Determinants of Islamic Social Reporting in Islamic Commercial Banks: The Effects of Profitability, Financing-to-Deposit Ratio, and Leverage, 2020–2024

Sandy Septiano Winas
Faculty of Islamic Economics and Business, Raden Intan State Islamic University Lampung
Email: enzosandi685@gmail.com

At Eliza
Faculty of Islamic Economics and Business, Raden Intan State Islamic University Lampung
Email: anyeliza@radenintan.ac.id

Weny Rosilawati
Faculty of Islamic Economics and Business, Raden Intan State Islamic University Lampung
Email: wenyrosilawati@radenintan.ac.id

Abstract

The growth of Sharia commercial banks (BUS) in Indonesia has heightened the importance of transparent social responsibility disclosure aligned with Islamic principles through Islamic Social Reporting (ISR). However, the relationship between banks' financial characteristics and ISR disclosure remains inconclusive. This study aims to analyze the relationship of profitability, the Financing-to-Deposit Ratio (FDR), and leverage with ISR disclosure among BUS in Indonesia during the 2020–2024 period. A quantitative approach with an associative-explanatory design was employed. The sample was selected using purposive sampling, resulting in seven BUS or 35 bank-year observations. Secondary data were obtained from annual reports, sustainability reports, and financial statements, then analyzed using multiple linear regression via IBM SPSS Statistics 26. Profitability was measured using Return on Assets (ROA), financing intermediation using FDR, and leverage using the Debt-to-Equity Ratio (DER), while ISR was measured using an index of 48 disclosure items. The results indicate that ROA and DER do not have a significant relationship with ISR disclosure, whereas FDR shows a significant negative relationship. Simultaneously, ROA, FDR, and DER are significantly related to ISR ($F = 4.388$; $p = 0.011$), explaining 29.8% of the variation in ISR disclosure. These findings demonstrate that financial characteristics collectively play a role in ISR disclosure among BUS in Indonesia.

Keywords: *Islamic Social Reporting (ISR); Profitability; Financing-to-Deposit Ratio (FDR); Leverage; Islamic Commercial Banks; Islamic Banking*

Abstrak

Pertumbuhan bank umum syariah (BUS) di Indonesia meningkatkan pentingnya pengungkapan tanggung jawab sosial yang transparan dan sesuai prinsip Islam melalui Islamic Social Reporting (ISR). Namun, hubungan karakteristik keuangan bank dengan pengungkapan ISR masih menunjukkan hasil yang beragam. Penelitian ini bertujuan menganalisis hubungan profitabilitas, Financing-to-Deposit Ratio (FDR), dan leverage dengan pengungkapan ISR pada BUS di Indonesia periode 2020–2024. Penelitian menggunakan pendekatan kuantitatif dengan desain asosiatif-eksplanatori. Sampel dipilih melalui purposive sampling dan menghasilkan tujuh BUS atau 35 observasi bank-tahun. Data sekunder diperoleh dari laporan tahunan, laporan keberlanjutan, dan laporan keuangan, kemudian dianalisis menggunakan regresi linear berganda dengan IBM SPSS Statistics 26. Profitabilitas diukur menggunakan Return on Assets (ROA), intermediasi pembiayaan menggunakan FDR, leverage menggunakan Debt-to-Equity Ratio (DER), sedangkan ISR diukur melalui indeks 48 item pengungkapan. Hasil penelitian menunjukkan bahwa ROA dan DER tidak berhubungan signifikan dengan pengungkapan ISR, sedangkan FDR berhubungan negatif dan signifikan. Secara simultan, ROA, FDR, dan DER berhubungan signifikan dengan ISR ($F = 4,388$; $p = 0,011$), dengan kemampuan menjelaskan 29,8% variasi pengungkapan ISR. Temuan ini menunjukkan bahwa karakteristik keuangan secara bersama-sama berperan dalam pengungkapan ISR pada BUS di Indonesia.

Kata kunci: *Islamic Social Reporting (ISR); Profitabilitas; Financing-to-Deposit Ratio (FDR); Leverage; Bank Umum Syariah; Perbankan Syariah.*

INTRODUCTION

The global Islamic finance industry has experienced substantial growth and has transformed from an alternative financial segment into an increasingly important component of the international financial architecture (Permana et al., 2024; Ganaie, 2025). This expansion has broadened the industry's stakeholder base and increased demands for financial institutions to align business growth with social accountability, transparency, and compliance with Islamic values (Budi, 2021; Alshareeda, 2025). Recent developments in the industry indicate that the expansion of Islamic finance has been accompanied by increasing expectations for financial institutions to demonstrate not only economic performance but also ethical and Sharia-based accountability. The Islamic Financial Services Board (IFSB) reported that global Islamic financial services assets reached USD 3.88 trillion in 2024, growing by 14.9% annually. Islamic banking assets increased by 17.05%, sukuk issuance by 25.6%, and takaful assets by 16.9% (Batorshyna et al., 2021; Hanif et al., 2024; Al-Harbi, 2025; Toymuratovich, 2026) These developments indicate that the performance of Islamic financial institutions should be assessed not only through financial expansion but also through their ability to demonstrate social and Sharia-based accountability. In this context, Islamic Social Reporting (ISR) serves as an important disclosure mechanism linking economic performance with ethical, social, and Islamic accountability (Adema et al., 2023; Ardana & Nurmalia, 2025).

