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THE INFLUENCE OF ISLAMIC SOCIAL REPORTING AND SUSTAINABILITY PERFORMANCE ON THE FINANCIAL PERFORMANCE OF SHARIA BANKS

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ABSTRACT

This study aims to examine the extent to which Islamic Social Reporting (ISR) and Sustainability Performance (SP) influence the financial performance of sharia-based banks. The methodology is quantitative, employing a causal-associative approach. The panel data consist of 13 Sharia Commercial Banks observed over the 2021–2024 period, resulting in a total of 52 observations. The analysis was carried out using panel data regression with Common Effect Model specifications using the EViews application. The ISR variable was quantified using a 48-item disclosure index, while SP was measured through Weighted Content Analysis on 58 Global Reporting Initiative (GRI) indicators relevant to the banking sector. The results of the analysis show that ISR and SP have a significant positive influence on the financial performance of Islamic banks. These findings imply that improving the quality of Islamic value-based social responsibility disclosure and sustainability reporting contributes significantly to the profitability growth of Islamic financial institutions.

Keywords: Financial Performance; Islamic Social Reporting; Sustainability Performance; Sharia Commercial Bank.

ABSTRAK

Penelitian ini bertujuan untuk menguji sejauh mana *Islamic Social Reporting* (ISR) dan *Sustainability Performance* (SP) memengaruhi kinerja keuangan bank syariah. Metodologi yang digunakan bersifat kuantitatif dengan pendekatan asosiatif kausal dan data panel yang bersumber dari 13 Bank Umum Syariah dalam rentang tahun 2021 hingga 2024 dengan total 52 observasi. Analisis dilakukan menggunakan regresi data panel dengan spesifikasi *Common Effect Model* menggunakan aplikasi EViews. Variabel ISR dikuantifikasi menggunakan indeks pengungkapan 48 item, sementara SP diukur melalui *Weighted Content Analysis* terhadap 58 indikator *Global Reporting Initiative* (GRI) yang relevan dengan sektor perbankan. Hasil analisis menunjukkan bahwa ISR dan SP secara signifikan memberikan pengaruh positif terhadap kinerja keuangan bank syariah. Temuan ini mengimplikasikan bahwa peningkatan mutu pengungkapan tanggung jawab sosial berbasis nilai-nilai Islam serta kualitas pelaporan keberlanjutan berkontribusi nyata dalam mendorong pertumbuhan profitabilitas lembaga keuangan syariah.

Kata kunci: Kinerja Keuangan; Pelaporan Sosial Islam; Kinerja Keberlanjutan; Bank Komersial Syariah.

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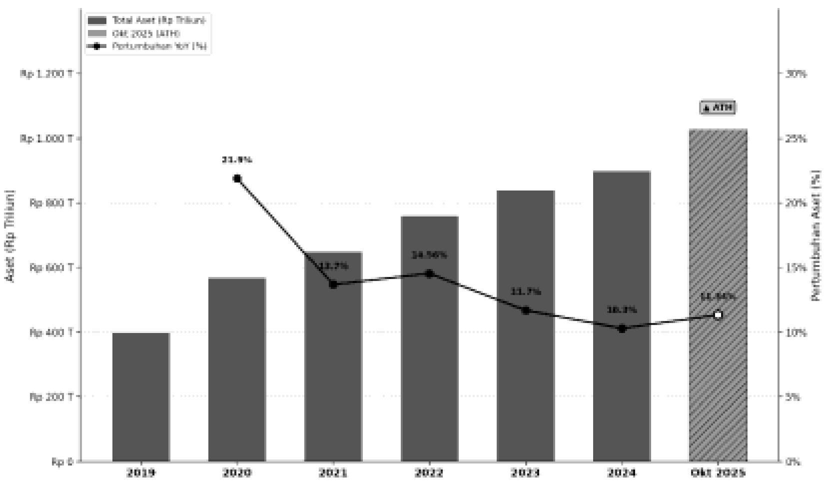
1. INTRODUCTION

The Islamic banking industry in Indonesia has established a stable and impressive growth trajectory. According to official data from the Financial Services Authority (OJK), total Islamic banking assets nationwide exceeded IDR 1,028.18 trillion in October 2025, representing an 11.34% year-on-year increase from IDR 923.43 trillion recorded in the same period of the previous year.

