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Does Islamic Corporate Governance Moderation The Influence of Sharia Financial Performance Toward Islamic Social Reporting?

Fatimah Az-zahra Wairooy[1], Slamet Haryono[2]

*[1]Universitas Islam Negeri Sunan Kalijaga Yogyakarta, Indonesia, fatimaazzahrawairooy02@gmail.com
[2]Universitas Islam Negeri Sunan Kalijaga Yogyakarta, Indonesia, slamet.haryono@uin-suka.ac.id

Abstract. This study examine to retest the influence of Sharia Financial Performance towards Islamic Social Reporting with Islamic Corporate Governance as a moderation variable (empirical study on Indonesia Islamic Commercial Bank from 2016-2021). The hypothesis examine by using MRA regression and panel data regression. The population in this research are all the Islamic Commercial Banks that listed on OJK from 2016-2021. The sampling methods that used in this research is purposive sampling and could manage to obtained 66 sample from 11 Islamic Commercial Banks. The results shows that Return On Assets, Ruturn On Equity, and Financing to Debt Ratio influenced the disclosure did Islamic Social Reporting, whereas Capital Adequacy Ratio, Debt to Equity Ratio, and Investment Account Holder did not influenced the Islamic Social Reporting. Furthermore frequency of board of commissioner could influenced Financing to Debt Ratio, and Investment Account Holder towards deepening of Islamic Social Reporting, frequency of audit committee meeting could be moderating Investment Account Holder towards strengthening Islamic Social Reporting, While the frequency of sharia supervisory board meeting could moderating Financing to Debt Ratio towards Islamic Social Reporting. The findings of this study can be important input for regulators to properly regulate the number of meetings of each board in influencing Islamic Financial Performance as a tool in disclosing their Islamic Social Reporting.

Keywords: Islamic Corporate Governance (ICG), Islamic Social Reporting (ISR), Sharia Financial Performance.

***Corresponding Author**

INTRODUCTION

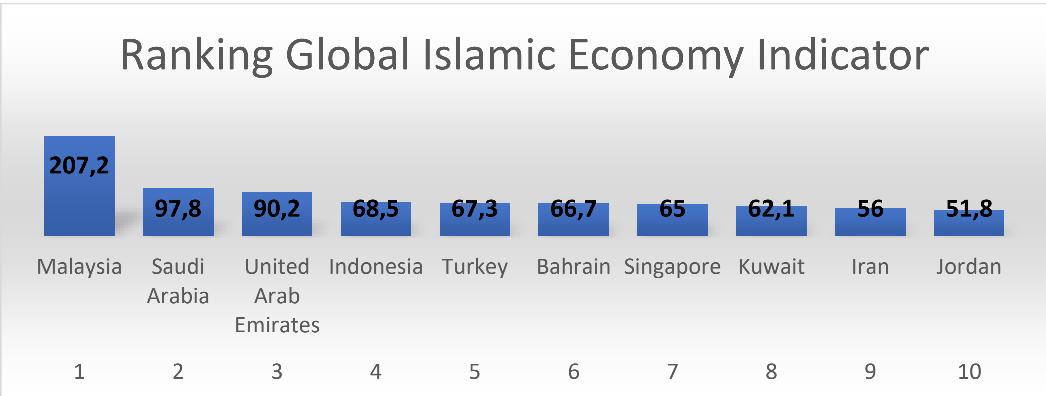
The surge in Islamic banking has generated debate among policymakers and economists about the sustainability and performance of Islamic banks. The literature reveals that various studies have evaluated the performance of Islamic banks in different countries at different times, such as research conducted by Badrul & Ahmad (2017), Hanif (2019), Mahmud & Rahman (2020), Jimoh & Attah (2021), Majeed & Zainab (2021), Quoc (2021), Umar & Haryono (2022), and Zedan (2022).

Today, the growth of the Islamic banking industry cannot be denied. The global sharia banking industry continues to experience growth every year. The surge in Islamic banking has generated debate among policymakers and economists about the sustainability and performance of Islamic banking (Badrul &Ahmad, 2017).

Islamic banking is a major market and service segment that has grown rapidly since its inception in the mid-1970s (Ben & Bahloul, 2022). The growth of Islamic banking in the world began with the establishment of Mit Gamr Bank in Egypt in 1963. Furthermore, Dubai Islamic Bank became the first commercial bank to offer sharia services in 1975. Globally, this can be proven by the rapid and stable growth of the Islamic finance industry in Southeast Asia, where it is an important part of global Islamic finance (Ghozali et al. 2019).

Countries in ASEAN have various variations in the development of Islamic banking; for example, Indonesia is one of the countries in the Asian Region that is also aggressively developing Islamic banking, even though its development is slow when compared to Malaysia (Ghozali et al. 2019). As previously explained, the development of global Islamic financial institutions is very rapid, and this can also be proven by data from *State of the Global Islamic Economy Report* which groups these countries into several rankings (Dinar Standard & Salam Gateway, 2022), which can be seen in Figure 1 below:

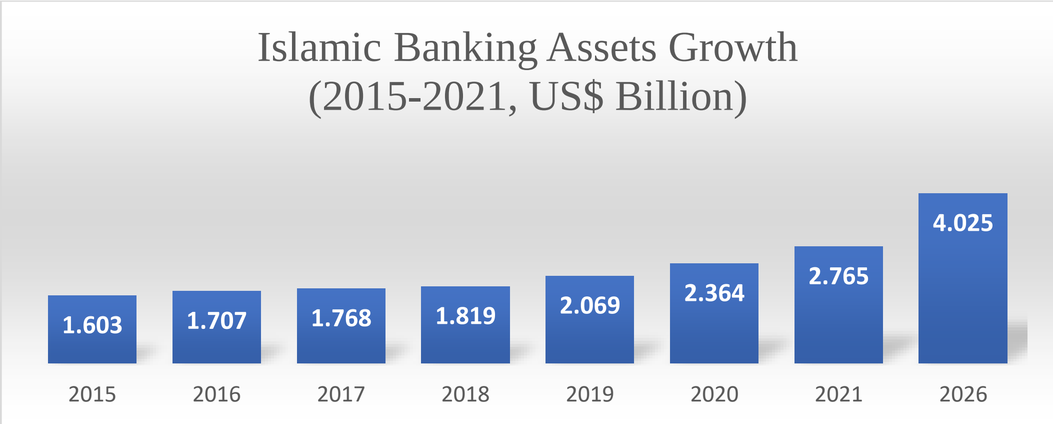
Figure 1 Graph Ranking Global Islamic Economy Indicator of the 2022