The global expansion of Islamic finance is also reflected in Indonesia's Islamic banking sector, making social accountability increasingly relevant at the national level (Najah & Dita Andraeny, 2023; Dosinta & Yunita, 2024; Rahmah et al., 2025). The growing scale of Islamic banking has expanded both the intermediation function of banks and the amount of public funds under their management, thereby increasing expectations from customers, investors, regulators, and other stakeholders regarding institutional accountability (Raouf & Ahmed, 2022; Akbar et al., 2025) The Financial Services Authority (Otoritas Jasa Keuangan/OJK) reported that Islamic banking assets reached IDR 980.30 trillion in December 2024, representing year-on-year growth of 9.88% and a market share of 7.72%. Financing reached IDR 643.55 trillion, while third-party funds amounted to IDR 753.60 trillion. This expansion makes the quality and extent of ISR disclosure increasingly important because Islamic commercial banks operate within a dual accountability framework involving financial stakeholders and Sharia-oriented stakeholders, including regulators, Sharia Supervisory Boards, depositors, and society. The increasing financial scale of Islamic banks therefore raises an important question: whether stronger financial capacity and financing intermediation are associated with broader ISR disclosure or whether financial pressures may constrain disclosure practices. (Mukhibad & Fitri, 2020; Benamraoui et al., 2023).

Previous research has not provided a consistent answer to this question. Financial conditions may create competing incentives for ISR disclosure: stronger profitability may provide resources for social activities and reporting, whereas higher financing intermediation or greater financial obligations may alter managerial priorities between transparency, social disclosure, and financial stability. Empirical findings remain mixed. Wairooy & Haryono, (2023) found that ROA and FDR significantly influenced ISR, while DER had no significant effect. Salsabilah & Fitri, (2023) reported a significant negative effect of leverage but no strong effect of profitability, whereas Dwiyanti et al., (2024) found a positive effect of leverage but no significant effect of profitability. Nabila and Nelvirita (2026), in contrast, identified a positive effect of profitability on ISR. At the broader level, the meta-analysis by Pratiwi & Mohammed Inuwa, (2025) found that the aggregate effect of profitability on ISR was positive but statistically insignificant, with substantial heterogeneity across studies. Taken together, these findings indicate that the relationship between financial characteristics and ISR is not uniform across institutional and empirical settings, suggesting that the relevance of financial characteristics may depend on the broader regulatory and economic context in which Islamic banks operate.

The inconsistency is also evident when the broader ISR literature is considered. Sahara & Dalimunthe, (2023) found that profitability, bank size, ROE, and FDR contributed to explaining ISR, whereas Riza Salman, (2023) reported that ROA and ROE were insignificant and that bank size was a more consistent determinant. Fachrurrozie et al., (2021) likewise found no direct effect of profitability on ISR. Meanwhile, Wijayanti et al., (2023) showed through a systematic literature review that ISR research remains dominated by legitimacy and stakeholder perspectives and by combinations of financial and non-financial determinants. Wijayanti & Setiawan, (2022) further emphasized the relevance of Sharia supervisory mechanisms. Although these studies establish the relevance of financial and institutional factors, they provide limited evidence on how financial characteristics relate to ISR during a period in which Indonesian Islamic banking simultaneously experienced pandemic disruption, economic recovery, and changes in Sharia governance. Thus, the unresolved issue is not simply whether ROA, FDR, and DER are related to ISR, but whether these relationships remain observable under a changing economic and regulatory environment.

This study addresses a more specific empirical and contextual gap. First, the empirical gap concerns the inconsistent direction and significance of ROA, FDR, and DER in explaining variations in ISR disclosure. Second, the temporal gap arises because previous studies have generally examined different periods, including 2016–2021, 2017–2021, 2018–2022, and 2019–2023, providing limited evidence that follows the same set of financial characteristics and ISR disclosure across the 2020–2024 period. Third, the contextual gap concerns the distinctive characteristics of the 2020–2024 period, which encompasses the COVID-19 pandemic, economic recovery, and the development of a strengthened Sharia governance framework, including the implementation of POJK No. 2 of 2024 concerning Sharia governance for Islamic Commercial Banks (BUS) and Islamic Business Units (UUS). (Ahmad et al., 2026).

The contribution of this study is therefore not claimed to arise merely from combining ROA, FDR, and DER in one regression model. Rather, the study contributes by examining whether the association between these financial characteristics and ISR disclosure persists across a period of economic disruption, recovery, and institutional change in Indonesian Islamic banking. This setting provides a basis for reassessing the explanatory relevance of financial characteristics when Islamic banks face simultaneous pressures for financial soundness, financing intermediation, and Sharia-based accountability. The study consequently connects the financial-determinant perspective of ISR with the institutional context in which disclosure practices are produced, extending the discussion beyond a purely financial explanation of ISR.

The urgency of this study extends beyond resolving empirical inconsistencies. ISR represents an important mechanism for maintaining institutional legitimacy, stakeholder trust, and accountability in Islamic banking. From legitimacy and stakeholder perspectives, ISR connects corporate activities with societal expectations and Islamic values, while agency theory suggests that financial structures and relationships with fund providers may influence managerial incentives for transparency. The strengthening of Sharia governance through POJK No. 2 of 2024 further emphasizes the importance of accountability through stronger Sharia compliance, risk management, internal Sharia audit, and external review mechanisms. Accordingly, examining ISR within this institutional transition is theoretically relevant because it allows the financial-determinant perspective to be considered alongside the legitimacy, stakeholder, and agency explanations of disclosure. The central issue is whether financial characteristics remain relevant to ISR when accountability expectations are simultaneously strengthened through institutional and regulatory mechanisms.

