



Corporate governance and Islamic social reporting disclosure: evidence from Islamic bank in ASEAN

JIAFR | 169

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Abstract

Purpose - This study aims to analyze the effect of CEO power, independent board of commissioners, capital structure, and firm size on Islamic social reporting disclosure, as well as to explore the role of profitability as a moderating variable.

Method - Using the random effect model and data analysis with EViews 12, the research sample includes Islamic banks in Malaysia, Indonesia, and Brunei Darussalam during the period from 2018 to 2023, with a population of 20.

Result - CEO power has no significant effect on isr disclosure, while the independent board of commissioners and firm size have a significant positive effect. Capital structure shows a positive but insignificant effect, with profitability moderating the relationship between capital structure and firm size on isr disclosure.

Implication - Good corporate governance and management commitment are essential for enhancing ISR disclosure, which is key to maintaining the reputation and transparency of Islamic banks in ASEAN.

Originality - This study is the first to examine Islamic social reporting disclosure by integrating corporate governance factors and profitability across three ASEAN countries.

Keywords: Islamic bank; Islamic social reporting; ASEAN

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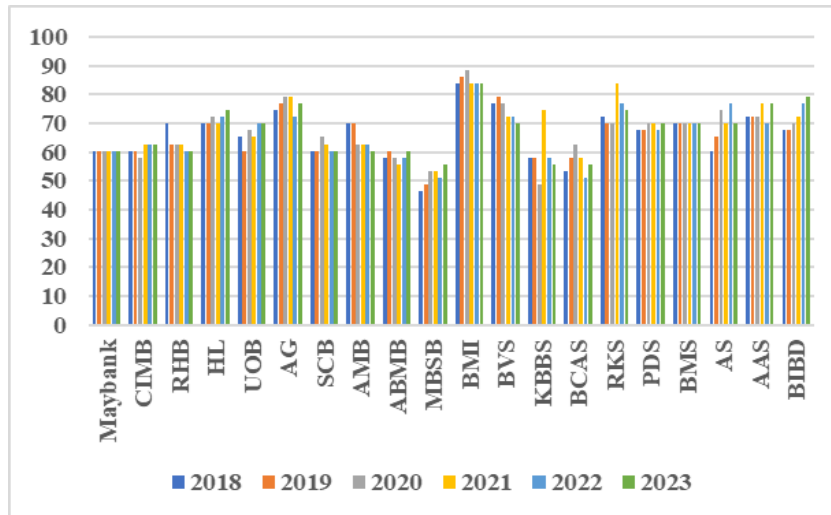
Introduction

The globalization and development of the Islamic finance industry have driven expansion in various regions, particularly in Southeast Asia (ASEAN) and the Middle East (GCC). ASEAN is chosen as the primary focus due to its more structured and progressive regulations, as well as its promotion of inclusive Islamic financial product innovations (Zainal *et al.*, 2021; Oyewole *et al.*, 2024). Malaysia, Indonesia, and Brunei Darussalam are key contributors to global Islamic finance assets. With significant total assets, Malaysia has USD 170.02 billion, Indonesia USD 45.13 billion, and Brunei Darussalam USD 8.27 billion (IFSB, 2023). The large Muslim populations in these countries, coupled with their active role in promoting Islamic banking, further strengthen their position in the global Islamic finance industry.

Additionally, ASEAN is a global leader in sukuk issuance, a Sharia-compliant investment instrument that attracts investors through its Sharia principles, ethics, and social responsibility (Refinitiv, 2021). Islamic banks in ASEAN operate based on Islamic law, which prohibits *riba* (interest) and investments that do not comply with Sharia guidelines, including commitments to social and environmental responsibility (Chowdhury & Haron, 2021a; Yunda *et al.*, 2024). Thus, Islamic banks in this region not only offer financial services but also strive to contribute to social and environmental welfare.

Islamic banks in ASEAN adopt Islamic Social Reporting (ISR) as a means of expressing their social performance, focusing on transparency and accountability in applying Islamic values (Susbiyani *et al.*, 2023a). ISR encompasses various aspects including Sharia-compliant investments, corporate governance, employee welfare, and social and environmental impacts (Jati *et al.*, 2020). ISR was developed to complement the limitations of conventional social reporting by expanding the scope of corporate social responsibility (CSR) based on Islamic principles, which help companies fulfill their social and spiritual obligations (Cahya *et al.*, 2019).

