Islamic banking performance: the interplay of governance, Islamicity performance, and social disclosure

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Abstract
Purpose – This study investigates the influence of Islamic corporate governance (ICG) and the Islamicity performance index (IPI), as proxied by the profit-sharing ratio (PSR), zakat performance ratio (ZPR), and equitable distribution ratio (EDR), on the financial performance of Islamic banks in Indonesia. Furthermore, this study examines the moderating role of Islamic social reporting (ISR) in these relationships. **Method** – Employing a quantitative approach, this research utilizes secondary data obtained from the Financial Services Authority (FSA) of Indonesia and the official websites of Islamic banks. The sample comprises 10 Islamic commercial banks operating in Indonesia from 2019–2023. The study applies moderated regression analysis (MRA) to assess the proposed relationships. **Findings** – The findings reveal that, individually, both ICG and EDR positively and significantly influence financial performance, whereas PSR does not exhibit a significant effect. In contrast, ZPR demonstrates a negative and significant impact on financial performance. Moreover, ISR moderates the relationships between ICG, ZPR, and EDR with financial performance, while its moderating effect is not observed in the relationship between PSR and financial performance. ISR strengthens the impact of ICG and the IPI on Islamic banks' financial performance, enhancing the understanding of governance and performance in Islamic finance. **Implications** – The theoretical implication highlights ISR's role in enhancing ICG and IPI's impact, and the practical implication emphasizes its importance in boosting transparency and trust in Islamic banking.
Keywords: Islamic corporate governance, Islamicity performance index, Islamic social reporting, financial performance.

Introduction

Islamic banking has emerged as a crucial pillar of the global financial system, driven by its adherence to Shariah principles, which prohibit interest (riba) and emphasize ethical financing. The sector has experienced substantial growth, with over 1,000 institutions operating worldwide, reflecting an increasing demand for Shariah-compliant financial products (Tlemsani, Marir, and Majdalawieh 2020). In Southeast Asia, particularly Indonesia, Islamic banking has expanded significantly; however, its market penetration remains lower than that of conventional banking due to regulatory challenges and structural limitations (Ledhem and Mekidiche 2021; Mutamimah and Saputri 2023; Ullah et al. 2023). Despite these hurdles, Islamic banks contribute meaningfully to financial inclusion and economic development (Naz and Gulzar 2023; Kismawadi 2024). However, a persistent tension exists

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between profitability and the fulfilment of Maqasid al-Shari'ah, which seeks to balance economic objectives with ethical and social imperatives (Tarique, Islam, and Mohammed 2021; Taufik, Muhammad, and Nugraheni 2023). The complexity of governance structures and evolving *Shariah* interpretations further complicate operational efficiency (Minaryanti and Mihajat 2024). To maintain competitiveness and sustainability, Islamic banks must innovate sharia-compliant financial instruments that align ethical mandates with financial performance (Hambali and Adhariani 2023; Ullah et al. 2023; Shawtari et al. 2024).

Within this context, Islamic corporate governance (ICG) is pivotal in ensuring Islamic financial institutions operate by sharia principles while maintaining financial stability. Unlike conventional corporate governance, which primarily seeks to maximize shareholder value, ICG introduces dual accountability to shareholders and the sharia supervisory board (SSB), ensuring adherence to Islamic law (Khalil and Taktak 2020; Khalil 2021). SSBs enhance transparency and ethical oversight, reinforcing trust among stakeholders (Khan and Zahid 2020; Alam et al. 2021). Moreover, ICG incorporates religious, ethical, and social dimensions into financial decision-making, distinguishing it from conventional governance models grounded in nationalist ideologies (Pahlevi 2023; Nawaz, Virk, and Butt 2023). Empirical evidence suggests that robust ICG mechanisms contribute to financial stability, institutional credibility, and long-term sustainability (Rahim, Shaharuddin, and Suki 2024; Farooq et al. 2025). Consequently, effective governance frameworks are instrumental in ensuring compliance with Islamic principles and financial innovation within the sector (Tarique, Islam, and Mohammed 2021).

Complementing ICG, the Islamic performance index (IPI) is a multidimensional measure of financial performance in Islamic banking, incorporating both profitability and Shariah compliance. Unlike conventional financial metrics, IPI integrates ethical considerations through indicators such as the profit sharing ratio (PSR), zakat performance ratio (ZPR), and equitable distribution ratio (EDR) (Danila et al. 2021; Rashid, Khanam, and Ullah 2022). The PSR ensures fair profit-sharing among stakeholders, while the ZPR measures the effectiveness of zakat contributions in promoting social welfare (Yudaruddin 2023b; Kharrat, Trichilli, and Abbes 2024). Similarly, the EDR reflects the equitable distribution of financial gains among funders, clients, and communities, reinforcing transparency and ethical integrity (Mahyudin and Rosman 2022). Although theoretically significant, the empirical relationship between IPI adherence and financial performance remains inconclusive, as outcomes are influenced by regional variations and differing ethical perceptions (Sofian and Muhamad 2020). However, governance structures, particularly sharia supervisory boards, are critical in strengthening financial sustainability by ensuring profitability aligns with ethical imperatives (Khalil and Taktak 2020; Addou et al. 2024).

Beyond governance and profitability, Islamic social responsibility (ISR) has emerged as a fundamental pillar in reinforcing transparency, accountability, and ethical banking practices. ISR mandates disclosure of key financial activities, such as profit distribution and zakat contributions, to enhance stakeholder trust and ensure adherence to ethical governance (Hanic and Smolo 2023; Saw et al. 2023; Meskovic, Kozarevic, and Avdukic 2024). More importantly, ISR strengthens the relationship between ICG, IPI, and financial performance by integrating governance structures with ethical obligations to promote social equity and sustainability (Abbas et al. 2023; Chazi, Mirzaei, and Zantout 2024). Empirical studies indicate that ISR positively influences IPI components, particularly the PSR and ZPR, which enhance financial transparency and stakeholder confidence (Aydemir, Atan, and Guloglu 2024; AlKhazali et al. 2024). Furthermore, effective ISR practices contribute to customer loyalty, investor confidence, and brand reputation, driving overall financial success (Ngaha and Mbenda 2024; Sultan et al. 2024). Despite these advantages, the precise relationship between

ISR and financial performance remains complex, necessitating further empirical investigation (Srairi, Bourkhis, and Houcine 2022; Rahim, Shaharuddin, and Suki 2024).

While prior research has explored the roles of ICG and IPI in shaping financial performance, most studies have examined these variables independently, neglecting their potential interaction. For instance, Yudaruddin (2023a) analyzes the role of financial technology in enhancing bank performance but does not consider the interplay between governance and profitability. Similarly, Rahim, Shaharuddin, and Suki (2024) highlight the impact of Shariah governance disclosure on transparency and financial performance without incorporating profitability metrics such as IPI. Although some scholars suggest that ICG and IPI could be mutually reinforcing, existing research remains limited in exploring the direct influence of governance structures on financial outcomes (Khan and Zahid 2020; Hidayat, Sakti, and Al-Balushi 2021).