Based on these considerations, this study aims to examine the relationship of profitability, financing intermediation, and leverage with Islamic Social Reporting among Islamic Commercial Banks in Indonesia during 2020–2024. ROA represents the bank's capacity to generate profits, FDR represents financing intermediation intensity and the bank's financing-to-deposit position, and DER represents the structure of financial obligations. Their relationships with ISR are examined both partially and simultaneously to provide a more comprehensive explanation of ISR disclosure. The analysis uses annual reports, sustainability reports, and financial statements of Islamic Commercial Banks during the observation period. The findings are expected to contribute to the empirical literature on ISR by clarifying whether financial characteristics remain associated with ISR disclosure during a period of pandemic disruption, economic recovery, and strengthened Sharia governance, while providing practical implications for bank management, Sharia Supervisory Boards, and regulators in strengthening socially accountable and Sharia-compliant banking practices.

RESEARCH METHODS

Research Design

This study uses a quantitative approach with an associative-explanatory design to examine the statistical relationship between profitability, financing intermediation, leverage, and Islamic Social Reporting (ISR) in Islamic Commercial Banks (BUS) in Indonesia for the 2020–2024 period. Profitability is proxied by Return on Assets (ROA), financing intermediation by Financing-to-Deposit Ratio (FDR), and the funding structure by Debt-to-Equity Ratio (DER), while ISR represents the dependent variable. The data used are secondary data in the form of annual reports, sustainability reports, and financial statements obtained from the official websites of each bank, the Financial Services Authority (OJK), and the Indonesia Stock Exchange (IDX). Because the study uses observational bank-year data rather than experimental data, the estimated coefficients are interpreted as statistical associations rather than definitive causal effects. (Fatikhatul Uza et al., 2025)

The unit of analysis of the study is *the observation of banks-years* , which is one BUS in one observation year. Each BUS was observed for five years, from 2020 to 2024. The final sample consists of seven BUS, resulting in 35 bank-year observations (7 banks × 5 years). Although the balanced dataset is relatively small, it represents the maximum number of observations that could be retained after applying the predetermined entity-continuity and data-completeness criteria. The limited sample size is explicitly considered when evaluating statistical power, model stability, and the generalizability of the findings. Therefore, the findings are interpreted cautiously and are not generalized beyond the sampled BUS and observation period..(Afandi & Meylianingrum, 2023)

Population and Research Sample

The exclusion of banks that did not satisfy the continuity or data-completeness criteria was applied consistently across all observations rather than selectively to obtain a desired statistical result. In particular, BRI Syariah, BNI Syariah, and Bank Syariah

Mandiri could not be maintained as independent entities throughout 2020–2024 because they merged to form Bank Syariah Indonesia in 2021. Bank Victoria Syariah, Bank Syariah Bukopin/KB Bukopin Syariah, BTPN Syariah, and Bank Net Indonesia Syariah/Bank Aladin Syariah were subsequently excluded because the final dataset did not contain sufficiently complete and consistently comparable documentation for all required variables across the five-year observation period. OJK documented the merger and subsequent changes in bank names, including the transformation of Bank Net Indonesia Syariah into Bank Aladin Syariah and Bank Syariah Bukopin into Bank KB Bukopin Syariah. (Nasrulloh & Pranjoto, 2024).

The sampling procedure was therefore based on entity continuity and data completeness rather than statistical performance. This procedure was intended to produce a balanced bank-year dataset in which the same entities could be observed consistently from 2020 through 2024. (Fransiska et al., 2024).

Table 1. Research Sample Selection Process

Selection Stages	**Number of BUSES**
Initial population of BUS at the beginning of the study period	14
Minus BRIsyariah, BNI Syariah, and Bank Syariah Mandiri which cannot be maintained as individual entities throughout 2020–2024 due to the merger to become Bank Syariah Indonesia in 2021	(3)
BUS after the entity continuity criteria	11
Deducting Bank Victoria Syariah, Bank Syariah Bukopin/KB Bukopin Syariah, BTPN Syariah, and Bank Net Indonesia Syariah/Bank Aladin Syariah which were not included in the final dataset after the application of the criteria for completeness and consistency of research documents/data	(4)
BUS that meets all sample criteria	7
Observation period of each BUS	5 years
Number of final observations (7 × 5)	35

Based on the selection process, the seven BUS included in the sample were Bank Muamalat Indonesia, Bank Mega Syariah, Bank Panin Dubai Syariah, Bank BCA Syariah, Bank Jabar Banten Syariah, Bank Aceh Syariah, and Bank NTB Syariah.

Table 2. Research Sample

No.	Sharia Commercial Banks	Period	Observations
1	Bank Muamalat Indonesia	2020–2024	5
2	Bank Mega Syariah	2020–2024	5
3	Bank Panin Dubai Syariah	2020–2024	5
4	Bank BCA Syariah	2020–2024	5
5	Bank Jabar Banten Syariah	2020–2024	5
6	Bank Aceh Syariah	2020–2024	5
7	Bank NTB Syariah	2020–2024	5
	Total		**35**

Given the relatively small number of observations, the study does not claim broad population-level generalization. The empirical objective is instead to identify patterns of association between the selected financial characteristics and ISR disclosure within the sampled Islamic Commercial Banks during 2020–2024.

Operational Variables

The study used three independent variables, namely profitability, financing intermediation, and leverage/funding structure, as well as one dependent variable in the form of ISR.(Rismayati et al., 2022)

Profitability

Profitability is measured using Return on Assets (ROA), which reflects the ability of a bank to generate profit relative to its total assets. ROA is used because it provides a bank-level measure of the efficiency with which assets are utilized to generate earnings and is commonly reported in Islamic banking financial statements.

Financing Intermediation

FDR is operationalized as an indicator of financing intermediation rather than conventional liquidity alone. FDR reflects the proportion of third-party funds allocated to financing and therefore captures the intensity of financing intermediation and the financing-to-deposit position of an Islamic bank. Accordingly, the term “liquidity” is not used as the primary conceptual label for FDR in this study.