Source: State of the Global Islamic Economy Report, 2023 (processed)

Based on Figure 1, it can be seen in the global Islamic economic map from *Global Islamic Economy Indicator* (GIEI) placing Indonesia in 4th place in the criteria of global sharia economic opportunities. The ranking above is occupied by the United Arab Emirates and Saudi Arabia, while Malaysia is in the highest rank, which is rank 1. This rating is based on several criteria, namely Islamic Finance, Halal Food, Travel, Modest Fashion, Recreation, Pharma and Cosmetic. As for Singapore, which is a Muslim minority country, it ranks 7th, higher than Jordan, which ranks 10th.

Figure 2 Graph Islamic Banking Assets Growth



Source: Islamic Finance Development Indicator Report (ICD, 2022), 2023 (processed)

Globally, sharia banking assets from 2015–2021 are always growing every year, and this figure is predicted in 2026 that sharia banking assets will experience growth to reach US$4.025 billion, which figure has increased from previous years, this indicates that there has been rapid and strong growth from the previous year. With evidence of growth in Islamic banking assets, it is time to reveal secrets, especially those related to financial performance (FP), governance, and disclosure from companies or their institutions, especially at banks in general sharia in Indonesia.

The financial performance of banks is an important consideration for parties with an interest in them. These interested parties include investors, creditors, customers, employees, the government, and the surrounding community considering the number of interested parties. The assessment of the performance of the bank becomes very important (Umar & Haryono, 2022). In a sensitive and competitive market, bank performance will suffer, and the consequences will spread to many parties in the economy. Bank failure will cause problems such as frozen customer deposits, cracked loan relationships, and shrinking lines of credit in companies; thus, the main objective of financial and non-financial institutions is to measure and manage their performance effectively (Quoc Trung, 2021).

Disclosure of ISR is one of the practices *Good Corporate Governance* in Islamic banking and is part of the principle to achieve *Islamic Corporate Governance* the good one (Sakanko, 2020). Index *Islamic Social Reporting* (ISR) developed by researchers using CSR items disclosed by Islamic entities to be a benchmark for the implementation of Islamic banking social responsibility. It includes a compilation of CSR standard items set by *Accounting and Auditing Organization for Islamic Financial Institutions* (AAOIFI, 2015). Meanwhile, ICG theory has similarities with stakeholder-oriented CG theory, where organizations must serve the interests of all stakeholders (Khan et al. 2018).

Based on the research results, it has been found that the disclosure of Islamic Social Reporting (ISR) of Islamic banks is still low, and the disclosure of Islamic Social Reporting (ISR) of BUS Indonesia in 2016 was 31%, and from 2016 to 2020, using a sample of 10 Indonesian BUS, the average disclosure of Islamic Social Reporting (ISR) is 43.18%. With these findings, it is clear that in Indonesia, in terms of disclosure of Islamic Social Reporting (ISR), it is still lacking because, when viewed from the size, the percentage from 2016–2020 only increased by 12.18%, of course, this is a problem when encouraging researchers to reveal secrets, especially those related to the disclosure of Islamic Social Reporting (ISR) (Rosyidah & Nafif, 2022).

In addition to the results of this study, it has also been found that the level of implementation and disclosure of Islamic Social Reporting (ISR) in Islamic banking in Indonesia is higher than that in Islamic banking in Malaysia. This can be seen from the average score of the level of disclosure obtained by Islamic banks in Indonesia reaching 0.5634, while the average value of Islamic Social Reporting (ISR) data for Malaysian Islamic banks is 0.4507, which means there is a difference of 0.1127 with Islamic banks. Indonesian sharia banks have higher Islamic Social Reporting (ISR) disclosures than Malaysian sharia banks. In addition, the disclosure of Islamic Social Reporting (ISR) in Indonesian Islamic banking compared to Malaysian Islamic banking has significant differences because the Indonesian state requires CSR activities or social responsibility items in Islamic principles called Islamic Social Reporting in its business and makes business people aware of the importance of these activities.

This has an impact on the high disclosure of Islamic Social Reporting (ISR) in Indonesia. However, of all Islamic banks, both Indonesian and Malaysian, none have yet achieved a full score, namely implementing and disclosing all items based on the Islamic Social Reporting (ISR) index with a score of 100% (Anita, 2022). However, according to the researcher, this needs to be re-examined because if you look again at the Global Islamic Economy Indicator Ranking for the 2022 period, it is evident that Malaysia is ranked 1st in terms of Islamic Finance, Halal Food, Travel, Modest Fashion, Recreation, Pharma and Cosmetic. While the country of Indonesia is ranked 4th, this certainly adds to the problem, so it needs to be re-examined.

With these problems that occur in Indonesian Islamic banks, it has been proven that in terms of Islamic Social Reporting disclosure, it is still lacking, or in other words, there are no Indonesian Islamic commercial banks that have achieved a full score, namely by implementing and disclosing all items based on the Islamic Social Reporting index with a score of 100%.

Shariah Enterprise Theory (SET), Signaling Theory, and Legitimacy Theory are used in this study. The reason for choosing these three theories was because previous studies that provided a framework for this investigation both used these three theories. Researchers who used the same type of theory as this study included Jati et al. (2020), Mukhibad & Fitri (2020), Ben & Bahloul (2022), and So et al. (2021). The reasons used by previous researchers Shariah Enterprise Theory is more appropriate for an economic system that bases itself on sharia (Islamic) values. The implication of this theory is everything in this world belongs to Allah and is only left for the humans and must not be rotated and productive and useful for others. Therefore, the use of assets should be through implementing social Islamic banking is to care about people around it by providing social responsibility as best as possible. Whereas researchers use signal theory in this study because sharia financial performance can be explained using signal theory, better company performance will reveal more detailed reporting, and vice versa. The Legitimacy Theory is used in this study because disclosure of corporate social responsibility is done to get positive value and legitimacy from the community. Explanation of corporate governance social responsibility can use the theory of legitimacy.

