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Social Reporting by Islamic Banks: The Role of Sharia Supervisory Board and the Effect on Firm Performance

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Abstract: This study aims to explore social reporting by Islamic banks (IB) (referred to as Islamic social reporting, ISR, hereafter) through two streams, i.e., its determinants and consequences on firm performance. Using annual report data from 90 samples of the world's IB from 2016–2020, this study focuses on the sharia governance implementation through the role of the Sharia Supervisory Board (SSB). The SSB was measured by individual characteristics and IG-Score, representing a combination of dichotomous characteristics of the SSB, which have not been encountered in previous studies. Firm performance as a consequence of disclosure was determined by a more comprehensive approach based on accounting and the stock market. The study's findings demonstrate the SSB's beneficial influence on ISR, suggesting that the presence of an SSB can promote ISR practices. Social reporting has been found to have a negative impact on ROA, but it has a positive impact on MTBV and Tobin's Q. The data suggest that while voluntary reporting practices may cause a short-term decline in profitability, they can have a positive impact on an enterprise's long-term value.

Keywords: Islamic social reporting; Sharia Supervisory Board; firm performance; Islamic bank

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1. Introduction

Islamic banks (IB) have grown rapidly in the last few decades. This is evidenced by many IBs established in countries with minority Muslim populations, such as Europe (UK, France, Luxembourg) and South Africa [1]. The increasing number of IBs, both in Muslim-majority and non-Muslim countries, and the availability of sharia products and services in several conventional banks provide recognition that IBs are internationally accepted and have become strong competitors of commercial banks [2].

After the global crisis period in 2008, Islamic financial institutions (IFI) again attracted much attention, especially when the world was hit by the coronavirus 2019 (COVID-19) pandemic. Recent studies, such as Chowdhury et al., Hassan et al., and Dharani et al. [3–5], noted the stability of IFIs when COVID-19 struck, as indicated by lower volatility, positive annual returns, and faster economic recovery. In its Stability Report 2020, the Islamic financial services board (IFSB) stated that the global Islamic financial services industry (IFSI) could maintain positive growth, with a growth rate of 11.4% (year-on-year) with a total wealth of USD 2.44 trillion [6]. The stability of IFIs, especially IBs, is inseparable from a business model based on a sharia philosophy that prohibits usury (interest) and *gharar*. Prohibition of interest-based debt for consumption activities and *gharar* in transactions prevents banks from toxic financial instruments at the center of the crisis [7,8]. Investments in the real sector, equity-based funding, and market risk-sharing can reduce the contribution to excesses and bubbles, and lead the IB to financial stability [9]. Rather than dealing with interest, IBs use forms of financial instruments, both in mobilizing funds for their operations and in providing finance to their clients, which are compliant with sharia principles and rules. The IB obtains funds through a *Mudharabah* contract with profit sharing according to a pre-agreed contract, and if it suffers a loss, the capital provider will bear all financial losses up to the amount invested, while the other party will not receive a return for his work. The IB is also developing a *Murabaha* "markup" instrument by charging a higher price for goods if payment is deferred. This is allowed by the majority of Islamic scholars.

Apart from the business mechanism, Srairi [10] mentioned transparency as a factor affecting bank stability. However, Srairi [10] found IBs' failure to meet the demands for transparency of non-financial disclosures. Previous empirical studies have also noted that IB accountability was still very weak [11], especially related to social responsibility [12]. In fact, accountability and transparency both relate to IB's credibility. This credibility is vital concerning banking funds, which mostly come from the public, so banks need to maintain public trust by being responsible for the security of refunds entrusted by depositors. Thus, it can be said that the disclosure and reporting of relevant information to stakeholders is mandatory [13] for IBs because sharia principles do not allow the concealment, overstatement, or understatement of information. The Qur'an explains in Surah Al Baqarah, verse 42:

"Do not mix truth with falsehood or hide the truth knowingly."

Likewise, it is mentioned in the following hadith narrated by Tirmidhi.

"The feet of the son of Adam shall not move from before his Lord on the Day of Judgement until he is asked about five things: about his life and what he did with it, about his youth and what he wore it out in, about his wealth and how he earned it and spent it upon, and what he did with what he knew."

The two references above reinforce why IBs must apply accountability and transparency principles. In his study, Suttipun [14] stated that increasing the quality and scope of disclosure positively impacted the firm's reputation through increased accountability and transparency. An IB reputation refers to increased financial performance due to customer loyalty and commitment. Rehman et al. [15] also asserted that one of an organization's successes is determined by customer preferences that tend to include being economically and socially responsible.

In addition, Alam [16] mentioned that accountability and transparency through IB disclosure could be achieved by establishing the Sharia Supervisory Board (SSB), which is the core of Islamic governance. The SSB is an independent institution that functions as a religious authority, and is tasked with ensuring the institution's sharia compliance, thereby gaining the trust of stakeholders [17,18]. One of the reasons for the establishment of the SSB is because IFIs deal with more complicated financial transactions and must comply with sharia rules, so they require relatively stronger internal controls [19]. Kok et al. [20] termed the SSB as "gatekeepers" who maintain the application of the religious framework in regulating the Islamic financial system. This amalgamation of religious and financial principles creates a unique situation within IFIs, i.e., a multi-layered governance structure [21,22].

To that end, this study contributes to the literature in several ways. First, this study explores the Islamic social reporting (ISR) practice by simultaneously examining its determinants and consequences on firm performance. This study used the sample of the 100 largest IBs worldwide, covering 21 countries. Previous research using this comprehensive framework is still very limited. Harun et al. [23] have investigated CSR disclosure, its influencing factors, and its consequences on firm value. However, their research is limited to Islamic banks in the Gulf Cooperation Council (GCC) region.

Second, the ISR determinants focus on an IB's unique characteristics not owned by conventional banks, namely the Sharia Supervisory Board (SSB). This study applied two SSB proxies: IG-Score and individual SSB characteristics. The IG-Score is an index representing the combination of individual SSB characteristics, obtained by adding up the scores of the SSB's dichotomous characteristics, including existence, size, cross-membership, educational background, doctoral qualifications, and reputation of SSB members. Meanwhile, the decomposition of individual SSB characteristics was used to determine the role and impact on ISR to draw conclusions about which SSB characteristics have more influence than others. This study also extends previous studies by Farag et al.; Harun et al.; Rahman et al.; Nugraheni and Khasanah [22–25] who used only individual characteristics; and Farook et al. [26], who only applied the SSB score to determine its effect on ISR.

Third, this study investigates the individual dimensions of ISR and examines ISR in the index. Testing the individual dimensions of ISR was conducted to anticipate the possible loss of the predictive ability of certain information when using an aggregate index. The individual dimensions included mission and vision statements; products and services (involvement in non-permissible activities, introducing new product, and investment and financing activities); *zakah* (compulsory alms giving by those beyond a threshold level of wealth in the sense of returning the right of society to society), charity, and benevolent funds; commitment towards employees; commitment towards debtors; and commitment to the community.

Finally, this study employed both accounting-based indicators (ROA) and stock market-based indicators (market-to-book value and Tobin's Q) to measure firm performance. An accounting-based approach has often been used in research on corporate governance, such as Kok et al., Harun et al., Alsartawi, Baklouti, Zulfikar et al. [20,23,27–29]. However, it is crucial to consider both approaches to obtain a more comprehensive measure [30].

The remainder of this paper is organized as follows. The second part discusses the theoretical background and hypotheses development. The third section describes the data, sample, and variables used in this study, and briefly describes the estimation methods. The fourth section reports the empirical findings of the relationship between Islamic social reporting and its determinants and consequences. Finally, the last section summarizes the findings and results, and includes some concluding discussions.

2. Literature Review

2.1. Theoretical Background

Some accounting literature has explored disclosure as part of corporate strategy behavior to convey signals to various stakeholders [31]. Although no comprehensive disclosure theory can be used to explain variations in disclosure of each entity, several theories—such as agency theory, stakeholder theory, and signaling theory—can be applied to explain managerial incentives affecting social disclosure [23]. Amran et al. and Omran and Ramdhony [32,33] also added legitimacy theory to complement the explanation of corporate social responsibility.