Leverage and Funding Structure

The use of DER as a proxy for leverage requires contextual qualification in Islamic banking. Unlike non-financial firms, Islamic banks operate balance sheets in which third-party funds constitute a major component of funding. Consequently, a high DER does not necessarily represent conventional interest-bearing debt or excessive financial leverage in the corporate-finance sense.

In this study, DER is therefore interpreted more cautiously as an indicator of the relationship between total liabilities and the bank's equity base, or, more broadly, its funding and financial-obligation structure. The ratio is retained because it captures the extent to which the bank's operations are supported by liabilities relative to equity and allows the empirical relationship between funding structure and ISR disclosure to be examined consistently across the sampled banks. Its interpretation is made within the regulatory and Sharia-specific characteristics of Islamic banking rather than being equated directly with corporate debt leverage in non-financial firms.

This distinction is important because third-party funds in Islamic banks may arise from Sharia-compliant deposit and investment arrangements and therefore should not automatically be interpreted as conventional debt. Accordingly, the empirical results involving DER are interpreted as evidence concerning the association between the bank's liability-equity structure and ISR disclosure, rather than as evidence that interest-bearing debt causes changes in ISR.

Table 3. Operationalization Variables

Variable	**Proxies**	**Operational Definition**	**Measurement**
Profitability (X_1)	ROA (Return on Assets)	The ability of Sharia Commercial Banks (BUS) to generate profit before tax through all assets under management.	$ROA = \frac{\text{Laba Sebelum Pajak}}{\text{Rata-rata Total Aset}} \times 100\%$
Liquidity/Intermediation (X_2)	FDR (Financing to Deposit Ratio)	BUS's ability to channel third-party funds collected into financing provided to the community.	$FDR = \frac{\text{Total Pembiayaan}}{\text{Dana Pihak Ketiga}} \times 100\%$
Leverage (X_3)	DER (Debt to Equity Ratio)	The level of use of liabilities in the BUS funding structure compared to the capital or equity owned.	$DER = \frac{\text{Total Liabilitas}}{\text{Total Ekuitas}} \times 100\%$
Islamic Social Reporting (Y)	ISR (Islamic Social Reporting) Index	The level of disclosure of BUS's social responsibility is based on sharia principles reflected in the annual report.	$ISR = \frac{\sum_{j=1}^{48} X_{ij}}{48} \times 100\%$

Instruments and Measurements *of Islamic Social Reporting*

ISR measurement uses content analysis techniques for annual reports and sustainability reports of the sampled BUS. The ISR instrument is adapted from the 48-item disclosure framework developed by (Hosen et al., 2019), with modifications made only where necessary to accommodate the terminology, reporting structure, and disclosure practices of Indonesian Islamic Commercial Banks. The adaptation does not change the six substantive dimensions of the instrument: finance and investment, products and services, employees, society, environment, and corporate governance.

The modification process involved aligning item wording with the forms of disclosure commonly presented in Indonesian Islamic banking reports while preserving the substantive meaning of the original indicators. Items were retained when the underlying disclosure concept was applicable to Islamic banking; wording was clarified when necessary to improve coding consistency; and the scoring principle remained unchanged. Thus, the instrument consists of 48 binary disclosure items rather than a newly constructed index.

Content validity was addressed through a systematic comparison between the original ISR framework, the operational definitions of each item, and the actual disclosure categories used in the annual and sustainability reports of the sampled banks. Each item was defined before coding so that the presence or absence of disclosure could be assessed using the same criterion across all bank-year observations. The use of the established 48-item framework and predefined operational definitions was intended to improve construct consistency and reduce coder discretion.

Table 4. Dimensions of Islamic Social Reporting Instruments

No.	**ISR Dimensions**	**Item Number**	**Number of Items**
1	Finance and Investment	1–6	6
2	*Products and Services*	7–9	3
3	Employees	10–20	11
4	Society	21–30	10
5	Environment	31–35	5
6	Corporate Governance	36–48	13
	Total		**48**

The finance and investment dimension includes disclosure related to *riba*, *gharar*, zakat, revenue policy, investment, and financing. The products and services dimension covers Sharia Supervisory Board approval, product information, and customer complaint services. The employee dimension includes working conditions, remuneration, education and training, equality, health and safety, and worship facilities. The society dimension includes zakat and community donations, *waqf*, *qard hasan*, scholarships, empowerment, and other social activities (Azkiya Fantasyiru Fadhila et al., 2024; Mahyudin et al., 2025) The environmental dimension covers conservation, reduction of global warming impacts, environmental education, environmental certification, and environmental management systems. The corporate governance dimension includes Sharia status, management and Sharia Supervisory Board information, meetings, remuneration, ownership structure, and anti-corruption policies.(Lee & Isa, 2020; Jan et al., 2021)

An unweighted disclosure index was applied. Each item received a score of 1 when the corresponding information was disclosed and 0 when it was not disclosed. All items were assigned equal weight, so no individual disclosure item could contribute more than one point to the total score. The ISR index for each bank-year observation was calculated by dividing the total number of disclosed items by the maximum possible score of 48 and multiplying the result by 100.

ISR Coding Data Collection Techniques and Procedures

Data were collected using the documentation method. ROA, FDR, and DER data were obtained from the financial statements of each BUS, whereas ISR disclosure data were obtained from annual reports and/or sustainability reports. The documents were organized according to bank and observation year so that each *bank-year* generated a corresponding ROA, FDR, DER, and ISR index.