Previous studies have extensively explored Islamic corporate governance (ICG) and Islamic performance index (IPI) as determinants of financial performance in Islamic banks, yet the moderating role of Islamic social responsibility (ISR) in this relationship remains unaddressed mainly, marking a critical gap in the literature (Khalil and Taktak 2020; Mutamimah and Saputri 2023). While prior research highlights governance and profitability as key drivers of financial sustainability (Mahyudin and Rosman 2022; AlKhazali et al. 2024), it overlooks ISR's potential to enhance the interplay between ICG, IPI, and financial outcomes, despite the growing global emphasis on ethical finance and Islamic banking's unique socio-ethical obligations. This study pioneers a novel, integrated framework by examining ISR as a moderating variable, offering a holistic perspective on financial sustainability in Islamic banking. Unlike fragmented approaches in existing literature, this research investigates the simultaneous interaction of governance, profitability, and ethical responsibility, unveiling new mechanisms through which sharia-compliant ethical practices amplify governance efficacy and financial performance. The novelty of this study lies in its threefold contribution: first, it introduces ISR as a pivotal, yet underexplored, moderating construct in Islamic finance; second, it develops a comprehensive model that bridges governance, profitability, and ethical responsibility, overcoming the limitations of siloed methodologies; and third, it provides actionable insights for regulators, practitioners, and policymakers to strengthen sharia-based governance and reporting practices.

The primary objective of this research is to rigorously investigate the moderating role of Islamic social responsibility (ISR) in enhancing the relationship between Islamic corporate governance (ICG), Islamic performance index (IPI), and financial performance in Islamic banking, thereby establishing a pioneering, integrated framework that redefines financial sustainability through a sharia-compliant, socio-ethical lens. This research seeks to advance theoretical discourse by introducing a comprehensive paradigm that integrates governance, profitability, and ethical accountability, offering actionable strategies for regulators, practitioners, and policymakers to strengthen sharia-based practices, enhance institutional resilience, and foster public trust in Islamic financial institutions within a competitive global market. By empirically testing ISR's moderating effect, this study delivers robust evidence that enriches scholarly discourse and equips stakeholders with strategies to optimize financial performance while upholding ethical principles and fostering public trust and institutional resilience. Given the increasing demand for ethical finance, this contribution is timely, positioning the study as a catalyst for theoretical advancement and practical innovation in Islamic banking. By addressing this research gap, the study not only reframes the understanding of financial sustainability but also sets a new benchmark for integrating ethical responsibility into governance frameworks, offering a transformative approach to enhancing the resilience and trustworthiness of Islamic financial institutions in a competitive global market.

Literature review

Sharia enterprise theory within the framework of the Islamic worldview

Islamic worldview theory and sharia enterprise theory are two fundamental concepts in understanding economic and business activities from an Islamic perspective (Triyuwono 2001; Tamam 2017). The Islamic worldview perceives life as an interconnected relationship between humans, nature, and Allah SWT, where humans, as caliphs, bear moral and ethical responsibilities toward the environment and society (Tamam 2017). In the economic context, understanding Islamic values fosters social justice, poverty alleviation, and developing a sustainable and harmonious environment (Abduh and Abduh 2023). These principles guide Islamic banking to operate responsibly and sustainably by implementing profit-sharing systems, zakat distribution, and income redistribution, which promote healthy economic growth and enhance public trust. Meanwhile, the sharia enterprise theory emphasizes that companies are accountable to shareholders, the environment, and society, and Allah SWT is the supreme stakeholder (Mardiani, Yadiati, and Jaenudin 2019). This theory asserts that sharia-based corporate governance ensures justice and transparency in all business activities (Afdal and Agustin 2023). By applying these principles, companies can enhance the credibility of financial information, develop effective business strategies, and reduce uncertainty regarding financial performance, as sharia principles are comprehensively implemented (Triyuwono 2001).

Bank financial performance

Bank financial performance describes every economic result a bank achieves within a specific period through the company's business activities to generate profits effectively and efficiently. Through financial performance analysis, it can be seen to what extent a company has appropriately implemented the principles of financial implementation (Wahyuningtyas and Lutfiana 2022). Financial performance assessment is needed by many parties, such as regulators, the public, and the bank concerned, as a benchmark in seeing the real condition of financial health. To comprehensively determine the condition of the company's financial performance, stakeholders can conduct a financial ratio analysis. The significant profit growth from year to year will attract investors to invest their capital in the company (Purnama and Trisnaningsih 2021). The indicators used to measure the financial performance of Islamic banks are profitability ratios consisting of Return on Assets (ROA) as the rate of return on assets and return on equity (ROE) as the average rate of return on capital owned by Islamic banks. ROE can describe the company's efficiency in generating profits from the capital shareholders invest (Septian, Eliza, and Bahtiar 2022). The higher the ROE value, the better the banking performance will provide a higher rate of return to shareholders. Measuring performance through ROE can also provide an overview of the company's ability to generate profits (profitability) and the debt used in doing business (financial leverage). ROE measurement can be done with the profit per equity ratio as the average rate of return on capital owned by Islamic banks.

Islamic corporate governance

Islamic corporate governance (ICG) is sharia governance that implies the principles of openness, accountability, professionalism, fairness and responsibility that refer to sharia compliance (Romadhonia and Kurniawati 2022). Good governance will create a control system to prevent misuse of resources so that good growth will be created, which will impact increasing the profit performance of Islamic banks. ICG is a derivative of the concept of good corporate governance based on sharia principles (Abdullah, Percy, and Stewart 2013). The implementation of ICG refers to the Islamic Financial Services Board (ISFB) regarding the main components of sharia governance, namely the sharia supervisory board in the organizational structure. The existence of the sharia supervisory board is a component that distinguishes the corporate governance of Islamic banking from conventional banking, which plays a role in supervising the running of Islamic banks by sharia business ethics (Soediro, Kusumawardani, and Farhan 2022). The provisions for implementing ICG for Islamic banks in Indonesia align with Bank Indonesia regulation 33/11/2009 concerning the governance of sharia general banks and sharia business units. This explains that the implementation of ICG to the community and stakeholders shows that Islamic banking governance has been implemented well, professionally, and wisely and continues to strive to increase shareholder value without ignoring the interests of other shareholders (Wibisana and Saadati 2022). The assessment of the implementation of corporate governance in Islamic banks can be seen from the value of the self-assessment results, where the smaller the value produced, the better the level of governance in Islamic banks (Sry 2020).

Islamicity performance index

The Islamicity performance index (IPI) is one of the financial performance measurements that applies sharia principles in complying with the objectives of justice, halalness, and elaboration (*tazkiyah*) of Islamic banking financial practices (Ponirah et al. 2023). This measurement was developed by Hameed et al. (2004), which aims to see the performance measures of Islamic banks, which can later explain the materialistic and spiritual values. This is based on the development of current banking performance measurement methods, which are limited to materialistic measurements and do not consider the spiritual aspect. This means that there are still not many financial ratios that can measure the overall performance of Islamic financial institutions. Through this performance measurement, Islamic banks can measure material values and Islamically in their business activities, providing information regarding compliance with sharia principles to the community (Wahyuningtyas and Lutfiana 2022). For the measurement of IPI in this study, three ratios were used, including profit sharing ratio (PSR), zakat performance ratio (ZPR), and equitable distribution ratio (EDR) (Hameed et al. 2004; Ponirah et al. 2023).