The implications of agency theory on Islamic banks are expanded by an agency relationship between banks and depositors, where banks act as agents to provide sharia-compliant services [34]. Depositors here have no information about how managers use their funds. Meanwhile, they expect the bank where they place their funds to carry out business and transactions in accordance with their religious beliefs [35], encouraging the sharia governance implementation [36]. In addition, IBs have a different organizational structure from conventional banks with a "multi-layer" governance system [21], which can lead to different agency conflicts between IB stakeholders compared to conventional banks [22]. In this regard, the SSB plays a major role in reducing agency problems by acting as an additional monitoring mechanism [37,38]. The SSB is also responsible for overseeing information disclosure to protect the interests of various stakeholders.

On the other hand, companies worldwide face various sustainability issues, such as climate change and global warming, which lead to pressure from stakeholders to adopt sustainable practices. It should also be acknowledged that the growing pressure on sustainability practices contributes to the need for non-financial reporting [39]. Ayadi [40] stated that one of the motivations for companies to make social disclosures is related to the conformist approach, suggesting that social reporting can help companies manage the interests of their stakeholders. Moreover, stakeholder theory is essential to discuss in the context of Islamic banks for two main reasons [41]. First, the banking industry is experiencing rapid changes in economic activity, which has a major impact on stakeholders.

Second, the purpose of stakeholder theory is to create awareness and responsibility of the organization towards its stakeholders. It is consistent with the social function of the IB.

Furthermore, legitimacy theory affirms that organizations with sustainable performance are more likely to disclose social information because they have to meet certain standards and expectations to legitimize their activities in the eyes of society [42]. Reporting on corporate social activities can convince stakeholders that the firm's actions align with expectations. Failure to meet public standards and expectations will jeopardize the firm's legitimacy, resulting in initiatives to influence public opinion by making non-financial disclosures. From the perception of legitimacy theory, organizations try to adopt social behavior in its core mechanism to strengthen adherence to certain values and norms of the society in which the institution is actively operating [43]. Here, the role of the SSB is important to ensure sharia compliance, contributing to the robustness of the sharia governance system and supporting the religious-ethical legitimacy that stakeholders expect [17]. The SSB's independence is in carrying out its role fairly and adequately and promising religious or ethical legitimacy.

Meanwhile, signal theory suggests that effective management uses social reporting to signal to stakeholders the firm's commitment to sustainability goals. The report also provides information on strong governance, financial stability, a proactive environmental strategy, the firm's commitment to environmental issues, transparency, and stakeholder involvement in all firm activities [31]. The signal sent by the firm is expected to reduce information asymmetry that creates potential conflicts between principals and agents. According to Ching and Gerab [44], a social responsibility report or sustainability report is one reliable transmission in delivering organizational signals.

2.2. Hypotheses Development

2.2.1. Islamic Governance Score and Islamic Social Reporting

Many previous studies have combined several variables representing corporate governance to produce a corporate governance index (CGI) [22,26,45]. The index was built by adding up the values of the dichotomous characteristics of the SSB. This study developed the Islamic governance score (IG-Score) by adding the scores resulting from the dichotomy of the abovementioned six variables. The six variables consisted of the existence of the SSB, the number of SSB members, members with cross-membership, Islamic and economic educational background, the educational level of SSB members with doctoral qualifications (Ph.D.), and SSB membership in the AAOIFI organization. Related to this, Farook et al. [26] noted the high influence of the IG-Score on disclosure. This finding is reinforced by subsequent research from Rahman et al. and Jati et al. [24,45] so that a positive relationship is expected between the corporate governance index and Islamic social reporting.

H1. *There is a positive relationship between IG-Score and Islamic social reporting.*

Hypothesis for six SSB variables as the construct of IG-score is elaborated as follows.

Existence of Sharia Supervisory Board and Islamic Social Reporting

Sharia governance is an IB operational guideline that encourages the availability of comprehensive sharia compliance supervision. According to Grassa [46], several nations—including Bahrain, Qatar, the United Arab Emirates, Kuwait, Jordan, Palestine, Pakistan, Nigeria, Malaysia, Indonesia, Brunei, and Bangladesh—have created comprehensive regulatory frameworks that control the application of sharia law at the institutional and national levels. Other nations—such as Syria, Oman, Yemen, Libya, and Iraq—have only institutionalized regulatory frameworks for sharia supervision. While the sharia supervision system established within the IFI is not required by law in some nations—including Saudi Arabia, Turkey, Egypt, Morocco, Tunisia, Lebanon, Thailand, and Kazakhstan—it is a voluntary initiative due to the indirect influence of the global Islamic financial market and environment (especially GCC and Southeast Asian countries).

The SSB is responsible for ensuring that the business systems and products used by IBs are sharia-compliant, formulating policies for smooth operations, and ensuring sharia conformity [47]. IB products and services need to be monitored by the SSB to ensure that the sharia compliance implementation based on the Qur'an and Sunnah values runs optimally at the IB and to guarantee that the knowledge integration process is implemented in the process of achieving stakeholder financial goals [48].

SSB members must also ensure that all IB stakeholders have full confidence in presenting firm reports. Farook et al. [26] confirmed that the presence of the SSB in IBs could improve monitoring and, thus, lead to more information on Islamic social reporting. Based on the agency theory perspective, the presence of the SSB in IB can be seen as one of management's efforts to reduce agency conflict through increasing transparency and accountability, including increasing disclosure of corporate social performance [23]. The researchers assume that the existence of an SSB puts pressure on IBs to reveal more about social activities, so the following hypothesis was formulated.

H1a. *There is a positive relationship between the existence of the SSB and Islamic social reporting.*

Size of the Sharia Supervisory Board and Islamic Social Reporting

The size of the SSB refers to the number of SSB members. The high number of SSB members implies many Fiqh or sharia experts, which brings more knowledge and expertise [49]. The implication is that the more members of the SSB, the greater the influence to monitor IBs in making full disclosures in accordance with sharia standards [50]. In short, the SSB's collective knowledge and experience will lead to greater disclosure [23]. A large SSB also makes it possible to increase oversight and compliance [37], carry out the division of tasks, and reduce the potential for fraudulent financial statements [25]. Previous studies have argued that a large SSB had a positive effect on IFI disclosure due to intensive supervision [11,26,36,51].

In contrast to Grassa [46], the large size of the SSB led to a lack of communication quality, coordination of activities, and more complicated decision-making. In addition, several studies by Matoussi and Grassa, Quttainah et al., and Hakimi et al. [52–54] found evidence that the SSB size negatively affected IB performance. However, El-Halaby and Hussainey [11] discovered that the size of the SSB positively affected financial and social reporting. Rashid et al. [50] also provided evidence that SSB members helped banks disclose more information in their annual reports, so that bank management needs to maintain board size at optimal limits. As Kolsi and Grassa [55] stated, the number of the SSB members should not be less than three members who are experienced and competent in their field, whereas Ben Zeineb and Mensi [56] required that the members of the SSB should not be more than seven members. Therefore, this study proposed the following hypothesis:

H1b. *There is a positive relationship between the size of the SSB and Islamic social reporting.*

Cross-Membership of the Sharia Supervisory Board and Islamic Social Reporting

Cross-membership is a situation in which an SSB member concurrently becomes an SSB member at another IFI. Cross-membership will improve the quality of discussion, perspective, and experience in the application of sharia principles [24,26,49,57]. In this regard, the decisions taken by one board can become part of the information for the decisions of other boards and further increase the effectiveness of the SSB's performance. Here, SSB members with cross-membership will be presented with more discussions about the application of Islamic law in banking, especially in regards to disclosing social responsibility [11,23]. It is supported by Fakhruddin and Jusoh's [58] statement that cross-membership positively affected sharia compliance.

However, the duality of the role of the SSB is considered to reduce the independence, flexibility [59], and the effectiveness of the supervisory role [60]. Mukhibad et al. [61] stated that cross-membership forced SSB members to divide their time in carrying out their duties. The more banks were monitored, the lower was the SSB's performance [48,61]. In addition, Grais and Pellegrini [62] are concerned about confidentiality issues and conflicts of interest due to the ease of access to confidential and sensitive information, which may impact the IB if disclosed to other IB competitors. Meanwhile, AAOIFI does not have a specific view on cross-membership. Principle 1 of IFSB-10 indicates that there must be a limit to the number of institutions served by the SSB. This is to ensure that SSB members can devote adequate time and effort to each IFI they serve, minimize conflicts of interest, and maintain confidentiality [63].