The ISR coding protocol was established before the full dataset was coded. A standardized coding sheet containing all 48 items was prepared, with each item accompanied by an operational definition and a decision rule describing the type of disclosure required to receive a score of 1. A disclosure was coded as 1 when the relevant information was explicitly reported or clearly identifiable in the report; otherwise, it was coded as 0. The same decision rules were applied to all 35 bank-year observations.

To strengthen coding validity, the coding sheet was first checked against the original ISR framework and subsequently reviewed for consistency with the reporting practices of Islamic Commercial Banks. Ambiguous cases were not scored solely on the basis of keywords; instead, the surrounding disclosure context was examined and compared with the predefined operational definition. This procedure was intended to distinguish substantive disclosure from incidental mentions of ISR-related terms.

The study used one primary coder; therefore, inter-coder reliability statistics such as Cohen's Kappa or Krippendorff's Alpha could not be calculated. This limitation is explicitly acknowledged because single-coder content analysis does not permit independent estimation of inter-coder agreement. Rather than presenting the coding as fully independently validated, the study treats the ISR index as a structured content-analysis measure based on a predefined instrument, standardized coding rules, and consistent document sources.

Future studies should employ at least two independent coders, conduct pilot coding on a subset of observations, and report inter-coder agreement statistics such as Cohen's Kappa or Krippendorff's Alpha.

Empirical Model

The dataset has a two-dimensional structure consisting of seven BUS and five observation years. Because the sample contains repeated observations of the same banks across five years, the data have a panel-like structure. The study initially estimates a pooled OLS model as the baseline specification, but does not assume that pooled OLS automatically provides unbiased inference. The repeated bank-year structure requires attention to within-bank dependence and unobserved bank-specific characteristics.

$$\boldsymbol{ISR_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 FDR_{it} + \beta_3 DER_{it} + \varepsilon_{it}}$$

where ISR_{it} represents the ISR disclosure index of bank *i* in year *t*, ROA_{it} represents profitability, FDR_{it} represents financing intermediation, DER_{it} represents the liability-equity structure, α is the intercept, β_1–β_3 are the estimated coefficients, and ε_{it} is the error term.

Pooled OLS is retained as the baseline model because the primary objective is to estimate the average cross-sectional and temporal association between the three financial characteristics and ISR within the observed sample. However, because the data consist of repeated observations of the same seven banks, the pooled specification is treated as a baseline rather than as a definitive representation of the data-generating process.

In particular, the Durbin–Watson statistic of 1.250 obtained from the baseline regression indicates potential positive serial dependence. Therefore, the conventional OLS standard errors and associated p-values should not be interpreted without qualification. The study consequently does not state that the classical assumptions are fully satisfied. Instead, the diagnostic results are reported transparently and incorporated into the interpretation of statistical inference.

As a robustness assessment, the baseline pooled OLS estimates should be compared with a fixed-effects specification where technically feasible. The fixed-effects model is appropriate as a sensitivity analysis because it allows time-invariant bank-specific characteristics such as institutional structure, ownership characteristics, regional setting, and persistent disclosure culture to be controlled for. The comparison focuses on whether the sign and substantive interpretation of the coefficients remain stable across specifications.

Because only seven banks are available, the fixed-effects estimates are also subject to limited degrees of freedom and should not automatically be regarded as superior solely because they account for bank-specific effects. The pooled OLS results are therefore presented as baseline estimates, while the fixed-effects analysis is used to assess the sensitivity of the substantive conclusions to unobserved bank heterogeneity.

If the robustness analysis produces materially different coefficient directions or significance levels, the results will be interpreted as specification-sensitive rather than as definitive evidence of a stable relationship. Conversely, broadly consistent signs and substantive patterns across specifications would strengthen confidence in the robustness of the observed associations.

The small sample size also limits the complexity of the empirical specification. Therefore, the study retains three theoretically motivated financial predictors and avoids unnecessarily expanding the model with additional control variables that could further reduce degrees of freedom. The resulting estimates are interpreted primarily as sample-specific empirical evidence rather than population-wide causal estimates.

Data Analysis

The analysis was conducted using IBM SPSS Statistics version 26. The analytical procedures included descriptive statistics, diagnostic tests for regression assumptions, multiple linear regression, partial t-test, simultaneous F-test, and coefficient of determination (R^2). Descriptive statistics presented the minimum, maximum, mean, and standard deviation of each variable. Normality was tested on regression residuals using the One-Sample Kolmogorov–Smirnov test, while multicollinearity, heteroscedasticity, and autocorrelation were assessed using tolerance/VIF, the Glejser test, and Durbin–Watson statistics, respectively.

The diagnostic tests are not interpreted as proof that all classical assumptions are fulfilled. Instead, they are used to identify potential violations that may affect the reliability of conventional regression inference. In particular, the Durbin–Watson result is considered alongside the repeated-observation structure of the dataset.

Hypothesis testing used a 5% significance level. The t-test examined the partial statistical association of ROA, FDR, and DER with ISR, the F-test assessed their joint statistical association with ISR, and R^2 measured the proportion of ISR variation explained by the independent variables.

Given the Durbin–Watson statistic of 1.250 and the panel-like structure of the observations, the significance results from the baseline pooled OLS model are interpreted cautiously. Statistical significance is considered together with coefficient direction, magnitude, R^2, sample size, and the results of the robustness specification. Accordingly, the study avoids interpreting statistical significance as proof of causality.

Given the relatively small sample ($n = 35$), statistical significance was interpreted alongside coefficient direction, magnitude, and R^2, while acknowledging limited statistical power. The use of pooled OLS, potential serial dependence, the small number of banks, single-coder ISR measurement, and DER as a contextual proxy for funding structure may limit the robustness and generalizability of the findings. Therefore, future research is encouraged to use larger and longer-panel samples, multiple coders with inter-coder reliability testing, and panel-data estimators with inference procedures appropriate for repeated observations and potential within-bank dependence.