Islamic social reporting

Islamic social reporting (ISR) is a form of transparency in disclosing social responsibility that integrates sharia values and principles. Haniffa (2002) first introduced the concept of ISR, which emphasized that spiritual aspects must also be a concern when reporting social responsibility, especially in Islamic banking (Heni and Emawati 2022). Then, the idea was developed by those who explained that ISR disclosure emphasizes social justice beyond reporting on the environment, minority interests, and employees. This is because reporting corporate social responsibility in the conventional system only focuses on material and moral aspects. The purpose of fulfilling social responsibility from an Islamic perspective is sustainable development that can provide opportunities for the Islamic financial sector to redefine its role in community empowerment, socio-economic development, and the environment (Farhan et al. 2021). By disclosing this social information, investors will be interested in investing their capital, which can ultimately increase the company's financial performance (Sulistiyo and Yuliana 2019). ISR is measured using an index with indicators developed by Othman, Thani, and Ghani (2009). The ISR measurement indicators have six dimensions: funding and investment, products and services, employees, society, environment, and governance.

Hypothesis development

Sharia enterprise theory asserts that managers are responsible for creating value while adhering to sharia principles and balancing stakeholder rights, including investors, employees, society, and God as the supreme owner of resources. Islamic corporate governance (ICG) operationalizes this theory by ensuring accountability, transparency, and ethical governance (Afdal and Agustin 2023). Empirical research by Umiyati, Maisyarah, and Kamal (2020); Romadhonia and Kurniawati (2022); Wahyuningtyas and Lutfiana (2022) confirm that ICG enhances financial performance. Thus, ICG reflects good Islamic governance and applies sharia enterprise theory to drive sustainable, sharia-compliant corporate performance.

H1: Islamic corporate governance (ICG) positively affects financial performance.

Profit-sharing financing serves as a mechanism for banks to balance risks and returns, ensuring a fair distribution of profits while enhancing overall profitability (Nawangsari et al. 2022). This aligns with sharia enterprise theory, which posits that businesses must operate beyond self-interest by adhering to sharia principles and upholding accountability to Allah SWT. As an application of this theory, profit-sharing ratios (PSR) influence financial performance by fostering ethical and sustainable financial practices. Empirical findings by Kusumawardani, Soediro, and Safira (2023); Ponirah et al. (2023) substantiate this relationship, reinforcing PSR's role in implementing sharia enterprise theory within Islamic financial institutions.

H2: profit-sharing ratio (PSR) positively affects financial performance.

Islamic banking activities must embody sharia compliance, ensuring adherence to Islamic principles in operations and financial reporting. This aligns with the sharia enterprise theory, which posits that businesses must integrate sharia values to fulfil ethical and religious responsibilities. The zakat payment ratio (ZPR) is a key indicator of compliance, reflecting social responsibility while enhancing stakeholder trust in Islamic financial institutions. Empirical studies by Mayasari (2020); Fatmala and Wirman (2021) confirm that ZPR positively influences financial performance, reinforcing its role as a practical application of sharia enterprise theory in fostering ethical, transparent, and sustainable Islamic banking practices.

H3: zakat performance ratio (ZPR) positively affects financial performance.

Islamic banking embodies the sharia enterprise theory, emphasizing accountability to Allah SWT and equitable wealth distribution to enhance societal welfare. This theory underscores the ethical obligation to balance stakeholder interests, fostering trust and long-term institutional loyalty (Kusumawardani, Soediro, and Safira 2023). A fair earnings distribution ratio (EDR) strengthens financial performance, ensuring sustainability and competitiveness within the Islamic financial system. Empirical studies by Afdal and Agustin (2023); Kusumawardani, Soediro, and Safira (2023) confirm that EDR positively affects financial performance, reinforcing its role as a mechanism for implementing sharia enterprise theory in Islamic banking practices.

H4: earnings distribution ratio (EDR) positively affects financial performance.

Implementing Islamic social responsibility (ISR) within the framework of sharia enterprise theory reflects the fulfilment of trust (*amanah*) and social responsibility based on Islamic values, strengthening stakeholder trust and contributing to the holistic improvement of financial performance. Sghaier, Jabeur, and Bannour (2018) argue that ISR can distinguish Islamic banks from their conventional counterparts, positively influencing profitability metrics such as return on equity (ROE) by fostering perceptions of greater ethicality and transparency. Similarly, Ledhem and Mekidiche (2020) find a statistically significant positive relationship between ISR and ROE, attributing this to improved corporate governance, a view further supported by Ali et al. (2022), who emphasize the correlation between comprehensive

ISR practices and enhanced financial performance. Aslam and Haron (2020) also highlight the role of corporate governance in strengthening ISR disclosures, noting that such improvements promote accountability and ethical management, thereby supporting financial outcomes. In the Indonesian context, provide evidence that ISR-driven transparency enhances ROE by attracting investment, lowering capital costs, and improving reputation and customer loyalty through CSR initiatives. Solihati et al. (2023) demonstrate that ICSR directs Islamic banks toward sustainability, significantly boosting ROE through ethical practices. Annuar and Ali (2021); Chandrasekaran (2022) emphasize ISR's role in fostering justice and reputational strength, which enhance customer loyalty and elevate ROE. Hashmi et al. (2022) highlight ISR's capacity to attract investments and mitigate risks via stakeholder trust, directly improving ROE.

H5: Islamic social reporting (ISR) positively affects financial performance.

Islamic social reporting (ISR) reflects a corporate commitment to sharia enterprise theory, which emphasizes accountability to Allah SWT in managing resources ethically and transparently. Companies with high ISR are perceived as socially responsible, fostering public trust and investor confidence (Wahyuni and Wafiroh 2023). This positive perception strengthens financial performance, as investors favor firms that align with Islamic ethical principles (Jihadi et al. 2021). Empirical research by Afandy, Usman, and Zoraya (2022) confirms that ISR moderates the relationship between Islamic corporate governance (ICG) and financial performance, reinforcing its role as a mechanism for implementing sharia enterprise theory in corporate governance.

H6: Islamic social reporting (ISR) moderates the relationship between Islamic corporate governance (ICG) and financial performance.

Islamic social reporting (ISR) implements the sharia enterprise theory, ensuring corporate disclosures align with sharia principles to fulfil stakeholder expectations and maintain trust. By promoting transparency and ethical accountability, ISR reinforces the core values of Islamic finance and strengthens corporate integrity (Farhan et al. 2024). This aligns with the role of profit-sharing ratios (PSR) in driving financial performance, as ethical disclosures enhance investor confidence. Empirical research by Ponirah et al. (2023) confirms that ISR moderates the relationship between PSR and financial performance, reinforcing its function as a mechanism for operationalizing sharia enterprise theory in financial reporting.

H7: Islamic social reporting (ISR) moderates the relationship between profit-sharing ratio (PSR) and financial performance.

Zakat disclosure within Islamic social reporting (ISR) reflects corporate adherence to sharia enterprise theory, emphasizing accountability to Allah SWT and social responsibility. Reporting zakat funds demonstrates a commitment to ethical obligations, enhancing stakeholder trust and corporate legitimacy. This transparency raises awareness, improves efficiency, and strengthens financial performance (Septian, Eliza, and Bahtiar 2022). Empirical research by Wardiwiyono and Jayanti (2021) confirms that ISR moderates the relationship between the zakat payment ratio (ZPR) and financial performance, reinforcing its role as a mechanism for implementing sharia enterprise theory in corporate social responsibility and financial disclosures.

H8: Islamic social reporting (ISR) moderates the relationship between the zakat performance ratio (ZPR) and financial performance.