ISR disclosure is regularly conducted by Islamic banks in ASEAN, which is expected to enhance public trust through transparent reporting, such as the use of zakat funds for social programs (Hamid, 2024, p. 85). ISR assessments are conducted through the ISR Index, which categorizes the level of disclosure into several categories: Highly Informative (81%-100%), Informative (66%-80%), Less Informative (51%-65%), and Non-informative (0%-50%) (Baharuddin *et al.*, 2023). These categories assess the extent to which companies provide comprehensive information and their commitment to Sharia principles in business practices.

Figure 1*Development of Islamic Social Reporting in ASEAN*

JIAFR | 171

Source: Financial reports of each country's Islamic banks, processed in 2024

Figure 1 displays the differences in ISR disclosure made by Islamic banks in ASEAN countries from 2018 to 2023. It can be observed that not all Islamic banks in ASEAN have achieved highly informative ISR disclosures. The ISR disclosure of banks in ASEAN shows that Maybank and CIMB maintained consistent scores around 60%, while RHB, HL, and UOB experienced small fluctuations. Some banks, such as BMI and AG, recorded the highest disclosures with scores above 76%, while others, including MBSB and ABMB, showed gradual improvement. BIBD and AAS experienced a consistent upward trend in ISR disclosure. Overall, the level of ISR disclosure varies, with some banks showing enhancement, while others remain stable.

On a deeper level, there are significant differences between what should ideally be disclosed and the actual ISR disclosures by Islamic banks in ASEAN countries. Ideally, Islamic banks should provide comprehensive disclosures regarding social and sustainability aspects related to Islamic principles (Jan *et al.*, 2021). However, in reality, there is variation in the disclosure practices among Islamic banks. The variation in ISR disclosure outcomes across banks is due to differences in management commitment, size and resources, as well as local regulations and compliance (Mubarok, 2020). Other factors, such as awareness of Islamic principles and stakeholder pressure, also influence the comprehensiveness and transparency of a bank's ISR report (Yusuf *et al.*, 2024).

To improve ISR disclosure, banks can strengthen management commitment to Islamic principles and social responsibility (Astuti & Nurkhin, 2019). ISR disclosure is strategically relevant for companies operating in the Islamic market because it not only enhances public trust but also strengthens the company's image as an entity that upholds

Islamic principles in its business practices. Therefore, it is important to understand the factors influencing ISR disclosure, including leadership, governance, and company characteristics (Haryono, 2022; Meutia *et al.*, 2019).

One of the factors influencing *Islamic Social Reporting* (ISR) disclosure is CEO Power. CEO power, reflected through tenure, is considered important because CEOs with strong authority typically exert significant influence on strategic decision-making, including disclosure policies (Gunardi *et al.*, 2022). Several studies (Al-Duais *et al.*, 2021; Harper & Sun, 2019; Rashid *et al.*, 2020) suggest that CEOs with shorter tenures tend to encourage ISR disclosure to accelerate corporate reputation. In contrast, long-tenured CEOs are more focused on long-term financial performance, thereby reducing attention to ISR. Other findings (Anggraeni *et al.*, 2020; Martínez & Álvarez, 2019), however, report a positive effect. This inconsistency highlights a research gap that warrants further investigation.

In addition, the Independent Board of Commissioners plays a crucial role in ensuring transparency and accountability. Some studies (Ifada *et al.*, 2021; Susbiyani *et al.*, 2023; Thottoli, 2023) find a positive influence on ISR disclosure, while others (Nofitasari & Endraswati, 2019; Santoso, 2019) reveal negative results. Such variations indicate the need to reassess the effectiveness of independent commissioners in enhancing ISR disclosure.

Capital Structure is also an important factor, as it is closely related to a firm's financial stability. Several studies (Diansari *et al.*, 2022; Jati *et al.*, 2020) document a negative relationship with ISR disclosure, whereas others (Afendi & Rasyidin, 2023; Khan & Muttakin, 2022) show a positive effect. These mixed findings reaffirm the inconsistency of the link between capital structure and ISR disclosure.

Meanwhile, Firm Size is often associated with the extent of information disclosure. Larger firms generally possess greater resources to manage and disclose ISR. Most studies (Hussain *et al.*, 2021; Mukhibad & Fitri, 2020) support a positive relationship, although some (Cahya *et al.*, 2017) present opposing evidence. This suggests that firm size remains a relevant variable for further examination.

Profitability is considered an important moderating variable. More profitable firms typically have greater financial capacity to implement ISR (Nekhili *et al.*, 2017). Thus, profitability has the potential to strengthen or weaken the influence of capital structure and firm size on ISR disclosure.