Disclosure of ISR has been the subject of previous research, some of which is cited as a reference in this article. The first research was conducted by Jati et al. (2020), Second, Mukhibad & Fitri (2020), Third, Afandy et al. (2021), Fourth, So et al. (2021), Fifth, Diansari et al. (2022), dan Sixth, Ben & Bahloul (2022).

However, despite the fact that many researchers used the same variables and study period in previous studies, the findings were inconsistent. Some of the results of these studies were influenced by various or inconsistent factors identified by different researchers. This is supported by Jati et al. (2020) which have obtained research result that profitability and leverage do not affect ISR, while liquidity and ICG affect ISR, while researcher (So et al. 2021) the research result have obtained that ISR is significantly influenced by human governance, and ICG with firm size and leverage. Further researcher, it was found that profitability and firm size had no effect on ISR disclosure, while liquidity and leverage had an effect on ISR disclosure (Diansari et al. 2022). In addition to the variable profitability, different results were found by Ben & Bahloul (2022), the ratio of profitability, namely ROA, had a negative effect. While the results of the study from Jati et al. (2020), and Diansari et al. (2022) show that ISR disclosure is not affected by ROA as a ratio of profitability. With this research gap, researchers are encouraged to do the testing again.

The contribution of this research to previous studies is made in several ways. First, the researcher integrates a number of variables from previous studies. But what distinguishes this study is the use of additional independent variables in the form of ROE and investment account holders, as well as additional Islamic Corporate Governance (ICG) variables that are used as moderating variables, this is what researchers do because they want to see whether ICG can strengthen the independent variable or vice versa. In addition, using ICG as a moderating variable can certainly contribute to developing new models of financial performance, in this case by strengthening and also weakening the disclosure of Islamic Social Reporting (ISR) so that it is beneficial for the development of science. The indicators of the ICG variable used are, first, the frequency of board of commissioner meetings. Second, the frequency of audit committee meetings and third, the frequency of sharia supervisory board meetings Second, the contribution of this research can be used to compare and improve the performance of Islamic commercial banks in Indonesia.

LITERATURE REVIEW

As material for consideration in this study, some of the results of previous research conducted by several researchers will be outlined in the form of research related to the title of this study. Some of these studies will be explained as follows. Research conducted by Jati et al. (2020), the research shows that profitability and leverage have no effect on ISR, while liquidity and ICG have an effect on Islamic Social Reporting. Research conducted by Mukhibad & Fitri (2020) show that company size and the ratio of *syirkah* funds have a positive and significant effect, funding growth has a negative and significant effect, while the debt ratio and the supervisory board of independent commissioners have no significant effect on the effect of ISR disclosure. Research conducted by Afandy et al. (2021) found that the variables of the number of the Board of Commissioners, the number of Audit Committees, the number of Directors and the number of DPS have a positive and significant effect on Islamic Financial Performance, while ISR can moderate (strengthen) this influence. the number of Audit Committees on Islamic Financial Performance, and ISR cannot moderate the influence of the number of Directors on Sharia Financial Performance. In addition, research conducted by show that ISR disclosure is significantly influenced by human governance, and Islamic corporate governance with firm size and leverage. Furthermore, research conducted by Diansari et al. (2022) found that profitability and firm size have no effect on ISR disclosure, and liquidity and leverage have an effect on ISR disclosure. There is also research conducted by Ben & Bahloul (2022) show that performance measurement has a weak effect on disclosure of AAOIFI, NIM which has a significant positive impact. ROA and ROE have a significant negative effect.

Shariah Enterprise Theory

The Shariah Enterprise Theory by Triyuwono (2000) states that everything in the world belongs to God and must be managed as well as possible by humans. The Shariah Enterprise Theory also explains that every company has the goal of providing information, giving a sense of peace (*salam*), love (*rahman*), and compassion (*rahim*), and stimulating the rise of God consciousness (Triyuwono, 2000).

Researchers use the theory of sharia companies in this study because Islamic banking, especially Islamic commercial banks in Indonesia, must carry out their social obligations to the community, where each social responsibility can be assessed through the disclosure of Islamic Social Reporting (ISR) through the Islamic Reporting Index. As for previous studies that both used the theory of Islamic companies, namely research conducted by Jati et al. (2020) and Mukhibad & Fitr (2020).

Signaling Theory

The signaling theory by Ross (1977) states that company executives who have better information about their company will be encouraged to convey this information to potential investors so that the company's stock price increases (Ross, 1977). According to signal theory, better company performance will reveal more detailed reporting, and vice versa (Ben & Bahloul, 2022). Researchers use signal theory in this study because sharia financial performance can be explained using signal theory. The previous signal theory has also been used by researchers (Ben & Bahloul, 2022).

Legitimacy Theory

Legitimacy theory Dowling & Preffer (1975) explains that legitimacy theory is very useful in analyzing organizational behavior because legitimacy is important for organizations, boundaries are emphasized by social norms and values, and reactions to boundaries This encourages the importance of analyzing organizational behavior by taking into account the environment (Dowling & Preffer, 1975). This theory explains that if people believe that a company has violated a social agreement, the survival of the company will be threatened (Mukhibad & Fitri, 2020). Previous research that uses stakeholder theory in its research, namely Mukhibad & Fitri (2020), Jati et al. (2020), So et al. (2021), and Ben & Bahloul (2022).

Sharia Financial Performance

The process of implementing the company's financial resources is mainly measured by financial performance. Information can be obtained by examining the company's financial performance, such as how much the company's management is successful and provides benefits to society (Ichsan et al. 2021). Several financial performance indices used in this study include profitability (ROA and ROE), liquidity (FDR), capital (CAR), leverage (DER), and Investment Account Holders (IAH).

