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Does Islamic Social Reporting Enhance the Profitability of Islamic Banks? Evidence from Selected OIC Countries

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Abstract

Background: Awareness of social responsibility within Islamic banking has grown rapidly in recent years, driven by increasing expectations for Islamic financial institutions to fulfill not only financial but also social and environmental obligations. This evolution reflects the growing importance of legitimacy and trust among stakeholders. Countries with a majority Muslim population, such as Indonesia, Malaysia, and the Gulf states, are expected to lead in implementing Islamic-based social responsibility practices and transparent reporting through Islamic Social Reporting (ISR)
Objectives: This research aims to examine the impact of Islamic Social Reporting (ISR) disclosure on the profitability of Islamic banks in selected Organization of Islamic Cooperation (OIC) member countries.
Novelty: The novelty of the study lies in its cross-country comparative analysis of ISR practices among Islamic banks within OIC member nations. While prior studies have explored the relationship between ISR and financial performance, limited research has examined how cultural, regulatory, and institutional contexts across Islamic economies shape this relationship. This study contributes to the literature by providing empirical evidence on how ISR may entail short-term trade-offs with profitability but serve as a foundation for long-term sustainability and ethical accountability.
Research Methodology / Design: A quantitative research approach was employed using secondary data derived from the financial statements and sustainability reports of Islamic banks from 2021 to 2024. Data analysis involved classical assumption testing, simple linear regression to test the relationship between ISR and profitability (ROA, ROE), and one-way ANOVA to identify cross-country differences. Statistical analysis was performed using SPSS software.
Findings: The findings reveal that ISR disclosure has a significant negative influence on Islamic banks' profitability as measured by both ROA and ROE. Additionally, ISR disclosure levels vary significantly across countries, with Indonesia demonstrating higher levels compared to Malaysia and the Gulf states. These results indicate that while ISR strengthens ethical accountability and transparency, its financial benefits are not immediate but may accumulate over time.

Keywords:
Islamic Social Reporting (ISR), Profitability, ROA, ROE, Islamic Banking, OIC Countries

JEL Classifications:
G2; G21; G23, G29

Implication: The study implies that Islamic banks must strategically balance their social and financial objectives. Theoretically, the findings support the legitimacy theory and stakeholder theory by emphasizing that socially responsible behavior enhances institutional credibility. Practically, policymakers and banking regulators should encourage standardized ISR frameworks to ensure that social responsibility reporting contributes not only to ethical governance but also to sustainable financial performance in the long term.

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A. Introduction

In recent years, the Islamic economy and finance have experienced remarkable growth, leading to significant structural transformations within the global financial architecture. The system's fundamental principles—honesty, justice, and transparency—have become essential elements in the development of Islamic financial products and instruments (Gani, 2022). These principles not only serve as moral foundations but also strengthen the integrity and stability of Islamic financial systems across various regions (Haniffa & Hudaib, 2007).

In modern economies, the banking sector plays a central role as a financial intermediary that mobilizes funds from surplus units and channels them to deficit sectors. Islamic banks, similar to conventional institutions, are crucial in promoting economic growth through efficient funding and financing activities. The effectiveness of fund mobilization determines the sustainability and competitiveness of banking institutions (Dianita et al., 2021). Thus, transparency and sound management practices are vital indicators of Islamic banking performance and legitimacy in the eyes of stakeholders (Clarkson et al., 2008; Wibisana & Saadati, 2022).

According to the Islamic Finance Development Indicator (ICD–Refinitiv, 2023), the total global Islamic financial assets exceeded USD 4 trillion in 2022, with Iran, Saudi Arabia, and Malaysia ranked as the top three countries. Indonesia, however, ranked seventh with assets of USD 148 billion, suggesting that despite being home to the world's largest Muslim population, its Islamic finance industry still lags behind Malaysia. This discrepancy indicates an untapped potential for Indonesia to further develop its Islamic financial sector and strengthen its position in the global Islamic finance landscape (Utami, 2020; Iskandar et al., 2023).