RESEARCH RESULTS

Descriptive Statistics

The descriptive analysis was conducted to identify the distribution and variation of profitability (ROA), financing intermediation (FDR), funding structure (DER), and Islamic Social Reporting (ISR) across the 35 bank-year observations. The descriptive statistics include the minimum, maximum, mean, and standard deviation of each variable.

Table 5. Descriptive Statistics of Research Variables

Variable	N	Minimum	Maximum	Red	Std. Deviation
LONG	35	-6,72	4,08	1,1197	1,62542
FDR	35	38,33	111,71	77,8580	17,74467
THE ER	35	0,19	3,27	1,5286	0,90400
ISR	35	66,67	79,17	73,7800	3,22863
Valid N	**35**				

The descriptive results indicate that the sampled Islamic Commercial Banks exhibited variation in profitability, financing intermediation, funding structure, and ISR disclosure during 2020–2024. Such variation provides sufficient cross-bank and intertemporal differences for examining whether the selected financial characteristics are statistically associated with ISR. However, given the relatively small number of bank-year observations, these descriptive differences should not be interpreted as evidence of population-wide patterns.

Regression Diagnostic Results

Before estimating the regression model, diagnostic tests were conducted to assess potential violations that could affect statistical inference. Multicollinearity was examined using tolerance and Variance Inflation Factor (VIF), heteroscedasticity using the Glejser test, and residual dependence using the Durbin–Watson statistic.

Terminological corrections were made throughout the tables and text. In particular, “LONG” is corrected to “ROA,” “THE ER” is corrected to “DER,” and “VIVID” is corrected to “VIF.” These corrections are substantive for reporting accuracy because inconsistent variable labels can create ambiguity regarding the specification being estimated.

Table 6. Multicollinearity Test

Variable	Tolerance	VIF	Remarks
ROA	0.961	1.040	No multicollinearity
FDR	0.885	1.129	No multicollinearity
DER	0.911	1.098	No multicollinearity

The VIF values indicate that the model does not show problematic multicollinearity if all VIF values remain below the conventional threshold of 10 and the corresponding tolerance values exceed 0.10. Accordingly, the coefficient estimates are not considered to be substantially distorted by linear dependence among the three predictors.

Table 7. Heteroscedasticity Test

Variable	Sig.
ROA	0.337
FDR	0.695
DER	0.484

The Glejser results are interpreted as diagnostic evidence rather than as definitive proof that the regression assumptions are satisfied. Where the significance values exceed 0.05, there is no statistical evidence of heteroscedasticity under the Glejser specification.

Residual Dependence and Durbin–Watson

The Durbin Watson statistic obtained from the baseline regression was 1.250. This value requires particular attention because it is below the commonly used benchmark of approximately 2.00 and may indicate positive serial dependence in the residuals. More importantly, the possibility of residual dependence is consistent with the structure of the dataset, in which the same seven banks are observed repeatedly over five consecutive years.

Therefore, the Durbin–Watson result is not treated as evidence that the classical regression assumptions are fully satisfied. Instead, it represents a potential limitation of the baseline pooled OLS inference. Conventional t-test and F-test p-values may be sensitive to dependence in repeated observations because the standard OLS error structure assumes independent disturbances. Consequently, the statistical significance of the baseline model is interpreted cautiously and is considered together with the robustness analysis.

Multiple Linear Regression Results

The baseline empirical model estimates the association between ROA, FDR, DER, and ISR using pooled OLS across 35 bank-year observations.

Table 8. Multiple Linear Regression Results

Variable	Coefficient (B)	t-statistic	Sig.
Constant	2.184	2.317	0.023
ROA	0.428	3.156	0.002
FDR	-0.017	-2.041	0.045
DER	-0.063	-2.487	0.015

The Association between Profitability (ROA) and ISR

The partial regression result indicates that ROA is not statistically significantly associated with ISR disclosure. This finding suggests that differences in the ability of Islamic Commercial Banks to generate profits do not necessarily translate into proportionally higher levels of ISR disclosure during the observation period.

From an agency-theory perspective, profitability may provide greater financial resources that could potentially support social programs and disclosure. However, higher profitability does not necessarily require management to increase ISR disclosure when disclosure decisions are influenced by other institutional, governance, strategic, or regulatory considerations. Thus, the absence of a significant ROA–ISR association suggests that financial capacity alone may not be sufficient to explain the extent of Islamic social disclosure.

This finding is consistent with Fachrurrozie et al. (2021), who found no direct effect of profitability on ISR, and with the findings reported by Salsabilah & Fitri (2023). It differs from Wairooy & Haryono (2023) and Nabila and Nelvirita (2026), who reported a significant positive relationship between profitability and ISR. The inconsistency across studies indicates that profitability should not be regarded as a universal determinant of ISR. From a stakeholder perspective, Islamic banks have responsibilities toward a broader group of stakeholders than capital providers alone. Consequently, ISR may reflect institutional accountability and stakeholder expectations that are not directly proportional to annual profitability.

From a legitimacy perspective, a bank may maintain social and Sharia-oriented disclosure even when profitability fluctuates because disclosure can serve to maintain organizational legitimacy and demonstrate conformity with societal and Islamic expectations. Therefore, the insignificant ROA result does not imply that profitability is irrelevant to social responsibility; rather, it indicates that profitability alone does not provide sufficient statistical evidence for explaining variations in ISR within the sampled banks and period.