Equal income distribution embodies sharia enterprise theory, emphasizing economic justice and corporate accountability to stakeholders and Allah SWT. In Islamic social reporting (ISR), employee and community welfare are central, with the earnings distribution ratio (EDR) serving as a key indicator of corporate commitment to social equity. A fair EDR strengthens corporate reputation, fosters stakeholder trust, and aligns with Islamic ethical values. Empirical research by Soediro and Meutia (2018) highlights that Islamic banks must

balance stakeholder interests while upholding sharia principles, reinforcing EDR's role in operationalizing sharia enterprise theory within Islamic financial institutions.
H9: Islamic social reporting (ISR) moderates the relationship between the zakat performance ratio (EDR) and financial performance.

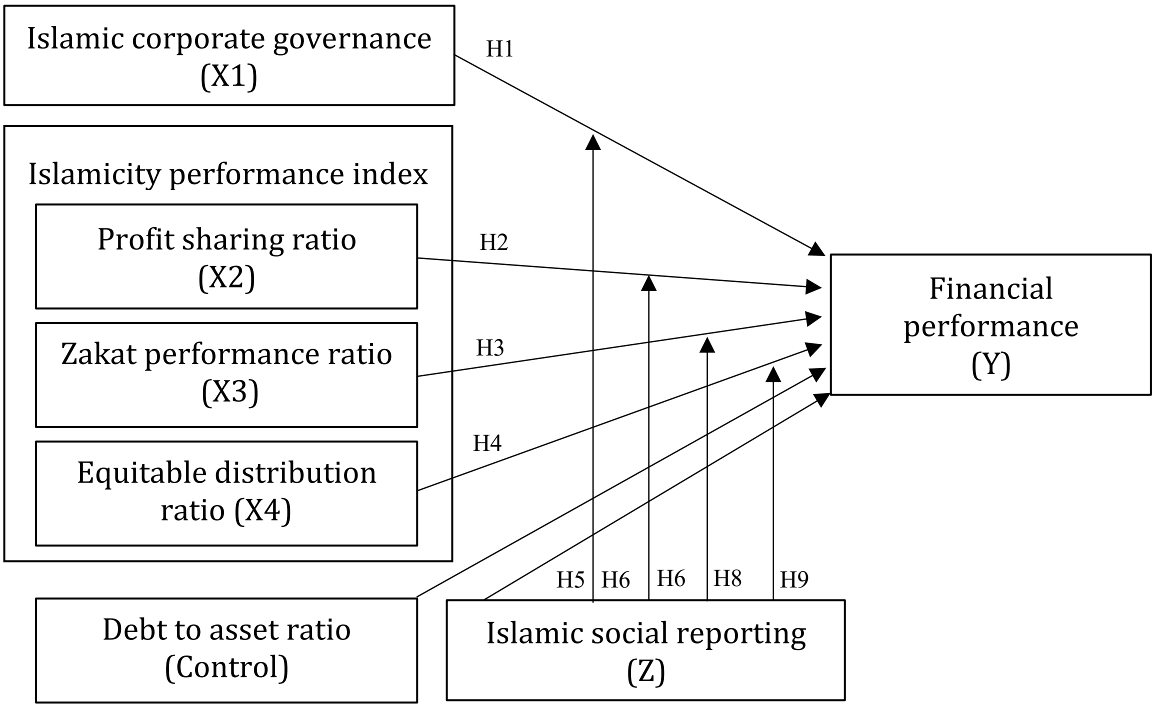

Figure 1 research model

Method

This quantitative study investigates the determinants of Islamic banking financial performance by examining the role of Islamic corporate governance (ICG), the Islamicity performance index (IPI), and the moderating effect of Islamic social reporting (ISR). Also, leverage is a control variable proxied by the debt-to-asset ratio (DAR) (Alnamlah et al. 2022). Financial performance is measured using return on equity (ROE), which reflects management efficiency in generating profits from equity, a crucial metric given that banks frequently utilize equity in their operational activities (Kusumawardani, Soediro, and Safira 2023). The study employs a purposive sampling technique, selecting Islamic commercial banks registered with the Financial Services Authority (FSA) that have published annual reports between 2019 and 2023 and disclosed the necessary information for analysis. These criteria selected 10 Islamic commercial banks over five years of observation as the research sample. Data was collected from the Financial Services Authority (FSA) and the official websites of the respective banks through their annual reports. The data was processed using the statistical data processing application SPSS and analyzed with moderated regression analysis. The sampling criteria are displayed in Table 1. The variables in this study consist of Islamic corporate governance (ICG), profit sharing ratio (PSR), zakat performance ratio (ZPR), and equitable distribution ratio (EDR) as independent variables. Financial performance is the dependent variable, Islamic social reporting is the moderating variable, and debt is the debt-to-asset ratio, the control variable. The measurement of variables is explained in Table 2.

Table 1 sampling criteria

No	Sample criteria	Amount
1	Islamic commercial banks registered with the Financial Services Authority of Indonesia during the 2019-2023 period	11
2	Islamic commercial banks that do not publish annual financial reports in the 2019-2023 period	(0)
3	Islamic commercial banks which do not have the required data related to measuring variables used in this study during the 2019-2023 period	(1)
4	Number of Islamic commercial banks to be studied	10
	Number of observation data for the 2019-2023 (annual financial reports) = 10 x 5	50

Source: secondary data (processed, 2024)

Table 2 operational definition of variables

Variables	Formula	Scale
Islamic corporate governance (X1)	$\text{ICG Index} = \frac{\text{Total score of disclosed items}}{\text{Total maximum score}}$ (Mardiani, Yadiati, and Jaenudin 2019)	Ratio
Profit sharing ratio (X2)	$\text{PSR} = \frac{\text{Mudharaba+Musharaka}}{\text{Total financing}}$ (Hameed et al. 2004)	Ratio
Zakat performance ratio (X3)	$\text{ZPR} = \frac{\text{Zakat}}{\text{Net assets}}$ (Hameed et al. 2004)	Ratio
Equitable distribution ratio (X4)	$\text{EDR} = \frac{\text{Qardh+Employee expenses+Dividends+Net profit}}{\text{Total net revenue}}$ (Hameed et al. 2004)	Ratio
Islamic social reporting (Z)	$\text{ISR} = \frac{\text{Total score of disclosed items}}{\text{Total maximum score}}$ (Othman, Thani, and Ghani 2009)	Ratio
Financial performance (Y)	$\text{ROE} = \frac{\text{Net profit}}{\text{Equity}}$ (Septian, Eliza, and Bahtiar 2022)	Ratio
Debt to asset ratio (K)	$\text{DAR} = \frac{\text{Total liabilities}}{\text{Total assets}}$ (Alnamlah et al. 2022)	Ratio

The regression model in this study is as follows:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5Z + \beta_6X_1{*}Z + \beta_7X_2{*}Z + \beta_8X_3{*}Z + \beta_9X_4{*}Z + e$$

Where:

Y = Financial performance
α = Constants
$\beta_1 \dots \beta_9$ = Regression coefficient
X1 = Islamic corporate governance (ICG)
X2 = Profit sharing ratio (PSR)
X3 = Zakat performance ratio (ZPR)
X4 = Equitable distribution ratio (EDR)
Z = Islamic social reporting (ISR)

X_1*Z = Interaction variable X1 with Z
X_2*Z = Interaction variable X2 with Z
X_3*Z = Interaction variable X3 with Z
X_4*Z = Interaction variable X4 with Z
e = Error

Results and discussion

Descriptive statistics

Descriptive statistical analysis is carried out to describe and provide an overview of the frequency distribution of variables in the study to make it easier to understand the problem being studied. Table 3 shows the results of the descriptive statistical examination.