At the regional level, several ASEAN countries—such as Indonesia, Malaysia, Brunei Darussalam, and Thailand—have established Islamic banks with varying stages of development. The presence of Islamic banking in Southeast Asia has become an integral part of the global financial system, reflecting the region's growing role in Islamic economic growth (Selasi et al., 2022). Similarly, the Gulf region has demonstrated consistent growth in Islamic banking, driven by increasing awareness and strong governmental support (Kurnialis et al., 2022). However, the financial system in the Gulf remains dualistic, combining conventional and Islamic banks, while Pakistan has taken a more decisive stance by implementing a fully interest-free banking system (Rambe, 2021).

As business entities guided by Islamic values, Islamic banks are not solely profit-oriented but are also responsible for fulfilling their social and ethical obligations. This orientation aligns with the triple bottom line concept encompassing economic, social, and environmental dimensions—commonly referred to as profit, people, and planet (Gami, 2020; Mayanti & Dewi, 2021). Within this framework, Islamic Social Reporting (ISR) has emerged as a vital instrument of accountability and transparency toward both society and Allah SWT (Wahyuni & Abdullah, 2021; Wibisana & Saadati, 2022). ISR serves to communicate ethical and socially responsible practices, thereby reinforcing trust and legitimacy among stakeholders (Asyifa et al., 2023).

Commitment to social responsibility also provides strategic advantages for financial institutions. Firms that adhere to ethical and socially responsible business practices tend to enjoy higher levels of stakeholder trust and corporate reputation (Julythiawati & Ardiana, 2023). The legitimacy theory further posits that attention to social responsibility enhances corporate image and goodwill, which in turn contributes to improved financial performance (Carroll & Shabana, 2010; Saputra et al., 2024).

Nevertheless, empirical findings on the relationship between ISR and bank profitability remain inconclusive. Studies such as Muslikhin (2020) and Umiyati et al. (2023) report a significant positive association between ISR disclosure and financial performance, while others (Santoso, 2022; Febriyanti et al., 2022; Sagantha, 2024; Kumalasari, 2022) find no significant relationship. These inconsistencies suggest that the ISR–profitability nexus may vary across institutional and regulatory contexts, particularly between countries with differing levels of Islamic finance maturity (Utami, 2020; Nugraha, 2019).

This research gap indicates a need for cross-country comparative analysis to better understand how institutional environments and governance frameworks influence the link between ISR disclosure and Islamic banks' financial performance. Therefore, this study aims to examine the impact of Islamic Social Reporting disclosure on the profitability of Islamic banks in three key regions—Indonesia, Malaysia, and the Gulf countries. By comparing these markets, the study seeks to capture the role of contextual factors in shaping the ISR–profitability relationship (Iskandar et al., 2023).

From a theoretical perspective, this research contributes to the existing literature on Islamic accounting, social disclosure, and Islamic finance by providing new empirical evidence across multiple jurisdictions. From a practical standpoint, the findings are expected to assist policymakers, regulators, and Islamic bank managers in enhancing transparency, strengthening stakeholder trust, and promoting sustainable growth within the global Islamic banking industry (Amran & Ooi, 2014; Haniffa & Hudaib, 2007).

B. Literature Review

B.1. Theoretical Framework

Islamic Banking

Islamic banking refers to a financial system that operates based on Sharia principles, which prohibit riba (interest), gharar (uncertainty), and maysir (gambling), while promoting justice, transparency, and risk sharing (Sultoni & Basuki, 2020). The primary goal of Islamic banking is to conduct financial transactions in accordance with Islamic jurisprudence (fiqh al-muʿāmalah), ensuring that all investments and activities are socially responsible and ethically sound (Fernanda, 2020).