Figure 1. Financial Performance of Indonesia's Islamic Banking 2019–2025



Source: OJK (2025)

Although the growth trajectory has been consistent, the acceleration of asset values does not always correlate with the measurable financial performance of Islamic banks. The pressure on profitability remains unresolved, especially amid a shifting macroeconomic environment. This reality shows that an in-depth exploration of the determinants of the financial performance of Islamic banks is an urgent and relevant research agenda to be comprehensively examined (O'Brien, 2022; Primary, 2022; Septiani et al., 2021)

As a business entity that inherently carries out an Islamic mission, Islamic banks are required to go beyond the limits of financial achievement alone. Public expectations position Islamic banks as institutions that can strike a balance among profit orientation, sensitivity to the social conditions of the community (*people*), and responsibility for environmental sustainability (*Planet*). This philosophical foundation is rooted in the principle of Maqashid Syariah, which prioritises the universal benefit. Then, the studies confirm that non-financial dimensions, such as intellectual capital and effective governance, have also had a significant impact on the performance of Islamic banks (Septiani et al., 2021). In line with that, environmental performance management, when strengthened by good corporate governance, has proven to make a real contribution to improving corporate financial performance in the long term (Heryanti & Harahap, 2025).

In response to these demands, information transparency is an element that Islamic banks cannot ignore. One of the contextually relevant reporting frameworks is *Islamic Social Reporting* (ISR), which is a social responsibility reporting standard that is constructed based on Islamic values and includes dimensions that often escape the radar of conventional CSR reporting, such as compliance with sharia principles, zakat management, Islamic business ethics, and the avoidance of riba and gharar (Arribaat et al., 2021; Shofiyatun et al., 2024). Previous research has shown that the openness of ISR in Indonesia's Islamic banking environment is positively correlated with the institution's reputation and financial performance (Arifin & Wardani, 2016) and has a measurable impact on financial performance (Hadinata, 2019).

However, the level of disclosure of Islamic banking ISR in Indonesia has not yet reached ideal levels. Various studies indicate that the development of ISR practices in Indonesia is still progressing slowly and has not yet encompassed all dimensions of the ISR index. In fact, the ISR disclosure coverage of Islamic banks still accounts for around 58% of the total items in the index, indicating that sharia-based social reporting still needs a boost in consistency and quality (Hasanah et al., 2018; Luqyana & Zunaidi, 2021; Puspawati et al., 2020). On the other hand, Sustainability Performance reflects a banking entity's ability to harmonise economic, social, and environmental dimensions in accordance with globally applicable sustainability standards, particularly those set out in the *Global Reporting Initiative* (GRI) framework. Both are not just the fulfilment of formal obligations, but the embodiment of institutional commitment to responsible and future-oriented business practices. On the other hand, Sustainability Performance reflects a banking entity's ability to harmonise economic, social, and environmental dimensions. This is in accordance with globally applicable sustainability standards. It's particularly those set out in the *Global Reporting Initiative* (GRI) framework. Both are not just the fulfilment of formal obligations, but the embodiment of institutional commitment to responsible and future-oriented business practices (Annissa et al., 2023).

Although Sustainability Performance has been included as a research variable in various studies, the fundamental problem remains uneven sustainability budgets among Islamic banks in Indonesia, which are sporadic and lack standardisation. Data show that sustainability budget allocations vary widely, and some institutions do not yet have a dedicated budget heading for ESG (*Environmental, Social, and Governance*) programs. The absence of measurable budget commitments has implications for the tendency of sustainability reporting to be more symbolic than substantive. This condition complicates the comparability of sustainability performance across institutions. Then, it has the potential to introduce bias in analysing its relationship with the financial performance of Islamic banks (Samsul & Fitriah, 2025; Zubki, 2022).

Although the relationship between ISR and the financial performance of Islamic banks has been extensively explored, findings from previous studies remain inconsistent. It is creating a significant research gap. Some studies reveal the positive influence of ISR on the financial performance of Islamic banks recorded in the Jakarta Islamic Index (Nurhayati & Rustiningrum, 2021) against the company's valuation in 14 Sharia Commercial Banks (Pratomo, 2021), as well as on Return on Equity (ROE) through a reputation strengthening mechanism (Arifin & Wardani, 2016). On the other hand, several studies have identified the negative impact of ISR on financial performance and profit-sharing ratios triggered by the burden of social costs that cannot be fully absorbed (Hadinata, 2019; Sidiq et al., 2025). Some even found no significant influence on sharia portfolio investment decisions at all (Ginayyah et al., 2026).

A similar gap is also seen in the Sustainability Performance variable. The sustainability reporting disclosure index (SRDI) has been shown to affect financial performance but not ROE (Fadil, 2021). Whereas cross-border studies of 32 Islamic banks indicate a negative relationship between sustainability performance and financial performance (Kashi et al., 2025).

