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Circular causality model: the relationship between GCG, CSR, intellectual capital, financial risk, and Islamic financial performance

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Abstract
Purpose – This study aims to investigate the effects of good corporate governance (GCG), corporate social responsibility (CSR), intellectual capital (IC), financial risk, and sharia financial performance using the circular causality model in Indonesian Islamic banking. **Method** – The research population consisted of Islamic commercial bank (ICB) published by Bank Indonesia from 2015 to 2020. Purposive sampling was applied to select 48 annual reports from various Islamic banks. These reports were analyzed through the circular causality framework by examining causal relationships between variables using simultaneous equations and the dynamic two-stage least squares (2SLS) method with EViews 9 software. **Findings** – The results indicate that GCG negatively impacts Islamic financial performance. Similarly, CSR negatively affects financial performance, whereas IC shows no significant effect. No bidirectional influence was found between GCG and IC. Likewise, GCG and CSR do not influence each other. Neither GCG nor financial risk showed mutual effects. CSR and IC were not significantly related, but CSR and financial risk negatively affected each other. There was no influence between IC and financial risk. **Implications** – This study offers theoretical contributions by applying the circular causation approach (TSR), providing updated methodologies and managerial insights, and supporting FSA in developing performance indices for Islamic finance based on performance size ratios.
Keywords: Islamic financial performance, GCG, CSR, risk financing, intellectual capital.

Introduction
The development of Islamic banking in Indonesia has shown a strong upward trend, not only in scale but also in quality. This progress is closely linked to the application of sharia principles, which create fundamental differences between Islamic and conventional banking, especially regarding operational practices and performance evaluation. In Islamic commercial banking, financial performance is an important indicator for assessing the extent to which institutional objectives have been met. Due to the distinct nature of Islamic banking, conventional performance measurement tools may not be entirely suitable; therefore, a specialized approach aligned with sharia values is required. To address this, Ibrahim et al. (2010) proposed two specific indices to evaluate Islamic banks regarding transparency and performance: the sharia disclosure index and the sharia performance index. The sharia disclosure index consists of three core components: compliance with sharia law, governance practices, and social and environmental responsibility. This index offers guidance for Islamic financial institutions, particularly sharia-based banks, in implementing good corporate

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governance (GCG) that integrates sharia-oriented corporate social responsibility (CSR). Meanwhile, the Islamic performance index assesses how effectively Islamic banks operate. It utilizes various indicators derived from their annual financial disclosures, including the profit-sharing ratio (PSR), zakat performance ratio (ZPR), equitable distribution ratio (EDR), welfare ratios for both management and staff, the proportion of sharia-compliant investments to total investments, the ratio of income earned from Islamic versus non-Islamic activities, and the AAOIFI Index.

Good corporate governance (GCG) is grounded in agency theory, highlighting the interaction between two parties: management agents and owners principals. Typically, management has more detailed knowledge of the company's actual condition than owners, potentially leading to conflicts of interest. Such conflicts arise because agents may not always prioritize the principal's interests, causing agency costs. Effective implementation of GCG helps resolve these conflicts between owners and managers (Buallay 2019; Karbhari, Alam, and Rahman 2020). In Indonesia, the introduction of GCG in Islamic banking began with the issuance of Bank Indonesia regulation 8/4/PBI/2006, mandating the application of GCG principles in all commercial banks, including Islamic banks. However, since 2010, this regulation was replaced by Bank Indonesia regulation 11/33/PBI/2009, which governs GCG implementation for Islamic commercial banks and business units. The updated regulation reflects the necessity for GCG to align with Islamic principles, emphasizing the role of the internal sharia supervisory board (SSB) in overseeing GCG mechanisms within Islamic banks. This study differs from prior research by measuring GCG through a composite self-assessment score obtained directly from Islamic banks.

Corporate social responsibility (CSR) and GCG are distinct but interrelated concepts, each holding significant importance in the business world (Karbhari, Alam, and Rahman 2020). In Islamic banking, CSR is integral to fulfilling Sharia principles, transcending mere legal obligation to encompass accountability to God, society, and the universe. The Islamic Financial Services Board (IFSB) (2023) formalized CSR disclosure standards explicitly tailored for Islamic banking, referred to as Islamic social reporting (ISR). This framework, guided by AAOIFI standards, is a benchmark for Islamic banks' social responsibility reporting. Despite this, ISR reporting in Indonesia remains slow and voluntary. Unlike Malaysia, Sudan, Bahrain, the UAE, Kuwait, and Qatar, where ISR has become mandatory in Islamic financial reporting, Indonesia lacks specific regulations on ISR disclosure items.

Companies' future success increasingly depends on how healthy management leverages intangible assets, including intellectual capital (IC) (Rehman, Aslam, and Iqbal 2022). However, current accounting standards fall short of adequately recognizing and reporting investments in intangible resources beyond intellectual property, often treating these expenditures as costs rather than assets that generate future economic benefits. Many Indonesian firms still operate on conventional bases with limited technological innovation (Eniola and Entebang 2015), often neglecting vital components of IC such as human, structural, and customer capital. Babajee and Seetanah (2022) suggested measuring IC indirectly by evaluating the efficiency of value added through intellectual capabilities using the value-added intellectual coefficient (VAIC). IC considers The banking sector highly intensive (Firer and Williams 2003), with a more homogeneous intellectual workforce than other sectors (Finkelstein 2010). Research by Tan, Plowman, and Hancock (2007); Haris et al. (2019) confirms a positive relationship between IC and financial performance. Conversely, some studies, including Firer and Williams (2003), found no significant impact of IC on company performance.

The corporate governance principles include the professional management of business risk as a core element of GCG. In banking, risk refers to unpredictable events that could negatively affect income and capital. Amijaya and Alaika (2023) found that financial risk did not affect the financial performance of Islamic commercial banks. This finding contradicts earlier research by Isabwa and Mabonga (2020), who state that rising non-performing loans (NPLs) will deteriorate banking performance. This also contrasts with the findings by Mawardi (2010). Using the circular causation model, this study seeks to explore the relationships between GCG, CSR, IC, financial risk, and Islamic financial performance in Indonesian Islamic banks. This approach, also called the Tawhidi approach, dynamically views each variable as influencing the others based on the principles of interaction, integration, and evolution (IIE). While numerous studies have investigated GCG and CSR, research focusing specifically on implementing GCG, CSR, IC, and financial risk regarding Islamic financial performance in Indonesia's Islamic banking sector remains limited. This study addresses this gap by applying a welfare-oriented perspective grounded in the tawhidi string relationship (TSR) theory, offering a novel approach distinct from previous research.

Literature review

Agency theory

Agency theory, introduced by Jensen and Meckling (1976), explains the relationship between owners (principals) and managers (agents) within an organization. It also emphasizes the importance of recognizing stakeholders and prioritizing moral principles beyond the interests of shareholders alone. The theory assumes that the principal-agent relationship should be founded on mutual trust, honesty, and loyalty (Kalyebara and Islam 2014). This theory highlights potential conflicts of interest and information asymmetry between owners and managers. In the context of Islamic corporate social responsibility (ICSR), intellectual capital (IC), and Islamic corporate governance (ICG), agency theory helps explain how governance and social responsibility mechanisms can mitigate agency problems and enhance company performance.

Tawhidi string relationship (TSR) theory

Transactions govern human interactions, evolving alongside technology and human needs. As business models change, responses must consider both benefits and harms and sharia law, given Muslims' distinct worldviews (Azma, Tazkiyah, and Abdurrahman 2024). The theory of transactions has developed through behavioral and civilizational stages, particularly with introducing the interaction, integration, and evolution methods within the tawhidi string relation (TSR) framework. Philosopher Choudhury (2014) views this unity of science as a holistic epistemology rooted in divine law, with knowledge originating from God, the creator.

Financial performance

Islamic banks must ensure their operations comply with sharia principles while serving various stakeholders (Ibrahim et al. 2010). Islamic banks publish annual reports that include two indices developed by Ibrahim et al. (2010) to assist stakeholders in evaluating these activities: the sharia disclosure index and the sharia performance index. The sharia disclosure index comprises three key indicators: sharia compliance, corporate governance, and social/environmental responsibility. This index is a guideline for Islamic financial institutions to apply GCG and CSR principles grounded in sharia values. The sharia performance index measures Islamic banks' performance based on data such as the profit-sharing ratio (PSR), zakat performance ratio (ZPR), and equitable distribution ratio (EDR).

Good corporate governance (GCG)

The National Committee for Government Policy (NCGP) defines corporate governance as mechanisms directing and controlling company operations by stakeholder expectations. The general guidelines for good corporate governance in Indonesia emphasize transparency, accountability, responsibility, independence, fairness, and equality (Sulila 2022). In Islam, corporate governance is a comprehensive concept that prioritizes good morals and God-consciousness, preventing unethical and fraudulent behavior (Reskino et al. 2023). It stresses honesty in fulfilling mandates (Hirsanuddin and Martini 2023). Islamic corporate governance draws upon the hadith of the prophet Muhammad, which encourages doing good deeds sincerely. Islamic corporate governance should be based on monotheism, piety, justice, equality, and prosperity (Alaqil 2019).

Corporate social responsibility (CSR)

The World Business Council for Sustainable Development (WBCSD) defines CSR as a company's ongoing commitment to ethical behavior that contributes to economic development while improving the quality of life for employees, their families, and the community. From an Islamic accounting perspective, merely reporting social activities is insufficient, sharia principles demand justice and fairness in all business dealings (Alsaadi, Ebrahim, and Jaafar 2017). Surah Al-Baqarah (Verse 282) instructs believers to act justly in trade to prevent harm and conflict, ensuring accountability before Allah SWT. As caliphs and servants of Allah, humans bear responsibility for their actions and must be accountable to God (Ghafran and Yasmin 2020). This study adopts the Islamic social reporting framework established by AAOIFI, focusing on disclosures related to funding, investment, products, services, employees, society, environment, and welfare.

Intellectual capital

Intellectual capital refers to the intangible knowledge assets of a company that provide business advantages and add value beyond physical resources (Kamukama 2013). It encompasses intangible assets from markets, intellectual property, infrastructure, and human resources essential for company operations. The three core components of IC: human capital, structural capital, and customer capital (Ali et al. 2021).