Therefore, this research aims to provide deeper insights into how factors such as CEO Power, Independent Board of Commissioners, Capital Structure, Firm Size, and Profitability influence Islamic Social Reporting disclosures in Islamic banks in ASEAN, particularly in Malaysia, Indonesia, and Brunei Darussalam (Hakim *et al.*, 2024; Mustofa

et al., 2023). This study is expected to make a significant contribution to the development of corporate governance theory in Islamic finance and provide policy recommendations for practitioners and policymakers to strengthen transparency and accountability in Islamic banks in this region.

Literature Review

Shariah Enterprise Theory (SET) develops the enterprise theory by emphasizing the company's responsibility to all stakeholders, including society and the environment, based on the trust (*amanah*) entrusted by Allah (Triyuwono, 2015, p. 355-358). Upper Echelon Theory proposes that the characteristics of top leaders, such as the CEO, influence strategic decisions and company performance (Hambrick & Mason, 1984; Bassyouny et al., 2020). Agency Theory explains the principal-agent relationship, where management (the agent) needs to be monitored to align its interests with the company's owners (the principal) (Jensen & Meckling, 1976; Bendickson et al., 2016). Stakeholder Theory emphasizes that a company is responsible to all parties involved, with success measured by the value created for all stakeholders (Freeman, 1984; Awa et al., 2024).

Hypotheses Development

The Upper Echelon Theory (Hambrick & Mason, 1984) explains that executives' personal characteristics and experiences, including those of the CEO, shape how they interpret situations and make strategic decisions. Thus, a CEO's values and experiences are often reflected in corporate policies, including social responsibility disclosure (Neely Jr et al., 2020; Al-Duais et al., 2021).

As the key decision-maker, the CEO plays a central role in determining the company's strategic direction, including the extent of commitment to social reporting such as ISR (Alazzani et al., 2019). CEO power is often reflected in tenure, where longer-serving CEOs tend to exert greater influence over the board and prioritize their own agendas (Sirén et al., 2018).

Chen et al. (2019) found that firms led by short-tenure CEOs disclosed CSR more extensively to build reputation early, while long-tenure CEOs tended to prioritize financial goals at the expense of social reporting. Harper dan Sun (2019) further argue that powerful CEOs often reduce CSR participation to retain strategic flexibility. Such tendencies highlight agency problems, weaken governance, and reduce ISR transparency (Rashid et al., 2020; Sheikh, 2019).

H1: CEO Power has a negative effect on Islamic Social Reporting (ISR) disclosure

Agency Theory (Meckling & Jensen, 1976) emphasizes conflicts of interest between owners (principals) and management (agents). Independent commissioners, who are

free from management ties, are expected to enhance monitoring effectiveness and promote transparency (Susbiyani et al., 2023b).

In the context of ISR, independent commissioners ensure compliance with sharia-based social reporting standards and safeguard broader stakeholder interests (Shariff et al., 2022). Empirical studies (Ifada et al., 2021; Mahrani & Noorlailie, 2018; Thottoli, 2023) support their positive role in improving governance and disclosure practices.

H2: Independent Commissioners have a positive effect on ISR disclosure

According to Stakeholder Theory (Freeman, 1976), firms are responsible not only to their shareholders but also to all stakeholders affected by their actions. However, a company's capital structure can influence this accountability. Firms with high levels of debt often prioritize their obligations to creditors over social disclosures.

Studies (Kasih & Rini, 2018; Diansari et al., 2022; Jati et al., 2020) found that higher debt ratios reduced CSR/ISR disclosure due to the perceived costs of disclosure. Hence, leverage tends to have a negative impact on transparency.

H3: Capital Structure has a negative effect on ISR disclosure

Legitimacy Theory (Dowling & Pfeffer, 1975) posits that firms seek alignment with social values to maintain legitimacy. Larger firms, with greater public exposure, face stronger legitimacy pressures.

Firm size is often associated with greater resources for ISR practices. Empirical studies (Fachrurrozie et al., 2021; Mukhibad & Fitri, 2020) found a positive association, suggesting that larger firms disclose ISR more extensively to meet stakeholder expectations.

H4: Firm Size has a positive effect on ISR disclosure

Highly leveraged firms tend to reduce social activities due to debt obligations (Jihadi et al., 2021b). However, profitable firms have greater financial flexibility, enabling them to maintain ISR despite high leverage.

Empirical evidence (Arif & Wawo, 2018; Ginting et al., 2018; Syamsudin et al., 2020) shows that profitability mitigates the negative effect of leverage on ISR.

H5: Profitability moderates the relationship between Capital Structure and ISR disclosure

Firm size is linked with greater pressure to disclose ISR (Nekhili et al., 2017). Yet, without sufficient profitability, large firms may still fall short in meeting disclosure expectations.