The main novelty of this study lies in combining two key variables, namely *Islamic Social Reporting* (ISR) and *Sustainability Performance* (SP), within a single integrated regression analysis framework to identify the determinants of the financial performance of Islamic banks. Most previous studies have only tested the ISR or SP variables separately and partially, for example, studies that exclusively analysed the influence of ISR on profitability (Hadinata, 2019; Sidiq et al., 2025), or those that focus their discussion only on *Sustainability Performance* without including the ISR dimension in the same model (Fadil, 2021; Love & Dewi, 2021). Such a partial approach is considered unable to fully describe how the two dimensions of reporting, namely Islamic values-based reporting and global sustainability reporting, together shape the financial performance of Islamic banking institutions.

To close this gap, this study integrates ISR and SP into one cohesive estimation model using panel data from 13 Sharia Commercial Banks (BUS) for the 2021–2024 period. In terms of measurement, the ISR variable was quantified using a 48-item index that was more comprehensive than the instruments in the previous study, while *Sustainability Performance* is measured through a *Weighted Content Analysis* approach to 58 GRI indicators that are able to systematically distinguish between narrative disclosure and verified quantitative data-driven reporting a methodological advance that goes beyond the limits of conventional dichotomous approaches (Kashi et al., 2025). Thus, the contribution of this research is expected not only to enrich the Islamic financial literature but also to become a strategic reference for Islamic bank management and regulatory authorities in formulating more standardised reporting policies, in line with efforts to strengthen *strategic agility* and Islamic financial inclusion, which have been proven to have a long-term impact on financial performance.

2. THEORETICAL FOUNDATIONS

2.1. LEGITIMACY AND STAKEHOLDER THEORY

The theoretical framework underpinning this research rests on two complementary conceptual pillars: Legitimacy Theory and Stakeholder Theory. Furthermore, from the perspective of Legitimacy Theory, the operational sustainability of a business entity, including Islamic banking institutions, is considered. It depends on the extent to which its activities consistently align with societal norms and expectations. Then, this framework positions the relationship between a company and its environment as an unwritten social contract: society provides space for the company to operate as long as it consistently meets applicable social standards. Information disclosure about Islamic-based social activities through *Islamic Social Reporting* (ISR), which is carried out regularly, has been shown to build reputation capital, a valuable intangible asset for Islamic banks (Arifin & Wardani, 2016). Regular reporting transparency also helps strengthen the position of Islamic banks in the eyes of the public, who are increasingly critical of value-based business practices (Ningsih, 2021).

Stakeholder Theory emphasises that the scope of financial institutions' responsibilities is not limited to shareholders' interests but extends to all parties affected by the company's operations. Then, it includes customers, employees, government authorities, local communities, and environmental components. In the context of Islamic values, this principle aligns with the teachings of hablum minannas, which emphasises the obligation to maintain harmonious relationships with fellow humans. Meeting the expectations of various stakeholder groups through quality sustainability reporting has been shown to correlate with banks' ability to expand the scope of ISR disclosures (Hasanah et al., 2018). Customer loyalty and investor trust, developed through a stakeholder approach, indirectly drive growth in the financial performance of Islamic banks (Primary, 2022). Furthermore, institutions that consistently and transparently disclose their sustainability practices tend to gain greater social legitimacy. Thissupport from various stakeholders ultimately contributes positively to a company's financial performance (Fadil, 2021; Love & Dewi, 2021).

2.2. FINANCIAL PERFORMANCE

The financial performance of a banking institution reflects its effectiveness in utilising all available resources to generate optimal economic value for its stakeholders. Then, financial performance is usually measured using three ratios: profitability, operational efficiency, and overall financial health. This study adopts *Return on Assets* (ROA) as the primary proxy for financial performance, given its superior ability to capture asset management efficiency without being influenced by differences in capital structure across banks. Bank Indonesia has set a healthy ROA threshold of at least 1.5% for national banks. In addition, the management of intellectual resources and banking risks helps shape the performance of Islamic banks, as these factors are closely related to operational efficiency and the ability to create corporate value (Septiani et al., 2021). Islamic social performance and the *Islamicity Performance Index have been shown* to positively contribute to the financial performance of Islamic banks, as measured by ROA (Primary, 2022). The ISR index also shows a positive influence on the financial performance of Islamic banking, as proxied by ROA, emphasizing that good social transparency ultimately translates into more encouraging financial outcomes (Hadinata, 2019).