Risk financing

Risk is defined as the potential occurrence of an event causing loss. The Global Association of Risk Professionals (2005) describes risk as the chance of an adverse outcome, which may cause harm if not anticipated or managed effectively. According to FSA regulation 65/POJK.03/2016, risks faced by Islamic banks include credit risk (financing risk), market risk, liquidity risk, operational risk, legal risk, reputation risk, strategic risk, compliance risk, return risk, and investment risk.

Hypothesis development

Islamic corporate governance (ICG) is crucial in mitigating conflicts of interest by implementing sharia principles that stress fairness, transparency, and accountability. According to the agency theory, this relationship between owners (principals) and managers (agents) often faces potential conflicts. Klapper and Love (2004) found a positive correlation between corporate governance and firm performance, a finding further supported by Natto and Mokoteli (2025), who reported a significant positive impact of corporate governance on company performance.

H1: GCG positively affects Islamic financial performance.

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Islamic corporate social responsibility (ICSR) emphasizes strict adherence to sharia law across all social and business activities, ensuring all corporate actions comply with Islamic ethics, environmental stewardship, and social welfare (Mallin, Farag, and Ow-Yong 2014). This aligns with agency theory, which links principals and agents, and research by Balabanis, Phillips, and Lyall (1998) showing CSR disclosures positively relate to profitability. Thuy et al. (2021) state that CSR disclosure significantly enhances financial performance.

H2: CSR positively affects Islamic financial performance.

Intellectual capital enhances Islamic financial performance by boosting efficiency, revenue, risk management, reputation, and competitive advantage. From an agency perspective, transparent and accountable IC management reduces agency problems. Firms investing in IC and considering stakeholder interests tend to build stronger trust and achieve better long-term financial outcomes. This study utilizes the Islamicity Index to measure real performance and the value-added intellectual coefficient (VAIC) model by Pulic (2000) to assess intellectual capacity.

H3: IC positively affects Islamic financial performance.

Agency theory explains the critical role of effective financial risk management in enhancing Islamic financial performance and reducing principal-agent conflicts. Competent management prudently manages risks to maximize long-term value, benefiting owners. Strong governance and aligned incentives ensure that management acts in the owners' best interests. The tawhid perspective adds an ethical dimension, emphasizing management's sharia-compliant risk and performance management responsibility. Khasawneh and Al-Khadash (2014) research in the MENA region showed that higher loan risk impacts banking performance.

H4: risk financing positively affects Islamic financial performance.

Islamic corporate governance (ICG) is vital in resolving conflicts of interest within Islamic banks by enforcing stringent sharia principles. Mollah and Zaman (2015) asserted that effective ICG implementation improves Islamic banks' performance through greater transparency and accountability. The relationship between Islamic financial performance and GCG is mutually reinforcing. Strong GCG establishes a foundation for sustainable financial results, while solid financial performance supports and motivates governance practices. Agency theory suggests GCG aligns management and ownership interests toward optimal performance. The tawhid perspective enriches this by emphasizing holistic responsibility, balance, justice, and Sharia compliance as the basis for effective governance and blessed financial outcomes. Financially healthy firms maintain transparency and accountability, thus strengthening stakeholder trust. This study adopts Choudhury's (2014) interaction, integration, and evolution (IIE) model, synthesizing realistic variables to understand this dynamic.

H5: Islamic financial performance positively affects GCG.

The interplay between Islamic financial performance and CSR is multifaceted. While CSR may be costly in the short term, strategic CSR aligned with Islamic ethics can improve reputation, loyalty, and stakeholder relationships, supporting long-term performance. Agency theory underscores the role of governance in aligning CSR with stakeholder interests. The tawhid perspective frames social responsibility as an ethical obligation integral to maslahah, linking blessed CSR with sustainable financial success. Profitable firms can allocate resources to CSR, enhancing social branding and stakeholder engagement. Gray, Kouhy, and Lavers (1995) noted that profitability grants management flexibility to fulfil social responsibilities, enhancing social information disclosure.

H6: Islamic financial performance positively affects CSR.

Intellectual capital (IC) drives Islamic financial performance through enhanced efficiency, innovation, and stakeholder engagement. Agency theory highlights challenges posed by intangible assets, emphasizing the need for GCG to manage IC responsibly. The tawhid perspective views IC as a trust to be developed for collective benefit, intertwining IC management with Islamic ethical responsibilities. Firms with strong financial performance have more resources to manage risks, increasing stakeholder confidence. Financial success also motivates improvements in intellectual capital through employee development and innovation (Chen, Lam, and Zhu 2020).

H7: Islamic financial performance positively affects IC.

Management's risk appetite may differ from owners', with some managers favoring higher risk for short-term gains that might jeopardize long-term stability. Islamic financial performance and risk management influence each other reciprocally. Good performance strengthens risk management capacity, while excessive risk can undermine financial health. Agency theory highlights conflict potential in risk-taking, stressing the importance of governance. The tawhid perspective adds an ethical responsibility to manage risk in a trustworthy, fair, and sharia-compliant manner within a balanced, interconnected framework. Mirshekary and Salehi (2012) found that profitable companies with good liquidity better manage financial risks, improving long-term outcomes.

H8: Islamic financial performance positively affects financial risk management.

GCG and CSR have a synergistic relationship. Good governance provides the framework for effective CSR, reflecting sound governance practices. Agency theory emphasizes GCG's role in aligning CSR with shareholder and stakeholder interests. The tawhid perspective enriches this by framing social responsibility as a divine mandate integral to achieving maslahah, with GCG fostering blessed CSR that benefits all. Effective GCG promotes transparency and accountability in CSR reporting, moving CSR beyond image-building to a genuine social value strategy. Formigoni, Segura, and Álvarez (2021) found that board size partially affects CSR disclosure.

H9: GCG positively affects CSR.

Mechanisms of GCG, such as having an independent and accountable board, ensure that management's corporate social responsibility (CSR) activities align with shareholder interests and deliver strategic advantages to the company rather than merely serving management agendas (e.g., reputation-building). CSR and GCG maintain a complementary, mutually reinforcing relationship. Effective GCG forms the foundation for successful CSR implementation, while responsible CSR practices enhance the quality of corporate governance. According to the agency theory, GCG is critical in aligning CSR initiatives with shareholders' interests. From a tawhid (monotheistic) viewpoint, social responsibility is inherently tied to amanah (trust) and maslahah (public benefit). Thus, Islamic-based GCG encourages the integration of CSR as a comprehensive form of responsibility. Organizations practising good governance focus more on talent development, offer training, reduce conflicts of interest, and foster positive stakeholder relations. Strong CSR enhances public and investor trust. This study uses simultaneous equation modeling based on Choudhury's (2014) IIE framework, where variables mutually influence each other.

H10: CSR positively affects GCG.

Strong GCG increases transparency regarding IC investments and management, reducing information asymmetry between owners and managers and enabling better evaluation of management's performance in value creation through IC. GCG positively influences IC development, management, and utilization. It creates an environment conducive to the growth of this intangible asset, ensuring it adds value to the organization. Agency theory emphasizes GCG's role in mitigating challenges related to IC management. The tawhid perspective complements this by highlighting the responsibility to manage and utilize IC within a governance framework that prioritizes fairness and welfare. Companies with robust human resource knowledge are better positioned to apply GCG principles consistently, build trust with stakeholders, and operate transparently, fairly, and ethically. Research by Rahayu and Ramadhanti (2019); Widiatmoko, Indarti, and Pamungkas (2020) state that GCG positively affects intellectual capital.

H11: GCG positively affects Intellectual Capital (IC).

High levels of IC, particularly human capital expertise and knowledge, help reduce information asymmetry between management and owners. Competent, transparent management provides more accurate, relevant information, lowering potential conflicts of interest. IC significantly enhances the quality and practice of GCG by facilitating better governance, reducing agency problems, and ensuring compliance. From a monotheistic perspective, developing and responsibly utilizing IC is a mandate, and Islamic-based GCG is the appropriate approach to managing this responsibility for the common good. The relationship between IC and GCG is mutually supportive in fostering responsible and high-performing organizations. Companies emphasizing transparency and accountability tend to disclose financial information openly, enabling early risk detection and management. GCG supports more structured, efficient risk handling and builds stakeholder confidence. Research by Ismiyanti and Mahadwartha (2020) shows that components of IC positively impact firm value by improving governance quality and information disclosure.

H12: IC positively affects GCG.

Management may be incentivized to take excessive risks for personal gain or short-term growth, which may conflict with owners' long-term interests. Effective GCG mechanisms, such as an independent board and restricted authority, help curb such behavior. Increasing financial risk often motivates companies to enhance governance mechanisms, including establishing audit committees and improving transparency. GCG is essential for managing financial risks within Islamic financial institutions, creating structures and processes that support effective risk identification, measurement, monitoring, and control. Agency theory explains GCG's role in mitigating risk-taking in management. The tawhid perspective adds that responsible, fair risk management grounded in Islamic principles is a mandate to achieve blessings and benefits. Yuliani and Fithria (2022) found that GCG positively and significantly affects financing risk in Islamic commercial banks, indicating GCG's role in risk management.

H13: GCG positively affects financial risk.

Financial risk significantly impacts GCG, as higher risk drives stronger governance oversight, transparency, and control. Agency theory shows GCG's importance in managing potential conflicts related to risk-taking. The tawhid perspective stresses that managing financial risk according to Islamic principles is a mandate for fairness and blessings. Research by Abiola (2023) shows that higher credit risk correlates with stronger transparency, board supervision, and risk management commitment in banks.

H14: financing risk positively affects GCG.

CSR promotes human resource development through training, occupational health, and gender equality, enhancing employee skills and motivation. It also strengthens stakeholder relationships, supporting reputation and long-term image. Effective GCG ensures that CSR efforts contribute genuinely to IC development, benefiting the company and shareholders, rather than management’s personal interests. IC serves not only as an internal asset but also as a foundation for advancing corporate social commitments. Knowledgeable, insightful human resources are more aware of social and environmental issues and better equipped to design impactful CSR programs that boost stakeholder trust. Musibah and Alfattani (2013) examined the effects of intellectual capital on CSR in Islamic banks. Vázquez, Juárez, and Álvarez (2019) said that CSR functions as a strategic resource that strengthens a company's IC.