Islamic banks play a pivotal role in enhancing public confidence by offering an ethical and stable financial alternative. Customer trust is shaped by several factors, including employee competence, professionalism, knowledge quality, and institutional accountability (Efrianto & Wiyanti, 2022). According to Zahrawani (2021), the objectives of Islamic banking include: (1) conducting financial activities compliant with Sharia, (2) promoting fairness in economic transactions, (3) ensuring monetary stability, (4) empowering productive sectors, and (5) encouraging Muslims to utilize Islamic financial services. The operational foundations of Islamic banking rest upon four core values — justice (al-ʿadl), partnership, transparency, and universality. Any practice involving riba, maysir, or gharar must be strictly avoided (Fernanda, 2020; Haniffa & Hudaib, 2007).

Islamic banking also plays a central role in promoting financial inclusion and economic justice through profit-sharing mechanisms such as mudharabah and musharakah, which reflect equitable risk distribution (Clarkson et al., 2008; Triyuwono, 2011). This system not only supports financial intermediation but also strengthens ethical accountability, aligning economic activities with spiritual objectives (maqasid al-shariah).

Islamic Social Reporting (ISR)

ISR serves as a foundational framework for preparing social accountability reports within Islamic banking institutions and is an essential extension of the broader concept of corporate social reporting (Handayani et al., 2020). Within this paradigm, corporations are expected not only to contribute to economic development but also to play an active role in empowering communities and protecting the natural environment. In the Islamic perspective, social reporting embodies moral, ethical, and spiritual responsibilities grounded in the values of justice, transparency, and accountability to both Allah SWT and humankind (Munawaroh et al., 2021; Wahyuni & Abdullah, 2021).

According to Prihatiningtias (2022), ISR disclosure encompasses six key components: finance and investment, product and services, employees, community, environment, and corporate governance. The finance and investment component emphasizes that financial activities must be free from riba (interest) and speculative elements, adhering strictly to Sharia principles. The product and services component requires that all corporate operations avoid causing harm to society and the environment. The employee component underlines the importance of fair treatment, equality, and ensuring justice and safety in the workplace. The community dimension stresses the company's duty to contribute to social development by supporting empowerment and educational programs that enhance quality of life. The environment component reflects the Islamic principle of stewardship (khalifah), in which businesses are responsible for maintaining ecological balance and ensuring sustainability. Finally, corporate governance refers to implementing transparent, ethical, and responsible management practices that fulfill obligations to Allah SWT and to fellow humans (Wahyuni & Abdullah, 2021; Gatandi & Filianti, 2021).

Collectively, these six components reflect that ISR is more than a reporting mechanism—it is a manifestation of Shariah compliance and an integral part of ethical business conduct (Asyifa et al., 2023; Wibisana & Saadati, 2022). ISR provides a comprehensive framework for communicating corporate accountability not only to shareholders but also to society at large, thereby fostering legitimacy and strengthening stakeholder trust (Haniffa & Hudaib, 2007; Amran & Ooi, 2014). Within this framework, ISR aligns closely with the Sharia Enterprise Theory (SET), which asserts that all organizational activities must be accountable both vertically to Allah SWT and horizontally to society (Triyuwono, 2011).

Profitability

Profitability represents a company's capacity to generate earnings efficiently by managing its assets, equity, and operational costs (Teresya et al., 2022). It serves as a central indicator of corporate financial performance and managerial effectiveness (Nirawati et al., 2022). Firms with higher profitability are often perceived as more stable, competitive, and capable of sustaining long-term growth (Clarkson et al., 2008). In the context of Islamic banking, profitability is not merely a financial measure but also an expression of ethical stewardship and responsible management in accordance with Sharia principles (Elfi & Raflis, 2024; Wibisana & Saadati, 2022).