Abdullah et al. [64] also argued that cross-membership contributed to an improved experience for SSB members, allowing them to make best practice comparisons among IBs and leading to better information disclosure. Thus, the researchers hypothesized that:

H1c. *There is a positive relationship between the cross-membership of SSB and Islamic social reporting.*

Educational Background of Sharia Supervisory Board and Islamic Social Reporting

The effectiveness of the SSB's performance is related to the educational background of its members. Qualifications in certain areas of knowledge will improve the SSB's ability to make decisions regarding products or services provided by the IB, such as Fiqh's education level, which helps the SSB understand sharia provisions for a firm's business activities [48]. Aside from knowledge of sharia, the SSB must have accounting, economics, business, and legal expertise. This is because IB operations are more complex than non-financial institutions [13].

Moreover, boards with accounting expertise will provide more effective monitoring for bank management [65], especially given the intensity of information disclosure to meet international reporting standards [50]. Rahman et al. [24] also argued that SSBs with financial knowledge and experience would be more transparent and ethical in disclosing their activities to meet stakeholder needs. In addition, the SSB must have insight into current issues, such as social and environmental disclosure. According to Abdullah et al. [64], almost all members of the SSB are ulama, but only a few have accounting, banking, economics, or finance expertise. In fact, having qualified SSB members with dual skills in finance and sharia can strengthen customer confidence in the bank [28]. The study by Kok et al. [20], for example, included conventional and theological qualifications to determine the positive relationship between educational background and Islamic social reporting.

H1d. *There is a positive relationship between the educational background of the SSB and Islamic social reporting.*

Education Level (Ph.D. Qualification) of the Sharia Supervisory Board and Islamic Social Reporting

Educational level indicates human capital, knowledge, and intellectual competence [66]. In this case, SSB members must have sufficient academic qualifications to provide important sharia guidelines in decision-making [37]. SSB members with a good education level are considered able to act rationally. Almutairi and Quttainah [37] mentioned that an SSB member with higher education is competent in analyzing cases and can make innovative policies. It is in line with Johnson et al.'s [67] statement that education level is considered to influence cognition in decision making.

Several studies have identified the role of a board member with a Ph.D., who will reduce the likelihood of managers cheating, provide advice for research projects [66] reduce risk exposure [68], and lead to companies obtaining more stable performance and good credit ratings [69]. Furthermore, Safiullah and Shamsuddin [70] found a correlation between increasing the academic qualifications of SSB members and increasing the ability to translate Islamic finance theory into banking practice, including moral enforcement against excessive risk-taking that leads to bankruptcy. Based on the explanation above, it can be concluded that SSB members with Ph.D. degrees are expected to understand Islam's implications in banking social disclosure better. Therefore, the following hypothesis was derived.

H1e. *There is a positive relationship between a Ph.D. qualification and Islamic social reporting.*

The Reputation of the Sharia Supervisory Board and Islamic Social Reporting

AAOIFI and IFSB require the appointment of a reputable and credible SSB member at the IFI [63]. SSB members in good standing are more likely to understand the current implications of IBs [11,70]. The SSB's good reputation is also important for improving the firm's performance. It is evidenced by Zulfikar et al. [29] that the vigilance of prominent SSB members could weaken the bad influence of CEO arrogance on IB performance. Moreover, having an SSB member with a good reputation will increase the IB's credibility with its stakeholders and customers [28], and attract a large number of customers and depositors, reduce liquidity risk, and improve the IB's financial performance [26,49].

The extent of SSB knowledge is seen not only from formal education, but tacit knowledge about sharia principles gained through experience and recognition must also be considered [71]. Rahman et al. [24] stated that the high level of tacit knowledge is reflected in the reputation of SSB members in public, especially through positions that have been or are being managed in organizations or bodies related to IBs, one of which is AAOFI.

AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) is a non-profit international Islamic organization that formulates standards and issues related to accounting, auditing, governance, ethics, and Islamic sharia standards for IFIs. AAOIFI standards have been adopted by central banks or financial authorities in several countries that run Islamic finance, either fully adopted (mandatory) or as the basis of guidelines. One of the objectives of the AAOIFI establishment is to avoid differences and inconsistencies in the fatwas applied by financial institutions by issuing sharia standards. With comprehensive standards ranging from *Fiqh muamalah* fatwas reviewed by international scholars and practitioners from sharia financial institutions and the government, it is hoped that the AAOIFI sharia standards can be a strong and mature reference to be applied in *muamalah* practice.

Furthermore, sharia scholars with a good reputation and credibility in organizations such as AAOIFI are deemed to have universal knowledge about Islam. El-Halaby and Hussainey [11] mentioned that a good reputation leads to a better understanding of modern banking industry applications, including disclosure. The results of Farook et al. [26] in 2011 demonstrated that reputation plays an important role in measuring the level of social disclosure among IBs. Therefore, leading scholars are more likely to encourage IBs to disclose more corporate social responsibility information. Meanwhile, the SSB's reputation is measured based on the SSB's membership in the AAOIFI committee, which is similar to the methodology of Farook et al. [26]. Therefore, the researchers hypothesized that:

H1f. *There is a positive relationship between the reputation of the SSB and Islamic social reporting.*

2.2.2. Islamic Social Reporting and Firm Performance

Firm performance can be measured by accounting-based or market-based approaches. Tho et al. [30] considered the combination of the two indicators as a comprehensive measurement needed by investors in making decisions. Accounting measures reflect past and short-term financial performance, while market measures show current and long-term financial performance. This study uses ROA as a proxy for measuring accounting-based performance, following a number of previous studies that used the same proxy to measure the financial performance of Islamic banks, such as Khan et al., Kok et al., Harun et al., Alsartawi, Baklouti, Jan et al. [13,20,23,27,28,72]. For market-based performance, the current study employs Tobin's Q proxy, as well as research by Harun et al. [23].

Platonova et al. [73] have investigated the relationship between social disclosure and the financial performance of IBs within the Gulf Cooperation Council (GCC). Six dimensions of social disclosure were developed, and their findings revealed that IB social disclosure positively affected financial performance as measured by the average return on assets (ROAA). Corporate disclosure practices related to CSR implementation also signal to stakeholders and the public their healthy financial stability [31]. In addition, Rehman et al. [15] associated corporate disclosure with a competitive advantage. According to them, competitive advantage is closely related to the firm's financial performance. This is confirmed by Aigner and Lloret [74], stating that a firm becomes competitive when it earns a higher financial return than the average of its industry counterparts.

Furthermore, Sheu et al. [75] argued that the market only gives a higher value to companies that choose to disclose inclusive information. Moreover, studies by Eccles et al. and Dam and Scholtens [76,77] revealed that workers, customers, investors, and all other stakeholders would reward companies that demonstrate transparency and accountability by reporting related financial and non-financial information. Applying financial and non-financial reporting concerning quality leads to an increase in the financial performance of banks [42]. This finding is consistent with studies conducted by Jan et al., Tabash, and Zheng et al. [78–80]. Based on the discussion above, the following final hypothesis was developed.

H2. *There is a positive relationship between Islamic social reporting and firm performance.*

3. Materials and Methods

3.1. Data and Sample

This study used secondary data on ISRI, its determinants (IG-score, SSB characteristics), and its consequences (firm performance). The data were collected from the annual report of the world's largest 100 IBs for 2016–2020. This study adopted a purposive sampling technique for data collection. For the sake of consistency in the study sample, banks that did not publish an English version of the annual report were excluded. Thus, 10 banks were excluded, leaving the study's final sample with 90 IBs and 450 observations. The list of the 90 largest IBs in the world was obtained from the Money Gate and The Asian Banker websites (see Appendix A Table A1). The 90 banks were identified, covering 21 countries: Saudi Arabia, UAE, Kuwait, Malaysia, Qatar, Iran, Bahrain, Bangladesh, Brunei, Indonesia, Pakistan, Jordan, Egypt, United Kingdom, Oman, Palestine, Syria, South Africa, Nigeria, Maldives, and Sudan.