H15: CSR positively affects IC.

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IC is crucial in shaping an organization's ability, motivation, and focus for implementing CSR. Strong IC supplies the necessary resources and capabilities to design effective CSR initiatives. Agency theory stresses the need for good governance to ensure IC use aligns with corporate goals in CSR activities. The tauhid perspective regards IC as a mandate for the common good, with quality IC development facilitating meaningful social responsibility that brings blessings. Vo et al. (2023) stated that IC has a positive influence on CSR in the banking sector.

H16: IC positively affects CSR.

Management can use CSR to build reputation and mitigate reputational risks, protecting company value and shareholder interests. CSR can reduce various financial risks, especially reputational, regulatory, and social risks. GCG is critical in ensuring CSR initiatives effectively mitigate risks and align with shareholder interests. From a monotheistic viewpoint, CSR is a mandate that fosters a stable and just environment, contributing to financial security and blessings. Higher financing risk motivates companies to engage in CSR as a trust-building and external pressure management strategy. Thus, CSR is both reactive and adaptive to risk. Companies facing high financing risk (e.g., non-performing loans) tend to increase CSR efforts to regain public and investor confidence. Hsu and Chen (2015) stated that companies with positive CSR performance have lower financial risks.

H17: CSR positively affects financial risk.

Islamic financial institutions with high financial risks may face limited resources for CSR, as immediate financial stabilization may take priority over social and environmental efforts. However, CSR remains a tool for repairing a reputation threatened by financial risk, which helps maintain investor and customer trust. Financial risk influences Islamic financial institutions' capacity and priorities for CSR implementation. Effective GCG ensures that CSR responses to financial risk are responsibly and effectively managed. The monotheistic perspective supports the relevance of social responsibility in difficult times as an act of trust and justice that may yield long-term blessings. Belkaoui and Karpik (1989) demonstrated a link between social information disclosure and systematic risk, with firms disclosing more CSR information under high systematic risk conditions.

H18: financing risk positively affects CSR.

IC impacts a company's financial risk profile by encouraging innovation and strategic risk-taking rather than causing losses. Growing IC enables firms to better manage risks, increasing stakeholder trust. IC significantly affects risk management in Islamic financial institutions by improving risk identification, measurement, monitoring, and control. Agency theory explains IC's role in reducing information asymmetry and enhancing risk-related decision-making. The tawhid view stresses that financial risk management is a mandate to be fulfilled responsibly and in accordance with sharia principles to bring blessings. Firer and Williams (2003) note the banking industry's intensive use of IC, and prior research on IC's effect on financial risk remains limited.

H19: IC positively affects financial risk.

When facing financial risk, investments in IC should be made with fairness toward stakeholders and consideration for long-term sustainability. While financial risk can harm IC, strategic IC investments such as retraining employees or innovating products can drive recovery and growth, bringing blessings (barakah). Companies facing rising financial risks (e.g., more non-performing loans) are motivated to develop intellectual assets such as survival and adaptation strategies. High financial risk conditions also encourage stronger stakeholder relations, increasing relational capital. El-Bannany (2008) studied the impact of profit levels and company risk on IC performance in the UK and found that company risk affects intellectual capital performance.

H20: Financing risk positively affects IC.

Based on this literature review and prior empirical findings on the influences of GCG, CSR, IC, and financial risk on Islamic financial performance, the following research model is proposed (see Figure 1):

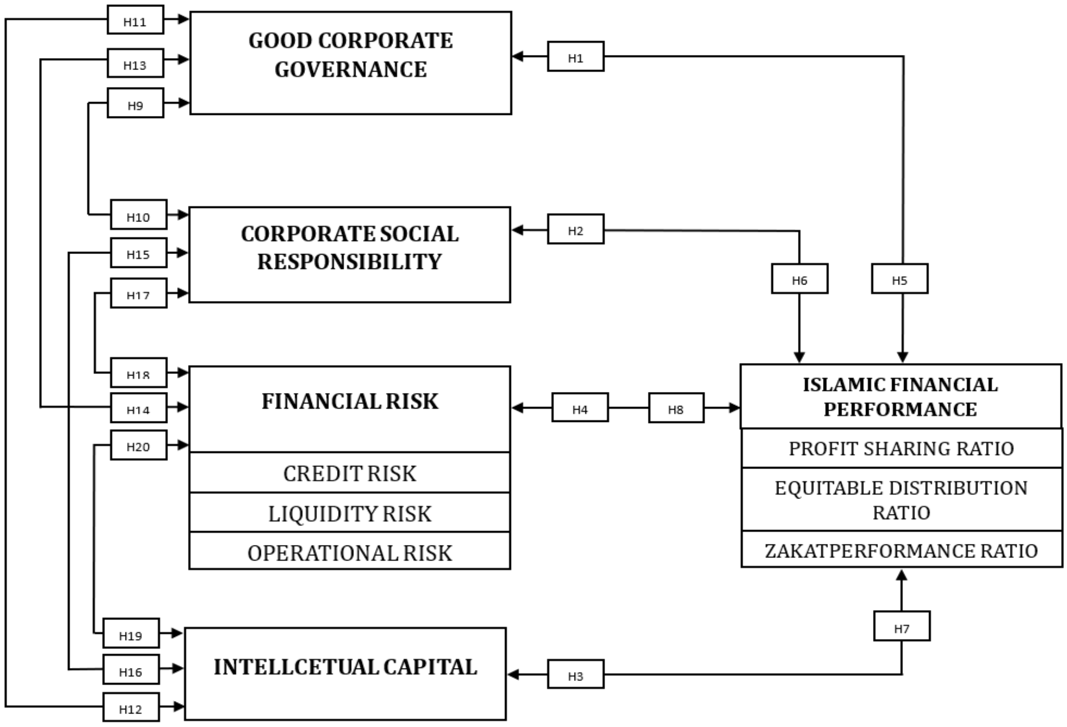

Figure 1 research model

Method

This research adopts a quantitative methodology with an explanatory research design. Quantitative research is characterized by clearly defined variables, concepts, or hypotheses that do not overlap, allowing for a structured examination of phenomena by analyzing variable relationships to understand their characteristics better. The study's population comprises all Islamic commercial banks listed in the Bank Indonesia directory. A purposive sampling technique—classified as non-probability sampling—was used to select the sample, with the intent of meeting particular research objectives. The final sample includes Islamic commercial banks from the directory that published reports on good corporate governance (GCG) and annual and financial reports from 2015 to 2020 (Table 1).

Table 1 sample criteria

Information	Amount
Islamic banks registered with Bank Indonesia in 2020	12
Islamic banks whose annual reports do not meet the criteria	(4)
Islamic banks that have annual reports and GCG reports	8
Number of years of research (2015-2020)	6
Number of observation data (8 x 6)	48

Source: secondary data (processed, 2023)

After completing the sample selection based on the existing criteria, from a population of 12 ICB, it turned out that only 8 ICB met the criteria, while 4 BPRs did not meet the criteria. The data units observed in this study, which amounted to 48 units, were 8 ICB for 4 years. The 8 ICB selected as research samples were Bank Syariah Mandiri, Bank Panin

Syariah, BNI Syariah, BRI Syariah, Bank Syariah Bukopin, Bank Mega Indonesia Syariah, Bank Muamalat Indonesia, and BCA Syariah. Meanwhile, the operational variables can be seen in Table 2.

Table 2 operational variables

Variables	Measurement	Scale
Good corporate governance	1. Implementation of the duties and responsibilities of the Board of Commissioners (weight 12.50%) 2. Implementation of the duties and responsibilities of the Board of Directors (weight 17.50%) 3. Completeness and implementation of the Committee's duties (weight 10.00%) 4. Implementation of the duties and responsibilities of the Sharia Supervisory Board (weight 10.00%) 5. Application of Sharia principles in fundraising, fund distribution, and service provision activities (weight 5.00%) 6. Handling of conflicts of interest (weight 10.00%) 7. Implementation of banking compliance functions (weight 5.00%) 8. Implementation of internal audit function (weight 5.00%) 9. Implementation of external audit function (weight 5.00%) 10. Maximum Limit for Fund Distribution (weight 5.00%) 11. Transparency of BUS financial and non-financial conditions, reports Implementation of GCG and internal reporting (weight 15.00%) BI circular letter 12/13/ DPbS /2010	Ratio
Islamic social reporting	ISR = Total goods which disclose / number of disclosure items (Othman, Thani, and Ghani 2009)	Ratio
Intellectual capital	1. iB-value added (iB -VA) iB -VA = OUT – IN OUT = total sales and other income IN = sales expenses and other costs (others compared) 2. iB-additional working capital value (iB-VACA) iB -VACA = VA/CE VA = Value added CE = Capital used: total equity 3. iB-value added human resources (iB-VAHU) iB-VAHU = VA/HC VA = Value added HC = Human capital: employee burden 4. iB-structured capital value added (iB-STVA) iB -STVA = SC/VA SC = Capital structure: VA-HC	

Variables	Measurement	Scale
	VA = Value added 5. iB-value added intellectual coefficient (iB -VAICTM) iB -VAICTM = iB -VACA + iB -VAHU + iB -STVA (Pulić 1998)	
Financing risk	Financing risk $= \frac{\text{Total loans}}{\text{Total aset}} \text{x } 100\%$ Liquidity risk $= \frac{\text{Total koans}}{\text{Total deposits}} \text{x } 100\%$ Capital risk $= \frac{\text{Equity capital}}{\text{Total aset}} \text{x } 100\%$ Operational risk $= \frac{\text{Operational risk}}{\text{Operating income}} \text{x } 100\%$ (Al-Tamimi, Miniaoui, and Elkelish 2015)	Ratio
Islamic financial performance	Profit sharing ratio $= \frac{\text{Mudharaba+Musharaka}}{\text{Total funding}} \text{x } 100\%$ Zakat performance ratio $= \frac{\text{Zakat}}{\text{Net assets}} \text{x } 100\%$ Zakat performance ratio $= \frac{\text{Average distribution for each stakeholder}}{\text{Total Revenue}} \text{x } 100\%$ (Ibrahim et al. 2010)	Ratio

The analytical approach employed in this study is the simultaneous equation modeling method. This technique involves a system of equations wherein certain dependent variables within one equation also serve as independent variables in other equations, reflecting their interdependence. Two prevalent estimation methods for such models are indirect least squares (ILS) and two-stage least squares (2SLS). This research adopts the 2SLS approach, a single-equation estimation technique specifically developed to address multicollinearity among explanatory variables. Conceptually, the 2SLS method is regarded as refinement and advancement of the ILS approach. 2SLS is consistent with the circular causation framework, which conceptualizes a dynamic system wherein each variable exerts influence on others and is simultaneously influenced in return. This dynamic interaction process is called the interactive, integrative, and evolutionary (IIE) mechanism. T-statistics are applied to evaluate the proposed hypotheses and determine statistical significance. The significance level employed ranges between 90% and 95%, corresponding to an alpha level (α) of 0.10 to 0.05 while accounting for the total number of observations (n). Hypothesis testing compares the calculated t-values with the critical values derived from the t-distribution table. All data processing and statistical analyses are performed using EViews version 9 software.