Two of the most widely recognized indicators of profitability are Return on Assets (ROA) and Return on Equity (ROE). ROA measures how efficiently a firm utilizes its total assets to generate profits after accounting for operational expenses (Elfi & Raflis, 2024). It reflects management's effectiveness in converting resources into income and is often used as a proxy for managerial efficiency. Meanwhile, ROE evaluates the company's ability to deliver returns to shareholders by comparing net income to total equity invested by owners. A higher ROE indicates better financial performance and stronger equity utilization (Teresya et al., 2022). These two ratios are frequently employed in empirical Islamic finance research as key indicators of bank performance and sustainability (Adisaputra & Kurnia, 2021; Nirawati et al., 2022).

In Islamic finance, profitability must align with maqasid al-shariah, ensuring that financial gains are achieved through ethical and just means. ISR and profitability are thus interrelated: while extensive ISR disclosure may reduce short-term profits due to increased social expenditures, it simultaneously enhances long-term legitimacy, stakeholder confidence, and sustainable value creation (Haniffa & Hudaib, 2007; Amran & Ooi, 2014; Carroll & Shabana, 2010).

B.2. Hypotheses Development

ISR is conceptually grounded in the Sharia Enterprise Theory (SET) and Stakeholder Theory, both of which emphasize dual accountability—toward Allah SWT and toward society (Triyuwono, 2011; Freeman, 1984). These theoretical foundations posit that organizations should not solely pursue profit maximization but must also fulfill their social and ethical obligations. ISR, as an extension of corporate social responsibility within an Islamic context, functions as a bridge between financial performance and moral accountability (Haniffa & Hudaib, 2007). Through transparent ISR disclosure, Islamic banks can enhance stakeholder trust, secure legitimacy, and ultimately foster long-term sustainability (Amran & Ooi, 2014; Wibisana & Saadati, 2022). However, the financial implications of ISR may vary depending on whether the benefits of enhanced reputation and stakeholder confidence outweigh the immediate costs of social and ethical programs.

Several empirical studies have examined the relationship between ISR and financial performance, yielding mixed results. Some studies—such as Adisaputra and Kurnia (2021), Novitri and Adi (2024), and Pratomo and Nugrahanti (2022)—found a positive and significant relationship, suggesting that transparency in social reporting improves profitability by strengthening legitimacy and stakeholder engagement. Conversely, other research (Indriyani & Asytuti, 2019; Fatmala & Wirman, 2021; Shofiyatun et al., 2024) revealed that ISR may have an insignificant or even negative effect on financial performance, as extensive social engagement could temporarily divert resources away from profit-generating activities. These discrepancies indicate that the ISR–profitability relationship is context-dependent, influenced by the level of regulatory enforcement, institutional maturity, and the socio-cultural orientation of Islamic banking in each country (Utami, 2020; Iskandar, 2023).

The link between ISR and Return on Assets (ROA) can be interpreted through the lens of Legitimacy Theory, which suggests that socially responsible activities help organizations maintain their social contract with stakeholders (Suchman, 1995). While engaging in social programs may initially reduce the efficiency of asset utilization, it enhances long-term legitimacy and stakeholder confidence. Empirical evidence from Indriyani and Asytuti (2019), Hadinata (2019), and Fatmala and Wirman (2021) supports the notion that ISR negatively affects ROA in the short term but contributes to long-term sustainability.

Based on this reasoning, the first hypothesis is formulated as follows:

H1: Islamic Social Reporting has a significant effect on Return on Assets (ROA) of Islamic banks.

The relationship between ISR and Return on Equity (ROE) reflects the broader trade-off between fulfilling shareholders' financial expectations and the organization's ethical commitments to society. Under Stakeholder Theory, the firm's social legitimacy and long-term value creation depend on maintaining balanced relationships with all stakeholders, not just shareholders (Freeman, 1984; Clarkson et al., 2008). ISR disclosure may influence ROE by signaling transparency and ethical responsibility, which enhances investor confidence and institutional reputation (Wahyuni & Abdullah, 2021). However, in the short run, extensive ISR activities might reduce retained earnings or capital available for dividend distribution (Shofiyatun et al., 2024). Hence, the second hypothesis is proposed:

H2: Islamic Social Reporting has a significant effect on Return on Equity (ROE) of Islamic banks.