Table 3 descriptive statistics

Variables	N	Minimum	Maximum	Mean	Std. deviation (SD)
ICG	50	0.760	0.960	0.84160	0.048460
PSR	50	0.100	0.946	0.58734	0.234358
ZPR	50	0.000	0.001	0.00020	0.000277
EDR	50	-0.991	1.100	0.42544	0.422837
ISR	50	0.395	0.791	0.68324	0.071684
ROE	50	-0.686	0.274	0.03001	0.146217
DAR	50	0.042	0.476	0.17724	0.084594
Valid N	50				

Source: secondary data (processed, 2024)

The descriptive data (Table 3) reveal key insights into the financial and governance conditions of the sampled institutions. Islamic corporate governance (ICG) is high and consistent (mean = 0.8416; SD = 0.0485), indicating strong and uniform governance practices. Similarly, Islamic social responsibility (ISR) is also relatively high (mean = 0.6832; SD = 0.0717), reflecting a strong commitment to ethical and social values. In contrast, the equity-to-deposit ratio (EDR) shows a wide variation (mean = 0.4254; SD = 0.4228), with some negative values suggesting differences in capital strength and possible financial instability. The zakat performance ratio (ZPR) is extremely low (mean = 0.0002), raising concerns about zakat fulfilment, which is fundamental in Islamic finance. The profit-sharing ratio (PSR) also varies widely (SD = 0.2344), indicating diverse operational and contractual approaches. Meanwhile, the return on equity (ROE) is modest (mean = 0.0300), with some institutions experiencing losses, pointing to profitability issues. The debt-to-asset ratio (DAR) remains low (mean = 0.1772), suggesting a cautious financing strategy aligned with Islamic principles. Overall, while governance and ethical practices appear strong, the financial performance is mixed, with notable gaps in zakat implementation and capital management.

Classical assumption test

This study's classical assumption test consists of normality, multicollinearity, heteroscedasticity, and autocorrelation tests. The data distribution can be seen from the normality test using the One-Sample Kolmogorov Smirnov test to see whether the data distribution is normal. The results show that asymp. sig. (2-tailed) value is 0,200, greater than the significance level (>) 0,05. Thus, the residual data in the regression model is normally distributed. The multicollinearity test (see Table 4) shows that all variables, both independent, dependent, moderate and control variables in this study have a variance inflation factor (VIF) value < 10 and a tolerance value > 0.10, so it can be stated that there are no symptoms of multicollinearity in the regression model of this study. The results of the heteroscedasticity test (see Table 5) show that all variables in this study have a significant value (sig.) > 0,05, so it can be concluded that there are no symptoms of heteroscedasticity in the regression model of this study. The results of the autocorrelation test using the Durbin Watson test (DW-Test) above (see Table 6) show that the regression equation model in this study has a Durbin Watson value of 1,167, which is between -2 and 2. Thus, there is no autocorrelation in this study's regression model.

Table 4 multicollinearity test

Model	Tolerance	VIF
ICG	0.443	2.257
PSR	0.464	2.153
ZPR	0.480	2.085
EDR	0.464	2.154
ISR	0.689	1.452
DAR	0.918	1.089

Source: secondary data (processed, 2024)

Table 5 heteroscedasticity test

Model	t	Sig.
ICG	1.136	0.262
PSR	-0.170	0.866
ZPR	0.412	0.683
EDR	-1,.357	0.182
ISR	-0.340	0.735
DAR	1.899	0.064

Source: secondary data (processed, 2024)

Determinant coefficient test

The results of the determination coefficient test above (see Table 6) show that the adjusted R square (R2) value is 0,809 or 80,9%. This shows that all independent variables (ICG, PSR, ZPR, and EDR) and the control variable proxied by DAR plus the moderating variable in the form of ISR can influence the dependent variable, namely financial performance (ROE) by 80,9% and other variables outside the study influence the remaining 19,1%.

Table 6 determinant coefficient test

Model	R	R-square	Adjusted R-square	Std. error of the estimate
1	0,921[a]	0,848	0,809	0,063899

Source: secondary data (processed, 2024)

Moderated regression results

Based on the results (see Table 7) of the moderate regression, the regression equation model in this study can be explained as follows:

$$ROE = -9{,}062 + 9{,}450ICG + 1{,}595PSR - 1660{,}415ZPR + 2{,}267EDR + 12{,}928ISR - 13{,}369ICG*ISR - 2{,}176PSR*ISR + 2357{,}035ZPR*ISR - 2{,}842EDR*ISR + e$$

Table 7 show that Islamic corporate governance (ICG) significantly impacts financial performance, as evidenced by a p-value of 0.032 (less than 0.05) and a positive regression coefficient of 9.450. This indicates that each one-unit increase in ICG enhances financial performance by 9.450 units. Consequently, the first hypothesis (H1) positing that ICG positively influences financial performance is accepted. Conversely, the regression analysis reveals that the profit-sharing ratio (PSR) does not substantially influence financial performance, with a p-value of 0.075 (greater than 0.05) and a statistically insignificant positive coefficient of 1.595. As a result, the second hypothesis (H2) suggesting that PSR affects financial performance is rejected. Moreover, this study substantiates that the zakat performance ratio (ZPR) notably influences financial performance, as indicated by a p-value of 0.031 (below 0.05) and a negative regression coefficient of -1660.415. This implies that each one-unit increase in ZPR diminishes financial performance by 1660.415 units. Therefore, the third hypothesis (H3), which posits that ZPR affects financial performance, is rejected because the effect is negative.

Table 7 moderated regression results

Model	Coefficient	Std. error	Beta	t-value	Sig.
(Constant)	-9,206	3,837		-2,400	0,021
ICG→ROE	9,450	4,240	3,132	2,229	0,032
PSR→ROE	1,595	0,871	2,557	1,830	0,075
ZPR→ROE	-1660,415	743,732	-3,145	-2,233	0,031
EDR→ROE	2,267	0,543	6,556	4,172	0,000
ISR→ROE	12,928	5,532	6,338	2,337	0,025
ICG*ISR→ROE	-13,369	6,124	-7,270	-2,183	0,035
PSR*ISR→ROE	-2,176	1,264	-2,221	-1,722	0,093
ZPR*ISR→ROE	2357,035	1042,240	3,243	2,262	0,029
EDR*ISR→ROE	-2,842	0,812	-5,797	-3,499	0,001
DAR→ROE	-0,148	0,114	-0,085	-1,300	0,201

Source: Data processed (2024)

On the other hand, the regression analysis demonstrates that the equitable distribution ratio (EDR) exerts a significant influence on financial performance, with a p-value of 0.000 (less than 0.05) and a positive coefficient of 2.267. This indicates that each one-unit increase in EDR enhances financial performance by 2.267 units. Consequently, the fourth hypothesis (H4) positing that EDR affects financial performance is accepted, reflecting a positive and significant impact. Furthermore, the analysis results indicate that Islamic social reporting (ISR) has a positive and significant effect on financial performance (ROE), with a regression coefficient of 12.928 and a p-value of 0.025 (< 0.05). Accordingly, the fifth hypothesis (H5), stating that Islamic social reporting (ISR) positively influences financial performance, is accepted. Additionally, the regression analysis reveals that the interaction between Islamic corporate governance (ICG) and Islamic social reporting (ISR) yields a p-value of 0.035 (below 0.05), confirming statistical significance. This result affirms that ISR significantly moderates the relationship between ICG and financial performance, thus accepting the sixth hypothesis (H6) that ISR moderates this relationship.