Results and discussion

Descriptive statistics

Descriptive statistics are conducted to provide an overview of the characteristics of the observed data. The results of this analysis include measures of data centralization, such as mean, minimum, and maximum, as well as measures of data dispersion, such as standard deviation, which aim to understand the distribution and tendencies of the observed data, the results can be seen in Table 3.

Table 3 descriptive statistics

Variables	Minimum	Maximum	Means	Standard deviation
Good corporate governance	1.300000	2.250000	1.700333	0.288426
Corporate social responsibility	0.528302	0.886792	0.748428	0.99511
Financing risk	0.027965	3.050668	0.412213	0.574896
Credit risk	0.063142	2.100260	0.181713	0.369284
Liquidity risk	0.723326	59.27887	5.651503	13.85152
Operational risk	0.172936	2.057714	0.615970	0.364867
Intellectual capital	1.059997	3.615880	1.882485	0.688183
Profit sharing ratio	0.181506	6.523911	2.073125	1.414848
Fair distribution ratio	0.460660	2.422966	1.81423	0.486229
Zakat performance ratio	0.000000	0.002200	0.000436	0.000567
Observation				48

Source: secondary data (processed, 2023)

Table 3 shows the mean GCG value is medium (1.70), with relatively minor variations between companies (SD = 0.29). This indicates that the implementation of GCG is uniform among the entities studied. The mean CSR value shows a relatively high level of social responsibility (0.75). However, the standard deviation value (0.99511) is greater than the average, indicating a large disparity between companies in implementing CSR—possibly due to outliers or different units of measurement. The mean value of financing risk is relatively low (0.41), but there is moderate variation among companies (SD = 0.57), indicating that some companies operate with a much higher financing risk than others. In general, the credit risk experienced by companies is relatively low (mean = 0.18), although there are companies with high credit risk (up to 2.10), as seen from SD = 0.37. Although the mean value of liquidity risk is moderate (5.65), the maximum value is very high (59.28), and SD = 13.85 indicates extreme diversity. This suggests that some companies may face a more serious liquidity crisis than others.

Furthermore, operational risk has a mean value still within the low limit (0.62), and its distribution is moderate. This indicates an even operational stability. Intellectual capital has a mean value below the middle value (3.00), indicating that the potential for HR development and knowledge can still be improved. The distribution is moderate (SD = 0.69). The mean value of profit-sharing financing is relatively high (2.07), but the variation is also large (SD = 1.41), reflecting differences in financing strategies between companies. The mean value of fair distribution is close to the top of the scale (1.81), and the distribution is moderate. This indicates that the company is generally fair in distributing economic benefits. Zakat performance is very low in general (mean = 0.0004) and shows small variations (although the SD is relatively large compared to the average). This could indicate a lack of zakat optimization or a very small scale of zakat against total assets.

Table 4 hypothesis test results

Hypothesis	Independent variables	Dependent variables	Coefficient	P-value
H1: the influence of GCG on Islamic financial performance	Good corporate governance	Profit sharing ratio	-2.013487	0.0758
	Good corporate governance	Fair distribution ratio	-0.063834	0.6688
	Good corporate governance	Zakat performance ratio	0.000669	0.0008
H2: the influence of CSR on Islamic	Corporate social responsibility	Profit sharing ratio	-0.010611	0.0207
	Corporate social responsibility	Fair distribution ratio	0.061399	0.0780

Hypothesis	Independent variables	Dependent variables	Coefficient	P-value
financial performance	Corporate social responsibility	Zakat performance ratio	16,289	0.5844
H3: the influence of intellectual capital on Islamic financial performance	Intellectual capital	Profit sharing ratio	0.01215	0.5759
	Intellectual capital	Fair distribution ratio	0.080294	0.6122
	Intellectual capital	Zakat performance ratio	-142,264	0.2227
H4: the influence of financial risk on Islamic financial performance	Financing risk	Profit sharing ratio	-0.024967	0.2757
	Financing risk	Fair distribution ratio	-0.293071	0.0787
	Financing risk	Zakat performance ratio	-22.14045	0.8662
	Liquidity risk	Profit sharing ratio	-0.698627	0.0699
	Liquidity risk	Fair distribution ratio	4.435798	0.1189
	Liquidity risk	Zakat performance ratio	469.3519	0.8335
	Capital risk	Profit sharing ratio	-0.004637	0.7490
	Capital risk	Fair distribution ratio	0.005316	0.9603
	Capital risk	Zakat performance ratio	-139.0755	0.0867
	Operational risk	Profit sharing ratio	0.014458	0.4170
	Operational risk	Fair distribution ratio	-0.011123	0.9326
	Operational risk	Zakat performance ratio	-15.07492	0.8823
H5: the influence of Islamic financial performance on GCG	Profit sharing ratio	Good corporate governance	-0.035513	0.0758
	Fair distribution ratio	Good corporate governance	-0.067716	0.6598
	Zakat performance ratio	Good corporate governance	348.7767	0.0008
H6: the influence of Islamic financial performance on CSR	Profit sharing ratio	Corporate social responsibility	-11.14907	0.0207
	Fair distribution ratio	Corporate social responsibility	-1.021649	0.0871
	Zakat performance ratio	Corporate social responsibility	0.0000587	0.9402
H7: the influence of Islamic financial performance on intellectual capital	Profit sharing ratio	Intellectual capital	0.603581	0.5759
	Fair distribution ratio	Intellectual capital	-0.075092	0.6122
	Zakat performance ratio	Intellectual capital	-0.000206	0.1452
H8: The influence of Islamic financial performance on financial risk	Profit sharing ratio	Financing risk	-1.10398	0.2757
	Profit sharing ratio	Liquidity risk	-0.106922	0.0693
	Profit sharing ratio	Capital risk	-0.519038	0.7490
	Profit sharing ratio	Operational risk	1.063875	0.4170
	Fair distribution ratio	Financing risk	0.239346	0.0787
	Fair distribution ratio	Liquidity risk	-0.012539	0.1189
	Fair distribution ratio	Capital risk	0.010991	0.9603
	Fair distribution ratio	Operational risk	-0.015117	0.9326
	Zakat performance ratio	Financing risk	-0.0000302	0.8662
	Zakat performance ratio	Liquidity risk	0.0000221	0.8335
	Zakat performance ratio	Capital risk	-0.00048	0.0867
	Zakat performance ratio	Operational risk	-0.0000342	0.8823
H9: the influence of GCG on CSR	Good corporate governance	Corporate social responsibility	-0.164556	0.7709
H10: the influence of CSR	Corporate social responsibility	Good corporate governance	-0.012114	0.7709

Hypothesis	Independent variables	Dependent variables	Coefficient	P-value
on GCG				
H11: the influence of GCG on intellectual capital	Good corporate governance	Intellectual capital	0.75025	0.4481
H12: the influence of intellectual capital on GCG	Intellectual capital	Good corporate governance	0.011376	0.9595
H13: the influence of GCG on financial risk	Good corporate governance	Financing risk	-0.101748	0.4179
	Good corporate governance	Liquidity risk	-0.01219	0.0859
	Good corporate governance	Capital risk	0.071945	0.7404
	Good corporate governance	Operational risk	-0.19495	0.2220
H14: the influence of financial risk on GCG	Liquidity risk	Good corporate governance	-5.481095	0.0493
	Capital risk	Good corporate governance	-0.150586	0.4179
	Operational risk	Good corporate governance	0.04578	0.6591
	Financing risk	Good corporate governance	-0.154616	0.2471
H15: the influence of CSR on intellectual capital	Corporate social responsibility	Intellectual capital	-0.021269	0.4221
H16: the influence of intellectual capital on CSR	Intellectual capital	Corporate social responsibility	-0.516459	0.4329
H17: the influence of CSR on financial risk	Corporate social responsibility	Financing risk	0.023867	0.4919
	Corporate social responsibility	Liquidity risk	0.001430	0.4838
	Corporate social responsibility	Capital risk	-0.091184	0.0968
	Corporate social responsibility	Operational risk	-0.068029	0.0882
H18: the influence of financial risk on CSR	Liquidity risk	Corporate social responsibility	8.01848	0.4838
	Capital risk	Corporate social responsibility	-0.688821	0.0968
	Operational risk	Corporate social responsibility	-0.971408	0.0882
	Financing risk	Corporate social responsibility	0.46317	0.4919
H19: the influence of intellectual capital on financial risk	Intellectual capital	Financing risk	0.278141	0.1413
	Intellectual capital	Liquidity risk	0.039702	0.0000
	Intellectual capital	Risk capital	-0.071649	0.8127
	Intellectual capital	Operational risk	-0.277376	0.2740
H20: the influence of financial risk on intellectual capital	Liquidity risk	Intellectual capital	12.88684	0.0000
	Capital risk	Intellectual capital	-0.01842	0.8127
	Operational risk	Intellectual capital	0.100095	0.2740
	Financing risk	Intellectual capital	0.178427	0.1413

Source: secondary data (processed, 2023)

Table 4 shows that the first hypothesis can be stated that the GCG variable negatively affects the Islamic financial performance indicators, specifically the profit-sharing ratio (PSR) and zakat performance ratio (ZPR). The highest coefficient values were -2.013487 and 0.000669, respectively, with a significant level of 0.0008, less than the 0.05 threshold. Therefore, hypothesis H1 is rejected. Regarding the second hypothesis, it is stated that CSR negatively affects Islamic financial performance, namely the profit-sharing and equitable distribution ratios (EDR). The highest coefficients were -0.010611 and -0.061399, with a significance level of 0.02 (< 0.05). Hence, hypothesis H2 is rejected. The third hypothesis shows that the intellectual capital (IC) does not affect the Islamic financial performance indicators. Specifically, the profit-sharing ratio had a coefficient of -0.080294 with a significant value of 0.575 (> 0.05). Similarly, the profit-sharing and zakat performance ratios, with coefficients of 0.01215 and -142.264, respectively, and significant values greater than 0.05 (0.275). Therefore, hypothesis H3 is rejected.