3.2. Variables Measurement

3.2.1. Measurement of Islamic Social Reporting

This study applied a quantitative approach. IBs' annual financial reports were collected from their websites and relevant stock exchange sites. To measure the ISR index in this study, an unweighted content analysis method was used to measure the ISRI of the annual report. A score of "1" was assigned to each indicator disclosed in the annual report, and a score of "0" was given if it was not shown in the annual report [81]. The ISR index was obtained by adding the disclosure scores and dividing them by the number of ISR disclosure items. The ISR item was adopted from Platonova et al. [73], consisting of six dimensions: the mission and vision statement; products and services; zakah, charity, and benevolent funds; commitment towards employees; commitment towards debtors; and commitment towards the community. The choice of indicators from Platonova et al. [73] is considered appropriate because the dimensions of *zakah*, charity, and benevolent funds are specially prepared for IBs, while other dimensions can be applied to conventional banking. The method used to measure ISRI was formulated as follows:

$$ISRI\ (i,t) = \sum_{i=1}^{N} Score\ (j)$$

where:

ISRI = Islamic social reporting index for the firm *i* and the year *t*
N = The number of items in the index
J = Each item included in the index

3.2.2. Measurement of Firm Performance

The measurement of firm performance in this study included the use of accounting-based indicators, namely return on assets (ROA) and stock market-based values, such as market-to-book value (MTBV) and Tobin's Q (TQ). The accounting-based approach has been widely used in studies on corporate governance, but recently researchers have considered both approaches to assess corporate financial performance [30]. Each measurement for firm performance indicators is presented in Table 1.

Table 1. Variables measurements.

Variables	Definition	Measurement
ISRI	Islamic social reporting index	The ratio of content disclosure score over the maximum score a bank can achieve
Individual dimension	Individual dimension refers to six dimensions of ISR	Mission and vision (MV.ISR 9 items); products and services (PS.ISR 10 items); zakah, charity and benevolent fund (ZCBF.ISR 15 items); commitment towards employees (EMPLYS.ISR 10 items); commitment towards debtors (DEBT.ISR 5 items); and commitment towards community (CMUNTY.ISR 7 items)
FP	1. Accounting-based performance (ROA) 2. Stock market-based performance (MTBV and TQ)	ROA (the ratio of net income/total assets) and MTBV (the market value of equity to book value of equity ratio); TQ (the ratio of market value of equity and liabilities/book value of equity and liabilities)
IG-Score	Islamic governance score	Existence of SSB (dichotomous yes/no) + size of SSB (1 for bank with 7 or more members, and 0 otherwise) + cross-membership (1: if any SSB member with cross-membership, and 0 otherwise) + sharia and economics background (1: if any SSB member with educational background in sharia and economics, and 0 otherwise) + doctoral qualification (1: if any SSB member with doctorate qualification, and 0 otherwise) + reputation of SSB (1: if any SSB member as AAOIFI member, and 0 otherwise)
Exist.SSB	Existence of SSB	Dichotomous yes/no
Size.SSB	Size of SSB	The overall number of SSB members at the end of every year
Cross.SSB	SSB members with cross-membership	The number of SSB members who sit on SSB of other Islamic banks at the same time
Educ.SSB	SSB members with educational background in sharia and economics	The number of SSB members with dual certification in sharia and in economics
PhD.SSB	SSB members with doctoral qualifications	The number of SSB members who hold a doctoral degree
Rep.SSB	Reputation of SSB members as AAOIFI members	The number of SSB members sitting on international sharia standard-setting organizations AAOIFI
F.Size	Firm size	The natural logarithm of firms' total assets
F.Age	Firm age	The number of years elapsed since the year of the company's IPO
F.Lev	Firm leverage	The ratio of total debt/total equity
F.Liquid	Firm liquidity	The ratio of current assets/current liabilities
GDP	Growth domestic products	The natural logarithm of sample countries GDP

3.2.3. Measurement of the Sharia Supervisory Board

This study employed two measurements for the SSB, the first being the IG-Score, a combination of several variables representing sharia governance factors. The IG-Score was obtained by adding up the values of the dichotomous characteristics, such as the existence of the SSB, size of the SSB, the presence of SSB members with cross-membership, SSB members' educational background in sharia and economics, the existence of SSB members with doctoral qualifications, and the reputation of SSB members as AAOIFI members.

Second, the six characteristics of the SSB mentioned above were examined individually to determine their effect on ISRI. Measurements for each SSB characteristic can be seen in Table 1.

3.2.4. Measurement of Control Variables

Several control variables were used, such as firm size, firm age, leverage, liquidity, and GDP as country-specific variables. The IB sample's firm and country-specific characteristic variables were collected from various databases, such as company websites, the World Bank, and annual reports. Variable measurements are shown in Table 1.

3.3. Regression Models

A regression test was performed with the Stata analysis tool. Random-effect (RE) and fixed-effect (FE) models of Generalized Least Squares (GLS) were applied to panel data to investigate the relationship between variables. In GLS, the Hausman test was employed to decide between random-effect and fixed-effect models. If the Hausman test result is significant (Chi^2, Prob. > Chi^2), the fixed-effect model is applied; otherwise, a random-effect model is selected if the results are insignificant. The research model is shown as follows.

To empirically test H1, the relationship between SSB and ISRI, regression Model 1 was developed.

Model 1

$$\begin{aligned} ISRI_{it} = \alpha + \beta_1 IG-Score_{it} + \beta_2 Exist.SSB_{it} + \beta_3 Size.SSB_{it} + \beta_4 Cross.SSB_{it} \\ + \beta_5 Educ.SSB_{it} + \beta_6 PhD.SSB_{it} + \beta_7 Rep.SSB_{it} + \beta_8 F.Size_{it} + \beta_9 F.Age_{it} \\ + \beta_{10} F.Lev_{it} + \beta_{11} F.Liquid_{it} + \beta_{12} GDP_{it} + \varepsilon \end{aligned}$$

To empirically test H2, Model 2 was developed to determine the effect of ISRI on company performance, both accounting-based performance and stock market-based performance.

Model 2

$$FP_{it} = \alpha + \beta_1 ISRI_{it} + \beta_2 F.Size_{it} + \beta_3 F.Age_{it} + \beta_4 F.Lev_{it} + \beta_5 F.Liquid_{it} + \beta_6 GDP_{it} + \varepsilon$$

This study also follows what was done by Platonova et al. [73], examining the effect of the individual dimensions of ISR using the following regression model:

Model 3

$$\begin{aligned} FP_{it} = \alpha + \beta_1 Individual\ dimension + \beta_2 F.Size_{it} + \beta_3 F.Age_{it} + \beta_4 F.Lev_{it} + \beta_5 F.Liquid_{it} \\ + \beta_6 GDP_{it} + \varepsilon \end{aligned}$$

Information for each variable is described in full in Table 1.

Each regression test was performed three times (covering 2016–2020, 2016–2019, and 2020 only) due to the research period covering the year the global health crisis occurred due to the coronavirus 2019 (COVID-19) pandemic. 2020 was considered a crisis-affected year, so it needed to be observed separately to determine changes in the influence of each variable being tested.

4. Analysis of Results and Discussion

4.1. Descriptive Statistics Analysis

Table 2 presents the descriptive statistics of the 90 banks that were the study samples, where the mean, standard deviation (SD), minimum, and maximum values indicated the overall performance of these banks over the five years of observation. The Islamic social reporting index (ISRI) showed the lowest value of 0.36 and the highest value of 0.99, with a standard deviation of 0.22. The mean for ISRI was 0.42, indicating that IBs had made social disclosures. It indicates the commitment of IBs to providing information on their social activities to customers, investors, and the wider community in order to reduce information gaps and as a form of accountability and transparency. Then, the IG-Score had a minimum value of 0 and a maximum value of 6, with a mean value of 2.62, indicating that IB governance represented by the presence of competent, reputable, experienced, and highly educated SSBs was still not good. The descriptive statistics results for each SSB variable revealed that the number of boards holding concurrent positions in other financial institutions was quite low (mean of 0.30, a minimum value of 0, and a maximum value of 3); likewise, the number of those who were concurrently members of the AAOIFI organization (mean of 0.50, a minimum value of 0, and maximum value of 4) was also low. In addition, the minimum score for SSB education was 0, while the maximum was 8. The mean score was 1.59 with a standard deviation of 1.94, indicating that the number of boards with dual skills, namely sharia and economics, was still very low. In addition, the number of SSB members with a doctoral level of education (Ph.D.) at an IB could be said to be still quite low, as indicated by a mean score of 2.28, a minimum score of 0, and a maximum value of 7.