Islamic Social Reporting (ISR)

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) which compiles and stipulates standard social disclosure items on a regular basis using Islamic Social Reporting (ISR) as a benchmark for the implementation of social responsibility (AAOIFI, 2015). Related disclosure items are further developed more broadly by researchers. that Islamic institutions must comply (Afandy et al. 2021). The six disclosure indicators included in the Islamic Social Reporting (ISR) index include: (1) Funding and Investment, (2) Products and

Services, (3) Labor, (4) Social, (5) Environment, and (6) Organizational Governance (Riyani & Uswati, 2018).

Islamic Corporate Governance (ICG)

Corporate governance in Islamic Financial Institutions, especially Islamic Banking, by IFSB 03 in the Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial Services (Excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds) explains that corporate governance in LKS is a set of organizational arrangements in which management actions are aligned, as far as possible with the interests of its stakeholders, provision of appropriate incentives for governance organs such as directors, DPS, and management to pursue objectives that are in the interests of stakeholders, thus encouraging LKS to use resources more efficiently, and adherence to rules and principles Islamic Sharia (IFSB, 2006).

It has also been explained that the main or core part of Islamic Corporate Governance (ICG) is the sharia board (Atiqah & Rahma, 2018). One of the indicators of Islamic Corporate Governance (ICG) that has a role to play in influencing management in disclosing corporate social responsibility is the Board of Commissioners (Mustika et al. 2022), The Sharia Supervisory Board (DPS) is one of the parties responsible for monitoring Islamic bank compliance (Afandy et al. 2021). Previous studies using Islamic Corporate Governance (ICG) in Islamic banking include the first (Jati et al. 2020), second (Mukhibad & Fitri, 2020), and third (Afandy et al. 2021).

The Effect of Profitability on the Disclosure of Islamic Social Reporting

Profitability is assessed using Return On Assets (ROA) and Return On Equity (ROE). These two ratios are used because they are one of several profitability ratios that are often highlighted in financial statement audits. This is because ROA and ROE are seen as being able to show the success of a company in creating profits (Jati et al. 2020). Besides that, ROE is a ratio that gives an idea of how much equity management has in getting net profit.

Ben & Bahloul (2022) found that the ratio of profitability, namely ROA, has a negative effect these findings are relevant to research conducted by Mubarok (2020) who obtained the result that the ratio of profitability (ROA and ROE) has a negative effect on the disclosure of Islamic Social Reporting (ISR). This is due to the increasingly widespread disclosure of Islamic Social Reporting (ISR) to banks, and the negative impact will add to the burden or social costs so that it can reduce profits. company, while the results of research from Jati et al. (2020), and Diansari et al. (2022) the ratio of profitability, namely ROA, has no effect on the disclosure of Islamic social reporting (ISR). In line with the explanation above, the following hypothesis can be put forward:

H1 : Profitability (ROA) has a negative effect on ISR disclosure.

H2 : Profitability (ROE) has a negative effect on ISR disclosure.

The Effect of Liquidity on Disclosure of Islamic Social Reporting

The Financing to Debt Ratio (FDR) ratio to measure liquidity is used in this study because the use of FDR is related to the trade-off that arises when measuring liquidity with FDR. When the FDR reaches 100%, the bank is considered to have good liquidity because it is able to channel its financing from the third fund collected. According to Kamil and Herusetya (2012) and Putra (2014), liquidity has no effect on ISR disclosure (Jati et al. 2020). Meanwhile, from previous research that was used as a reference in this study, it was found that liquidity affects the disclosure of Islamic Social Reporting (ISR). This research was conducted by Jati et al. (2020) and a second researcher Diansari et al. (2022). From this exposure, the following hypothesis can be stated:

H3 : Liquidity (FDR) has a positive effect on ISR disclosure.

The Effect of Capital on the Disclosure of Islamic Social Reporting

The Capital Adequacy Ratio (CAR) is a proxy measure in this study. The results of the CAR ratio are a good signal for stakeholders in assessing banking performance. Wardani & Nurhayati (2021) revealed that the ratio of capital, namely CAR, has a negative and insignificant effect. From this explanation, it is possible to propose the following hypothesis:

H4 : Capital (CAR) has a negative effect on ISR disclosure.

The Effect of Leverage on Disclosure of Islamic Social Reporting

Leverage was assessed in this study using the debt-to-equity ratio (DER). According to Meek, Roberts, and Gray (1995), companies with high levels of leverage will disclose information widely and openly, thereby gaining the trust of lenders. Kamil and Herusetya (2012) revealed that the leverage ratio has a negative effect on the disclosure of Islamic social reporting (ISR) (Jati et al. 2020). While the previous research that became the reference for this research produced results that varied from research to research, this can be seen from the results of research conducted by Jati et al. (2020) that leverage has no impact on the disclosure of Islamic social reporting (ISR), but research by Diansari et al. (2022) fount that leveraged have an impact on the disclosure of Islamic Social Reporting (ISR). From this exposure, the following hypothesis can be stated:

H5 : Leverage (DER) has a positive effect on ISR disclosure.

The Effect of Investment Account Holders (IAH) on Disclosure of Islamic Social Reporting

Investment Account Holders (IAH) play a role in banking performance because banks can use IAH to carry out operational activities or other company activities. In view of legitimacy, IAH affects legitimacy. With so many investment account holders in the banking sector, the level of public trust in banks is increasing due to the large number of investment account holders in the banking industry (Khanifah et al. 2020). Mais & Lufian's (2018) research found that there was a positive and significant relationship between investment account holders (IAH) and the disclosure of Islamic social reporting (ISR). The same results were also obtained by research by Lidyah et al. (2017), Khasanah & Yulianto (2015), and Setyawan & Adityawarman (2017).

But in Abdullah et al. (2013) research, results show that IAH has a negative and significant effect on the disclosure of Islamic social reporting. The same result was also obtained by Richard Oliver (2021). Projections regarding Investment Account Holders, namely Temporary Syirkah Funds divided by paid-up capital Temporary Syirkah Funds, referred to in the Islamic Financial Accounting Standards (January 1, 2017), are funds received and managed by sharia entities, both according to the provisions and limitations of the legal owner of the funds. Sources of Temporary Syirkah Funds, namely: mudharabah muqayyadah, musyarakah mudharabah muthlaqah, and the like (Zayyinatul & Yulianto, 2015).