Hypothesis 4 indicates that financial risk, specifically credit risk, negatively affects Islamic financial performance as measured by the equalization ratio, with a coefficient of -0.293071 and a significant level of 0.07, which falls within the 0.05 to 0.10 range. However, credit risk does not significantly affect the profit-sharing or zakat performance ratios, evidenced by coefficients of -0.024967 and -22.14045, respectively, and significance levels above 0.10. Liquidity risk negatively influences the profit-sharing ratio, with a coefficient of -0.698627 and significance of 0.06, yet it does not significantly affect the equity distribution or zakat performance ratios. Capital and operational risks show no significant effects on profit sharing, equity distribution, or zakat performance ratios, as their significance levels exceed the threshold. Consequently, H4 is rejected. Regarding Hypothesis 5, the Islamic financial performance indicators, namely the profit-sharing and fair distribution ratios, negatively affect good corporate governance, with coefficients of -0.035513 and -0.067716 and a significance of 0.0758. Therefore, the hypothesis H5 is rejected. Hypothesis 6 demonstrates that the profit-sharing and equitable distribution ratios adversely affect corporate social responsibility, with coefficients of -11.14907 and -1.021649, respectively, and significance at 0.02. Therefore, hypothesis H6 is rejected.

Hypothesis 7 shows no significant influence of Islamic financial performance indicators—equalization ratio, profit sharing ratio, and zakat performance ratio—on intellectual capital, given their non-significant p-values. Therefore, hypothesis H7 is rejected. For Hypothesis 8, the profit-sharing ratio negatively impacts liquidity risk with a coefficient of -0.106922 and significance of 0.06 but shows no significant effect on credit risk, capital risk, or operational risk. The equitable distribution ratio positively influences credit risk, with a coefficient of -0.239346 and a significance of 0.07, yet does not significantly affect liquidity, capital, or operational risks. The zakat performance ratio positively affects capital risk with a coefficient of 0.00048 and significance of 0.08 but lacks significant impact on credit, liquidity, or operational risks. Therefore, hypothesis H8 is accepted. Hypotheses 9 and 10 show that good corporate governance does not significantly affect corporate social responsibility, nor does corporate social responsibility significantly affect good corporate governance, with all significance levels exceeding 0.10. Therefore, hypotheses H9 and H10 are rejected. Similarly, Hypotheses 11 and 12 show that due to the lack of significant mutual influence between good corporate governance and intellectual capital. Therefore, hypotheses H11 and H12 are rejected.

Hypothesis 13 shows that although good corporate governance negatively affects liquidity risk with a coefficient of -0.01219 and significance of 0.08, no significant effects are found on credit risk, capital risk, or operational risk. Therefore, hypothesis H13 is rejected. Hypothesis 14 shows that although liquidity risk negatively impacts good corporate governance, showing a coefficient of -5.481095 and a significance of 0.04, credit risk, capital risk, and operational risk do not significantly affect good corporate governance. Therefore, hypothesis H14 is rejected. Hypotheses 15 and 16 show that due to the absence of significant influence between corporate social responsibility and intellectual capital in either direction. Therefore, hypotheses H15 and H16 are also rejected. Hypothesis 17 shows that despite corporate social responsibility negatively affecting capital risk and operational risk, with coefficients of -0.091184 and -0.068029 and significance of 0.08, it does not significantly impact credit or liquidity risks. Therefore, hypothesis H17 is rejected.

Hypothesis 18 shows that capital and operational risks negatively influence corporate social responsibility, with significant levels at 0.08, whereas credit and liquidity risks do not have significant effects. Therefore, hypothesis H18 is rejected. Hypothesis 19 shows that even though intellectual capital positively affects liquidity risk (coefficient 0.039702, significance < 0.05), it does not significantly influence credit risk, capital risk, or operational risk. Therefore, hypothesis H19 is rejected. Finally, Hypothesis 20 shows that capital risk positively affects intellectual capital with a coefficient of 12.88684 and high significance, while credit risk, capital risk, and operational risk do not significantly impact intellectual capital. Therefore, hypothesis H20 is rejected.

The influence of GCG on Islamic financial performance

The findings show that good corporate governance negatively affects the financial performance of Islamic banks. This outcome challenges the common belief that strong governance always leads to improved performance. It suggests that overly formalized and bureaucratic governance structures impose burdens, particularly on sharia-compliant firms with a dual management system consisting of the board of directors, the board of commissioners, and the sharia supervisory board. This complex framework can slow decision-making processes and hinder the company's ability to respond swiftly to market changes. From the agency theory perspective, while supervision is important to minimize conflicts between agents and principals, excessive oversight can cause inefficiency and operational rigidity. An active sharia supervisory board may add administrative load and delay policy approvals in Islamic companies. Looking through the lens of tawhid string relation (TSR), which prioritizes spirituality, ethics, and unity within the system, the negative findings imply that governance implementation may lack true harmony and fail to embody tawhid principles. In practice, some companies may adopt GCG principles superficially without integrating the Islamic values that should guide decision-making. In other words, formal compliance with governance does not necessarily equate to substantive adherence based on tawhid.

The study also shows that implementing GCG positively impacts the performance of sharia reporting (PSR) because the financing distributed is less risky, leading to profitability. This profitability, in turn, can enhance zakat payments. These findings, aligned with prior research, found a negative correlation between governance and financial performance. Al-Gamrh et al. (2020) found that strict governance in Middle Eastern firms caused inefficiencies due to high costs and internal conflicts between boards. Similarly, Yusof and Bahlous (2013) reported that large board sizes and multiple committees hinder supervision effectiveness and disrupt operations. Conversely, some studies present different results: Hamza (2013); Alam et al. (2022) demonstrated that sharia governance positively affects Islamic banks' performance. Likewise, Saad and Haniffa (2014) showed that commitment to GCG boosts return on assets (ROA) and asset growth in Southeast Asian Islamic banks.

This finding illustrates that implementing GCG in Islamic banks today may not be effectively aligned with operational needs and Sharia characteristics, thus limiting management flexibility and reducing financial efficiency. Therefore, adjusting the GCG model specifically for Islamic banks is necessary. Management needs to balance compliance and efficiency. It is necessary to evaluate whether the current GCG standards financially burden Islamic bank operations. A new approach is needed that assesses compliance and its impact on economic and social values according to sharia principles. The implementation of GCG may suppress short-term profits but can provide long-term sustainability, so it is necessary to balance expectations.

The influence of CSR on Islamic financial performance

The findings show that CSR negatively affects Islamic financial performance. CSR programs embody social and spiritual values; they can impose short-term financial burdens on companies. This occurs because significant funds are allocated to social and environmental initiatives that do not yield immediate financial returns. For Islamic firms, which must also fulfill zakat or waqf obligations, the social responsibilities can weigh heavily unless balanced by operational efficiency and innovation. CSR is often seen as widening the gap between managers (agents) and shareholders (principals), as managers might pursue CSR for personal or reputational reasons rather than shareholder benefit.

Consequently, this can lead to agency conflicts that negatively impact financial results. Many Islamic companies report extensive CSR activities but fail to demonstrate improved efficiency or customer loyalty, sometimes facing increased costs due to CSR combined with Sharia obligations like corporate zakat. Despite these challenges, CSR reflects a company's concern for its external environment and aims to promote sustainability and long-term continuity. CSR disclosure can add value and enhance corporate image, which may improve performance through community financing initiatives. Supporting studies, such as Brammer and Millington (2008), found that companies with high CSR involvement often see reduced short-term financial performance due to costs. Jo and Harjoto (2012) also noted that CSR might not yield positive financial outcomes without a clear strategy and stakeholder backing. However, research by Beck, Kunt, and Merrouche (2013); Mallin, Farag, and Ow-Yong (2014) showed that CSR positively influences Islamic banks' performance and stability compared to conventional banks. While CSR may reduce short-term profits if costs are not managed well, its long-term impact can be beneficial.

The negative impact of CSR on the financial performance of Islamic banks shows that CSR programs in Islamic banks have not been managed strategically and have not fully reflected Islamic values or provided real economic benefits. Therefore, CSR should focus on the micro economy of the community, such as fostering MSMEs, Islamic financial education, or microfinance, which are more in line with the social mission of Islam. CSR must be part of market differentiation, not just an additional activity—for example, sustainable financing and financial literacy programs for mustahiq. Use social return on investment (SROI) to ensure that CSR funds provide measurable economic and social benefits. Islamic banks must shift from symbolic CSR to strategic and spiritual CSR so that they function not only as social costs but as long-term investments in building blessings and business sustainability.

The influence of intellectual capital on Islamic financial performance

The findings show that intellectual capital does not affect Islamic financial performance. This may be due to suboptimal use and management of intellectual assets in business processes and strategy. For example, employee expertise might not be fully harnessed for innovation, or knowledge management systems may lack integration with company strategy. From an agency theory view, poor alignment between management's use of intellectual capital and shareholder goals limits the transformation of intellectual assets into financial gains. High-quality human capital may lack opportunities to innovate, and relational capital might not be leveraged to form profitable partnerships. Many sharia companies still prioritize sharia compliance, conventional financial reporting, and operational efficiency over fostering innovation or structured knowledge management.