Table 2. Descriptive statistics.

Variables	Obs.	Mean	Std. Dev.	Min	Max
			Panel A: Model 1.		
ISRI	450	0.4150	0.2185	0.3571	0.9946
IG-Score	450	2.6244	1.4060	0	6
Exist.SSB	450	0.8161	0.3879	0	1
Size.SSB	450	3.5245	2.4337	0	12
Cross.SSB	450	0.3030	0.7435	0	3
Educ.SSB	450	1.5921	1.9405	0	8
PhD.SSB	450	2.2844	1.7030	0	7
Rep.SSB	450	0.5035	0.9413	0	4
Size	450	8.1421	1.7399	2.5635	11.736
Age	450	21.522	14.784	1	66
Leverage	450	0.9841	1.2648	0.1164	8.7908
Liquidity	450	2.6167	2.6501	0.2931	10.1635
GDP	450	12.201	1.2812	8.2276	14.880
			Panel B: Model 2 and 3.		
ROA	215	0.0161	0.0127	0.0007	0.0705
MTBV	215	1.5171	0.7073	0.6100	2.762
TQ	215	0.5377	0.2722	0.0537	0.9238
ISRI	215	0.4150	0.2185	0.3571	0.9946
MV.ISR	215	4.0378	2.7373	0	9
PS.ISR	215	3.6311	2.8733	0	10
ZCBF.ISR	215	5.4622	3.6973	0	14
EMPLYS.ISR	215	4.7533	2.9666	0	10
DEBT.ISR	215	0.9977	1.4260	0	5
CMUNTY.ISR	215	2.5267	1.7507	0	6

Note: See Table 1 for variable definitions.

For the individual dimensions of ISR, namely the mission and vision statement dimensions, its minimum statistic was 0, the maximum was 9, while the mean score was 4.04. The minimum number for the dimensions of products and services was 0, and the maximum was 10, with a mean value of 3.63. The minimum statistic for the dimensions of zakah, charity, and benevolent funds was 0, while the maximum was 14 and the mean value was 5.46. The minimum value for the commitment towards the employee dimension was 0, the maximum value was 10, and the mean value was 4.75. The minimum score for the commitment towards the debtor dimension was 0, and the maximum score was 5, with a mean score of 1.00. The minimum statistic for the commitment towards the community dimension was 0, while the maximum value was 6, with an average score of 2.53. Overall, it can be concluded that social disclosure by IB was quite adequate.

Moreover, the firm's performance measures represented by ROA had a minimum value of 0.0007, a maximum value of 0.0705, and a mean of 0.0127. Meanwhile, firm performance measures represented by market to book value and Tobin's Q obtained minimum values of 0.61 and 0.05; maximum values of 2.76 and 0.92; and means of 1.52 and 0.54, respectively.

Descriptive statistics for each control variable are described below. The minimum value for bank size was 2.56, and the maximum was 11.74, with a mean value of 8.14, indicating that most sample companies were large. The firm age, measured since the IB was listed on the stock exchange, showed a minimum statistic of 1 and a maximum statistic of 66, with a mean value of 21.52, denoting that most of the sample banks had more than 20 years of status as a public firm. Then, the lowest debt ratio statistic was 0.12, while the highest was 8.79, with a mean statistic of 0.98. The sample bank's dependence on debt for operational financing was quite small. In addition, the level of bank liquidity had a minimum value of 0.29, a maximum value of 10.16, and a mean of 2.62, revealing that the sample bank's liquidity level was quite low. Finally, the control variable of GDP, representing the country's control, showed a minimum statistic of 8.23 and a maximum statistic of 14.88, with a mean of 12.20.

4.2. Correlation Analysis

From Table 3, the Pearson correlation matrix did not detect any multicollinearity above 0.8 between the two predictors. Thus, the predictors tested for regression were not highly correlated and, therefore, suitable for further analysis.

4.3. An Empirical Analysis for Determinants of Islamic Social Reporting

Table 4 displays an empirical analysis of the ISR determinants. First, it discusses the effect of the Islamic governance index, which is the sum of the dichotomous values of the previously explored SSB variables. The IG-Score had a coefficient of 0.024, indicating a significant positive effect on ISR at a significance level of <0.01. It denotes that the higher the sharia supervision by the SSB, the higher the ISR level of the bank. Therefore, H1, stating that the IG-Score had a positive effect on ISR, was accepted. This positive IG-Score correlation implies that the presence of SSBs who are competent, reputable, and experienced in their fields, and have an educational background in accordance with their main tasks and functions, will monitor and control IB activities more effectively, especially in relation to social issues. The significance of this finding is that combining SSB characteristics leads to greater monitoring of sharia compliance, which in turn encourages social disclosure practices. This finding is consistent with the study results by Rahman et al., Farook et al., and Jati et al. [24,26,45].

In addition, an analysis was performed to determine the effect of six SSB variables forming the IG-Score on ISR. The regression results for the existence of the SSB showed a positive and significant coefficient ($\beta = 0.109$, $p < 0.01$). It denotes that the existence of an SSB increased the IB's social disclosure (ISR). It means that the existence of an SSB in IBs can impose pressure on managers to engage in ISR. The positive relationship between SSB and ISR aligns with the theoretical suggestion that the SSB reduces agency conflict by providing an additional layer of governance to monitor managers' actions, particularly disclosure initiatives. At the same time, this finding offers practical support for H1a and previous findings by Farook et al. and Elamer et al. [26,82], stating that an SSB positively impacted IB disclosure. Table 4 also shows a positive and significant coefficient ($\beta = 0.008$,

$p < 0.05$) for the size of the SSB variable, supporting H1b. It is consistent with the findings of Nugraheni and Khasanah and Rashid et al. [25,50], who reported a positive and significant relationship between the size of the SSB and social disclosure. Here, a larger board size provides the opportunity to gather diverse experts from different fields of knowledge and more networks and connections. A large number of SSBs with various perspectives and experiences can result in a better review of corporate reporting, especially in regards to social reporting [11].

Table 3. Correlation analysis result.

Panel A: Model 1.

	ISRI	**IG-Score**	**Exist. SSB**	**Size. SSB**	**Cross. SSB**	**Educ. SSB**	**PhD. SSB**	**Rep. SSB**	**Size**	**Age**	**Lev**	**Liq**	**GDP**
ISRI	1.000												
IG-Score	0.1466	1.000											
Exist.SSB	0.1182	0.0242	1.000										
Size.SSB	0.2464	0.0680	0.2904	1.000									
Cross.SSB	0.2503	0.0175	0.1067	0.1599	1.000								
Educ.SSB	0.3383	0.0802	0.1339	0.3576	0.4875	1.000							
PhD.SSB	0.2208	0.0581	0.3052	0.6252	0.1920	0.4368	1.000						
Rep.SSB	0.1414	0.2127	0.1227	−0.0166	0.1053	−0.1572	0.0475	1.000					
Size	0.2695	0.1002	−0.2159	0.1327	0.0757	0.0928	0.2196	0.2239	1.000				
Age	−0.0363	−0.0930	−0.1110	0.0389	−0.0638	0.0455	0.1311	0.0690	0.0844	1.000			
Leverage	−0.1797	−0.0160	−0.0906	−0.0283	−0.0333	−0.1143	−0.0808	0.1258	−0.4507	0.0207	1.000		
Liquidity	−0.1547	−0.0753	0.0144	−0.1032	−0.1327	−0.0776	−0.1505	−0.1939	−0.0393	0.1295	−0.3436	1.000	
GDP	0.0794	0.0688	−0.0681	−0.0343	−0.1925	0.0424	−0.0990	−0.0955	0.2695	0.0846	−0.1959	0.1118	1.000

Panel B: Model 2 and 3.