H6 : Investment Account Holder (IAH) has a positive effect on ISR disclosure.

The Effect of Islamic Corporate Governance (ICG) as a Moderating Variable on Disclosure of Islamic Social Reporting

The frequency of the board of commissioners' meetings is used as an indicator of the ICG variable because the board of commissioners is obliged to hold a meeting at least once every two months. In addition, the board of commissioners is required to hold a meeting with the board of directors at least once every four months. The meeting is held to discuss and monitor the goals and performance of the company, as well as the frequency of audit committee meetings (Sari & Helmayunita, 2019). Sari & Helmayunita (2019) proves that the frequency of board of commissioners meetings has a significant and positive effect on the disclosure of Islamic Social Reporting (ISR) conducted by Islamic banks. This shows that the more intensely the board of commissioners holds meetings, the wider the level of disclosure of the company's Islamic Social Reporting (ISR).

The frequency of DPS meetings is also used as an indicator of the ICG variable; in principle, the DPS is an independent body entrusted with directing, supervising, and reviewing LKS activities in accordance with sharia principles. Ideally, a Sharia Supervisory Board must have sufficient understanding of sharia and economic issues because several cases in Islamic banks overlap with one another (Rismayati et al. 2022).

From previous research that was used as a reference in this study, it was found that ICG had a positive effect on the disclosure of Islamic financial performance (Sharia financial performance) in this case, namely the frequency of DPS meetings (Afandy et al. 2021). From the results of this study, according to ICG researchers, indicators of the frequency of the Board of Commissioners' meetings, the frequency of audit committee meetings, and the frequency of DPS meetings can be used as moderating variables in this study. From this exposure, the hypothesis can be stated:

H7 : Islamic Corporate Governance (ICG) is able to moderate the independent variables in ISR disclosure.

METHOD

This type of research is quantitative and uses annual financial reports as a secondary data source. All Islamic Commercial Banks (BUS) registered with OJK for 2016–2021 are the study population. 66 samples were collected from 11 sharia commercial bank using purposive sampling. The hypothesis examine by using Moderated Regression Analysis (MRA) and panel data regression. Eviews 12 is used to get econometric results.

Research Variable

Independent Variable

Profitability

Profitability is the possibility for an organization to generate profits. This ratio consists of profit margin, ROE, and ROA (Diansari et al. 2022). This study uses ROA and ROE with the following formula:

$$ROA = \frac{NPM}{Total\ Asset}\ x\ 100\%$$

$$ROE = \frac{Net\ Profits\ after\ Tax}{Total\ Equity}\ x\ 100\%$$

Liquidity

The liquidity ratio shows that a company's ability to pay its debts increases with its current ratio. To have an impact on the amount of disclosure made through Islamic Social Reporting (ISR) (Diansari et al. 2022). Liquidity is expressed by the Financing to Deposit Ratio (FDR) formula as follows:

$$FDR = \frac{Total\ Lending}{Total\ Funding}\ x\ 100\%$$

Capital

The minimum amount of capital that must be owned by a bank so that it can be used to offset the risk of loss is called capital, or capital component (Wardani & Nurhayati, 2021). The ratio used in this study to assess the capital adequacy of a bank is called the Capital Adequacy Ratio (CAR). The formula used is as follows:

$$CAR = \frac{Capital}{Assets\ Weighted\ By\ Risk\ (ATMR)}\ x\ 100\%$$

Leverage

Leverage is the ability of a company to pay debts both in the long term and in the short term to other parties (Rismayati et al. 2022). Leverage is calculated using debt-to-equity (DER) (Diansari et al. 2022). Leverage is expressed by the following formula:

$$DER = \frac{Total\ Liabilities}{Total\ Equity}\ x\ 100\%$$

***Investment Account Holder* (IAH)**

Projections regarding Investment Account Holders, namely Temporary Syirkah Funds divided by paid-up capital Temporary Syirkah Funds, referred to in the Islamic Financial Accounting Standards (January 1, 2017), are funds received and managed by sharia entities, both according to the provisions and limitations of the legal owner of the funds. Sources of Temporary Syirkah Funds, namely: mudharabah muqayyadah, musyarakah mudharabah muthlaqah (Zayyinatul & Yulianto, 2015). IAH is expressed by the following formula:

$$Investmen\ Account\ Holder = \frac{Contemporary\ syirkah\ funds}{DPK}\ 100\ \%$$

Dependent Variable

The Islamic Social Reporting Index (ISR) is used in this study to assess the dependent variable. The ISR value is generated using a content analysis approach, which gives a value of 1 for disclosure and a value of 0 for items not disclosed. In the annual Islamic Social Reporting (ISR) report, symbols are given with a total of 48 disclosure items. The calculation of the value of Islamic Social Reporting (ISR) is determined using the following formula:

$$ISR = \frac{Disclousure}{Total\ Disclousure} \text{ x } 100\%$$

Moderating Variable

In this study, Islamic Corporate Governance (ICG) is used as a moderating variable. The indicators of Islamic Corporate Governance (ICG) used are as follows:

Frequency of Board of Commissioners Meetings

Rustam (2013) states that "the board of commissioners is a company organ whose job is to carry out general and or special supervision in accordance with the articles of association and to provide advice to the directors as referred to in Law (UU) Number 40 of 2007 concerning Limited Liability Companies; the amount, composition, criteria, concurrent positions, family relations, and other requirements for members of the board of commissioners are subject to the provisions of the relevant authorities."

$$\sum Frequency\ of\ meetings\ of\ the\ sharia\ board\ of\ commissioners\ in\ a\ year$$