2.3. ISLAMIC SOCIAL REPORTING (ISR)

Islamic *Social Reporting* (ISR) is a social accountability reporting framework built on the principles of ethics and Islamic sharia. The emergence of ISR is fundamentally driven by the limitations of conventional Corporate Social Responsibility (CSR) standards, which are inherently inadequate in capturing the distinctive dimensions of Islamic financial institutions of Islamic financial institutions, such as adherence to sharia rules, management of zakat instruments, abstinence from riba and gharar, and the reflection of Islamic values in every aspect of business operations. ISR disclosures have been shown to positively impact a company's valuation, although the relationship is sometimes mediated by the bank's financial performance conditions (Refani & Soraya Dewi, 2021). Environmental performance aspects and *Islamic Governance Score* also contribute positively to the breadth of ISR disclosure coverage in companies listed in the Indonesian Islamic stock index (Amanda et al., 2023).

Substantively, the ISR index summarizes six main themes: (1) Financing and investment that are free from the elements of riba, maysir, and gharar; (2) Products and services that have been verified to be halal; (3) Employment which includes workers' rights and human resource competency development; (4) Community which includes the distribution of zakat, infaq, alms, and waqf; (5) Environmental dimension; and (6) overall corporate governance. The implementation of high-quality Islamic Corporate Governance is a key catalyst for the emergence of high-value ISR disclosures (Ningsih, 2021), and there is a close relationship between sound financial performance and a bank's capacity to present broader, in-depth ISR (Hasanah et al., 2018).

2.4. SUSTAINABILITY PERFORMANCE

Sustainability Performance refers to an organisation's capacity to manage and balance economic, social, and environmental dimensions in a coherent and accountable manner. This concept is rooted in the sustainable development paradigm, which holds that economic growth should not be achieved at the expense of nature preservation or social justice. At the global level, the Global Reporting Initiative (GRI) provides a standardised set of indicators to measure these three dimensions, while in Indonesia, OJK regulations, as set out in POJK Number 51/POJK.03/2017, encourage the application of sustainable finance principles in the banking sector. Sustainability reporting has proven to make a significant contribution to shaping the financial performance of Islamic banks when integrated with strong governance and risk management practices (Fadil, 2021). Superior sustainability performance can also send positive signals to investors and customers. These investors are increasingly considering environmental factors, potentially expanding their customer base and attracting capital from ESG-oriented investors (Kashi et al., 2025).

In this study, the *Sustainability Performance measurement was* implemented using *Weighted Content Analysis*, which not only records whether a disclosure exists but also assesses the weight and quality of the information presented. This approach has been validated in the global Islamic banking setting as a reliable instrument for measuring sustainability scores in greater depth (Kashi et al., 2025). The quality of sustainability reports has proven to be a key factor in shaping stakeholders' assessments of the strategic value of Islamic banks in the future (Ellis, 2026).

2.5. HYPOTHESIS DEVELOPMENT

The fulfilment of social obligations through Islamic Social Reporting (ISR) has demonstrably constructed a favourable institutional image across diverse stakeholder groups. It is, in aggregate, that generates cumulative pressure toward enhanced financial performance, as theorised within the Stakeholder Theory framework (Pratomo, 2021). The high quality of ISR disclosure is positively correlated with the financial performance of Islamic banking (Hadinata, 2019). The high quality of ISR disclosure is positively correlated with the financial performance of Islamic banking (Hadinata, 2019), and the more comprehensive the scope of a bank's ISR disclosure, the greater the likelihood of improved financial performance (Pratomo, 2021).

H_1: Islamic Social Reporting (ISR) positively affects the financial performance of Islamic banks.

Sustainability reporting quality has been identified as a critical determinant of the financial performance trajectory of Islamic banking institutions (Fadil, 2021). The positive influence of Sustainability Performance on financial performance is further corroborated in the global Islamic banking context (Kashi et al., 2025). Moreover, sustainability report quality is one of the principal factors governing stakeholder perceptions of the long-term strategic value of Islamic banks (Ellis, 2026) such that institutions that consistently maintain robust sustainability performance are anticipated to record comparatively higher profitability than those that neglect these dimensions (Primary, 2022).

H_2: Sustainability Performance has a positive effect on the financial performance of Islamic banks.

3. RESEARCH METHODS

This study adopts a quantitative, causal-associative design to examine the patterns of cause-and-effect relationships among variables through a series of numerical data processing procedures and statistical analyses. The data used is secondary, in a *panel format*, comprising 13 *Sharia Commercial Banks* (BUS) as *cross-sectional* observation units and a four-year time *series* from 2021 to 2024, resulting in a total of 52 observation points. The choice of panel data is driven by its superiority in controlling for *unobserved heterogeneity* among bank units, yielding more reliable parameter estimates than stand-alone cross-sectional or time-series data. The entire data processing process is carried out using *EViews software*.