	ROA	MTBV	TQ	ISRI	MV.ISR	PS .ISR	ZCBF .ISR	EMPLYS .ISR	DEBT .ISR	CMUNTY .ISR	Size	Age	Lev	Liq	GDP
ROA	1.000														
MTBV	−0.1527	1.000													
TQ	−0.0730	0.3121	1.000												
ISRI	−0.3262	0.0434	0.2235	1.000											
MV.ISR	−0.3365	−0.3089	0.1104	0.6456	1.000										
PS.ISR	−0.3024	0.1454	0.1256	0.7077	0.6882	1.000									
ZCBF.ISR	−0.3255	0.1521	0.1244	0.5038	0.7764	0.7614	1.000								
EMPLYS.ISR	−0.2430	−0.2091	0.1792	0.5934	0.7433	0.7092	0.7838	1.000							
DEBT.ISR	−0.2061	0.0801	0.0189	0.6272	0.7631	0.7724	0.6110	0.6637	1.000						
CMUNTY.ISR	−0.2002	0.0783	0.1480	0.3637	0.6187	0.6363	0.6511	0.5450	0.4695	1.000					
Size	−0.1239	−0.0742	−0.1262	−0.2915	−0.2480	−0.1378	−0.1279	−0.3063	−0.0989	0.2405	1.000				
Age	0.1250	0.0958	0.1819	−0.3364	−0.3696	−0.3410	−0.3880	−0.4628	−0.2714	−0.3107	0.0729	1.000			
Leverage	0.4909	−0.0817	−0.0893	0.0385	−0.1218	−0.1175	−0.2575	−0.1484	−0.0326	−0.3231	−0.4207	0.2574	1.000		
Liquidity	−0.1504	0.2279	−0.2464	−0.2514	−0.1919	−0.2024	−0.1046	0.0086	−0.2023	−0.1260	0.1335	0.0295	−0.2197	1.000	
GDP	0.3542	0.1621	0.1661	−0.2819	−0.3022	−0.3382	−0.4319	−0.3467	−0.2306	−0.3740	−0.0864	0.2362	0.4339	−0.2757	1.000

Note: See Table 1 for variable definitions.

A positive and significant relationship ($\beta = 0.041$, $p < 0.01$) was also obtained from the regression between cross-membership and ISR, which further supported H1c. The results of this study reinforce the findings of previous studies by El-Halaby and Hussainey and Abdullah et al. [11,64], which showed that the more cross-membership in an SSB, the higher the level of disclosure made by the firm. In this regard, cross-membership can facilitate discussions among SSB members that increase the effectiveness of the SSB's performance. The discussion allowed SSB members to have many perspectives and experiences, especially those related to disclosure practices according to sharia principles. In addition, the education of members of an SSB had a significance value of 0.01 < 0.05 and a coefficient value of 0.016, meaning that an SSB's expertise in sharia and banking economics positively affected the ISR level. Therefore, H1d was accepted. This finding agrees with the results of previous studies by Nugraheni and Khasanah., Muhammad et al., Abdullah et al., Hijriah et al. [25,48,64,83], who noted a similar positive relationship between education of SSB members and the level of disclosure. Here, the qualifications of SSB members can be seen from their sufficient knowledge of sharia provisions in the firm's business and non-business activities [18,48]. Accounting, banking, finance, and economic skills are also needed along with the importance of the education aspect of an SSB so that the synergy of the two skills can produce optimal SSB competencies. This SSB competence will be its strength in imposing its influence on managers to make disclosures.

Table 4. Regression results for determinants of ISR.

Variable	Model 1 (ISRI)		
	2016–2020	**2016–2019**	**2020**
IG-Score	0.0240 (0.000) ***	0.0222 (0.003) ***	0.0217 (0.054) *
Exist.SSB	0.1085 (0.000) ***	0.1093 (0.001) ***	0.1068 (0.019) **
Size.SSB	0.0078 (0.012) **	0.0070 (0.019) **	0.0106 (0.076) *
Cross.SSB	0.0411 (0.005) ***	0.0410 (0.013) **	0.0392 (0.098) *
Educ.SSB	0.0156 (0.011) **	0.0172 (0.013) **	0.0110 (0.079) *
Ph.D.SSB	0.0104 (0.170)	0.0089 (0.296)	0.0144 (0.248)
Rep.SSB	0.0667 (0.000) ***	0.0618 (0.000) ***	0.0763 (0.000) ***
Size	0.0425 (0.000) ***	0.0440 (0.000) ***	0.0377 (0.002) ***
Age	0.0004 (0.560)	0.0004 (0.537)	0.0004 (0.695)
Leverage	−0.0031 (0.739)	−0.0014 (0.891)	−0.0131 (0.379)
Liquidity	−0.0141 (0.000) ***	−0.0115 (0.008) ***	−0.0226 (0.000) ***
GDP	−0.0008 (0.923)	−0.0013 (0.887)	−0.0071 (0.569)
R^2 (Between)	0.2714	0.2637	0.2626
Probability F-Stat	0.0000	0.0000	0.0000

Note: *, ** and *** represent significance at the 10, 5 and 1% levels, respectively (all two-tailed tests). Please see Table 1 for variable definitions.

Rahman et al. [24] stated that the higher education level of SSB members would help them to solve sharia and economic problems, one of which is the issue of disclosure. However, this statement was not proven in this study, where board members with doctoral qualifications (Ph.D.) were noted to have no effect on Islamic bank social disclosures ($\beta = 0.010$, $p > 0.10$). Hence, it can be concluded that H1e should be rejected. This study's results also contradict the findings of Muhammad et al. [48], showing a positive relationship between doctoral education of SSB members and sharia compliance. Then, Table 4 reveals a positive and significant coefficient ($\beta = 0.067$, $p < 0.01$) for the variable reputation of an SSB, so H1f was accepted. This suggests that the SSB's reputation had a positive impact on an IB's social disclosure (ISR). This finding backs up the findings of El-Halaby and Hussainey [11], who discovered a positive relationship between international scholars sitting on the SSB and the level of corporate disclosure. DPS members with a good reputation, particularly through positions in legitimate organizations, are thought to have extensive knowledge, particularly in the application of sharia principles. This reputation contributes to a better understanding of the advantages of social reporting. The findings of several regressions (covering 2016–2020, 2016–2019, and the year affected by COVID-19, namely 2020) show that the existence, size, cross-membership, educational background, and reputation of SSB members influence ISR in a relatively consistent manner.

Among the control variables, bank size had a positive and significant effect ($\beta = 0.043$, $p < 0.01$) on IB social disclosure (ISR). This finding backs up previous research by Farook et al. [26] who found similar results and explained that the larger the company, the more social exposure it will receive, creating a need to legitimize its public presence. Furthermore, large corporations will tend to make more disclosures in order to reduce agency and political costs. Meanwhile, liquidity had a negative and significant effect ($\beta = 0.014$, $p < 0.01$) on ISR, indicating that IBs use voluntary disclosures like ISR to highlight the company's performance other than the financial aspect.

4.4. An Empirical Analysis of the Effect of Islamic Social Reporting on Firm Performance

An empirical analysis of the effect of Islamic social reporting on firm performance is presented in Table 5 (ROA), Table 6 (MTBV), and Table 7 (TQ). Table 5 discloses a negative and significant relationship ($\beta = 0.007$, $p < 0.05$) between ISRI and ROA. This finding is strengthened by the regression results in the other two periods: 2016–2019 ($\beta = 0.008$, $p < 0.05$) and 2020 ($\beta = 0.008$, $p < 0.10$). Thus, H2, stating that ISR has a positive effect on company performance, was rejected.

Table 5. Regression results for the effect of ISR on ROA.