However, the regression results indicate that the interaction between profit sharing ratio (PSR) and Islamic social reporting (ISR) yields a significance value of 0.093 (greater than 0.05), signifying the absence of a significant moderating effect of ISR on the relationship between PSR and financial performance. Therefore, the seventh hypothesis (H7) proposing that ISR moderates this relationship is rejected. Additionally, the regression analysis confirms that the interaction between the zakat performance ratio (ZPR) and Islamic social reporting (ISR) yields a significance value of 0.029 (less than 0.05), affirming that ISR significantly moderates the relationship between ZPR and financial performance. Thus, the eighth hypothesis (H8) stating that ISR moderates this relationship is accepted. Finally, the regression analysis reveals that the interaction between equitable distribution ratio (EDR) and Islamic social reporting (ISR) yields a significance value of 0.001 (below 0.05), confirming that ISR significantly moderates EDR's influence on financial performance. Consequently, the ninth hypothesis (H9) stating that ISR moderates this relationship is accepted.

The influence of Islamic corporate governance (ICG) on financial performance

The empirical results underscore the beneficial and statistically significant role of Islamic corporate governance (ICG) in driving financial performance. This finding underscores the strategic importance of integrative governance control (IGC) as a foundational mechanism that enhances transparency, ensures accountability, and upholds compliance with sharia principles. By embedding ethical oversight within decision-making structures, IGC effectively mitigates the risk of resource misappropriation and lays the groundwork for long-term, sustainable development. Support from previous studies reinforces these results; Maulidar and Majid (2020); Siswanti et al. (2021) highlight the contribution of the sharia supervisory board in enhancing performance, while Darwanto and Chariri (2019); Safitri and Mukhibad (2020) associate effective ICG with a reduction in non-performing financing risks and improved profitability. Furthermore, sharia-based financial mechanisms have demonstrated resilience during economic crises, characterized by lower volatility and strong risk mitigation strategies, as evidenced by the superior performance of sharia ETFs compared to non-sharia ETFs (Prati et al. 2025) and the positive socio-economic impact of Islamic finance (Subekti, Abdurakhman, and Rosadi 2022). Despite the existence of mixed findings Sari, Hudaya, and Imtikhanah (2020); Afdal and Agustin (2023), the majority of evidence from Wahyuningtyas and Lutfiana (2022); Wibisana and Saadati (2022); Rahmawati and Rofiuddin (2023) support the positive impact of ICG.

Sharia enterprise theory views that this positive effect is attributed to Islam's ethical and moral principles, which create a governance structure that enhances transparency and stakeholder trust, aligning with the theory that good governance drives improved financial performance. The realities observed in the field and existing data, as noted by Siswanti et al. (2017); Darma and Afandi (2021), reveal that Islamic banks grounded in Islamic values exhibit lower risks and better financial outcomes. Given the growing demand from investors for stability and ethical assurance, regulators are compelled to enforce stricter Integrative corporate governance (ICG) standards within Islamic financial institutions. Strengthening governance frameworks is critical to protect the sector's resilience during crises and reinforce public trust. Islamic financial institutions must align their internal governance structures accordingly, ensuring that sharia-compliant products meet ethical expectations and demonstrate financial reliability and competitive strength in a volatile market environment (Otaviya and Rani 2020).

The influence of profit-sharing ratio (PSR) on financial performance

The research findings indicate that the profit-sharing ratio (PSR) does not significantly influence financial performance, as measured by return on equity (ROE). This suggests that, empirically, the profit-sharing mechanism has yet to function optimally in enhancing the performance of Islamic banks. The results reveal a disjunction between the idealized notion of profit and loss sharing (PLS) as a mechanism to promote efficiency and distributive justice and the prevailing practices within Islamic banking institutions, which tend to prioritize transactional security and systematically shift risk away from the banks themselves. This reflects that the spirit of partnership and risk-sharing—which forms the foundation of PSR—has not been fully internalized within the business model of Islamic banks. Consistent with this finding, studies by Fatmala and Wirman (2021); Rahmawati and Rofiuddin (2023) also show that PSR has no significant relationship with financial performance. Meanwhile, Romadhonia and Kurniawati (2022); Kusumawardani, Soediro, and Safira (2023) present differing results, indicating that the influence of PSR is contextual and depends on the institutional environment and governance structures in place. Moreover, Mukhibad and Khafid (2018) assert that corporate governance has a stronger impact on performance than PSR.

These results can be explained through the lens of sharia enterprise theory, which emphasizes the values of justice, participation, and social welfare. The ineffectiveness of PSR in enhancing ROE reflects the weak integration of ethical principles into the operations of Islamic banks, one of the causes being the role of the sharia supervisory board, which remains focused on product compliance rather than systemic ethical oversight (Soediro, Kusumawardani, and Adhitama 2020; Maali, Hassan, and Rashid 2024). Additionally, the dominance of non-participatory financing, such as *Murabaha*, undermines the role of PSR, as the risk is entirely borne by the customer (Sabiu and Abduh 2021; Armia, Armia, and Syarif 2024). These findings underscore the necessity for comprehensive reforms within Islamic financial practices, including redefining the sharia supervisory board's role as a custodian of ethical integrity, enhancing profit-sharing-based financing mechanisms, and embedding the principles of Maqasid al-sharia within the core business models of Islamic banks. Such reforms aim to ensure that financial performance is aligned with fundamental Islamic values, notably justice, sustainability, and the promotion of public welfare.

The influence of zakat performance ratio (ZPR) on financial performance

The study finds that the zakat performance ratio (ZPR) has a significant detrimental impact on financial performance (ROE), indicating that greater zakat disbursement performance tends to lower Islamic banks' profitability. This finding highlights a fundamental ethical tension Islamic financial institutions face: the challenge of reconciling their normative commitment to moral and social responsibility with the pragmatic demands of ensuring ongoing financial viability. When zakat is disbursed without strategic planning and integration with financial policies, such expenditures may reduce internal resources that could be used to support business expansion and strengthen performance. This highlights the importance of structured zakat management in avoiding becoming an unproductive financial burden. This finding aligns with the studies by Rehman et al. (2020); Rahmawati and Rofiuddin (2023), which note that CSR disclosures, including zakat, can negatively affect performance. Ali et al. (2021) also demonstrate that an imbalance between social responsibility and profit objectives can weaken a company's financial health. On the other hand, studies by Mayasari (2020); Destiani, Juliana, and Cakhyaneu (2021) reveal a positive impact of zakat on performance, while Purwati, Kasdi, and Rokhman (2022) found no significant relationship. Iman et al. (2022) even emphasize that the role of zakat is more social than financial.

These results present a challenge when analyzed from the perspective of sharia enterprise theory. The theory assumes that fulfilling ethical obligations such as zakat will strengthen stakeholder relationships and support sustainability. However, the lack of integration between zakat strategies and financial planning may lead to liquidity pressures and disrupt operational stability (Jalali, Jaafar, and Ramayah 2020; Wahyuni-TD, Haron, and Fernando 2021). These findings imply that Islamic financial institutions must establish a zakat framework systematically and thoroughly embedded within their business operations and financial strategy to ensure effective alignment with their ethical and organizational mandates. Zakat should be viewed not merely as a sharia obligation but as part of a sustainable governance system that balances social responsibility with financial performance, ensuring its impact is not counterproductive to the institution's long-term objectives.