Annual reports from Indonesian Islamic banks reveal limited intellectual capital disclosures and a lack of its use as a key performance measure. Since profit sharing in Islamic banks is tied to financing methods (mudharaba, musharaka), intellectual capital does not directly influence profit-sharing ratios or zakat obligations. This study's findings align with Kamath (2015), who found that intellectual capital does not directly affect financial performance in immature markets. Clarke, Seng, and Whiting (2011) noted that IC's impact is more evident in the long term and less so in annual financial results. Poh, Kilicman, and Ibrahim (2018) also found positive effects of IC on Malaysian banks. High IC development costs may lower short-term profits if not paired with operational efficiency and mature sharia strategies.

Intellectual capital does not affect the financial performance of Islamic financial institutions; it does not mean that intellectual capital is not important. Therefore, Islamic banks need to re-evaluate the allocation of resources for the development of intellectual capital, such as employee training, development of knowledge management systems, and technological innovation. Management can shift focus to other factors that influence financial performance, such as operational efficiency, sharia compliance, risk management, or asset quality. A new approach is needed to manage and measure intellectual capital and understand performance from an Islamic perspective, which is not only oriented towards profit but also blessings, ethics, and social values.

The influence of financial risk on Islamic financial performance

The findings show that financial risk does not affect Islamic financial performance. Islamic financial principles, which avoid usury, excessive uncertainty (gharar), and speculation, create a more conservative and resilient financial structure. Agency theory suggests that Islamic financial systems reduce agency conflicts through transparent, fair contracts (mudharaba, musharaka) and sharia oversight, minimizing moral hazard and opportunistic behaviors. As a result, companies maintain stable performance even amid risk exposure. The study also highlights that credit risk impacts financing costs, which can strain liquidity if defaults rise. These findings align with Hasan and Dridi (2011), who reported that Islamic banks with asset-backed financing are more resilient to financial crises than conventional banks. The profit-sharing model also tends to be stable and adaptable to market changes. Isabwa and Mabonga (2020) found that higher non-performing loans (NPLs) increase credit risk, lowering bank performance. Hence, effective risk management remains critical in Islamic banking to safeguard profitability, efficiency, and operational strength. The finding that financial risk does not affect the performance of Islamic financial institutions does not mean that the risk is unimportant; instead, it shows that the characteristics of the Islamic financial system are unique, with built-in risk protection. Islamic financial analysis and policy models should consider the sharia context in depth. The role of other variables may be greater in determining the performance of Islamic financial institutions.

The influence of Islamic financial performance on GCG

The findings show that Islamic financial performance does not affect GCG. This indicates that financial performance in sharia-based companies does not automatically lead to improved corporate governance quality. In other words, companies with higher profits do not necessarily invest more in enhancing GCG practices, such as increasing the independence of the board of commissioners, enhancing transparency, or strengthening internal controls. From the agency theory perspective, this can be explained by the fact that managers (agents) may not use positive financial outcomes to strengthen oversight mechanisms without pressure from shareholders or external regulations. Thus, even when financial performance is good, management might not feel compelled to improve governance, which can mask underlying agency conflicts. High Islamic financial returns do not always coincide with good governance, sometimes leading to complacency, moral hazard, or neglect of governance principles, especially when supervision is weak. This finding aligns with Jackling and Johl (2009), who observed no direct link between profitability and GCG compliance in companies from developing countries, including sharia-compliant firms. Similarly, Setiawan and

Darmawan (2011) found that financially secure companies do not necessarily enhance their governance practices. Mintah (2015) also noted that high profitability does not always correlate with effective boards or internal oversight, particularly if boards serve only a symbolic role. The finding that Islamic financial performance does not affect GCG indicates that governance in Islamic banks is more value-based, not just driven by profit. GCG is influenced by Islamic commitments, ethics, and regulations, not financial fluctuations. Therefore, a GCG evaluation model and framework more aligned with Islamic principles is needed.

The influence of Islamic financial performance on CSR

The findings show that Islamic banks do not primarily rely on their financial performance—whether high or low—as the main factor for decisions related to CSR implementation. This implies that CSR activities are not solely driven by financial capacity but can also be motivated by factors such as adherence to sharia principles, regulatory requirements, or social and spiritual values. From an agency theory standpoint, this suggests that the connection between financial performance and CSR is not necessarily direct or linear. Managers (agents) may not allocate extra profits to CSR because shareholders (principals) do not explicitly demand it. Similarly, companies with strong financial performance might still limit CSR spending if it is not prioritized as a business objective, reflecting a potential agency conflict where social goals are not fully incorporated into managerial incentives. Within the monotheism (tawhid) framework, CSR is considered a form of social worship (muamalah) rather than merely an optional activity dependent on financial success. Consequently, Islamic companies may continue to engage in CSR under less favorable financial conditions driven by the spiritual values embedded in their business ethos. The study also notes that low levels of PSR and EDR might encourage stakeholders to view CSR disclosures as positive signals about the company's social performance, which in turn may foster ongoing investor confidence.

These findings align with prior research. For example, Haniffa and Hudaib (2007) found that CSR in Malaysian Islamic companies is more influenced by religious and ethical commitments than financial performance. Similarly, Dusuki and Dar (2007) reported that Islamic finance participants see CSR as a moral and spiritual duty rather than a profit-driven strategy. Furthermore, Estiarto and Hariadi (2023) state that financial performance had a limited impact on corporate social disclosure, partly due to shareholders' focus on maximizing their welfare. The finding that Islamic financial performance does not affect CSR shows that CSR is carried out based on religious values and social responsibility, not simply because the company makes a profit. The CSR model in Islam differs from the conventional approach and requires indicators and approaches based on Islamic principles. Therefore, this reflects the uniqueness of Islamic finance, where social responsibility is an integral part of the institution's mission, not just a business strategy.

The influence of Islamic financial performance on intellectual capital

The findings show that Islamic financial performance does not affect intellectual capital. This indicates that Islamic banks do not necessarily allocate sufficient resources or investments toward developing intellectual capital, even when reporting strong financial performance. In this context, intellectual capital is often not viewed as a strategic priority or a growth driver but as a supplementary administrative aspect. From the agency theory perspective, this reflects a misalignment between the interests of management (agents) and shareholders (principals). Despite promising financial results, management may hesitate to invest profits in long-term initiatives such as employee training, technological innovation, or enhanced knowledge management systems, since the benefits of these investments are not immediately visible. Consequently, the long-term value of intellectual capital is overlooked in favor of meeting short-term financial goals. Many Islamic companies in Indonesia and other developing countries exhibit stable financial growth but lack formal policies on knowledge management, human resource innovation, or technological advancement that support sustainable efficiency. Their annual reports highlight financial achievements and compliance with sharia principles while providing limited detail on human capital development, innovation efforts, or collaborative strategies.

This study also highlights that the profit-sharing ratio (PSR) and the zakat payment ratio (ZPR) do not influence intellectual capital. Islamic commercial bank financing primarily comes from mudharaba and musharaka contracts, which customers select independently. Additionally, zakat obligations require payments irrespective of intellectual capital considerations. Encouraging employee performance can improve intellectual capital, but profit levels remain only one factor influencing it. These findings are consistent with prior research. For instance, Firer and Williams (2003); Kamath (2015) observed that many companies, particularly developing countries, prioritize physical and financial growth over investing in intellectual assets despite strong profitability. Similarly, Goh, Rasli, and Khan (2014) found a weak or insignificant relationship between profitability and intellectual capital in many Islamic-based companies in Malaysia. The finding that Islamic financial performance does not affect intellectual capital can be interpreted as the development of intellectual capital in Islamic financial institutions not depending on financial conditions but is influenced by values, strategic vision, and commitment to preaching and education. Strengthening intellectual capital in Islamic finance can be part of a religious and social mission, not just a business strategy.

The influence of Islamic financial performance on financial risk management

The findings show that financial risk factors in Islamic banks are not directly affected by the profit level or financial efficiency achieved. This is likely because Islamic banks' operational and financing frameworks tend to be conservative and strictly governed by Islamic principles, which restrict the use of high-risk financial instruments such as interest-bearing debt or derivatives. Consequently, despite rising profits, the bank's financial structure and risk management remain within stringent Islamic guidelines, keeping financial risk relatively stable. From the agency theory perspective, this suggests a limited connection between financial performance—primarily the concern of managers (agents) and financial risk, which is more aligned with the long-term interests of shareholders (principals). Managers might prioritize short-term financial gains for reputation or personal incentives but do not always modify the financial structure or effectively manage risks. However, in Islamic companies, this agency conflict is mitigated by Sharia supervisory boards and stronger transparency standards. This helps maintain financial risk at controlled levels despite fluctuations in financial performance.

Strong financial performance in Islamic banking supports reduced financial risk, which is evident in lower non-performing loans and better crisis resilience. Profitability and operational efficiency are key factors in maintaining long-term Islamic financial stability. Well-performing banks with sufficient capital and liquidity reserves are better positioned to handle defaults or problem loans. These findings align with prior research. For example, Hasan and Dridi (2011) observed no direct link between profitability and financial risk in Islamic banks, partly because these institutions avoid conventional instruments like high-interest debt and leverage. Similarly, Hassan and Mollah (2018) highlighted that risk in Islamic finance is managed through profit-sharing principles and real asset backing rather than speculative financial mechanisms, thus limiting the direct impact of financial performance on risk. These findings can help strengthen risk management strategies, increase stakeholder trust, and encourage operational efficiency.

The influence of good corporate governance on corporate social responsibility

The findings show that good corporate governance (GCG) practices in Islamic companies do not automatically lead to more substantial social commitment through CSR. This may be because formal governance frameworks focus more on regulatory compliance and administrative tasks rather than fostering genuine social responsibility. From an agency theory standpoint, GCG has not yet fully aligned managers' interests with those of owners and social stakeholders. Effective governance would reduce managerial opportunism and promote CSR as an accurate accountability measure. However, in many cases, governance remains procedural, leading to CSR being treated as a formal obligation rather than a strategic priority. This “compliance trap” means governance serves to meet minimum requirements instead of advancing ethical and social values rooted in Islamic principles. Without deeper integration of GCG and CSR based on Islamic values, companies risk losing social legitimacy and failing to meet community expectations for justice and responsibility.