The population includes all BUSES registered with *the Financial Services Authority* (OJK). The *purposive sampling technique* was applied. Then, the selection criteria include the availability *of a complete Annual Report* and a *Sustainability Report* during the 2021–2024 period. All data is compiled from annual and sustainability reports published on each bank's official website.

The dependent variable in this study is financial performance, proxied by *Return on Assets* (ROA). It is calculated as net profit after tax divided by total assets, multiplied by 100%. The first independent variable is *Islamic Social Reporting* (ISR). This was then operationalised as a 48-item index covering six themes: financing and investment, products and services, employment, community, environment, and corporate governance. Assessment using the *Content Analysis:* a dichotomous scoring system that assigns 1 if an item is revealed and 0 if it is not, then converted to a percentage of the total 48 items (Sidiq et al., 2025). The second independent variable is *Sustainability Performance* (SP), measured using 58 *Global Reporting Initiative* (GRI) indicators relevant to the banking sector, assessed through *Weighted content analysis* (Kashi et al., 2025), with the total score divided by 58.

Table 1. Variable Operational Definition

Variable	Proxy	Measurement
Financial Performance (Y)	ROA	(Net Profit / Total Assets) × 100%
Islamic Social Reporting (X_1)	ISR Index	(Total disclosure score / 48 items) × 100%; content analysis method (Sidiq et al., 2025)
Sustainability Performance (X_2)	SP Index	Total disclosure score / 58 indicators; Weighted Content Analysis method based on GRI (Kashi et al., 2025)

Source: Processed from various sources

The model estimation uses panel data regression with the specifications: $ROAit = \alpha + \beta_1 ISRit + \beta_2 SPit + \varepsilon it$. The determination of the best model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) is conducted in stages using the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test. A series of classical assumption tests includes residual normality testing (Jarque-Bera), multicollinearity (VIF), heteroscedasticity (Glejser or White test), and autocorrelation (Breusch-Godfrey). Hypothesis testing was carried out using a partial t-test, a simultaneous F-test, and the coefficient of determination (R^2) to assess the explanatory power of ISR and SP in explaining variations in financial performance.

4. RESULTS AND DISCUSSION

4.1. DESCRIPTIVE STATISTICS

Descriptive statistical analysis was carried out to obtain a comprehensive portrait of the distribution characteristics of each variable studied. Based on data processing of 52 observations covering 13 Sharia Commercial Banks during the 2021–2024 period, the statistical summary is presented in the following table.

Table 2. Descriptive Statistics

	ROA	ISR	SP
Mean	0.007506	96.37746	0.910146
Median	0.014650	97.67442	0.948276
Maximum	0.114300	100.0000	0.982759
Minimum	-0.108500	81.39535	0.741379
Std. Dev.	0.039756	4.521997	0.066323
Skewness	-0.520996	-2.481318	-0.911857
Kurtosis	5.229083	8.554420	2.746034
Jarque-Bera	13.11821	120.2052	7.345931
Probability	0.001417	0.000000	0.025401
Sum	0.390300	5011.628	47.32759
Sum Sq. Dev.	0.080609	1042.871	0.224338
Observations	52	52	52

Source: EViews output, processed (2026)

The financial performance variable, proxied by ROA, recorded an average value of 0.0075. It is below the minimum health threshold of 1.5% set by Bank Indonesia. This shows that, on average, the financial performance of Islamic banks in the sample remains relatively low throughout the observation period. Then, the highest ROA value was 0.1143, while the lowest was -0.1085, illustrating the wide variation in financial performance among banks in the sample. The *standard deviation* of 0.0398 reflects significant performance fluctuations over the study horizon.

The ISR variable averaged 96.38% across the 48 index items, with a range of 81.40% to 100%. This high average figure indicates that the Islamic banks in the sample have generally conducted Islamic-based social disclosure at a relatively comprehensive level. The median ISR value of 97.67%, which exceeds the mean, indicates a left-skewed (negatively skewed) distribution, further confirmed by a Skewness value of −2.48. This indicates that most banks have achieved high levels of disclosure, while only a small number still have below-average scores.

