing, two equations are estimated:

$$\text{Equation 1: } GFit = \alpha + \beta_1 GBDit + \beta_2 ISRit + \beta_3 SIZEit + \beta_4 NPFit + \epsilon it$$

$$\text{Equation 2: } ROAit = \alpha + \beta_1 GBDit + \beta_2 ISRit + \beta_3 GFit + \beta_4 SIZEit + \beta_5 NPFit + \epsilon it$$

The panel data regression model was selected through the Chow Test, Hausman Test, and LM Test (Baltagi, 2021). Data were processed using EViews 13. The mediation effect was confirmed through the Sobel Test with the criterion $|Z\text{-Sobel}| > 1.96$ at $\alpha = 5\%$.

C. Results and Discussion

Descriptive Statistics

Table 2. Descriptive Statistics of Research Variables (N = 35)

Variable	Mean	Median	Minimum	Maximum	Std. Dev.	Interpretation
GBD (X1)	0.8043	0.9000	0.1000	1.0000	0.2095	The average GBD disclosure is 80.43% of the 20 items. BSI in 2021 is the lowest (10%); BSMI in 2023–2025 is perfect (100%)
ISR (X2)	0.9236	0.9070	0.7907	1.0000	0.0506	ISR is very high and uniform (92.36%). The small SD indicates uniformity of Sharia reporting across BUS
GF (Z) %	29.36	18.61	1.79	99.90	30.48	Highly variable. BTPN Syariah dominates (88–99%) owing to its green microfinance model. PNBS is the lowest

Variable	Mean	Median	Minimum	Maximum	Std. Dev.	Interpretation
ROA (Y) %	1.5874	0.9963	-5.6711	8.4093	2.4562	ROA varies widely. PNBS in 2021 is negative (-5.67%) due to a net loss. BTPN is the highest owing to microfinance margins
SIZE (K1)	17.1901	16.6754	16.0592	19.9384	1.1569	BSI is the largest ($\text{Ln} \approx 19-20$); BJBS and BCAS are the smallest ($\text{Ln} \approx 16$). This reflects the variation in BUS assets
NPF (K2) %	1.8528	1.5700	0.0800	3.7877	0.9098	The average of 1.85% is within acceptable limits (<5%). The variation reflects differences in risk management quality

Source: EViews 13 output (2026)

An interesting pattern worth noting is the highly asymmetric distribution of GF (skewness = 1.40), which reflects the heterogeneity of business models across BUS. BTPN Syariah, with its microfinance model for women, achieves a GF of nearly 100%, while most other BUS remain below 30%. This condition also causes GBD to exhibit negative skewness (-2.05) and high kurtosis (7.06), which explains the non-normality of the GBD variable detected in the Jarque-Bera test.

Panel Data Regression Model Selection

Table 3. Summary of Model Selection Results

Test	H ₀	Equation 1 (GF)	Equation 2 (ROA)	Decision
Chow Test (F-test)	CEM is better than FEM	Prob. F = 0.0000 → Reject H ₀	Prob. F = 0.3597 → Fail to reject H ₀	Eq. 1: FEM; Eq. 2: proceed to LM test
Hausman Test (Chi-sq)	REM is more efficient than FEM	Prob. = 0.0057 → Reject H ₀	Not tested (Chow test selects CEM)	Eq. 1: FEM
LM Test (Breusch-Pagan)	CEM is better than REM	Not tested (FEM selected)	Prob. = 0.3009 → Fail to reject H ₀	Eq. 2: CEM
Final Model	—	Fixed Effect Model (FEM)	Common Effect Model (CEM)	—

Source: EViews 13 output (2026)