The influence of equitable distribution ratio (EDR) on financial performance

Correspondingly, the analysis results indicate that the equitable distribution ratio (EDR) has a positive and statistically significant effect on financial performance, as measured by return on equity (ROE). This implies that higher income and social benefit distribution are associated with increased profitability in Islamic banks. The outcome further suggests that justice in allocating wealth transcends mere compliance with Sharia mandates, serving as a vital catalyst for cultivating an equitable and inclusive economic ecosystem that prioritizes communal prosperity and social cohesion. Such implementation enhances stakeholder trust, including investors and customers, and reinforces institutional loyalty. Several previous studies support this finding, such as Cahya et al. (2021); Nasokha and Yudiana (2022); Wahyuningtyas and Lutfiana (2022), which found that the principle of fair distribution positively affects financial performance through increased customer loyalty and ethical compliance. Novitasari, Aviyanti, and Ismail (2022) also stated that the ratio of zakat implementation could serve as a proxy for institutional effectiveness, ultimately strengthening financial outcomes. Meanwhile, studies by Mayasari (2020); Amala et al. (2023) did not find significant effects, indicating the possibility of contextual variation in implementation across institutions.

Within the framework of sharia enterprise theory, this result aligns with the view that distributive justice is a central pillar in balancing ethical and financial objectives. A high EDR reflects an institutional commitment to Maqasid al-sharia, particularly in ensuring public benefit (*maslahah*) and social justice. Thus, applying equitable distribution principles contributes to the institution's positive reputation and long-term operational stability (Atmeh, Maali, and Fendi 2024). These implications call for prioritizing the integration of justice as a foundational principle within Islamic financial institutions' financial strategies and governance mechanisms to foster equitable and sustainable development. An EDR integrated with business policies can catalyze creating economic value while simultaneously fulfilling social responsibilities, thereby strengthening the competitive position of Islamic banks in a modern financial system that demands sustainability and public trust.

The influence of Islamic social reporting (ISR) on financial performance

The study confirms that Islamic social reporting (ISR) positively and significantly influences financial performance (ROE), reflecting the strategic importance of social accountability in enhancing the performance of Islamic financial institutions. The evidence suggests that Islamic social responsibility (ISR) transcends its conventional role as an ethical reporting mechanism, emerging as a critical strategic asset that enhances organizational legitimacy, cultivates trust among diverse stakeholders, and generates tangible economic benefits through improved customer retention and increased investor interest. However, in institutions with a high level of ISR, the effectiveness of Islamic corporate governance (ICG) in driving financial performance may be reduced. This is likely due to heightened social expectations for institutional accountability and stricter normative constraints on strategic decision-making, reducing managerial flexibility in responding to market dynamics. Several studies support this finding: Solihati et al. (2023) show that ICSR promotes sustainability and significantly increases ROE through ethical practices. Annuar and Ali (2021); Chandrasekaran (2022) emphasize the role of ISR in reinforcing justice and reputation, which leads to increased customer loyalty and financial performance. Hashmi et al. (2022) highlight ISR's ability to attract investment and mitigate risk through increased stakeholder trust. ISR enhances financial performance by aligning with Islamic ethics and promoting transparency. Sghaier, Jabeur, and Bannour (2018) show that ISR differentiates Islamic banks and improves ROE by boosting investor confidence. Ledhem and Mekidiche (2021) find a positive link between ISR and ROE, supported by improved governance. Aslam and Haron (2020) highlight that stronger governance enhances ISR disclosure, fostering ethical management and better financial outcomes. In Indonesia, Merdian and Waspada (2020) confirm that ISR improves ROE through transparency, attracting investment, and strengthening reputation. From the perspective of sharia enterprise theory, ISR functions as a means of actualizing the values of justice, social responsibility, and transparency, enhancing the institution's social legitimacy and supporting long-term financial stability. These findings imply that Islamic social responsibility (ISR) should be embedded as a fundamental element within business strategy and Sharia governance frameworks to ensure alignment with organizational objectives and ethical mandates. High-quality and consistent ISR integration not only strengthens the institution's ethical reputation but also has the potential to become a sustainable source of competitive advantage amid increasing market demands for ethical and sustainable practices.

The moderating effect of Islamic social reporting (ISR) on the relationship between Islamic corporate governance (ICG) and financial performance

Furthermore, the analysis reveals that the interaction between Islamic corporate governance (ICG) and Islamic social reporting (ISR) exerts a statistically significant influence on financial performance, as measured by return on equity (ROE). The results imply that the robust implementation of Islamic social responsibility (ISR) may significantly amplify the efficacy of Integrative governance control (IGC), thereby serving as a key determinant in improving the financial performance of Islamic financial institutions. By promoting transparency, ethical behavior, and broad accountability to God, society, and the environment, ISR reinforces the influence of ICG, resulting in a more integrated governance and a positive impact on financial performance. In the context of sharia enterprise theory, which emphasizes comprehensive corporate accountability, the collaboration between ISR and ICG demonstrates a strong synergy in building a governance system that is compliant with Sharia principles and balances social and environmental concerns. This is supported by Wahyudi, Sabrina, and Pratiwi (2023), who state that ISR practices can enhance reputation and stakeholder trust, ultimately supporting long-term financial growth. Additionally, transparency in social reporting enables the public to assess a company's compliance with Sharia principles, as explained by Zain et al. (2024). Previous studies also indicate that ISR integration strengthens the relationship between governance and performance: Mustika, Rachmadani, and Indriyani (2021); Nugroho et al. (2022) demonstrate that ISR can build stakeholder trust, thus impacting financial outcomes. Meutıa, Aryani, and Widyastuti (2019); Indarningsih and Rokhimah (2024) also found that Islamic banks with strong Islamic social reporting exhibit superior performance. The role of a competent sharia supervisory board in ensuring ISR quality also strengthens ICG's influence on ROE (Siswanti 2019; Susbiyani, Halim, and Animah 2023). The evidence indicates that embedding Islamic social responsibility (ISR) firmly within governance frameworks is crucial for ensuring compliance with Islamic ethical principles while simultaneously driving sustainable growth and reinforcing the competitive edge of Islamic financial institutions in a rapidly changing market environment. Therefore, institutions must consistently integrate ISR principles into their governance framework to gain public trust and maintain financial stability.

The moderating effect of Islamic social reporting (ISR) on the relationship between profit sharing ratio (PSR) and financial performance

However, based on the analysis, the interaction between the profit-sharing ratio (PSR) and Islamic social reporting (ISR) does not exhibit a statistically significant effect on financial performance, as measured by return on equity (ROE). Despite its positive contribution to transparency and ethical accountability, the implementation of Islamic social responsibility (ISR) does not reinforce the effect of profit and loss sharing (PLS) practices on the financial outcomes of Islamic banks. This suggests a limitation of ISR in moderating the relationship between the profit-sharing system and the profitability of Islamic financial institutions. Previous studies support this finding, whereas Wahyuantika et al. (2023); Yasin et al. (2023) noted that although PSR contributes to the performance of Islamic banking, ISR disclosure rarely amplifies its financial effects. Conversely, Ponirah et al. (2023) indicated the possibility of a moderating role in specific contexts, highlighting contextual variations.