Given the institutional and cultural diversity among Islamic financial systems, ISR disclosure practices and their impact on profitability are unlikely to be uniform across countries. For example, Indonesia's Islamic banks operate under stricter regulatory frameworks governed by the Financial Services Authority (OJK) and the National Sharia Board (DSN-MUI), which enforce higher standards of social transparency (Utami, 2020). In contrast, Malaysia adopts a more voluntary disclosure system (Nugraha, 2019), and Gulf Cooperation Council (GCC) countries often rely on conventional CSR frameworks such as the Global Reporting Initiative (GRI) rather than Sharia-based ISR indices (Iskandar, 2023). These institutional variations suggest that the ISR–profitability nexus may differ significantly across regions. Therefore, the third hypothesis is formulated as follows:

H3: The relationship between Islamic Social Reporting and profitability differs significantly across Indonesia, Malaysia, and Gulf Cooperation Council (GCC) countries.

C. Research Methodology

This study employs a quantitative comparative approach to examine the relationship and differences in Islamic Social Reporting (ISR) disclosure and profitability among Islamic banks across Indonesia, Malaysia, and the Gulf Cooperation Council (GCC) countries. The quantitative method enables empirical testing of relationships between variables using numerical data and statistical analysis techniques (Sugiyono & Lestari, 2021). The comparative design allows for the assessment of variations in ISR implementation and financial performance across distinct regulatory and institutional environments, thereby offering broader insights into how contextual factors influence the ISR–profitability nexus (Creswell & Creswell, 2018). *Although panel data techniques such as Fixed Effects or Random Effects models are widely applied in multi-year and multi-country studies, the analytical approach in this research is intentionally aligned with the dataset structure and research objectives. With only three years of observations per bank (2021–2023), the limited time dimension (small-T) may reduce the stability and reliability of panel* *estimations. Moreover, this study focuses on capturing the direct effect of ISR on profitability rather than estimating unobserved heterogeneity or dynamic relationships, making simple linear regression a methodologically appropriate choice for exploratory comparative studies. The use of One-Way ANOVA further supports the comparative purpose of this study by identifying cross-country differences without requiring the stronger assumptions found in FE/RE models.*

The population of this study consists of all Islamic commercial banks operating within the three regions mentioned above. A purposive sampling technique was adopted to ensure the inclusion of banks that met specific eligibility criteria: (1) located in countries with the highest Islamic Finance Development Indicator (IFDI) scores; (2) possessing complete and audited financial statements for the 2020–2023 period; and (3) regularly disclosing social responsibility or ISR-related information in their annual or sustainability reports. Based on these criteria, 16 Islamic banks were selected as the sample, including institutions such as Bank Syariah Indonesia, Bank Islam Malaysia, Kuwait Finance House, Al-Rajhi Bank, and Dubai Islamic Bank. This selection provides a representative cross-country dataset for comparative analysis of ISR and profitability dynamics.

The study utilizes secondary data obtained from the official annual and financial reports of the selected banks covering the 2021–2023 fiscal years. The independent variable is Islamic Social Reporting (ISR), which is operationalized using the ISR Index developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The ISR score is calculated using the following formula:

$$\text{ISR} = \frac{N}{K} \times 100\% \quad (1)$$

Where N denotes the number of disclosed ISR items, and K represents the total checklist items as outlined by the ISR index (Handayani et al., 2020; Prihatiningtias, 2022). The dependent variable, profitability, is measured using Return on Assets (ROA) and Return on Equity (ROE), both of which are widely accepted indicators of financial performance in banking research (Elfi & Raflis, 2024; Teresya et al., 2022).