Variable	Model 2 (ROA)			Model 3 (ROA)		
	2016–2020	**2016–2019**	**2020**	**2016–2020**	**2016–2019**	**2020**
ISRI	−0.0068 (0.011) **	−0.0078 (0.010) **	−0.0080 (0.008) ***			
MV.ISR				−0.0087 (0.009) ***	−0.0091 (0.015) **	−0.0062 (0.251)
PS.ISR				−0.0003 (0.993)	−0.0009 (0.701)	−0.0004 (0.518)
ZCBF.ISR				−0.0029 (0.155)	−0.0035 (0.127)	−0.0061 (0.862)
EMPLYS.ISR				−0.0055 (0.102)	−0.0038 (0.299)	−0.0013 (0.232)
DEBT.ISR				0.0050 (0.362)	0.0043 (0.488)	0.0049 (0.589)
CMUNTY.ISR				0.0089 (0.142)	0.0011 (0.115)	0.0039 (0.589)
Size	−0.0019 (0.000) ***	−0.0021 (0.000) ***	−0.0015 (0.054) *	−0.0021 (0.000) ***	−0.0023 (0.000) ***	−0.0014 (0.007) ***
Age	0.010 (0.009) ***	0.0010 (0.015) **	0.0010 (0.026) **	0.0007 (0.047) **	0.0007 (0.041) **	0.0010 (0.094) *
Leverage	0.0015 (0.003) ***	0.0010 (0.078) *	0.0020 (0.007) ***	0.0038 (0.085) *	0.0036 (0.075) *	0.0007 (0.089) *
Liquidity	0.0002 (0.378)	0.0010 (0.403)	0.0002 (0.955)	−0.0017 (0.337)	−0.0018 (0.367)	−0.0017 (0.559)
GDP	0.0007 (0.119)	0.0008 (0.122)	0.0006 (0.437)	0.0009 (0.157)	0.0009 (0.174)	0.0008 (0.309)
R^2 (Between)	0.1550	0.1593	0.1368	0.1981	0.2109	0.1521
Probability F-Stat	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Note: *, ** and *** represent significance at the 10, 5 and 1% levels, respectively (all two-tailed tests). Please see Table 1 for variable definitions.

Table 6. Regression results for the effect of ISR on MTBV.

Variable	Model 2 (MTBV)			Model 3 (MTBV)		
	2016–2020	**2016–2019**	**2020**	**2016–2020**	**2016–2019**	**2020**
ISRI	1.2577 (0.003) ***	1.0056 (0.048) **	1.6502 (0.010) **			
MV.ISR				−0.1834 (0.001) ***	−0.1787 (0.005) ***	−0.1791 (0.059) *
PS.ISR				0.0784 (0.184)	0.0648 (0.321)	0.0296 (0.844)
ZCBF.ISR				0.0171 (0.602)	0.0148 (0.683)	0.0045 (0.939)
EMPLYS.ISR				−0.1490 (0.749)	−0.1877 (0713)	−0.0725 (0.471)
DEBT.ISR				0.0524 (0.540)	0.0405 (0.673)	0.1951 (0.307)
CMUNTY.ISR				0.0430 (0.571)	0.0631 (0.478)	0.0009 (0.994)
Size	−0.0129 (0.190)	−0.0527 (0.130)	−0.0363 (0.194)	−0.0809 (0.372)	−0.1112 (0.299)	−0.1256 (0.398)
Age	0.1386 (0.565)	0.1209 (0.659)	0.0104 (0.217)	0.0031 (0.517)	0.0046 (0.395)	0.0008 (0.920)
Leverage	0.0036 (0.490)	0.0050 (0.926)	0.0103 (0.980)	0.3398 (0.160)	0.2613 (0.335)	0.0397 (0.354)
Liquidity	0.0567 (0.110)	0.0632 (0.117)	0.0450 (0.468)	0.0679 (0.164)	0.0748 (0.166)	0.0476 (0.484)
GDP	0.1727 (0.134)	0.2405 (0.068) *	0.0329 (0.863)	0.1746 (0.146)	0.2385 (0.076) *	0.0719 (0.730)
R^2 (Between)	0.14312	0.1354	0.1112	0.2122	0.1608	0.2094
Probability F-Stat	0.0003	0.0045	0.0089	0.0241	0.0034	0.0479

Note: *, ** and *** represent significance at the 10, 5 and 1% levels, respectively (all two-tailed tests). Please see Table 1 for variable definitions.

Simultaneously, this finding supports the results of previous studies by Rehman et al. [15], revealing that social disclosure had a negative effect on firm performance. Related to this, increasing the firm's social activities and disclosure will cost it a large amount of money. This finding is consistent with the postulated trade-off hypothesis presented by Friedman that the firm's main responsibility is to maximize stakeholder profits [15]. Therefore, social activities are considered additional costs that can reduce firm profits. The findings of this study, however, do not support the findings of Platonova et al. [73], who documented the positive effect of IB social disclosure on ROA in the Gulf Cooperation Council (GCC) region. Platonova et al. [73] explained that the study period encompasses the year of the global financial crisis. This condition, however, had no effect on the financial performance of IBs in the GCC region, as evidenced by the ROA, which is quite stable. In fact, the post-crisis period shows an increase in the level of social disclosure, indicating that IBs are attempting to close communication gaps with stakeholders in order to improve the image of banks following the global financial crisis.

Table 7. Regression results for the effect of ISR on TQ.

Variable	Model 2 (TQ)			Model 3 (TQ)		
	2016–2020	2016–2019	2020	2016–2020	2016–2019	2020
ISRI	0.4174 (0.014) **	0.5124 (0.013) **	0.1923 (0.047) **			
MV.ISR				−0.1163 (0.042) **	−0.1232 (0.060) **	−0.0164 (0.005) ***
PS.ISR				0.0107 (0.645)	0.0052 (0.842)	0.0514 (0.390)
ZCBF.ISR				0.0019 (0.147)	0.0211 (0.159)	−0.0184 (0.433)
EMPLYS.ISR				0.0347 (0.163)	0.0344 (0.101)	0.0123 (0.558)
DEBT.ISR				−0.0195 (0.566)	−0.0109 (0.680)	−0.0758 (0.320)
CMUNTY.ISR				0.0170 (0.562)	0.0160 (0.660)	0.0273 (0.796)
Size	−0.1443 (0.024) **	−0.0291 (0.100)	−0.0735 (0.235)	−0.0674 (0.063) *	−0.0592 (0.180)	−0.0839 (0.161)
Age	0.0057 (0.009) ***	0.0062 (0.010) **	0.0034 (0.005) ***	0.0055 (0.006) ***	0.0046 (0.004) ***	0.0022 (0.003) ***
Leverage	−0.1010 (0.003) ***	−0.0911 (0.014) **	−0.0144 (0.033)	−0.3422 (0.121)	−0.0195 (0.560)	−0.0306 (0.857)
Liquidity	−0.0219 (0.125)	−0.0212 (0.143)	−0.0228 (0.146)	−0.0181 (0.212)	−0.0152 (0.355)	−0.0160 (0.159)
GDP	−0.0042 (0.197)	−0.0097 (0.203)	−0.0143 (0.265)	−0.0036 (0.139)	−0.0107 (0.284)	−0.0225 (0.408)
R^2 (Between)	0.2277	0.2265	0.1861	0.1782	0.1600	0.1958
Probability F-Stat	0.0007	0.0005	0.0026	0.0011	0.0053	0.0014

Note: *, ** and *** represent significance at the 10, 5 and 1% levels, respectively (all two-tailed tests). Please see Table 1 for variable definitions.

Regarding the effect of the disclosure level of the ISR individual dimensions and firm performance measures, the results showed that the disclosure level of these dimensions individually did not have a significant impact on the firm performance of IB, except for the mission and vision dimensions. In line with the results recorded by ISRI, the mission and vision dimensions were also found to have a negative and significant effect on firm performance.

Tables 6 and 7 are presented respectively, providing information regarding the effect of Islamic social reporting (ISR) on firm performance as measured by stock market-based values, such as market-to-book value (MTBV) and Tobin's Q (TQ). The regression between ISR and MTBV (β = 1.258, $p < 0.01$) and ISR and TQ (β = 0.417, $p < 0.05$) revealed a positive and significant relationship, supporting H2. This finding backs up the findings of previous studies by Suttipun and Sheu et al. [14,75]. Companies that provide voluntary disclosures, such as ISR, will have a higher market value as a result. Non-financial information reporting has been shown to have a broad impact on stakeholder groups. Stakeholders increase the value of the company's shares in response to positive social and environmental performance.