Higher profitability equips firms with the financial capacity to expand ISR practices. Empirical studies (Akbar, 2017; Afiezan et al., 2022; Arif & Wawo, 2018) confirm that profitability strengthens the positive link between firm size and ISR.

H6: Profitability moderates the relationship between Firm Size and ISR disclosure

Research Methods

This study employs a quantitative approach to analyze the relationships between variables using statistical methods, focusing on numerical data that is analyzed to generate findings. A descriptive quantitative strategy is employed to provide a clear and measurable overview of the phenomena under investigation. Data analysis is conducted using EViews 12 software, which facilitates time series, cross-sectional, and panel data analysis.

The research population consists of Sharia banks in ASEAN, particularly in Malaysia, Indonesia, and Brunei Darussalam. From a total of 32 banks, 20 banks were selected as samples using purposive sampling based on the criteria of having available annual reports and financial data for the period 2018-2023. The dependent variable analyzed is Islamic Social Reporting (ISR), while the independent variables include CEO Power, the presence of Independent Board of Commissioners, Capital Structure, and Company Size. Profitability is considered as the moderating variable.

The dependent variable, ISR, is measured using the ISR index developed by Haniffa (2002) and Othman et al. (2009), consisting of 43 disclosure items. A dichotomous scoring method is applied, where a score of 1 is assigned if an item is disclosed and 0 if it is not. The ISR index is then calculated as follows:

$$ISR = \frac{Disclosure}{Total\ Disclosure} \times 100\%$$

This index is widely used in prior research to capture the extent of Islamic-based social disclosure.

CEO power is measured by CEO tenure, defined as the number of years the CEO has served in office. Tenure is chosen as a proxy because longer tenure tends to enhance the CEO's authority, bargaining power, and influence over corporate decisions (Sirén et al., 2018; Gunardi et al., 2022). Hence, the measurement is expressed as:

$$CEO\ Power = \sum CEO\ Tenure$$

Independent commissioners are measured as the percentage of independent commissioners to the total board of commissioners. This measure reflects the extent of independence in the supervisory board and its capacity to enforce transparency (Ifada et al., 2021; Susbiyani et al., 2023):

$$IBC = \frac{Number\ of\ Independent\ Commissioners}{Total\ Board\ of\ Commissioners} \times 100\%$$

Capital structure is proxied by the Debt-to-Equity Ratio (DER), which reflects the proportion of debt used in financing relative to equity. This measure is commonly adopted in financial reporting studies (Diansari et al., 2022; Jati et al., 2020):

$$DER = \frac{Total\ Debt}{Total\ Equity} \times 100\%$$

Firm size is measured using the natural logarithm of total assets. This proxy is widely used in disclosure studies, as it controls for firm-level differences in scale and resources (Budisaptorini et al., 2019; Mukhibad & Fitri, 2020):

$$Size = Ln(Total\ Asset)$$

Profitability is proxied by Return on Assets (ROA), which captures the firm's efficiency in generating earnings relative to its assets. This measure is commonly used as an indicator of financial performance (Nekhili et al., 2017; Kusna & Setijani, 2018):

$$ROA = \frac{Net\ Income}{Total\ Assets} \times 100\%$$

The data used is secondary panel data, comprising both time series and cross-sectional data, obtained from the annual reports of Sharia banks and other sources such as the World Governance Indicator (WGI) from the World Bank. The analytical technique used is panel data regression, considering three estimation models: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

The most appropriate model is selected through the Chow test, Hausman test, and Lagrange Multiplier test to analyze the effect of independent and moderating variables on ISR disclosure in Sharia banks in ASEAN during the period 2018-2023. The model is specified as follows:

$$ISR_{it} = \alpha + \beta_1 CP_{it} + \beta_2 DKI_{it} + \beta_3 DER_{it} + \beta_4 ZIZE_{it} + e_{it} \quad (1)$$

$$ISR_{it} = \alpha + \beta_1 CP_{it} + \beta_2 DKI_{it} + \beta_3 DER_{it} + \beta_4 ZIZE_{it} + \beta_5 ROA_{it} + \beta_6 DER_{it} * ROA_{it} + \beta_7 ZIZE_{it} * ROA_{it} + e_{it} \quad (2)$$

Where: ISR = Islamic Social Reporting; I = Cross Section with a sample of 20 Sharia banks; t = Time Series from 2018-2023; α = Constant; $\beta_1 - \beta_6$ = Regression Coefficients; CP = CEO Power; DKI = Independent Board of Commissioners; DER = Capital Structure; ZIZE = Company Size; ROA = Profitability; e = Error Term.