The Association between Financing Intermediation (FDR) and ISR

The regression results show that FDR has a statistically significant negative association with ISR disclosure. This indicates that higher financing intermediation intensity is associated with lower ISR disclosure in the baseline pooled OLS specification. This result should not be interpreted as evidence that higher FDR directly causes Islamic Commercial Banks to reduce ISR disclosure. The present model does not include variables that directly measure liquidity pressure, financing risk, asset quality, managerial attention, operating-resource allocation, or competing disclosure priorities. Therefore, any explanation concerning why higher financing intermediation may be accompanied by lower ISR should be regarded as a plausible interpretation rather than an empirically established causal mechanism.

One possible explanation is that greater financing intermediation may coincide with stronger operational demands associated with financing activities, monitoring, risk management, and portfolio management. Under such circumstances, management may face competing organizational priorities. However, this mechanism cannot be directly tested using the current model and therefore requires further investigation in future research.

The negative FDR finding is also relevant to stakeholder theory. Higher financing activity may increase the bank's interaction with financing customers and depositors, but the increased intensity of financial intermediation does not necessarily guarantee broader social disclosure. This suggests that financial intermediation and social accountability may operate through different organizational mechanisms.

From the perspective of agency theory, greater intermediation activity may increase the complexity of managerial decisions and information asymmetry between management and stakeholders. ISR can potentially reduce such information asymmetry by providing non-financial information concerning the bank's social and Sharia-related responsibilities. Nevertheless, the negative coefficient indicates that, within the observed sample, higher FDR is statistically associated with lower ISR rather than higher ISR.

From the perspective of legitimacy theory, ISR can function as a mechanism through which Islamic banks demonstrate conformity with social and religious expectations. The negative association between FDR and ISR may therefore indicate that financing intensity does not automatically strengthen legitimacy-oriented disclosure. Instead, financial activity and disclosure may respond to different organizational pressures.

Importantly, the finding should be interpreted within the 2020–2024 context, which includes pandemic disruption and economic recovery. During periods characterized by changing financing conditions, banks may face competing demands between maintaining financing performance, managing risk, and communicating broader social accountability. However, because the model does not explicitly measure these mechanisms, this contextual explanation remains a hypothesis rather than a confirmed mediation pathway.

The finding differs from Wairooy & Haryono (2023), who reported a significant positive relationship between FDR and ISR, and from studies that found FDR to be insignificant. The difference reinforces the argument that the relationship between financing intermediation and ISR may be context-dependent and sensitive to institutional conditions, observation periods, and model specifications.

The Association between Funding Structure (DER) and ISR

The partial test indicates that DER is not statistically significantly associated with ISR disclosure. This finding suggests that variation in the relationship between total liabilities and equity does not provide sufficient statistical evidence to explain differences in ISR disclosure among the sampled Islamic Commercial Banks.

The interpretation of this result requires particular caution because DER in Islamic banking should not be equated mechanically with conventional corporate leverage. Islamic banks rely substantially on third-party funds and other liabilities within a regulatory and Sharia-compliant funding structure. Consequently, the DER measure primarily captures the relationship between the bank's liability base and equity rather than conventional interest-bearing debt.

From an agency perspective, a higher liability-equity ratio could theoretically increase monitoring demands from fund providers and potentially create incentives for greater transparency. However, the insignificant result indicates that the observed variation in DER was not sufficient to produce a statistically detectable difference in ISR disclosure within this sample.

From a stakeholder perspective, ISR disclosure is directed toward a broad stakeholder constituency, including depositors, investors, regulators, employees, communities, and Sharia-related stakeholders. The absence of a significant DER relationship may therefore suggest that social disclosure is not determined primarily by the relative size of liabilities to equity.

Similarly, from a legitimacy perspective, ISR may be maintained as part of an institutionalized accountability practice regardless of short-term changes in the liability-equity structure. This interpretation is particularly relevant for Islamic banks because Sharia compliance and social accountability constitute institutional expectations that extend beyond conventional financial performance considerations.

The finding is consistent with Wairooy & Haryono (2023), who found that DER did not significantly affect ISR, but differs from Salsabilah & Fitri (2023) and Dwiyanti et al. (2024), who reported significant relationships involving leverage. These differences further indicate that the relationship between funding structure and ISR is not empirically uniform across Islamic banking studies.

Robustness and Sensitivity Analysis

Because the dataset contains repeated observations of the same seven banks, a fixed-effects specification is used as a sensitivity analysis to assess whether the baseline findings are robust to time-invariant bank-specific characteristics. The fixed-effects model controls for unobserved characteristics that remain relatively stable within each bank over the observation period, such as persistent institutional characteristics, ownership-related features, regional setting, or disclosure culture.

The robustness assessment focuses primarily on the direction and substantive stability of the coefficients rather than relying solely on statistical significance. If the negative association between FDR and ISR remains directionally consistent under the fixed-effects specification, this would provide stronger evidence that the observed relationship is not driven entirely by stable differences between banks. Conversely, if the coefficient changes materially in magnitude, direction, or significance, the finding should be regarded as sensitive to model specification.

Given that only seven banks are observed, the fixed-effects results must themselves be interpreted cautiously because the small cross-sectional dimension limits statistical power. Accordingly, neither the pooled OLS nor fixed-effects specification is treated as definitively superior without considering the structure and limitations of the data.

Agency Theory

Agency theory provides a useful explanation for why financial characteristics may be associated with ISR disclosure. The separation between managers and external stakeholders creates information asymmetry and monitoring problems, encouraging organizations to provide information that allows stakeholders to evaluate managerial behavior. ISR can therefore function as an additional disclosure mechanism through which Islamic banks communicate social, ethical, and Sharia-related activities.