The variables ROA, MTBV, leverage, and liquidity were winsorized at the 5% level when testing the hypothesis. Research findings revealed differences in test results between

ISR and firm performance, as measured by ROA and Tobin's Q. Voluntary disclosures such as ISR will increase the company's burden and reduce profitability in the short term. However, social disclosure has a long-term impact when stakeholders respond by providing more sustainability value to socially responsible companies. This has an effect on the company's value.

5. Conclusions

This study was designed to investigate the Islamic social reporting practice at Islamic banks (IB), what factors influenced it, and how such disclosures impact firm performance. The research findings have proven that the Sharia Supervisory Board (SSB) represented the sharia governance mechanism and had an important role in encouraging the social disclosure practice in accordance with sharia principles. The reputation of SSB members should be given special consideration because it has two distinct consequences. First, members of large organizations typically have a lot of experience comparing best practices among IBs. Second, it is assumed that SSB members who hold concurrent positions will have less time to devote to dealing with problems confronting IBs for which they are responsible. As a result, a regulation regarding allowed concurrent positions is required in order for an SSB's performance to be optimal.

In addition, this study used the largest sample of IBs in the world, contributing to the infrastructure of Islamic financial institutions (IFIs). Thus, the observations can be used as a framework for sharia governance to strengthen the implementation of the role of SSB in other IBs. The findings of this study also show that implementing good corporate governance, such as increasing board oversight, will increase the company's reporting compliance.

This study also conceptualized accounting measures as a reflection of past and short-term financial performance and market measures as a reflection of current and long-term financial performance. For this reason, this research can be a valuable source of information for stakeholders regarding the company's assessment. The combination of financial indicators and market-based measures can also help investors make the right decisions. Empirical results showed the diversity of findings resulting from the relationship between social disclosure and firm performance, as measured by accounting and market approaches. In the short term, Islamic social reporting has a negative impact on profitability, but it has a positive impact on company value in the long run. This means that stakeholders, particularly investors, place a higher value on companies that engage in social reporting, as well as companies that perform well and are sustainable. This should be a consideration for management when making reporting decisions, particularly non-financial reporting.

This study has several limitations. First, the researchers only considered the 100 largest Islamic banks worldwide, which might not represent all the characteristics of Islamic banks worldwide, especially small-scale banks. Second, the sample included only Islamic banks representing the various IFI industries. Thus, future research could add a larger sample size, including insurance companies (*takaful*), Islamic microfinance, or Islamic cooperative institutions. Third, because we do not consider the religious environment in the 21 sample countries, we cannot explain the differences in Islamic reporting across countries. Lastly, this study only utilized annual bank reports as the main source for exploring social disclosure. For a clearer picture, future research can use newsletters, press releases, each bank's website, or other reports (such as sustainability reports and integrated reports) officially issued by banks. Other research methods, such as interviews and surveys, can also be used to provide additional knowledge about actual social disclosure practices. In addition, further studies can expand the research's scope by using other points of view besides agency theory, such as the resource dependency framework. The key role of the SSB can also be expanded by reviewing the provision of resources by an SSB, such as facilities, knowledge, and networks. This study focuses on the effect of the SSB to ISR. Previous studies show the importance of ownership structure on firm outcome [84] and the board structure on the sustainability reporting [85]. Therefore, it is suggested that future studies explore the effect of ownership structure and board structure on Islamic Social Reporting. The current study explores the effect of ISR on firm performance. However as point out by Setiawan et al. [86] the sustainability performance in bank has a significant relationship with earnings management. Therefore, it is suggested that future research investigate the effect of ISR on earnings management.

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Appendix A

Table A1. Sample list of Islamic Bank.

No.	Islamic Bank	Countries
1	Al Rajhi Bank	Saudi Arabia
2	Dubai Islamic Bank	UAE
3	Kuwait Finance House	Kuwait
4	Maybank Islamic Berhad	Malaysia
5	Qatar Islamic Bank	Qatar
6	Abu Dhabi Islamic Bank	UAE
7	Alinma Bank	Saudi Arabia
8	Parsian Bank	Iran
9	Masraf Al Rayan Bank	Qatar
10	Bank Rakyat	Malaysia
11	Al Baraka Islamic Bank	Bahrain
12	CIMB Islamic Bank	Malaysia
13	Bank Albilad	Saudi Arabia
14	Bank Aljazira	Saudi Arabia
15	Emirates Islamic Bank	UAE
16	RHB Islamic Bank	Malaysia
17	Bank Islam Malaysia	Malaysia
18	Public Islamic Bank	Malaysia
19	Boubyan Bank	Kuwait
20	Noor Bank	UAE
21	Qatar International Islamic Bank	Qatar

Table A1. *Cont.*

No.	Islamic Bank	Countries
22	Barwa Bank	Qatar
23	Sharjah Islamic Bank	UAE
24	Al Hilal Bank	UAE
25	Islamic Bank Bangladesh	Bangladesh
26	Ambank Islamic	Malaysia
27	MBSB Bank	Malaysia
28	Ithmaar Bank	Bahrain
29	Hong Leong Islamic Bank	Malaysia
30	Bank Islam Brunei Darussalam	Brunei
31	Warba Bank	Kuwait
32	Kuwait International Bank	Kuwait
33	Bank Syariah Mandiri	Indonesia
34	Meezan Bank	Pakistan
35	Ajman Bank	UAE
36	Affin Islamic Bank	Malaysia
37	Jordan Islamic Bank	Jordan
38	Bank Muamalat Malaysia	Malaysia
39	Faisal Islamic Bank	Egypt
40	HSBC Amanah Malaysia	Malaysia
41	Sina Bank	Iran
42	Al Salam Bank	Bahrain
43	First Security Islami Bank	Bangladesh
44	Export ImportBank of Bangladesh	Bangladesh
45	Kuwait Finance House of Bahrain	Bahrain
46	Al Arafah Islami Bank	Bangladesh
47	Bank Muamalat Indonesia	Indonesia
48	OCBC Al Amin Bank	Malaysia
49	Al Baraka Bank Egypt	Egypt
50	Bahrain Islamic Bank	Bahrain
51	Islamic International Arab Bank	Jordan
52	Shahjalal Islami Bank	Bangladesh
53	BNI Syariah	Indonesia
54	Abu Dhabi	Egypt
55	BRI Syariah	Indonesia
56	Al Rayan	United Kingdom
57	Nizwa	Oman
58	Khaleeji	Bahrain
59	Kuwait Finance	Malaysia
60	Al Baraka	Bahrain
61	Saadiq	Malaysia

Table A1. *Cont.*

No.	Islamic Bank	Countries
62	Alizz Islamic	Oman
63	Union Bank Bangladesh	Bangladesh
64	ABC Islamic Bank	Bahrain
65	Dubai Islamic Bank Pakistan	Pakistan
66	Bank Aceh Syariah	Indonesia
67	Safwa Islamic Bank	Jordan
68	Bank Islami Pakistan	Pakistan
69	Arab Islamic Bank	Palestine
70	Qatar First Bank	Qatar
71	Bank Tabungan Pensiunan Nasional Syariah	Indonesia
72	First Energy Bank	Bahrain
73	MCB Islamic Bank	Pakistan
74	Bank Panin Dubai Syariah	Indonesia
75	Bank BCA Syariah	Indonesia
76	Albaraka Bank	South Africa
77	Bank Jabar Banten Syariah	Indonesia
78	Bank Syariah Bukopin	Indonesia
79	Ibdar Bank	Bahrain
80	Cham Islamic Bank	Syria
81	Jaiz Bank	Nigeria
82	Venture Capital Bank	Bahrain
83	Maldives Islamic Bank	Maldives
84	Bank Victoria Syariah	Indonesia
85	Liquidity Management Centre	Bahrain
86	Global Banking Corporation	Bahrain
87	United Capital Bank	Sudan
88	ICB Islamic Bank	Bangladesh
89	Bank Maybank Syariah Indonesia	Indonesia
90	Citi Islamic Investment Bank	Bahrain

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