While Islamic banking governance is regulated (e.g., Bank Indonesia regulation 11/33/PBI/2009), CSR disclosure is voluntary, weakening the link between GCG and CSR. Studies such as Haniffa and Cooke (2005); Said, Zainuddin, and Haron (2009) observed that GCG is often implemented as a legal formality without becoming a foundation for expanded social responsibility. Mahmood et al. (2018) reported that similar findings found no significant influence of governance structures like board size or audit committees on CSR disclosure. This finding shows that implementing good corporate governance does not necessarily encourage companies to be socially responsible. This condition could indicate that CSR is still seen as a separate activity or only as a fulfilment of formal obligations, not as part of ethical and sustainable governance values. Therefore, a more integrated approach is needed between GCG and CSR through internal company policies, government regulations, and stakeholder awareness to achieve the company's sustainability goals comprehensively.

The influence of corporate social responsibility on good corporate governance

The findings show that CSR activities have not significantly improved internal governance systems within Islamic banks. CSR is often viewed as an external or philanthropic effort aimed at reputation rather than an integrated part of governance promoting transparency, participation, and accountability. According to agency theory, CSR could reduce conflicts between managers and owners by bridging information gaps through disclosure. However, CSR fails to strengthen governance when it is merely symbolic or externally driven. The disconnect arises because CSR focuses externally on social and environmental contributions, while GCG centers on internal controls, supervision, and accountability. As a result, an Islamic bank's robust CSR program does not necessarily enhance governance quality. CSR, seen as an add-on or image-building activity without integration into long-term management goals, has little effect on governance improvement. From the tawhidi string relation (TSR) perspective, this gap reflects a split between social and spiritual dimensions in corporate management. Islamic principles demand a unified approach where social responsibility and governance justice are inseparable. CSR should embody ‘Ihsan’—good deeds that improve external relations and internal company culture. Supporting studies like Haniffa and Hudaib (2007); Said, Zainuddin, and Haron (2009) highlight that CSR disclosures in Islamic companies are sometimes superficial, lacking substantive changes to governance structures. This finding suggests that CSR has not yet become part of Islamic banks' value system and decision-making. This indicates the need for a strategic approach and policies that integrate social practices with good governance principles so that business sustainability can be achieved comprehensively and not fragmented.

The influence of good corporate governance on intellectual capital

The findings show that GCG implementation in Islamic banking has not significantly influenced intellectual capital (IC) reporting. IC disclosure remains voluntary and inconsistent, often insufficient to meet stakeholders' information needs. From an agency theory viewpoint, GCG has yet to become an effective control mechanism for managing intellectual resources. While governance ideally curtails managerial opportunism and encourages long-term investments in human capital and knowledge, many Islamic banks treat GCG as a formal obligation without extending its reach into non-financial strategic areas. A study by Kamath (2008) notes that few companies disclose IC comprehensively. Since GCG mainly addresses internal financial management and legal compliance, and IC involves knowledge, innovation, and HR capabilities, the two do not always align. Strong governance does not automatically enhance IC development if firms do not prioritize HR development or innovation. Trivedi and Srivastava (2024) support this, finding that corporate culture, training, and R&D play a larger role in IC than governance alone. This finding suggests a gap between the governance implemented and the sustainable knowledge management strategy. Thus, a more integrative approach is needed, where GCG practices do not only focus on formal compliance but also actively support innovation, organizational learning, and the development and reporting of intellectual capital. In addition, Islamic banks' regulations and internal policies need to be reviewed so that GCG principles can function as a catalyst for improving Islamic financial institutions' intellectual performance and competitiveness.

The influence of intellectual capital on good corporate governance

The findings show that intellectual capital management has not significantly driven improvements in corporate governance. While companies may use intellectual capital to boost operational efficiency and competitive advantage, they often do not integrate it strategically into governance processes like managerial monitoring and decision-making. Agency theory suggests intellectual capital should help reduce conflicts between agents and principals by supporting transparency and accountability. However, its potential remains untapped without embedding intellectual capital within governance structures. Many sharia companies invest in training, IT, and partnerships but struggle with transparency, leadership concentration, and weak supervision. Annual reports quantify HR development but lack connection to governance strategy. GCG primarily focuses on internal oversight—boards, audit committees, and control procedures—whereas intellectual capital relates to knowledge and skills management. These distinct focuses mean that substantial intellectual capital alone does not guarantee improved governance. Firer and Williams (2003); Kamath (2015) found similar patterns, particularly in developing countries where HR and knowledge management often remain detached from formal governance frameworks. These findings show that Islamic banks' knowledge capacity and intellectual assets have not been effectively utilized to strengthen governance. This highlights the need to align knowledge management strategies, corporate oversight, transparency, and accountability mechanisms. Stronger integration between IC and GCG practices is essential to ensure sustainability and long-term competitive advantage, especially in the Islamic banking industry.

The influence of good corporate governance on financial risk

The findings show that the current implementation of good corporate governance (GCG) is insufficient to manage financial risk in Islamic banks effectively. Even though firms formally adopt GCG principles, this does not translate into absolute protection against various financial risks that threaten company stability. The study found that GCG does not significantly impact financing, capital, or operational risks. This is partly because Islamic banks primarily rely on murabahah financing, while mudharabah and musyarakah contributions remain relatively small. However, GCG does affect liquidity risk, as poor governance may lead to the inability to meet financial obligations without incurring losses. From an agency theory perspective, GCG has not yet entirely performed its role in reducing conflicts between managers (agents) and owners or stakeholders (principals).

From the tawhidi string relation (TSR) viewpoint, the lack of impact is due to insufficient integration of spiritual values—such as trust, justice, and responsibility to Allah and society—into governance, particularly risk management. If GCG is merely formal without embedding Islamic ethical principles, it cannot effectively control managerial risk-taking. Managers may still engage in risky financial behavior without proper supervision. Additionally, financial risks often arise from external factors beyond company control—like market volatility, regulatory shifts, or economic crises, making it difficult for internal governance to reduce these risks. While GCG emphasizes internal controls such as financial oversight and compliance, risks linked to strategic investments, funding, and debt management are less affected. Many companies' audit committees and boards of commissioners play mostly administrative roles, lacking active participation in risk mitigation. Research by Noor, Rahman, and Ismail (2016) supports these findings, showing that governance implementation does not directly improve financial risk management, which is more influenced by external economic policies. These findings show that the corporate governance implemented has not effectively controlled and mitigated the principal risks of Islamic banks. This encourages the need for a more integrated approach between the GCG framework and the risk management system, as well as the need for revision of policies and practices so that GCG is not only symbolic but truly supports the resilience and sustainability of Islamic banks in facing crucial risks.

The influence of financial risk on good corporate governance

The findings show that financial pressures do not necessarily prompt Islamic banks to improve their governance systems. Often, organizations maintain their existing GCG frameworks without making significant changes or enhancing supervisory roles, even when facing high financial risks. According to the agency theory, financial risk alone does not sufficiently motivate managers (agents) to reform governance for the benefit of owners or shareholders (principals). High risk would drive management to increase transparency and accountability to retain market trust. However, managers may resist governance reforms without external pressures from regulators or investors, especially if they hold strong internal influence.

TSR's perspective suggests that corporate governance has yet to be fully grounded in Islamic spiritual values that integrate management actions holistically. Islamic teachings view risk as not only financial but also moral and social. Hence, encountering risk should encourage trustworthiness and responsibility in management. The lack of impact of financial risk on GCG indicates that these values are not yet fully embedded in governance structures. While GCG ensures transparency, accountability, and oversight, many companies fail to strengthen governance even under financial stress. Research by Yermack (1996); Albassam and Ntim (2017) found similar trends, where financial risk was not a primary driver for improving governance due to managerial self-interest, cost concerns, or lack of awareness about governance as a risk control mechanism. These findings show that Islamic banks may not have sufficient awareness or mechanisms to make financial pressure a trigger for improving governance. This indicates the need for updates in the GCG approach to be more proactive, responsive to risk, and not only oriented towards administrative compliance. Regulations also need to be directed to encourage the implementation of risk-sensitive governance to improve the company's resilience and integrity.

The influence of corporate social responsibility on intellectual capital

The findings show that CSR activities have not yet improved the quality or management of intellectual capital, including human, structural, and relational capital. This may be because CSR efforts are symbolic or "window dressing," lacking strategic integration with the company's intellectual capital development. CSR disclosure remains voluntary and is minimal alongside the disclosure of intellectual capital. CSR mainly addresses environmental and social concerns, such as community programs, donations, education, and sustainability efforts, while intellectual capital involves intangible assets like knowledge, patents, intellectual property, and innovations generated internally.

This disconnect arises from an agency theory perspective because managers may focus on CSR to enhance external reputation without allocating sufficient resources to develop internal intellectual capital. Thus, CSR is a legitimate tool rather than a strategy to increase company value. The two areas, CSR and intellectual capital—operate in different domains: CSR manages external stakeholder relationships, while intellectual capital relates to internal knowledge assets that drive competitive advantage. According to the tawhidi string relational approach, this separation reflects weak integration of Islamic monotheistic values in management. Ideally, CSR should be a form of trust and worship that contributes to developing quality human resources and social relations. The lack of influence of CSR on intellectual capital suggests a weak spiritual and ethical foundation in corporate management.

This finding aligns with previous research by Wang and Sarkis (2017), which found that CSR does not constantly directly improve intellectual performance, especially when CSR lacks long-term commitment or is merely normative. Research by Musibah and Alfattani (2013) on Islamic banks in the Gulf showed that certain intellectual capital elements (e.g., customer capital) positively affect CSR, while others (human capital, structural capital) have negative or no effects. These findings show that some Islamic banks may not yet implement CSR as an integral part of their knowledge and innovation resource development strategy. This suggests the need to shift from a transactional or philanthropic CSR approach to a more strategic and knowledge-based approach so that CSR can significantly strengthen the company's human capital, structural capital, and relational capital.