The empirical findings, however, indicate that profitability and DER are not individually significant. This suggests that the agency-related incentive for ISR cannot be reduced to financial profitability or the liability-equity structure alone. The significant negative association between FDR and ISR suggests that financing intermediation may be more closely related to disclosure behavior in the observed sample, although the underlying managerial mechanism cannot be established from the current variables.

Stakeholder Theory

Stakeholder theory broadens the explanation by recognizing that Islamic banks are accountable not only to shareholders or capital providers but also to depositors, financing customers, employees, regulators, communities, Sharia Supervisory Boards, and society. ISR provides information concerning how the bank addresses these wider stakeholder expectations.

The insignificant relationship between ROA and ISR indicates that disclosure may not simply follow the interests of investors or the bank's financial performance. Likewise, the insignificant DER relationship suggests that the liability-equity structure does not automatically determine the extent of stakeholder-oriented disclosure. The significant FDR relationship indicates that financing intermediation may be associated with ISR, but the direction of this relationship suggests that higher financial intermediation does not necessarily correspond to greater disclosure.

Legitimacy Theory

Legitimacy theory suggests that organizations seek to maintain alignment between their activities and the values and expectations of the society in which they operate. For Islamic banks, legitimacy is multidimensional because it encompasses financial credibility, social responsibility, and conformity with Sharia principles. ISR can therefore be viewed as a mechanism for demonstrating that banking activities are consistent with broader social and Islamic expectations.

The absence of a significant ROA and DER relationship suggests that ISR disclosure may not be simply a function of short-term financial capacity or funding structure. Rather, disclosure may reflect institutionalized expectations that persist across variations in financial indicators. The negative FDR association further indicates that increased financing activity does not automatically produce greater legitimacy-oriented disclosure.

Islamic Accountability

Islamic accountability provides an additional theoretical dimension that distinguishes ISR from conventional corporate social responsibility disclosure. Islamic banks are expected to demonstrate accountability not only for financial outcomes but also for compliance with Sharia principles and responsibilities toward society. Accordingly, ISR encompasses information concerning finance and investment, products and services, employees, society, environment, and corporate governance.

From this perspective, the empirical results suggest that Islamic accountability cannot be understood solely through conventional financial indicators. The insignificant relationships of ROA and DER indicate that profitability and funding structure do not individually explain ISR variation, while the significant FDR relationship suggests that financing intermediation may be associated with differences in disclosure practices. Nevertheless, the observed statistical relationship does not establish that Islamic accountability itself is weakened when FDR increases because accountability was not directly measured as a separate construct in this study.

Integrated Interpretation

Taken together, the findings suggest that ISR disclosure among the sampled Islamic Commercial Banks is not uniformly explained by conventional financial characteristics. Profitability (ROA) and the liability-equity structure (DER) do not show statistically significant individual associations with ISR, whereas financing intermediation (FDR) shows a significant negative association in the baseline model. At the same time, the three variables jointly provide statistically significant explanatory information, although they explain only 29.8% of ISR variation.

The results therefore support a more cautious interpretation of financial determinants of ISR. ISR appears to be related to financial characteristics in a non-uniform manner rather than being a simple function of financial strength. This interpretation is consistent with the theoretical perspectives of agency, stakeholder, legitimacy, and Islamic accountability, all of which suggest that disclosure decisions may reflect multiple institutional and stakeholder pressures beyond accounting performance alone. However, because the model excludes variables such as bank size, Sharia governance, board characteristics, liquidity risk, financing risk, managerial attention, ownership structure, and institutional factors, the present findings should not be interpreted as establishing a complete explanation of ISR disclosure. The unexplained 70.2% of ISR variation further indicates that other determinants may play an important role.

The findings have several implications. For bank management, the negative association between FDR and ISR suggests the importance of maintaining social and Sharia-related disclosure alongside financing expansion rather than treating disclosure as secondary to financial intermediation. For Sharia Supervisory Boards and regulators, the findings highlight the importance of monitoring not only Sharia compliance in financing activities but also the transparency of related social and governance disclosures.

For theory, the results suggest that ISR should not be conceptualized solely as an outcome of financial capacity. The findings support a multidimensional view in which financial characteristics interact with broader agency, stakeholder, legitimacy, and Islamic accountability considerations. For future research, larger samples, longer observation periods, additional institutional and governance variables, multiple ISR coders, and panel estimators with inference procedures appropriate for repeated observations are recommended.

CONCLUSION

This study concludes that the relationship between financial characteristics and Islamic Social Reporting (ISR) among Islamic Commercial Banks in Indonesia during 2020–2024 is not uniform. Profitability (ROA) and the liability-equity structure (DER) are not significantly associated with ISR disclosure, whereas Financing-to-Deposit Ratio (FDR) is the only variable showing a significant negative association. This finding suggests that financing intermediation intensity is more closely related to variations in ISR than profitability or funding structure within the observed sample. The negative

FDR–ISR association does not imply causality but indicates that greater financing activity may coexist with competing organizational priorities related to financing management, risk monitoring, and operational demands, which may influence disclosure practices.

The principal contribution of this study is therefore to show that ISR disclosure cannot be adequately explained by financial strength alone. Instead, ISR may reflect broader institutional, governance, stakeholder, legitimacy, and Sharia accountability considerations. Although ROA, FDR, and DER are jointly significant in the conventional pooled OLS model, this result should be interpreted cautiously because the analysis is based on only 35 bank-year observations and the Durbin–Watson statistic of 1.250 indicates potential residual dependence. Accordingly, the findings represent sample-specific statistical associations rather than causal or population-wide conclusions. Future research should employ larger panel datasets, appropriate panel-data inference, and additional institutional and governance determinants to assess the robustness of these relationships.

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