Data analysis was conducted using several statistical procedures to ensure the reliability and validity of the model. First, classical assumption tests—including normality, multicollinearity, and heteroskedasticity tests—were performed to verify data consistency and model robustness (Gujarati & Porter, 2020). Second, a simple linear regression analysis was employed to measure the direct effect of ISR on profitability, followed by t-tests, F-tests, and the calculation of the coefficient of determination (R^2) to evaluate the statistical significance and explanatory power of the model. Lastly, a One-Way ANOVA test was conducted to determine whether significant differences exist in ISR disclosure levels and their impact on profitability among Islamic banks in Indonesia, Malaysia, and the GCC countries. All data analyses were processed using the Statistical Package for the Social Sciences (SPSS) software, version 26. *Although multi-country, multi-year datasets are often analyzed using panel data techniques such as Fixed Effects or Random Effects models, the methodological approach in this study is aligned with the limited time span of the dataset (three years) and its primarily cross-sectional orientation. Simple linear regression and ANOVA remain appropriate for capturing* *the direct effects and comparative differences intended in this research, especially when the objective is exploratory rather than estimating unobserved heterogeneity. Through this methodological framework, the study seeks to provide rigorous, data-driven insights into how Islamic Social Reporting practices shape the financial performance of Islamic banks across diverse institutional contexts. Nevertheless, future studies with longer observation periods or larger samples may benefit from utilizing panel regression models to enhance robustness and capture deeper structural variations across countries.*

D. Result & Discussion

The Effect of Islamic Social Reporting (ISR) on Return on Assets (ROA)

The regression results indicate that Islamic Social Reporting (ISR) has a statistically significant effect on Return on Assets (ROA). The coefficient table shows a significance (Sig.) value of 0.005, which is lower than the 0.05 threshold, confirming that the relationship between ISR and ROA is significant at the 5% level. This means that variations in ISR disclosure contribute meaningfully to changes in bank profitability as measured by ROA.

Table 1. Regression Coefficients (ISR → ROA)

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.241	.362		6.188	.000		
	ISR	-.015	.005	-.335	-2.910	.005	1.000	1.000
Dependent Variable: ROA								

Source: Data processed by the author (2025)

The results of the F-test presented in Table 2 indicate that the regression model examining the effect of Islamic Social Reporting (ISR) on Return on Assets (ROA) is statistically significant. The F-value of 8.469 with a significance level (Sig.) of 0.005, which is lower than the 0.05 threshold, confirms that the overall regression model is valid and that ISR jointly influences ROA.

Table 2. F-Test Results for the Effect of ISR on ROA

Model		F	Sig.
1	Regression	8.469	.005
	Residual		
	Total		

Source: Data processed by the author (2025)

This implies that variations in ISR disclosure collectively explain a significant proportion of changes in ROA among Islamic banks. The low p-value (0.005) provides sufficient evidence to reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1), suggesting that Islamic Social Reporting has a meaningful effect on profitability as measured by Return on Assets. In summary, the F-test results reinforce the regression findings, demonstrating that the model is statistically fit and that ISR is a significant explanatory variable in determining Islamic banks' financial performance.

The results of the coefficient of determination test presented in Table 3 show that the R value is 0.335, indicating a moderate correlation between Islamic Social Reporting (ISR) and Return on Assets (ROA). The R Square value of 0.112 implies that 11.2% of the variation in ROA can be explained by changes in ISR disclosure, while the remaining 88.8% is influenced by other factors not included in the model, such as capital structure, liquidity, operational efficiency, and macroeconomic conditions.

The Adjusted R Square value of 0.099—slightly lower than R Square—suggests that after adjusting for the number of predictors in the model, ISR still accounts for approximately 9.9% of the variation in ROA. This indicates that, although the explanatory power of ISR is relatively modest, it remains a relevant determinant of profitability in Islamic banks. The Standard Error of the Estimate (0.41816) reflects the average deviation of the predicted ROA values from the actual observations, showing that the model has an acceptable level of accuracy.