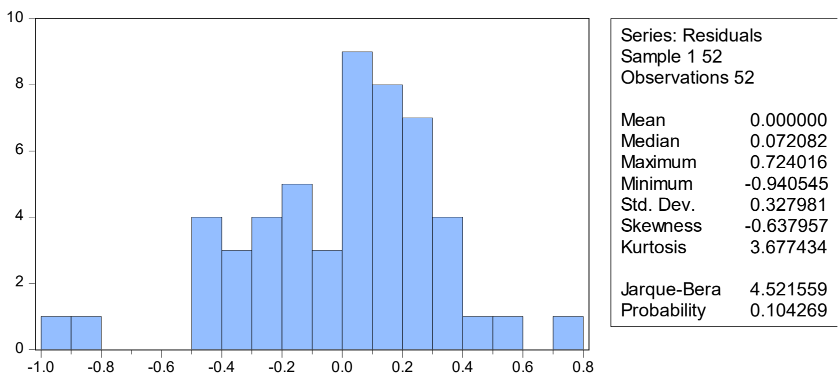
The Sustainability Performance (SP) variable has an average value of 0.9101 with the highest value of 0.9828 and the lowest value of 0.7414. The narrow range of values, as reflected in the *Standard Deviation* of 0.0663, indicates that the quality of sustainability reporting among Islamic banks in the sample is relatively uniform. A Skewness value of −0.91 indicates a distribution that is skewed toward higher disclosure quality scores among the sampled banks (Windari & Hasibuan, 2022).

4.2. CLASSICAL ASSUMPTION TEST

4.2.1. Normality Test

Residual normality testing using the Jarque-Bera test yielded a p-value of 0.1043 (>0.05). This indicates that the residuals meet the assumption of normality. In the context of panel data regression with an adequate sample size (n = 52), the assumption of normality is asymptotic rather than an absolute prerequisite. In panel data analysis, the normality test serves primarily as an initial check on the data's distribution; small deviations from normality do not necessarily invalidate the validity of the Ordinary Least Squares estimate, given the Central Limit Theorem.

Figure 2. Normality Test



Source: EViews output, processed (2026)

4.2.2. Heteroscedasticity Test

Heteroscedasticity was detected by regressing the absolute value of the residuals on the independent variable using *the Glejser test*. The test results are presented in the following table.

Table 3. Heteroscedasticity Test Results (*Glejser*)

	Nilai		Prob.
F-statistic	1.835451	Prob. F(2,49)	0.1703
Obs*R-squared	3.624143	Prob. Chi-Square(2)	0.1633

	Nilai		Prob.
Scaled explained SS	3.674838	Prob. Chi-Square(2)	0.1592

Source: EViews output, processed (2026)

The F-statistic probability value of 0.1703 and Obs*R-squared of 0.1633 are both above the 5% significance threshold. The probabilities of the ISR and SP coefficients for residual absolute values of 0.2756 and 0.4115 are also well above α = 0.05. Thus, the null hypothesis of no heteroscedasticity cannot be rejected, and it can be concluded that the regression model is free from heteroscedasticity.

4.2.3. Multicollinearity Test

Multicollinearity checks were carried out using *the Variance Inflation Factor* (VIF). The results are presented as follows:

Table 4. Multicollinearity Test (VIF) Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.002956	1.372697	NA
ISR	0.006140	1.789348	1.313599
SP	0.004400	1.506850	1.313599

Source: EViews output, processed (2026)

The centred *value of VIF* for ISR and SP is identical at 1.3136, well below the conventional limit of 10. These findings confirm the absence of a problematic linear correlation between the two predictor variables, so the regression coefficient estimates are not distorted by multicollinearity.

4.2.4. Autocorrelation Test

Autocorrelation detection is carried out through the *Breusch-Godfrey Serial Correlation LM Test*. A summary of the test results is presented as follows in Table 5.

Table 5. Autocorrelation Test Results (*Breusch-Godfrey*)

	Nilai		Prob.
F-statistic	0.365335	Prob. F(2,47)	0.6959
Obs*R-squared	0.796026	Prob. Chi-Square(2)	0.6717

Source: EViews output, processed (2026)

The F-statistic probability value of 0.6959 and the Obs*R-squared of 0.6717 are consistently well above α = 0.05. The residual lag coefficients of RESID (-1) and RESID (-2) were not statistically significant. This confirms that the regression model does not exhibit serial autocorrelation, so the parameter estimates still meet the *criteria of the Best Linear Unbiased Estimator* (BLUE).

4.3. PANEL DATA REGRESSION MODEL SELECTION

4.3.1. Chow Test

The Chow test is used to determine which model is more suitable, *the Common Effect Model* (CEM) or *the Fixed Effect Model* (FEM). The test results are presented as follows in Table 6.