The influence of intellectual capital on corporate social responsibility

The findings show that Islamic banks with significant intellectual capital do not necessarily exhibit strong social responsibility. This could be due to the strategic focus of intellectual capital management, which often prioritizes internal improvements, innovation, and gaining competitive advantages rather than fostering social initiatives. Based on agency theory, this lack of impact may stem from the misalignment of priorities between managers (agents) and shareholders (principals). Managers may allocate intellectual resources to achieve short-term financial gains or operational efficiency, while CSR activities are viewed as costless without immediate returns. Therefore, CSR may not be considered a strategic priority even with abundant intellectual capital. In contrast, according to TSR, intellectual capital should drive ethical consciousness and a corporate sense of social duty. From this perspective, knowledge (human capital) and networks (relational capital) should be employed for organizational benefit and broader societal good. The findings suggest that spiritual values are not fully integrated into managerial practices, resulting in a weak foundation for socially responsible decision-making.

In Islamic banking, this tendency indicates a stronger emphasis on physical capital over social disclosure. Intellectual capital is commonly utilized to generate value through innovation and operational optimization, while CSR, being more socially and environmentally driven, is often seen as peripheral. Many organizations have yet to align their intellectual capital strategies with CSR objectives, so they develop IC for competitive positioning rather than social development. Intellectual capital can be robust internally, e.g., high-quality personnel and advanced systems—yet not oriented toward external commitments like CSR. Similar findings were reported by Lovinza, Wiralestari, and Rahayu (2023) in the manufacturing sector, concluding that short-term profitability often outweighs the commitment to CSR when using intellectual capital. Studies by Kamath (2015); Yusoff et al. (2019) further support the notion that intellectual capital is more influential in internal performance metrics than in shaping external social policies. In research on Islamic banking in Gulf countries, Musibah and Alfattani (2013) found varying impacts of different IC components: CEE positively influenced CSR, HCE had a negative effect, and SCE showed no significant correlation. These findings show that some Islamic banks have not integrated their internal competencies, innovations, and social networks into CSR programs. This reflects that CSR is still a complementary activity, not part of a knowledge-based strategy. Islamic banks need to build a stronger connection between their intellectual capital and social activities to create sustainable and impactful CSR.

The influence of corporate social responsibility on financial risk

The findings show that CSR practices have not been effectively incorporated into risk management frameworks. Instead, CSR serves more as a tool for corporate image-building or regulatory compliance than a proactive method for mitigating financial risks such as liquidity, credit, or market risks. Agency theory helps explain this through potential conflicts of interest; managers may use CSR budgets for self-serving motives like enhancing personal reputation, which does not directly reduce financial exposure. In this context, CSR can be viewed as an expense with minimal financial return, thereby failing to alleviate risk. The findings reflect that CSR in Islamic banks remains voluntary and has little influence on financing-related risks, likely due to the smaller scale of mudharaba and musharaka financing, which also affects liquidity dynamics. A company focused on long-term sustainability should align CSR with stakeholder expectations. However, CSR often lacks strategic orientation, resulting in limited impact on risks such as cash shortages, investor confidence, or market downturns. This aligns with the research of Barnea and Rubin (2010), who concluded that CSR only contributes to financial stability when embedded in corporate risk strategies. Similarly, Cheung et al. (2015) emphasized that CSR fails to deliver financial risk mitigation without integration into broader governance systems. This finding indicates that some Islamic banks have not utilized CSR as a strategic tool to build long-term financial resilience. CSR is still a social activity separate from risk management and core business strategies. For CSR to make a real contribution to reducing financial risk, companies need to integrate CSR into their governance system, strategic decision-making, and risk management.

The influence of financial risk on corporate social responsibility

The findings show that bank syariah under financial stress—such as declining profits, high debt, or liquidity constraints—will likely scale back CSR activities. Since CSR is often viewed as a long-term, non-revenue-generating investment, it tends to be deprioritized during financial strain. From an agency theory perspective, this outcome can be attributed to a divergence between managerial and shareholder goals. In financially risky conditions, managers may focus on immediate concerns like debt repayment and cash flow maintenance, sidelining CSR, which does not offer short-term financial benefits. Investors and creditors may view CSR as a non-essential cost under such conditions. On the other hand, according to the Tawhidic perspective, CSR should be a moral imperative rooted in spiritual and social accountability, regardless of the financial climate. However, these findings reveal that this value-based approach has yet to be internalized.

This reflects how capital and operational risks in Islamic banks influence CSR expenditures—when such risks increase, CSR budgets are likely reduced. Belkaoui and Karpik (1989) identified a correlation between social disclosure and systemic risk, suggesting that companies under high systematic risk might disclose more CSR information. However, in many cases, financial instability shifts corporate priorities toward operational sustainability rather than social contribution. Supporting studies by Ferrero, Banerjee, and Sánchez (2016) demonstrate that heightened financial pressure often results in reduced CSR reporting due to limited financial capacity and a focus on survival rather than social obligations. This finding shows that financial conditions greatly influence the social commitment of Islamic banks. This shows that CSR is still positioned as an additional activity, not a strategic part of business sustainability. Therefore, companies need to design CSR programs that remain relevant and impactful even in times of crisis, and regulators need to guide so that CSR becomes part of the risk mitigation system and long-term strategy of Islamic banks.

The influence of intellectual capital on financial risk

The findings show that intellectual capital is not effectively leveraged to mitigate financial risk. Although intellectual assets should drive innovation and resilience, their integration into risk control mechanisms appears insufficient. Agency theory suggests this could be due to inefficiencies or misallocation, where intellectual resources—such as employee development or stakeholder engagement—are not aligned with risk mitigation goals. For example, training may not target internal control or financial oversight, and stakeholder relations may emphasize branding over risk partnerships. From a TSR viewpoint, this disconnection highlights a shortfall in aligning knowledge and ethics to build a spiritually and operationally resilient company. IC may be applied more toward strategic growth than financial risk management in Islamic banking. Since funding is based on profit-sharing contracts like mudharabah and musyarakah, IC does not directly influence lending risk because customers choose their contract type. Intellectual capital is typically geared toward long-term gains, efficiency, or product development rather than liquidity control or debt strategies. This aligns with findings from Clarke, Seng, and Whiting (2011), who emphasized that the effectiveness of IC in reducing financial risk depends on how well it is integrated into decision-making and business systems. This finding shows that Islamic banks have not fully optimized intangible assets to build financial resilience. This indicates the need for integration between knowledge management and risk management systems. Companies and regulators should view IC as a growth tool and a strategic shield against financial uncertainty.

The influence of financial risk on intellectual capital

The findings show that financial risk does not affect intellectual capital. Companies may seek innovation and knowledge-based solutions under financial pressure to enhance efficiency and adapt to challenges. In this context, intellectual capital becomes a strategic tool for navigating uncertainty without requiring significant physical investment. Agency theory posits that increased risk prompts management to use resources more transparently and efficiently. Managers may demonstrate strategic acumen under stakeholder scrutiny by optimizing IC use. From the TSR lens, financial distress can stimulate spiritual reflection and a commitment to ethical resource stewardship, strengthening relational and intellectual capacities to pursue resilience. The findings imply that liquidity risk in Islamic banking necessitates enhancing human capital to meet urgent funding needs and facilitate customer transactions. Building intellectual resources is vital for sustaining operational continuity and strategic agility. This aligns with research by Bontis, Keow, and Richardson (2000); Abhayawansa and Guthrie (2014), who noted that financial risks often drive firms to intensify their IC development as a response to tangible resource constraints. Similarly, El-Bannany

(2008) found a significant impact of company risk on intellectual performance in UK firms. Although global interest in IC research is growing, such studies remain limited in Indonesia. This finding shows that Islamic banks have not yet linked the financial crisis with the need to strengthen intangible assets. IC can be one of the long-term solutions to build business resilience. Therefore, Islamic banks and policymakers must facilitate and emphasize the importance of maintaining and developing IC even in difficult financial situations.

Conclusions

The findings of this study indicate that good corporate governance (GCG) significantly influences both the profit-sharing ratio (PSR) and the zakat performance ratio (ZPR), while these two performance indicators, in turn, have a reciprocal influence on GCG. However, GCG does not exhibit a significant relationship with intellectual capital (IC), nor does IC influence GCG. Similarly, no causal relationship is found between GCG and corporate social responsibility (CSR) or between GCG and financial risk (FR); these variables do not affect one another. In contrast, CSR has a significant effect on the profit-sharing ratio and the equitable distribution ratio (EDR), and both PSR and EDR, in turn, impact CSR. However, CSR does not influence intellectual capital, nor does intellectual capital affect CSR. Additionally, CSR does not impact financing risk or liquidity, and likewise. Liquidity and operational risk show no significant relationship with CSR. The study further reveals that intellectual capital does not significantly affect either PSR or ZPR, and the reverse is also true: PSR and ZPR have no discernible impact on IC. Moreover, IC does not affect financial risk, and vice versa; financial risk does not influence IC. Likewise, no causal link is observed between financial risk and either PSR or ZPR, and these two financial performance indicators do not influence financial risk.

Theoretically, this research applies the circular causation model and the tawhidi string relations (TSR) framework—an approach that has not been widely explored in previous studies. Grounded in Islamic epistemology, the study draws from the Al-Qur'an and Hadith, as well as theoretical contributions by Ibrahim et al. (2010), Bank Indonesia regulation 11/33/PBI/2009 regarding the implementation of GCG in Islamic banks and business units, and the Islamic social responsibility framework developed by AAOIFI. The practical implications suggest several recommendations for stakeholders in the Islamic banking sector. Islamic banks' financial performance indicators can serve as comprehensive benchmarks for evaluating institutional performance, reflecting compliance with sharia principles. The study highlights that financial performance is about serving stakeholders and, more importantly, ensuring alignment with Islamic law. The findings for regulatory bodies such as the Financial Services Authority (FSA) may inform the development of policies and performance assessments based on the sharia performance Index, reinforcing the notion that Islamic banks must operate following sharia.

This research is limited to the Islamic banking sector, so the results cannot be generalized. Future researchers are encouraged to enhance the scope of this study by incorporating additional variables and employing alternative analytical methods such as return on assets (ROA) and return on equity (ROE). Furthermore, broader secondary data, including Islamic business units and Islamic rural banks, and primary data integration are recommended to enrich the empirical framework. Expanding the methodological approach and variable set would offer a more comprehensive understanding as this research is limited to examining determinants of Islamic bank performance using the circular causation TSR model in a simultaneous context.

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