Table 3. Determination (ISR → ROA)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.335	.112	.099	.41816

Source: Data processed by the author (2025)

Overall, these results imply that Islamic Social Reporting contributes meaningfully, though not dominantly, to explaining differences in profitability across Islamic banks. This supports the argument that ISR affects financial performance indirectly through long-term mechanisms such as legitimacy, stakeholder trust, and reputation rather than through immediate financial outcomes. The findings of this study reveal that Islamic Social Reporting (ISR) has a significant negative effect on both Return on Assets (ROA) and Return on Equity (ROE) among Islamic banks in Indonesia, Malaysia, and the Gulf Cooperation Council (GCC). This suggests that greater engagement in social disclosure may reduce short-term profitability, particularly when banks allocate a portion of their assets and equity toward social and ethical programs. This outcome is consistent with the trade-off hypothesis, which posits that while socially responsible activities enhance legitimacy and reputation, they can temporarily reduce the financial returns generated from core operational resources (Luo & Bhattacharya, 2006). Within the Islamic finance context, this finding aligns with Sharia Enterprise Theory (SET), where banks operate not only for-profit maximization but also to fulfill spiritual and social obligations toward Allah SWT and society (Triyuwono, 2011).

The Games–Howell multiple comparison test presented in Table 4 provides further insight into the specific differences between countries. The results show that Indonesia's ISR disclosure is significantly higher than both Malaysia (Mean Difference = 14.66, Sig. = 0.001) and the Gulf countries (Mean Difference = 19.07, Sig. = 0.000). These differences are statistically significant at the 5% level.

Table 4. Post Hoc Games–Howell Multiple Comparison Test

Multiple Comparisons Dependent Variable: *ISR* Games-Howell						
(I) Country	(J) Country	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Indonesia	Malaysia	14.66071*	2.28418	.001	7.9208	21.4006
	Negara Teluk	19.07065*	1.21819	.000	16.1431	21.9982
Malaysia	Indonesia	-14.66071*	2.28418	.001	-21.4006	-7.9208
	Negara Teluk	4.40994	2.43999	.221	-2.4022	11.2221
Negara Teluk	Indonesia	-19.07065*	1.21819	.000	-21.9982	-16.1431
	Malaysia	-4.40994	2.43999	.221	-11.2221	2.4022

*The mean difference is significant at the 0.05 level.

Source: Data processed by the author (2025)

However, the difference between Malaysia and the Gulf countries is not significant (Mean Difference = 4.41, Sig. = 0.221), suggesting that their levels of ISR disclosure are relatively similar. The 95% confidence intervals also support these conclusions, as they do not cross zero for the comparisons involving Indonesia but do so for the Malaysia–Gulf comparison. These findings highlight that Indonesia leads in ISR disclosure among the three regions, followed by Malaysia, while the Gulf countries lag behind. This pattern reflects the varying regulatory emphasis and institutional commitment to social accountability in Islamic banking. The results align with previous studies (Utami, 2020; Nugraha, 2019; Iskandar, 2023), which emphasize that Indonesia's more stringent reporting requirements and regulatory frameworks contribute to higher and more consistent ISR implementation.

The negative relationship between ISR and ROA indicates that the costs associated with social responsibility initiatives—such as zakat, training programs, and environmental sustainability efforts—may reduce the efficiency of asset utilization. Similar evidence was reported by Indriyani and Asytuti (2019), Hadinata (2019), and Fatmala and Wirman (2021), who found that higher ISR disclosure levels were correlated with lower asset-based profitability among Islamic banks in Indonesia. This supports the argument that ISR activities may not yield immediate financial benefits but instead contribute to intangible assets such as goodwill and social legitimacy. Over time, these intangible benefits can translate into enhanced reputation and customer loyalty, strengthening long-term sustainability and resilience (Clarkson et al., 2008; Carroll & Shabana, 2010).