Table 6. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.067118	(12,37)	0.4138
Cross-section Chi-square	15.454707	12	0.2175

Source: EViews output, processed (2026)

The probability of the Cross-section F of 0.4138 and the Cross-section of Chi-square of 0.2175 both exceeded the significance limit of 5%. Based on the decision-making criteria, if the probability value exceeds 0.05, then CEM is more appropriate than FEM. Therefore, *the Common Effect Model* was identified as a superior model candidate at this stage of selection.

4.3.2. Hausman Test

The Hausman test is used to choose between the FEM and the *Random Effects Model* (REM). The test results are presented as follows in Table 7.

Table 7. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.022939	2	0.3637

Source: EViews output, processed (2026)

The statistical value of Hausman's Chi-square is 2.0229 with a probability of 0.3637, well above the 0.05 threshold. Then, according to the decision rules, a probability exceeding 0.05 indicates that REM is more strongly recommended than FEM. These results are consistent with the findings of the previous Chow Test and further narrow the choice of models towards CEM or REM.

4.3.3. Lagrange Multiplier Test

To confirm the final choice between CEM and REM, a Lagrange Multiplier (LM) test was performed using the Breusch-Pagan method. The results are presented as follows in Table 8.

Table 8. Lagrange Multiplier Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.001041 (0.9743)	0.321503 (0.5707)	0.322543 (0.5701)

Source: EViews output, processed (2026)

The Breusch-Pagan probability for the cross-section dimension is 0.9743, for the time dimension of 0.5707, and for the combination of the two of them is 0.5701, all well beyond the 0.05 threshold. Based on the criterion that a probability of more than 0.05 indicates that CEM is more appropriate than REM, the *Common Effect Model* (CEM) was determined as the selected model in the regression analysis of the data of this research panel.

4.4. COMMON EFFECT MODEL REGRESSION RESULTS

After going through a series of model selection procedures, *the Common Effect Model* (CEM) was selected as the most suitable estimation specification for this research data. The results of the CEM estimate are shown in Table 9.

Table 9. Common Effect Model *(CEM)* Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.063639	0.054365	-1.170581	0.2474
ISR	0.253212	0.078356	3.231558	0.0022
SP	0.737399	0.066336	11.11609	0.0000

Source: EViews output, processed (2026)

$$\boldsymbol{ROAit = -0.063639 + 0.253212\ ISRit + 0.737399\ SPit + \varepsilon it}$$

The regression equation indicates a constant term of −0.063639. This suggests that, in the absence of contributions from ISR and Sustainability Performance. Financial performance would register a negative baseline. The ISR coefficient of 0.2532 is statistically significant at the 1% level ($p = 0.0022$). This indicates that each unit increment in ISR disclosure quality is associated with a proportional improvement in ROA. Similarly, the Sustainability Performance coefficient of 0.7374 is significant at the 1% level ($p = 0.0000$). It substantially exceeds the magnitude of the ISR coefficient. Then it is underscoring the comparatively stronger influence of sustainability reporting quality on banking profitability. Furthermore, the F-statistic of 111.074 ($p = 0.0000$) confirms that ISR and SP jointly exert a significant and robust influence on financial performance. Finally, the coefficient of determination (R^2) further indicates that the model explains a considerable proportion of the variation in ROA across the sampled institutions.

4.5. THE INFLUENCE OF ISLAMIC SOCIAL REPORTING (ISR) ON THE FINANCIAL PERFORMANCE OF SHARIA BANKS

The results of the analysis confirm that the quality of ISR disclosure is significantly related to the financial performance of Islamic banks. The significant ISR coefficient of 0.2532 at the 1% level ($p = 0.0022$) is not just a statistical number. Then, it's also a reflection of the cumulative, structured process of trust formation. In the frame of *Legitimacy Theory*, the institutional legitimacy gained by Islamic banks through the consistent reporting of social activities based on Islamic values will strengthen the public's perception of the suitability of bank operations with the normative expectations of the Muslim community, resulting in customer loyalty, which in turn stabilises third-party deposits as the main source of funding (Arifin & Wardani, 2016). The stability of such funding ultimately drives banking intermediation efficiency and net profit growth, which is reflected in improved financial performance, as measured by ROA. These findings are also supported by prior research indicating that the expansion of ISR disclosure positively affects the financial performance of Islamic banks in Indonesia (Fatmala & Wirman, 2021).