Results and Discussion

This study uses descriptive analysis to explain the characteristics of the ASEAN sample countries, namely Malaysia, Indonesia, and Brunei Darussalam. These three countries were selected through purposive sampling due to their significant contributions to the global Islamic banking sector, as stated in the Islamic Financial Services Industry Report (IFSI) 2023. The research variables include Islamic Social Reporting (ISR), CEO Power (CP), Independent Board of Commissioners (DKI), Capital Structure (SM), Company Size (UP), and Profitability (PROF).

Table 1*Descriptive Statistics*

Variable	Obs.	Mean	Std. Dev	Minimum	Maximum
ISR	120	0.668798	0.084820	0.465116	0.883721
CP	120	32.88333	24.04156	0.000000	112.0000
DKI	120	0.652503	0.119686	0.333333	1.000000
SM	120	7.523083	8.914366	0.000758	45.55089
UP	120	27.15806	2.749916	22.71005	31.83501
PROF	120	0.058790	0.178318	0.000113	1.080234

JIAFR | 177

Source: Authors' work

Based on Table 1, ISR disclosure is measured using a dummy variable, where banks that disclose ISR receive a value of 1, while those that do not disclose ISR receive a value of 0. In this study, ISR has a total of 120 observations, with an average ISR disclosure score of 0.6688, or about 67%. The standard deviation of 0.0848 indicates that the variation in ISR disclosure across companies is not particularly large. The minimum ISR value of 0.4651 suggests that some companies have relatively low ISR disclosure, while the maximum value of 0.8837 indicates that some companies almost reach very high ISR disclosure. This variation in ISR disclosure is crucial for the study, as differences in disclosure levels could potentially affect further analysis regarding corporate social responsibility based on Islamic principles.

CEO Power reflects the level of power that the CEO has within the company. The average CEO Power is 32.8833, with a high standard deviation of 24.0416, indicating significant variation across companies in terms of CEO authority. The minimum value of 0.0000 shows that there are companies where the CEO has minimal influence, while the maximum value of 112.0000 indicates that in some companies, the CEO holds a very dominant power. This variation is important because a CEO with substantial power can influence the company's strategies, including decision-making regarding ISR disclosure.

The Independent Board of Commissioners measures the proportion of independent commissioners on the company's board. The average proportion of independent commissioners is 0.6525, meaning that over 65% of the board members are independent. The standard deviation of 0.1197 indicates moderate variation among companies. The minimum value of 0.3333 shows that some companies have fewer independent commissioners, while the maximum value of 1.0000 reflects that some companies have entirely independent boards. This level of independence is relevant in the context of corporate governance and ISR disclosure, as a more independent board tends to support more transparent governance practices.

Capital Structure represents how companies finance their operations through equity or debt. The average Capital Structure value is 7.5231, with a high standard deviation of 8.9144, indicating significant differences between companies in terms of debt usage. The minimum value of 0.00076 shows that some companies use almost no debt, while the maximum value of 45.5509 indicates that some companies rely heavily on debt. This variation may affect the relationship between Capital Structure and ISR, as different financing strategies can reflect different priorities in social responsibility disclosure.

Company Size is measured based on total assets. The average company size in this study is 27.1581, with a relatively low standard deviation of 2.7499, indicating that the companies in the sample tend to be similar in size. The range between the minimum value of 22.71005 and the maximum value of 31.83501 suggests a level of homogeneity, which helps maintain consistency in the analysis. This homogeneity in company size reduces the potential for bias in the analysis and provides a clearer picture of the sample's characteristics.

Profitability, measured using ROA (Return on Assets), has an average of 0.0588, or approximately 5.88%, indicating a relatively low level of profitability. The standard deviation of 0.1783 shows significant variation across companies. The minimum value of 0.00011 suggests that some companies generate almost no profit, while the maximum value of 1.0802 indicates that some companies are highly profitable. This variation in profitability is crucial for the study, as companies with differing levels of profitability may have different priorities in ISR disclosure.