Frequency of Audit Committee Meetings

The Audit Committee is a supporting organ under the Board of Commissioners that is formed and is responsible to the Board of Commissioners with the aim of assisting the Board of Commissioners in supporting the effectiveness of the implementation of supervisory duties and functions. The number of members of the board of commissioners who attend the meeting is at least three, consisting of one company independent commissioner (head of audit) and two audit members. The board of commissioners must hold a meeting with the board of directors at least once every four months. The meeting is held to discuss and monitor the goals and performance of the company so that they are achieved (Sari & Helmayunita, 2019). The following is the formula for calculating the frequency of board of commissioners meetings:

$$\sum Frequency\ of\ sharia\ audit\ committee\ meetings\ in\ a\ year$$

DPS Meeting Frequency

Every Islamic financial institution must establish an Islamic supervisory board, which acts as an additional layer of government oversight. The first role of the sharia supervisory board is to ensure that the bank operates according to sharia law (Khanifah et al. 2020). This matter is in accordance with the implementation of good corporate governance on the basis of BI Regulation No. 11/33/PBI/2009. According to (Mulyaningsih & Asrori, 2019) indications in the self-assessment of good corporate governance regulations for sharia commercial banks are the mandate and responsibility of the Sharia Supervisory Board in the implementation of good corporate governance. The following is the formula for calculating the frequency of DPS meetings:

$$\sum DPS\ meeting\ frequency\ in\ a\ year$$

Data Analysis Technique

Moderated Regression Analysis (MRA)

To ascertain whether the moderating variable (Z) strengthens or weakens the relationship between the independent variable and the dependent variable, a test must be carried out. This interaction test is commonly referred to as "moderated regression analysis" (MRA). Where the regression equation contains the multiplication of two or more independent (interaction elements) (Sakanko, 2020). The illustration shows the influence of Islamic Corporate Governance (ICG) on the Sharia Financial Performance Relationship consisting of ROA (X1), ROE (X2), FDR (X3), CAR (X4), DER (X5), and IAH (X6) towards Islamic Social Reporting (ISR) (Y). The MRA equation is as follows:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + e$$

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \beta 7Z + \beta 1X*1Z + \beta 2X*2Z + \beta 3X*3Z + \beta 4X*4Z + \beta 5X*5Z + \beta 6X*6Z + e$$

Explanation:

Y	: Disclosure of *Islamic Social Reporting* (ISR)
α	: Constant
X1	: ROA

X2 : ROE

X3 : FDR

X4 : CAR

X5 : DER

X6 : IAH

Z : *Islamic Corporate Governance* (ICG)

β1, β2, β3..dst : Regression Coefficient

e : Error

Panel Data Regression Analysis

Panel data is a combination of data across time (time series) and across individuals (cross section). The time series data in this study is the research time period, which is 6 years (2016–2021), while the cross-section data in this study are Islamic Commercial Banks, consisting of 11 Islamic Commercial Banks that have met the criteria in this study, thus producing 66 (sixty-six) observations. The panel data regression equation formed is as follows:

$$Y_{it} = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon_{it}$$

Explanation:

Y : Disclosure of *Islamic Social Reporting* (ISR)

α : Constant

X_1 : ROA

X_2 : ROE

X_3 : FDR

X_4 : CAR

X_5 : DER

X_6 : IAH

B_1, β_2, β_3,..dst : Regression Coefficient

e : Error

i : *Cross Section*

t : *time series*

Hypothesis Testing

F Test (Simultaneous)

The F test seeks to ascertain the simultaneous or combined impact of the independent factors on the dependent variable. A comparison of the calculated prob F value with the alpha error rate can be used for testing (0.05). The decision to accept H0 or simultaneously accept that there is no significant effect of the independent variable on the dependent variable if the significant value is greater than 0.05 (Agus, 2016).

T Test (Partial)

By comparing the probit t arithmetic derived with the alpha error rate (0.05), the t test can be used to assess the partial impact of each independent variable on the dependent variable (0.05). The significance value must meet the test criteria of 0.05. The independent variable has a considerable influence on the dependent variable if the estimated probit value is 0.05, and vice versa (Agus, 2016).

Coefficient of Determination (R2)

The coefficient of determination measures how well the model can explain the variation in the independent variables of the study (Agus, 2013).

RESULTS

This research was conducted to re-examine the effect of Sharia financial performance on Islamic social reporting (ISR) with Islamic corporate governance (ICG) as a moderating variable (an empirical study on Indonesian Sharia commercial banks in 2016–2021).

Descriptive Analysis Results

Table 1. Descriptive Analysis

	Y	X1	X2	X3	X4	X5	X6
Mean	72.10197	1.002576	2.115000	1411481.	40.69773	179.4361	1634.088
Median	72.91000	0.655000	2.560000	87.56500	22.20500	89.92000	5.277100
Maximum	85.41000	13.60000	36.05000	50660000	390.5000	1412.530	77792.00
Minimum	58.33000	-10.77000	-94.01000	0.000000	11.51000	6.230000	1.757313
Std. Dev.	7.986888	4.680965	20.23986	8077076.	66.20861	256.5976	9598.494
Observations	66	66	66	66	66	66	66

Source: Processed data, 2023

Based on the results of the descriptive statistical test in Table 1, it can be seen that the average ROA is 1.002576, with a minimum amount of -10.77000 and a maximum of 13.60000. ROE in Indonesian Islamic banking averages 2.115000, with a minimum amount of -94.01000 and a maximum amount of 36.05000. The average FDR in Indonesian Islamic banking is 1411481. With a minimum amount of 0.000000 and a maximum amount of 50660000. CAR has an average number of 40.69773, with a minimum amount of 11.51000 and a maximum amount of 390.5000. The average DER in Indonesian Islamic banking is 179.4361 with a minimum amount of 6.230000 and a maximum amount of 1412.530, while the average number of investment account holders is 1634.088 with a minimum amount of 1.757313 and a maximum amount of 77792.00. The mean ISR is 72%. This can be interpreted as meaning that, in general, Islamic banks in Indonesia make disclosures based on the ISR index, only around 34–35 of the 48 components disclosed. Then, the difference between the maximum and minimum figures is far away, perhaps because ISR disclosure is still voluntary.