Classical Assumption Tests

Table 4. Summary of Classical Assumption Test Results

Assumption Test	Criterion	Equation 1 (FEM-GF)	Equation 2 (CEM-ROA)	Conclusion
Normality (Jarque-Bera)	Prob. JB > 0.05	Prob. JB = 0.8554 ✓ Normal	Satisfied (Prob. > 0.05)	Residuals are normally distributed
Multicollinearity (Correlation Matrix)	Correlation < 0.80	Max. correlation = 0.677 (GBD & ISR) ✓	Max. correlation = 0.677 (GBD & ISR) ✓	Free of multicollinearity
Heteroscedasticity (Glejser)	Prob. > 0.05 for all variables	All Prob. > 0.05 ✓	Prob. F = 0.688 > 0.05 ✓	Homoscedastic; free of heteroscedasticity
Autocorrelation (Durbin-Watson)	DW close to 2	DW = 2.153 ✓ (No autocorrelation)	DW = 1.425 (Indication of mild positive autocorrelation)	Eq. 1 is satisfactory. Eq. 2 exhibits mild positive autocorrelation, which is acceptable for T = 5

Source: EViews 13 output (2026)

An important note concerns the autocorrelation in Equation 2. A DW value of 1.425 indicates mild positive autocorrelation, which is acceptable for short panel data (T = 5) according to Baltagi (2021). In response to this concern, the coefficient estimates remain conceptually valid because the CEM of Equation 2 yields $R^2 = 0.693$ and a significant F-statistic ($p = 0.000001$), indicating the overall fit of the model. This condition is stated explicitly as a limitation of the study.

Panel Data Regression Results and Hypothesis Testing

Table 5. Panel Data Regression Results: Equation 1 (FEM) and Equation 2 (CEM)

Variable	Equation 1: GF Coefficient (Prob.)	Remarks H1–H2	Equation 2: ROA Coefficient (Prob.)	Remarks H3–H5
GBD (X1)	−37.002** (0.0269)	H1: REJECTED (negative direction, not positive)	4.197 (0.1209)	H3: REJECTED (not significant)
ISR (X2)	42.458 (0.5383)	H2: REJECTED (not significant)	−10.718 (0.2786)	H4: REJECTED (not significant)
Green Financing (Z)	—	—	0.070*** (0.0000)	H5: ACCEPTED (positive and significant)
SIZE (K1)	5.194 (0.6275)	—	0.184 (0.5805)	—
NPF (K2)	−0.099 (0.9649)	—	0.024 (0.9382)	—
Constant	−69.196 (0.7259)	—	2.828 (0.6706)	—
R-squared	0.9600	—	0.6933	—
Adjusted R ²	0.9434	—	0.6404	—
F-statistic	57.664*** (0.0000)	Model is adequate	13.108*** (0.000001)	Model is adequate
Model	Fixed Effect Model	—	Common Effect Model	—
N Observations	35	—	35	—

Note: **p<0.05, ***p<0.01. Values in parentheses are p-values.

Source: EViews 13 output (2026)

Discussion

The Effect of GBD on Green Financing

The results show that GBD has a significant negative effect on Green Financing ($\beta = -37.002$, $p = 0.027$); therefore, H1 is rejected. This negative direction contradicts the initial prediction but is empirically meaningful and can be explained through several mechanisms. First, this phenomenon indicates decoupling between disclosure and real action. BUS with high GBD scores, such as BSMI, which achieved a perfect score in

2023–2025, have a relatively low share of green financing compared with BTPN Syariah, whose GBD is lower but whose financing is almost 100% green owing to its microfinance business model. Second, this finding is consistent with the argument of Meutia et al. (2022) that banks with larger profiles tend to disclose more as a legitimacy strategy, but this is not always followed by a proportional expansion of green financing. Third, the unique characteristics of BTPN Syariah, which channels almost all of its financing to the women's microfinance segment categorized as green financing (social financing) under the OJK's Indonesian Sustainable Finance Taxonomy (TKBI), create an extreme value that statistically reverses the direction of the relationship.

This finding differs from that of Gazi et al. (2025), who found a positive effect of green banking practices on green financing activities in commercial banks in China. The difference can be explained by the differing contexts: in China, the stricter Green Credit Policy creates stronger regulatory incentives to align disclosure with action, whereas in Indonesia, Bank Indonesia's KLM Hijau policy is still relatively new and has not been fully transmitted to the operational level of BUS. From the perspective of Maqasid al-Shariah, this finding indicates that hifz al-nasl (protection of generations) is still realized more at the level of textual disclosure than in actual financing actions, an implementation gap that needs to be addressed.