Table 2

Random Effect Model Regression Model Analysis

Variable	Coefficient	Prob	Level of Significance
C	0.455065	0.0001	0.01
CP	-6.88E-06	0.9789	-
LOG (DKI)	0.064708	0.0576	0.1
SM	0.001888	0.2299	-
UP	0.008847	0.0216	0.05
PROF	-1.251449	0.0420	0.05
SM_PROF	-0.117978	0.0200	0.05
UP_PROF	0.049795	0.0423	0.05

Source: Authors' work

This study employs a Random Effect Model (REM), supported by the results of the Chow, Hausman, and Lagrange Multiplier tests, which indicate that REM is the most efficient model compared to others. The regression results show that the Independent Board of Commissioners (DKI) and Company Size (UP) significantly affect ISR disclosure, while CEO Power (CP) and Capital Structure (SM) do not have a significant impact. Classical assumption tests reveal that the data is normally distributed, without issues of multicollinearity, heteroscedasticity, or autocorrelation. The t-test confirms the significant impact of DKI and UP on ISR, and the F-test shows that the independent variables significantly affect ISR disclosure. The R^2 value of 14.85% suggests that other factors may also influence ISR.

The results of the test on the influence of CEO Power on Islamic Social Reporting (ISR) disclosure show a negative coefficient of -6.88E-06 with a probability value of 0.9789, which is higher than the significance level of $\alpha = 0.05$. This indicates that the relationship between CEO Power and ISR disclosure is not statistically significant. In other words, CEO Power, measured by the CEO's tenure, does not have a significant impact on ISR disclosure in the ASEAN countries in this study's sample. Although the coefficient direction is negative, this finding suggests that the CEO's tenure, often associated with increased authority in decision-making, is not directly related to the company's decision to disclose social and sustainability information.

This finding does not support hypothesis H1, which states that CEO Power negatively influences ISR disclosure. In line with Upper Echelon Theory, which suggests that CEOs with longer tenures may have greater influence in strategic decision-making, this study instead shows no significant relationship. This result also contradicts previous findings, such as those by Harper and Sun (2019) and Rashid et al. (2020), which found a significant negative effect of CEO Power on CSR disclosure. Conversely, this study aligns more with Al-Duais et al. (2021), which showed that CEOs do not have a direct influence on CSR reporting, emphasizing that the way CEOs impact transparency is more complex than just the distinction between local and foreign CEOs.

This finding implies that CEO Power should not be regarded as the primary determinant of ISR disclosure. A systematic review by Fu, Indiran, and Kohar (2024) shows that the influence of CEO power on ESG and social disclosure is conditional and often mediated by governance mechanisms and external pressures. In the context of Islamic banks, Farook, Hassan, and Lanis (2011) emphasize that corporate governance structures particularly the role of the Independent Board of Commissioners and stakeholder demands are stronger predictors of ISR disclosure than executive authority. Similarly, Riyani and Dewi (2018) found that the Board of Commissioners has a more significant impact on ISR disclosure than CEO discretion. These findings suggest that governance oversight, stakeholder expectations, and regulatory frameworks may exert

greater influence than CEO power alone. Therefore, companies are encouraged to strengthen governance mechanisms and adopt effective ISR policies to ensure transparency and accountability, while avoiding overreliance on individual leadership preferences.

The test results on the influence of the Independent Board of Commissioners on ISR disclosure show a positive regression coefficient of 0.064708 with a probability value of 0.0576, which is smaller than the significance level of α 0.1. This indicates a significant relationship between the Independent Board of Commissioners and ISR disclosure in ASEAN countries, supporting the hypothesis that the Independent Board of Commissioners positively influences ISR disclosure. In other words, the more independent board members there are, the more likely the company is to disclose information regarding their social responsibility. This finding shows that independent board members play an important role in enhancing transparency and accountability in terms of ISR disclosure.

The role of the Independent Board of Commissioners is crucial in overseeing management performance, not only in financial terms but also in terms of social and environmental responsibilities that are part of ISR. Independent board members, who are not directly involved in the company's operations, can offer an objective perspective in decision-making, including in ISR disclosure. This aligns with agency theory, which emphasizes the importance of separation between the company's management and its owners. Independent board members act as monitors, which reduces agency problems by ensuring that the interests of management and shareholders align, thereby encouraging more transparent and accountable disclosure, including in the company's social and sustainability reports.

This research is consistent with findings by Ifada et al. (2021) and Susbiyani et al. (2023), which show that the Independent Board of Commissioners plays a role in promoting ISR disclosure. Furthermore, Farook, Hassan, and Lanis (2011) emphasize that governance structures, particularly independent oversight such as the Sharia Supervisory Board and the Board of Commissioners, are among the strongest determinants of ISR disclosure in Islamic banks. Similarly, Al-Duais et al. (2021) and Riyani & Dewi (2018) highlight that board independence is a more reliable predictor of ISR disclosure compared to CEO discretion. These findings strengthen the argument that the Independent Board of Commissioners functions as an effective monitoring mechanism that enhances ISR practices.