The Stakeholder Theory perspective enriches this analysis by emphasising that comprehensive ISR disclosure does not merely address a single stakeholder segment. While simultaneously constructing a favourable institutional image across customers, regulators, investors, and the broader community, it builds a positive image before customers, regulators, investors, and the wider community (Nurhayati & Rustiningrum, 2021). The accumulation of this positive image constitutes intangible capital that gradually translates into stronger financial performance (Pratomo, 2021). Previous studies have also confirmed the significant role of intellectual resource management and banking risk control in improving the financial performance of Islamic banks (Septiani et al., 2021). It should be noted that the average ISR value in the sample of 96.38% indicates that Indonesian Islamic banks have achieved a high level of disclosure maturity, so even a small variation in the ISR score is enough to produce a statistically measurable difference in financial performance. These findings diverge from the conclusions of several earlier studies that reported no significant effect (Hadinata, 2019). So, such divergence may be attributed to the methodological superiority of the present study, which uses a broader ISR index and a more contemporaneous observation window.

4.6. THE EFFECT OF SUSTAINABILITY PERFORMANCE (SP) ON THE FINANCIAL PERFORMANCE OF SHARIA BANKS

The Sustainability Performance (SP) coefficient of 0.7374 was significantly higher than the ISR coefficient of 0.2532 ($p = 0.0000$). The superiority of the SP coefficient can be explained by the *Weighted Content Analysis* based on the GRI used in its measurements. This method can qualitatively distinguish between narrative disclosure and measurable, data-driven disclosure, resulting in a more precise score for representing the actual quality of sustainability reporting compared to the conventional binary checklist method (Kashi et al., 2025). The implication is that Islamic banks that not only formally report sustainability but also present measurable achievements actually send a much stronger credibility signal to the market. To improve their financial performance, Islamic banks need to pay attention to various internal and external factors, including the sustainability of human resources, operations, and managerial finance; the environment; macroeconomic dynamics; and the direction of government policies (Mardhiyaturrositaningsih & Janah, 2023).

From the perspectives of *Legitimacy Theory* and *Stakeholder Theory*, high-quality sustainability reporting serves as a strategic instrument for companies. This is used to gain social legitimacy while meeting their stakeholders' expectations. For Islamic banks, transparent and comprehensive sustainability reporting practices can increase investor and public confidence in institutional commitments to conducting responsible business. This condition has the potential to attract investment flows from investors who are increasingly considering *Environmental, Social, and Governance* (ESG) in decision-making (Ellis, 2026). This expansion of the investor base strengthens the funding structure of Islamic banks in the long term. These findings are also in line with empirical evidence showing that SRDI contributes significantly to the financial performance of Islamic banks (Fadil, 2021) and affirm the advantages of weighted measurement over dichotomous approaches for quantifying the quality of sustainability disclosure (Kashi et al., 2025).

5. CONCLUSION

This study empirically examined the determinants of financial performance among Islamic banking institutions in Indonesia. The results demonstrate that both Islamic Social Reporting (ISR) and Sustainability Performance (SP) have a positive and statistically significant impact on the financial performance of Islamic banks. These findings have important practical implications. Islamic banking institutions should prioritise improving the quality of ISR disclosures and sustainability reporting. Both have been empirically validated as key drivers of profitability growth. Then, improved reporting quality is expected to strengthen stakeholder trust, increase customer loyalty, and enhance the efficiency of intermediation, thereby supporting sustainable long-term financial performance. Bank management should consider sustainability reporting as a primary strategic priority, since the influence of Sustainability Performance on financial outcomes is substantially greater than that of ISR. At the regulatory level, authorities should expedite the standardisation of both the ISR disclosure index and the sustainability reporting framework within the national Islamic banking sector.

Despite its contributions, this study is subject to several limitations that define the scope of its findings and suggest directions for future research. The observation period covers five years from 2021 to 2024. While this duration is sufficient for foundational panel data analysis, future research could extend the timeframe to capture longer-term structural changes in Islamic banking. Then, the study focuses on a sample of 13 Sharia Commercial Banks (BUS) in Indonesia. Then, expanding the sample to include a broader, cross-national set of institutions would improve the generalizability of the results across different regulatory and market contexts. Third, the analysis centres on ISR and Sustainability Performance as the main predictors of financial performance. Future studies could incorporate additional variables, e.g., macroeconomic factors, corporate governance quality, and bank-specific risk profiles. This can provide a more comprehensive understanding of the determinants of Islamic bank profitability.

6. ETHICAL STATEMENT

The authors state that the use of AI in preparing this article was limited and ethical. AI is used to help improve grammar, sentence clarity, and neatness in academic writing. AI is not used in data collection, data analysis, coding, interpretation of findings, preparation of references, or preparation of conclusions. All content and academic considerations in this article are the full responsibility of the authors.

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