Results of Moderated Regression Analysis (MRA)

Table 2. Moderated Regression Analysis (MRA) Test Results

Model	Coefficient	Adj R-Square (Before moderation)	Adj R Square (After moderation)	Prob	Explanation
X3Z1	0.002036	-0.010573	0.046509	0.0380	Strengthen

X6Z1	8.75E-05	-0.015595	0.103145	0.0155	Strengthen
X6Z2	0.000232	-0.015595	0.103336	0.0025	Strengthen
X3Z3	0.002063	-0.010573	0.049302	0.0347	Strengthen

Source: Processed data, 2023

Table 2. shows that for the first moderating variable, namely Frequency of Board of Commissioners Meetings (Z1), it can only moderate two independent variables, namely FDR (X3) and Investment Account Holder (X6), with information that can strengthen the relationship to the ISR variable (Y). In addition to these variables, Frequency of Board of Commissioners Meetings (Z1) is not able to moderate the other four independent variables, namely ROA (X1), ROE (X2), CAR (X4), and DER (X5).

While the second moderating variable, namely Frequency of Audit Committee Meetings (Z2), can moderate one independent variable, this variable is Investment Account Holder (X6), with information that can strengthen the relationship to the ISR variable (Y). Apart from this variable, Frequency of Audit Committee Meetings (Z2) is not able to moderate the five other independent variables consisting of ROA (X1), ROE (X2), FDR (X3), CAR (X4), and DER (X5). Meanwhile, for the third moderating variable, namely Frequency of DPS Meetings (Z3), it can only moderate 1 independent variable; this variable, namely FDR (X3), with information can strengthen the relationship to the ISR variable (Y), but Frequency of DPS Meetings (Z3) cannot moderate other independent variables, including ROA (X1), ROE (X2), CAR (X3), DER (X5), and Investment Account Holder (X6).

Estimation Model Selection

To select the best model, there are three methods to evaluate model estimation: the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test. The appropriate CEM or FEM was selected for the study using the Chow test.

Table 3. Chow test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	15.756047	(10,46)	0.0000
Cross-section Chi-square	95.188588	10	0.0000

Source: Processed data, 2023

Table 3. The Chow test shows the value of the prob cross-section F < (0.05), indicating that H0 is rejected and also because FEM is a better choice for estimating panel data than CEM. In addition, Hausman testing was carried out to see whether panel data regression should be carried out using the REM or FEM approach.

Table 4. Hausman test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.756870	7	0.2028

Source: Processed data, 2023

Table 4 shows that when the prob Chi-square value is > 0.05, then H0 is accepted, so REM is a better choice in estimating panel data than FEM. It can be concluded based on the results of Chow and Hausman's tests that REM is more suitable to be implemented than CEM and FEM. Because REM was selected and the test was successful, this study used REM.

F Test (simultaneous)

The probability value of the F-statistic for panel data regression using REM is 0.00 < 0.05. These findings prove that the dependent variable is influenced by the independent variables, namely ROA, ROE, FDR, CAR, DER, dan Investment Account Holder in combination (ISR).

t test (partial)

Table 5. t Test Results

Variable	Probability	Results

ROA (X1)	0.0225	H1 Accepted
ROE (X2)	0.0555	H2 Accepted
FDR (X3)	0.0421	H3 Accepted
CAR (X4)	0.2611	H4 Rejected
DER (X5)	0.5865	H5 Rejected

Source: Processed data, 2023

Based on the results of panel data regression using the Random Effect Model (FEM), it can be seen that there are three variables that influence the disclosure of Islamic Social Reporting (ISR). These variables are ROA (X1), ROE (X2), and FDR (X3). Other than these variables, they have no effect.

Coefficient of Determination (R^2)

Table 6. Test Results for the Coefficient of Determination (R^2)

R-squared	0.869172
Adjusted R-squared	0.820822

Source: Processed data, 2023

The results of the REM panel data regression show that the value of R^2 (adjusted R squared) is 0.820822 (82%), indicating that the variables ROA, ROE, FDR, CAR, DER, and Investment Account Holder can explain variable Y (ISR), with the remaining 18% explained by factors outside the research.

DISCUSSION

Effect of Profitability (ROA) on Disclosure of Islamic Social Reporting

The test results show that H1 is accepted. Thus, it can be said that the disclosure of Islamic social reporting (ISR) can be affected by profitability (ROA). With these results indicating that the banking sector that performs well is seen as capable of demonstrating the success of a bank in creating profits (Jati et al. 2020). If a bank is deemed successful in creating profits, then the banking sector has incentives to disclose more information. However, the findings of this study are not in line with previous research this can be proven by the results of the sixth researcher's study conducted by Ben & Bahloul (2022) that the ratio of profitability, namely ROA, has a negative effect, while the results of the research are from Jati et al. (2020) and Diansari et al. (2022) the ratio of profitability, namely ROA, has no effect on ISR disclosure.

When profitability is either high or low, it will still disclose its ISR. According to the Sharia Enterprise Theory (SET), Allah is the center of everything, He is the highest stakeholder, and everything that exists is trust worthy, so it must be managed seriously. By paying attention to this theory, the companies with hight or low profitability will always well manage His mandates, demonstrating a hight degree of ISR disclosure. The Legitimacy Theory explains that in order to survive well, the companies must receive legitimacy from the community. One from of the companies compliance with the norm is social activity towards the community, which they report as a from of their social activities to receive legitimacy from the community.

Effect of Profitability (ROE) on Disclosure of Islamic Social Reporting

The test results show that H2 is accepted. Thus, it can be said that the disclosure of Islamic Social Reporting (ISR) can be influenced by profitability (ROE). These results indicate that companies that perform well have incentives to disclose more information because they can publish good performance as a means of connecting with investors. The findings of this study are in line with previous findings from Amyulianthy et al. (2020) with the ratio of profitability, namely ROE, affects the disclosure of Islamic Social Reporting (ISR)

Effect of Liquidity (FDR) on Disclosure of Islamic Social Reporting

The test results show that H3 is accepted. Thus, it can be said that the disclosure of Islamic social reporting (ISR) is influenced by liquidity. A bank with a high liquidity ratio can show that the bank can fulfill its short-term debt according to maturity. Of course, increasing the liquidity ratio can increase the social information disclosure of a bank. In addition, it can also describe the potential of a company related to the implementation of bank social information disclosure socialization, namely Islamic Social Reporting (ISR). Therefore, the market considers liquidity a measure of performance. A bank with a high liquidity ratio should disclose more detailed information to describe its superior performance. The findings of this study are consistent with previous findings from Jati et al. (2020) and Diansari et al. (2022) with the ratio of liquidity, namely FDR, affecting the disclosure of Islamic Social Reporting (ISR).