The Effect of ISR on Green Financing

ISR has no significant effect on Green Financing ($\beta = 42.458$, $p = 0.538$); therefore, H2 is rejected. Although the coefficient is positive, as predicted, it does not reach the required level of significance. Several factors may explain this finding. First, the highly concentrated distribution of ISR (mean = 0.924, SD = 0.051) indicates too little variation across BUS to detect a statistically meaningful effect. All sampled BUS have ISR scores above 0.79, so the remaining variation is too narrow. Second, in the context of Indonesian BUS, ISR focuses more on Sharia-related social dimensions (zakat, qard hasan, the Sharia Supervisory Board [Dewan Pengawas Syariah, DPS]) than on the environmental dimension that is directly related to green financing. The

environmental dimension of ISR covers only 6 of the 43 items (13.9%), so the aggregate ISR score is less sensitive to the environmental commitment that drives green financing. Third, this finding is inconsistent with the expectation that the Islamic values embedded in ISR would encourage BUS to allocate more green financing, which indicates the need to develop an ISR index that is more sensitive to the environmental dimension in future research.

The Effect of GBD on ROA

GBD has no significant direct effect on ROA ($\beta = 4.197$, $p = 0.121$); therefore, H3 is rejected. Although the coefficient is positive, as predicted, it does not reach the required level of significance. This finding in fact provides empirical evidence supporting the mediation model of this study: the effect of GBD on ROA is indirect and must first be transmitted through Green Financing. This is consistent with the argument of Horisch et al. (2020) that sustainability disclosure requires a mechanism of real action to be translated into superior financial performance. This finding contradicts that of Andriani (2025), who found a direct effect of sustainability performance on ROA, but the discrepancy can be explained by the difference in proxies: this study uses GBD as a measure of disclosure rather than of actual performance.

The Effect of ISR on ROA

ISR has no significant effect on ROA ($\beta = -10.718$, $p = 0.279$); therefore, H4 is rejected. The negative direction of the coefficient, although not significant, merits attention. Several explanations can be offered. First, the high compliance costs of ISR (zakat programs, qard hasan, waqf, and Sharia-based CSR) may suppress profitability in the short term, which is consistent with the trade-off hypothesis between social responsibility and financial performance. Second, as with H2, the very small variation in ISR limits the ability of this variable to explain the much larger variation in ROA (SD of ROA = 2.456). Third, this finding is consistent with Shofiyatun et al. (2024), who also found no significant effect of ISR on ROA in 15 Indonesian BUS during 2018–2022, and with Batubara et al. (2023) on Islamic Business Units. From the perspective

of Maqasid al-Shariah, hifz al-mal, which demands responsible management of wealth, is not necessarily reflected in a short-term increase in ROA but rather in the long-term sustainability and resilience of the institution.

The Effect of Green Financing on ROA

Green Financing has a positive and significant effect on ROA ($\beta = 0.070$, $p = 0.000$); therefore, H5 is accepted. This is the strongest finding of this study: the coefficient is highly significant ($t = 6.495$) and accounts for the largest share of the variation in ROA. Each 1% increase in the share of green financing contributes to a 0.070 percentage-point increase in ROA. The R^2 of 0.693 indicates that the Equation 2 model explains 69.3% of the variation in ROA, which is excellent predictive power for panel data on Indonesian BUS.

This finding can be explained through three mechanisms. First, the support of Bank Indonesia's KLM Hijau in the form of liquidity incentives for banks that meet green financing targets directly reduces the funding costs of BUS, which increases the Net Interest Margin and ultimately ROA. Second, debtors in green sectors (renewable energy, sustainable agriculture, and energy efficiency) generally have risk profiles that are more manageable in the long term, which reduces NPF and improves asset quality. Third, the growing loyalty of Islamic customers and investors toward BUS that are active in green financing creates a competitive advantage that leads to higher market share and profitability. This finding is consistent with Gazi et al. (2025), Ratnasari et al. (2021), and Liu (2024), who found a positive impact of green financing on bank performance. Within the Maqasid al-Shariah framework, green financing is a tangible manifestation of hifz al-nasl: an investment for future generations that also generates financial returns for the institution.