The implication of these findings is that companies need to strengthen the role of the Independent Board of Commissioners to ensure greater openness in social reporting, which not only enhances the company's reputation but also improves relationships with stakeholders and increases public trust.

The statistical test results on the influence of Capital Structure on ISR disclosure show a positive coefficient of 0.001888 with a probability value of 0.2299, which is higher than the significance level of α 0.05. This indicates that there is no significant influence between capital structure and ISR disclosure, leading to the rejection of hypothesis H3, which states that capital structure negatively influences ISR disclosure. In other words, this study did not find a clear relationship between the capital structure used by companies and their level of social responsibility disclosure.

This finding contrasts with the initial hypothesis, which assumed that a higher capital structure would reduce spending on ISR. The results do not align with stakeholder theory, which suggests that companies with stable financial conditions tend to be more trusted by stakeholders and therefore more active in social and environmental disclosure (Wardani & Sari, 2019). Typically, companies with a stronger capital structure have the capacity to increase social disclosure as a commitment to transparency and accountability. However, this study's results do not support this theory, as no evidence was found to suggest that a higher capital structure would reduce or increase ISR disclosure.

This study also failed to confirm previous findings, such as those by Jati et al. (2020) and Diansari et al. (2022), which showed a negative impact of capital structure on ISR disclosure. Both studies argued that companies with higher capital structures tend to be more conservative in spending, including on social responsibility. On the other hand, studies by Khan and Muttakin (2022) and Afendi and Rasyidin (2023) found that a good capital structure actually encourages companies to be more responsive to stakeholder pressures, thus increasing ISR disclosure. Therefore, the findings of this study suggest that the relationship between capital structure and ISR disclosure is complex and influenced by other factors, such as regulations, corporate culture, and stakeholder expectations, which are more dominant in influencing decisions regarding ISR disclosure.

The test results on the influence of company size on ISR disclosure show a positive influence of 0.008847 with a probability value of 0.0216, which is smaller than the significance level of α = 0.05. This indicates that company size has a significant influence on ISR disclosure in ASEAN countries. Therefore, hypothesis H4, which states that company size positively influences ISR disclosure, is accepted.

This finding is consistent with legitimacy theory, which argues that larger companies are more likely to engage in broader social and environmental disclosure because they are under greater public scrutiny and need to maintain their legitimacy in society. Larger firms also have greater access to financial and human resources, enabling them to implement more comprehensive and transparent social responsibility programs (Sufiati, 2023; Hamzah & Annisa, 2025).

In this context, larger companies are not only more capable of running effective CSR programs but are also more motivated to preserve their reputation and sustain good relationships with stakeholders through transparent disclosures. This supports the idea that larger companies tend to be more transparent in ISR disclosure as an effort to maintain their legitimacy in the eyes of society and broader stakeholders (Wahyuni & Puspitasari, 2018; Hamzah & Annisa, 2025).

This finding suggests that larger companies are more likely to be active in social and environmental disclosure, in line with stakeholder and societal expectations. Company size is closely related to the capacity and resources available, both financial and human, which enable larger companies to invest more in social responsibility programs and transparency in disclosure. Larger companies tend to have more resources, allowing them to meet stakeholder expectations for broader and more comprehensive social disclosure.

In this context, large companies not only have the capacity to run better CSR programs but also feel more driven to maintain their reputation through more transparent disclosures, which is an important factor in maintaining good relationships with stakeholders. This study supports legitimacy theory, which states that larger companies tend to be more transparent in ISR disclosure as an effort to maintain their legitimacy in the eyes of society and broader stakeholders.

This finding is consistent with Mukhidad and Fitri (2020) and Hussain et al. (2021), who found that larger companies are more active in social disclosure because they tend to have more structured CSR programs and attract greater attention from the media and stakeholders. In the ASEAN context, particularly Indonesia, Malaysia, and Brunei Darussalam, Islamic banks operate in a dual banking system (conventional and Islamic), which creates competitive pressure to enhance disclosure and build public trust. This differs from Arab countries such as Saudi Arabia and the UAE, where Islamic banks dominate the financial sector and social disclosure is often driven more by regulatory frameworks (Alotaibi, 2022).

Therefore, while in ASEAN the main driver of ISR disclosure is competitive market dynamics and the need to differentiate from conventional banks, in Arab countries the disclosure practices are more standardized and mandated by strict Shariah governance regulations. This contextual difference helps explain why the role of firm size and profitability as determinants of ISR may show varying strengths across regions.

The test results regarding the role of profitability as a moderating variable in the relationship between capital structure and ISR disclosure show a significant negative moderating relationship. With a coefficient value of -0.117978 and a probability of

0.0200, which is smaller than the significance level of α 0.05, this study indicates that profitability weakens the effect of capital structure on ISR disclosure.