The Effect of Capital (CAR) on Disclosure of Islamic Social Reporting

The test results show that H4 is rejected because capital does not have an impact on how Islamic social reporting (ISR) is disclosed. The findings of this study support previous findings from (Wardani & Nurhayati, 2021) that disclosure of Islamic social reporting (ISR) is not affected by CAR. These findings indicate that no matter how low the CAR value of a bank is, it will not affect the value of the company. Usually, investors tend to ignore the CAR factor and focus more on other factors that can have an impact on the return to be received.

The Effect of Leverage (DER) on Disclosure of Islamic Social Reporting

Disclosure of Islamic Social Reporting (ISR) is not affected by leverage, so the test findings show that H5 is rejected. According to research findings, companies with a high debt-to-equity ratio demand more information, especially information about Islamic Social Reporting (ISR). Certainly contradicts the stakeholder theory. Disclosure of Islamic Social Reporting (ISR) is a fulfillment of stakeholder demands. The researcher states that the debt ratio has no effect on the disclosure of Islamic Social Reporting (ISR) because there is a pattern of fluctuations in debt ratio data and disclosure of Islamic Social Reporting (ISR). Researchers assume that the disclosure of Islamic Social Reporting (ISR) will meet the needs of relevant information in financial reports regardless of the amount of debt to be paid and as a form of Islamic bank accountability. The findings of this study are in line with previous findings by researchers (Jati et al. 2020) with the results of the leverage ratio, namely that DER does not have an impact on the disclosure of Islamic Social Reporting (ISR), and the findings of this study contradict previous studies those who obtain leverage results affect the disclosure of Islamic Social Reporting (ISR) (Diansari et al. 2022).

The Effect of Investment Account Holders (IAH) on Disclosure of Islamic Social Reporting

Disclosure of Islamic Social Reporting (ISR) is not influenced by the Investment Account Holder (IAH), so the test findings show that H6 is rejected. However, these results contradict the stakeholder theory because, in principle, all stakeholders and especially IAH, as the main stakeholder, have the right to know the performance of Islamic banks. Therefore, Islamic banks must be responsible for the welfare of all stakeholders. That way, Islamic banks must disclose information related to IAH issues to reduce agency problems and protect IAH's rights (Saidani et al. 2021). The results of this study also contradict the results of research conducted by previous researchers, namely Mais & Lufian (2018) research, which obtained results showing that there was a positive and significant relationship between investment account holders (IAH) and the disclosure of Islamic social reporting (ISR). The same results were also obtained by research by Lidyah et al. (2017), Khasanah & Yulianto (2015), and Setyawan & Adityawarman (2017). But in Abdullah et al. (2013) research, results show that IAH has a negative and significant effect on the disclosure of Islamic social reporting. The same result was also obtained by (Richard, 2021).

CONCLUSION

This study found that Indonesian Sharia Commercial Banks disclose 72% of Islamic Social Reporting. In addition, this study found the following test results: first, it was known that H1 was accepted. Thus, it can be said that the disclosure of Islamic social reporting (ISR) can be affected by profitability (ROA). With these results indicating that the banking sector that performs well is seen as capable of demonstrating the success of a bank in creating profits (Jati et al. 2020). Second, it is known that H2 is accepted. Thus, it can be said that the disclosure of Islamic social reporting (ISR) can be influenced by profitability (ROE). These results indicate that companies that perform well have incentives to disclose more information because they can publish good performance as a means of connecting with investors.

All three known H3 are accepted. Thus, it can be said that the disclosure of Islamic social reporting (ISR) is influenced by liquidity. A bank with a high liquidity ratio indicates that the bank can fulfill its short-term debt according to maturity. Of course, increasing the liquidity ratio can increase the social information disclosure of a bank. Fourth, it is known that H4 is rejected because capital does not have an impact on how Islamic social reporting (ISR) is expressed. These findings indicate that no matter how low the CAR value of a bank is, it will not affect the value of the company. Usually, investors tend to ignore the CAR factor and focus more on other factors that can have an impact on the return to be received.

Fifth, ISR disclosure is not affected by leverage, so the test findings show that H5 is rejected. According to research findings, companies with a high debt-to-equity ratio demand more information, especially information about Islamic Social Reporting (ISR). certainly contrary to stakeholder theory, and sixth, if disclosure of Islamic social reporting (ISR) is not influenced by investment account holders (IAH), then the test findings show that H6 is rejected. However, these results contradict the stakeholder theory because, in principle, all stakeholders and especially IAH, as the main stakeholder, have the right to know the performance of Islamic banks.

In addition, this research has also found that the results of the study show that the variable moderating the frequency of board of commissioners meetings (Z1) can moderate the variables FDR (X3) and IAH (X6). Meanwhile, the variable moderating the frequency of audit committee meetings (Z2) is only able to moderate one variable, namely IAH (X6). Meanwhile, the moderating variable for DPS meeting frequency can only moderate one variable, namely the variable FDR (X3) to ISR (Y) in the research time period.

The contribution of this study is to provide an overview of information about policies that can influence the disclosure of Islamic Social Reporting by Islamic commercial banks in Indonesia. Through this study, the ISR disclosure index can be used as material for consideration for regulators to make disclosure standards for social responsibility reports for sharia entities that comply with sharia principles. Then, Islamic banks may consider producing complete and comprehensive social disclosures based on ISR, bearing in mind that Islamic banks are more socially responsible because their operational activities are based on Islamic principles, ethics and morality. Furthermore the findings of this study can be important input for regulators to properly regulate the number of meetings of each board in influencing Islamic Financial Performance as a tool in disclosing their ISR.

There are various limitations in this study, including imperfect scoring results, due to the existence of several ISR disclosure items that are not fulfilled by Islamic Commercial Banks because there are no standard provisions regarding ISR taking items. There is an element of subjectivity in determining the ISR disclosure index so that the same ISR disclosure item can produce different numbers from each researcher.

Suggestions for future research should include more variables and extend the period of research conducted in order to find out any developments in the disclosure of ISR in the following year.

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