According to sharia enterprise theory, which emphasizes ethical accountability to God, society, and the environment, this result can be explained by the descriptive and voluntary nature of ISR, which limits its ability to reinforce operational mechanisms such as PSR (Farhan et al. 2024). Although ISR has the potential to build reputation and trust (Wahyudi, Sabrina, and Pratiwi 2023), to provide better assessments of compliance with sharia principles (Zain et al. 2024), its non-mandatory nature and low adoption rates limit its influence on PSR. This finding points to the need for Islamic banks to develop and implement more targeted and well-structured ISR strategies that directly support financial sustainability, ensuring that social responsibility efforts deliver measurable value within the operational framework of Islamic banking. Islamic banks must view ISR as an integral part of governance that supports efficiency, justice, and sustainability rather than merely as a reporting obligation. A more strategic approach can enhance the influence of ISR on financial performance, particularly by increasing its adoption and more consistent implementation.

The moderating effect of Islamic social reporting (ISR) on the relationship between zakat performance ratio (ZPR) and financial performance

The analysis further demonstrates that the interaction between ZPR and ISR has a notable and statistically significant impact on financial performance (ROE). This suggests that effective zakat management, supported by robust social reporting, can enhance profitability. The result indicates that the effective application of Islamic social responsibility (ISR) is positively associated with increased financial outcomes derived from zakat distribution, suggesting a reinforcing effect that enhances the economic impact of this key Islamic social finance instrument. Previous studies, such as those conducted by Novitasari, Aviyanti, and Ismail (2022), demonstrated that well-managed zakat could influence the operational effectiveness of Islamic banks, while transparency through ISR can increase stakeholder trust and reinforce institutions' overall success. Athief et al. (2022) also emphasized the efficiency of zakat collection and distribution and its impact on economic stability and growth, supporting the notion that zakat serves as a means to enhance social justice. Wardiwiyono and Jayanti (2021) further strengthened this finding by stating that ISR positively influences the relationship between ZPR and financial performance.

The rationale behind the positive effect can be linked to the sharia enterprise theory, which stresses the accountability of Islamic banks to shareholders, God, society, and the environment. ISR supports transparency in zakat utilization, strengthens stakeholder relationships, and supports financial sustainability. Successful ISR implementation can enhance the reputation of Islamic banks, attract customers and investors aligned with Sharia values, and improve financial performance. Although there is variability in ISR implementation, this finding suggests that transparency and effective zakat management can reinforce the link between social obligations and sustainable financial outcomes. This finding highlights the practical necessity for Islamic banks to improve the quality and consistency of their Islamic social reporting (ISR) practices to fully realize the potential of the zakat performance ratio (ZPR), ensuring that both financial sustainability and social accountability objectives are effectively met. Transparent and strategic ISR implementation increases stakeholder trust and strengthens the relationship between the bank and the community, demonstrating the bank's commitment to Sharia principles and social responsibility. Through ISR, Islamic banks can show the public that they are not only profit-oriented but also committed to achieving broader social and economic goals, such as poverty alleviation and community economic empowerment through zakat.

The moderating effect of Islamic social reporting (ISR) on the relationship between equitable distribution ratio (EDR) and financial performance

Additionally, the findings indicate that the combined influence of the equitable distribution ratio (EDR) and Islamic social reporting (ISR) significantly affects financial performance (ROE), suggesting that the alignment of equitable distribution practices with social disclosures contributes to enhanced profitability. This finding affirms the normative significance of Islamic social responsibility (ISR) in reinforcing the moral imperative of equitable distribution, ultimately contributing to improved financial performance by aligning institutional outcomes with principles of justice and social welfare. It demonstrates that the transparency offered by ISR can improve the effectiveness of equitable distribution, contributing to better financial performance in Islamic financial institutions. Previous studies support this finding by showing that integrating ISR with equitable distribution strategies can enhance the financial performance of Islamic financial institutions. Kholidah et al. (2025) emphasized the importance of social transparency in attracting investment, while Pambekti, Yusfiarto, and Nugraha (2022) asserted that ethical accountability within ISR aligns with the Maqasid sharia framework, which promotes welfare and justice in financial transactions (Soediro and Meutia 2018).

Based on sharia enterprise theory, which prioritizes ethical accountability and Maqasid sharia, ISR enhances transparency and stakeholder trust by aligning organizational practices with Islamic principles. Integrating ISR with equitable distribution strategies enables Islamic financial institutions to fulfil ethical obligations while improving efficiency in capital allocation. This supports better financial performance because transparent and accountable distribution transparency fosters stakeholder loyalty and increases the attractiveness of Islamic financial institutions to investors and customers (Jati et al. 2020; Ikra et al. 2021; Solihati et al. 2023). Research by Aracil (2019); Budi et al. (2019) indicated that sound ISR strengthens ethical appeal and facilitates customer loyalty, contributing to enhanced financial performance. These findings carry important managerial implications for Islamic banks and financial institutions, highlighting the strategic value of aligning Islamic Social Responsibility (ISR) initiatives with equitable distribution practices (EDR) to enhance institutional performance and stakeholder engagement. Transparent and strategic ISR implementation fulfils ethical obligations and contributes to more efficient capital allocation, ultimately supporting financial growth and sustainability. Strong ISR implementation can enhance institutional reputation, attract investment, and strengthen customer relationships. Therefore, Islamic banks must position ISR as an integral part of their strategy to achieve long-term sustainability goals and ensure that equitable distribution is accountable and capable of delivering optimal financial outcomes.

Conclusions

This study elucidates the interplay between Islamic corporate governance (ICG), profit sharing ratio (PSR), zakat performance ratio (ZPR), equitable distribution ratio (EDR), and Islamic social reporting (ISR) in driving the financial performance of Islamic banks. The findings affirm that Islamic corporate governance (ICG), equitable distribution ratio (EDR), and Islamic social reporting (ISR) have a significant positive effect on financial performance, affirming their strategic importance in enhancing value creation within Islamic financial institutions. Conversely, the zakat performance ratio (ZPR) negatively impacts financial performance, suggesting inefficiencies in zakat management or its short-term financial trade-offs. Meanwhile, the profit-sharing ratio (PSR) shows no significant influence, indicating its limited role in financial outcomes. Furthermore, ISR serves as a crucial moderating factor, strengthening the relationship between ICG, ZPR, and EDR with financial performance while failing to moderate the effect of PSR.

Theoretically, these insights enrich the sharia enterprise theory by affirming ethical governance while challenging assumptions about the universal financial benefits of Sharia-compliant practices like PSR and ZPR. Practically, Islamic banks should strengthen ICG to enhance ethical and financial resilience, re-evaluate PSR as a strategic tool, and strategically manage ZPR to balance ethical and financial goals. Leveraging EDR can drive stakeholder engagement and financial success while enhancing ISR, which amplifies governance and fosters stakeholder trust through transparency. However, the study's reliance on secondary data and specific context may limit broader applicability, overlooking individual bank variations. Future research should explore diverse regulatory contexts, incorporate primary data, and assess long-term effects while investigating factors like corporate culture or stakeholder engagement to advance Islamic banking practices globally. These managerial implications, strengthening ICG, optimizing PSR and ZPR, leveraging EDR, and enhancing ISR, provide a roadmap for Islamic banks to achieve ethical and financial sustainability, ensuring alignment with Sharia principles while maximizing stakeholder value and governance efficacy.

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