This finding concludes that the higher a company's profitability, the less the influence of capital structure (particularly debt) on the company's decision to disclose ISR. In other words, higher profitability reduces the company's reliance on external financing through debt, which in turn reduces the impetus to increase social disclosure. Higher profitability provides companies with more internal resources to meet their social and environmental obligations without depending too much on external pressures, such as those from creditors or investors.

In stakeholder theory, more profitable companies may feel less compelled to meet ISR disclosure demands because they are no longer bound by strict financial obligations or have no urgency to appease external stakeholders. Conversely, companies more reliant on debt may feel more obligated to show greater transparency to maintain their image and reduce financial risks, including by increasing their social disclosures.

The practical implication of this finding is that companies with high profitability and low capital structure (less debt) may not feel the same pressure to increase ISR disclosure, even though they have better financial capacity. This may be a challenge for stakeholders who expect companies to remain active in ISR initiatives despite being financially sound. Therefore, regulators and policymakers may consider offering incentives or encouragement for profitable companies to remain committed to ISR disclosures, even if they have more conservative capital structures.

The findings regarding the role of profitability as a moderating variable in the relationship between company size and ISR disclosure show a positive and significant moderating interaction. With a coefficient of 0.049795 and a probability of 0.0423, which is smaller than the significance level of α 0.05, these findings support the hypothesis that profitability strengthens the effect of company size on ISR disclosure. This means that the larger the company and the higher its profitability, the more intensive its ISR disclosure will be. Profitability plays a reinforcing role because profitable companies tend to face greater pressure and expectations from various stakeholders to improve their social transparency and accountability.

In the framework of legitimacy theory, large profitable companies tend to be more active in ISR disclosure to maintain or improve their social legitimacy in the eyes of society. ISR disclosure becomes a means for companies to demonstrate their commitment to social responsibility and sustainability, as well as to enhance their positive image in the public eye. Profitability provides companies with sufficient resources to conduct more comprehensive disclosures because they have the financial

flexibility to carry out social disclosure activities without worrying about funding limitations.

This is consistent with research by Hariyanti & Annisa (2021), which shows that profitability not only contributes to improving financial performance but also serves to strengthen the company's commitment to social disclosure (Hariyanti & Annisa, 2021). The practical implication of this finding is that large profitable companies can use ISR as a strategic tool to maintain social legitimacy, attract investors concerned with sustainability issues, and build consumer loyalty. Profitability provides companies the freedom to engage in larger ISR disclosures, which in turn can strengthen their relationships with stakeholders (Hariyanti & Annisa, 2021). Therefore, regulators and policymakers should consider offering incentives for large companies to become more active in ISR disclosure, ensuring that broader social benefits are achieved and encouraging companies to remain committed to sustainability and transparency principles.

Therefore, regulators and policymakers should consider offering incentives for large companies to become more active in ISR disclosure, not only to ensure that broader social benefits are achieved but also to strengthen corporate accountability to stakeholders. Such initiatives can encourage companies to remain consistently committed to sustainability and transparency principles, while at the same time fostering a more responsible and competitive business environment in line with global standards (Agyemang et al., 2020; Alshirah et al., 2021; Haji & Ghazali, 2022).

Conclusion

This study examines the impact of Islamic Social Reporting (ISR) disclosure in Islamic banks in Indonesia, Malaysia, and Brunei Darussalam. The findings indicate that CEO power does not significantly affect ISR. However, the Independent Board of Commissioners and firm size demonstrate a significant positive influence on ISR. While capital structure does not have a notable impact on ISR, profitability plays a moderating role, strengthening the relationship between capital structure and ISR as well as the relationship between firm size and ISR. This study provides important insights into the factors that affect ISR and emphasizes the importance of good governance and attention to social responsibility, even for companies with high profitability or conservative capital structures.

This research contributes to the development of theory on ISR disclosure and the factors influencing it, offering practical implications for companies, investors, and regulators. The study encourages companies to strengthen the role of the Independent Board of Commissioners to improve transparency and accountability. For investors and

regulators, the findings highlight the importance of good governance in investment decision-making and policies supporting ISR disclosure.

The study has limitations, including its focus on three countries, the use of profitability as a moderating variable, and the application of simple panel data regression tests. These limitations restrict the generalizability of the findings and may impact the conclusions drawn. Future research is suggested to expand the population, use a more diverse set of variables, and employ more advanced analysis methods, such as VECM, ARDL, and GMM, to achieve more comprehensive results.

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