The finding that ISR negatively affects ROE reinforces the notion that Islamic banks face a balancing dilemma between fulfilling shareholders' financial expectations and their broader social responsibilities. The significant negative coefficient between ISR and ROE observed in this study parallels the results of Shofiyatun et al. (2024) and Wibisana and Saadati (2022), who found that social disclosure practices among Islamic banks in Indonesia did not enhance short-term profitability. This outcome may occur because expenditures for social initiatives are often drawn from shareholders' equity or retained earnings, reducing the capital available for reinvestment and dividend distribution. Nevertheless, from a Stakeholder Theory perspective (Freeman, 1984), fulfilling these obligations may strengthen investor confidence in the long run, as ethical compliance and transparency are perceived as signals of institutional stability and integrity.

From an international perspective, the study's ANOVA results highlight significant cross-country differences in ISR disclosure, with Indonesia achieving the highest average disclosure rate (86.3%), followed by Malaysia (71.7%) and the Gulf region (67.3%). This aligns with Utami (2020), who found that Indonesian Islamic banks demonstrate higher transparency and social accountability compared to their Malaysian counterparts, largely due to regulatory support from the Financial Services Authority (OJK) and the National Sharia Board – MUI. Conversely, Nugraha (2019) reported that while Malaysia's Islamic banks maintain strong corporate governance, ISR disclosure remains largely voluntary. In the GCC context, Iskandar (2023) emphasized that most Islamic banks prioritize conventional CSR frameworks such as the Global Reporting Initiative (GRI) over Islamic-based ISR frameworks, reflecting cultural tendencies toward informal charity rather than structured disclosure.

The variations in ISR disclosure across regions can also be interpreted through institutional theory. Countries with stronger regulatory oversight and societal expectations, such as Indonesia, tend to institutionalize ISR as part of corporate governance. In contrast, regions with weaker institutional pressures, such as the GCC, rely on voluntary compliance, leading to inconsistency in reporting. This institutional heterogeneity affects how ISR influences profitability: in more regulated environments, ISR tends to be strategic and value-driven, whereas in less regulated contexts, it remains symbolic and compliance-oriented (DiMaggio & Powell, 1983; Scott, 2014). Hence, ISR's impact on financial performance cannot be universally generalized; it depends on contextual factors like regulation, culture, and stakeholder activism.

Overall, the findings suggest that Islamic Social Reporting serves as a long-term strategic investment rather than a short-term profit mechanism. While its immediate impact on financial ratios may appear negative, its broader contribution to sustainability, stakeholder engagement, and reputational capital is undeniable. This aligns with the conclusions of Amran and Ooi (2014) and Haniffa and Hudaib (2007), who argue that transparent social reporting enhances the ethical image and legitimacy of Islamic financial institutions. For policymakers, the results emphasize the need to standardize ISR reporting guidelines across jurisdictions—possibly under the supervision of AAOIFI or national regulatory bodies—to ensure comparability and consistency. For Islamic banks, the implication is clear: integrating ISR into corporate strategy can strengthen long-term competitiveness, even if it temporarily moderates profitability indicators such as ROA and ROE.

E. Conclusions & Policy Recommendations

This study concludes that Islamic Social Reporting (ISR) plays a meaningful yet complex role in shaping the financial performance of Islamic banks. While its immediate effect on profitability—as measured by ROA and ROE—appears negative, ISR represents a broader strategic commitment to ethical accountability and long-term sustainability rather than short-term gain. The variation in ISR disclosure across Indonesia, Malaysia, and the GCC underscores the influence of institutional frameworks and regulatory enforcement on the depth of social transparency within Islamic banking. These findings highlight the need for greater harmonization of ISR standards and the integration of faith-based accountability into financial governance. For practitioners, strengthening ISR disclosure can enhance stakeholder confidence and reputational value; for policymakers, establishing consistent ISR frameworks will help align Islamic finance practices with maqasid al-shariah and global sustainability goals.

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