Green Financing as a Mediator of the Effect of GBD on ROA

The mediation test using the Baron & Kenny (1986) procedure and the Sobel Test yielded a Z-Sobel value of -2.193 ($|Z| = 2.193 > 1.96$), which is significant at $\alpha = 5\%$;

therefore, H6a is accepted. This result demonstrates that Green Financing mediates the effect of GBD on the ROA of Indonesian BUS.

Table 6. Results of the Sobel Test for Mediation

Mediation Component GBD → GF → ROA	Value
a = coefficient of GBD → GF (Eq. 1, FEM)	-37.002
SEa = standard error of coefficient a	15.701
b = coefficient of GF → ROA (Eq. 2, CEM)	0.070
SEb = standard error of coefficient b	0.011
Indirect effect (a × b)	$-37.002 \times 0.070 = -2.590$
Z-Sobel = $(a \times b) / \sqrt{(b^2 \times SEa^2 + a^2 \times SEb^2)}$	-2.193
Z-Sobel > 1.96 ($\alpha = 5\%$)?	YES → Significant mediation
Type of mediation	Full mediation
Decision on H6a	ACCEPTED

Source: EViews 13 output (2026)

The type of mediation is full mediation, because the GBD → ROA coefficient in Step 3 ($\beta = 4.197$, $p = 0.121$) is not significant, while in Step 1, before GF was entered, the coefficient of GBD on ROA was also not significant. This indicates that the entire effect of GBD on ROA is transmitted through the GBD → GF → ROA path, albeit with a negative direction in the first segment of that path.

The substantive meaning of this finding is as follows: BUS that disclose environmental practices more comprehensively actually allocate a relatively lower

proportion of green financing, but when they succeed in increasing the share of green financing, their profitability increases significantly. This finding is rich in policy implications: disclosure alone is not sufficient; what determines profitability is the realization of green financing. This finding is consistent with the argument of Gazi et al. (2025) regarding the mediating role of green financing activities and confirms the relevance of Bank Indonesia's KLM Hijau policy, which provides liquidity incentives based on the realization of green financing rather than on disclosure alone.

Green Financing as a Mediator of the Effect of ISR on ROA

H6b is rejected because the basic requirement for mediation is not met. According to the Baron & Kenny (1986) procedure, mediation can occur only if the independent variable has a significant effect on the mediator (Step 2). The results of Equation 1 show that ISR has no significant effect on Green Financing ($\beta = 42.458$, $p = 0.538 > 0.05$); thus, the prerequisite condition is not met, and the Sobel Test is not relevant to conduct.

This finding differs from that of Gazi et al. (2025), who found mediation by green financing in the context of green banking practices in China, because the ISR construct in this study is multidimensional and does not directly include green financing commitments as an indicator. From the Maqasid al-Shariah perspective, the disconnect between ISR values and green financing action indicates that *hifz al-nasl* has not yet been fully internalized in the financing strategies of BUS, even though these values have already been articulated in social reporting.

D. Conclusions

This study examined the mediating role of Green Financing in the relationship of GBD and ISR with the ROA of seven Indonesian BUS over the 2021–2025 period. Of the seven hypotheses tested, two were accepted (H5 and H6a) and five were rejected (H1, H2, H3, H4, and H6b).

The main findings of this study are as follows. First, Green Financing proved to be the only strong direct determinant of the financial performance (ROA) of

Indonesian BUS ($\beta = 0.070$, $p = 0.000$, H5 accepted). Second, Green Financing fully mediated the effect of GBD on ROA (Z-Sobel = -2.193 , H6a accepted), indicating that the transmission mechanism from GBD to profitability is indirect and must operate through the realization of green financing. Third, there is decoupling between GBD quality and the realization of green financing in Indonesian BUS: banks that disclose more environmental information do not necessarily channel proportionally more green financing. Fourth, ISR has no meaningful effect on either Green Financing or ROA, which is likely due to the very small variation in ISR among the sampled BUS and the dominance of the Sharia-related social dimension over the environmental dimension in the ISR construct.

Theoretically, this study enriches the Indonesian Islamic sustainability accounting literature by showing that the integration of Legitimacy Theory, Stakeholder Theory, and Maqasid al-Shariah yields a more nuanced model: disclosure (GBD and ISR) builds legitimacy, but it is real action in the form of green financing that determines profitability.

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