



The Effect of Capital Adequacy, Financing Risk, and Islamic Corporate Governance on Financial Performance with Islamic Social Reporting as an Intervening Variable

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ABSTRACT

The purpose of this research is to examine and analyze the effect of capital adequacy, financing risk, and Islamic Corporate Governance on financial performance through disclosure of Islamic Social Reporting. The population of this research consists of fifteen Sharia Commercial Banks (IB) in Indonesia which are registered with the Financial Services Authority. The sample consists of ten IBs. This research used quantitative approach with panel data regression method and Sobel test on Eviews-13. The results show that capital adequacy has a positive effect on financial performance. Financing risk, Islamic Corporate Governance, and Islamic Social Reporting have no effect on financial performance. Islamic Social Reporting cannot mediate the capital adequacy, financing risk, and Islamic Corporate Governance on financial performance.

INTRODUCTION

The banking industry contributes an important role in a country's economy. In Indonesia, banks function as intermediaries between parties who have excess funds and parties who need funds (Pronosokodewo et al., 2023). Based on Law No. 10 of 1998 concerning Banking, there are two types of banking operational systems in Indonesia, namely conventional and sharia banking. The basic difference between conventional and sharia banking lies in the principles. Sharia principles are principle based on Islamic law in banking activities with fatwa issued by institutions that have the authority to determine fatwa in the field of sharia. The profit system based on sharia principles does not use an interest system, but a profit sharing system (Shadeni & R, 2022).

The operation of Bank Muamalat Indonesia since 1992 indicates that Sharia Financial Institutions are growing and developing (OJK, 2022). This development can be seen from the institutional side, supporting infrastructure, regulations, supervision, or public awareness and literacy regarding sharia financial services (Alim & Sina, 2020).

Sharia banking in Indonesia has a great opportunity to develop and compete with conventional banking, because Indonesia is one of the largest Muslim countries in the world (Yulianto et al., 2024). According to OJK until 2022, the market share of sharia banking is still relatively low, namely 7.09%, while conventional banking reaches 92.91%.

Sharia Commercial Banks (IB) must be more active in growing and developing its financial performance, so that Indonesian people are more interested in using IB and not switch to conventional banks (Sihotang et al., 2022). The growth and development of IB can be achieved through improving company performance by implementing corporate governance to achieve its goals, namely profitability (Difoasih & Sihombing, 2023). Not only oriented towards profitability, companies must also be responsible to the environment and society or known as 3P (Profit, Planet and People) (Pramono et al., 2021). This method is expected to increase the role and function of sharia banking for the Indonesian economy (Shadeni & R, 2022).

The financial performance of IB can be measured using profitability ratios which assess the company's ability to seek profits in a certain period (Kasmir, 2019). According to Bank Indonesia Circular Letter No.6/23/DPNP of 2004, Return on Assets (ROA) is an appropriate indicator for measuring profitability in banking. According to Bank Indonesia Circular Letter No. 13/24/DPNP, ROA is said to be very healthy if it exceeds 1.5%. The financial performance of IB in Indonesia can be seen as in Figure 1.

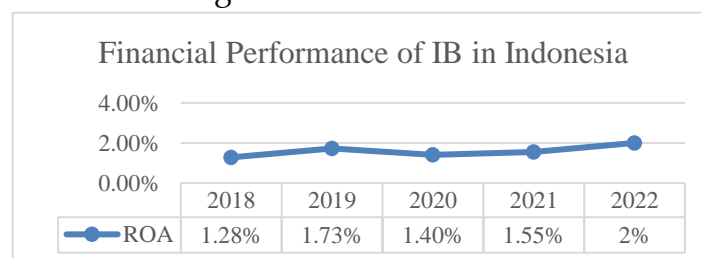


Figure 1. Financial Performance of IB in Indonesia for the Period 2018-2022

Sources: OJK, 2023

Based on Figure 1, IB's ROA fluctuates from 2018 to 2022. 2018 is the year with the lowest IB ROA ratio, while 2022 is the year with the highest IB ROA achievement. This is in line with the increase in market share which is getting better every year.

IB sustainability does not only focus on good financial performance, but also on social responsibility through Corporate Social Responsibility (CSR) with a reporting system, namely, Islamic Social Reporting (ISR) (Anggraini & Maiana, 2023). CSR is an example of a company's activities in using its assets to generate long-term profits. This profit is a company investment in the form of a positive brand image, so that people want to invest their funds. This also supports the growth and development strategy of IB, even though CSR demands a lot of money (Pratiwi et al., 2020).

Based on the research results of Astuti et al., (2021), Dewi et al., (2021), Faturohman et al., (2021), Mulyani et al., (2021), and Romadhoni & Rusmita (2021), ROA is positively influenced by ISR, because banks have a social responsibility in creating economic sustainability. In contrast to research by Anggraini and Mariana (2023), Fuadah et al., (2019), Nikmah et al., (2023), and Pratiwi et al., (2020), IB financial performance is not influenced by ISR.

The capital adequacy with the Capital Adequacy Ratio (CAR) and financing risk with Non Performing Financing (NPF) ratio are factors that influence IB financial performance (Salsabila et al., 2023). To manage these factors, companies carry out good corporate governance or what is called Good Corporate Governance (GCG) (Maulidar & Majid, 2020)

Capital adequacy is used to determine the ability of bank management when monitoring risks that may occur due to bank operations and will have an impact on the amount of bank capital that can be maintained (Warninda & Faujiyah, 2023). According to Bank Indonesia Circular Letter No.10/13/2008, Capital Adequacy Ratio (CAR) is capital that must be reserved in anticipation of any IB assets that have indications of loss or risk. Based on Bank Indonesia Circular Letter No. 6/10/PBI/2004 concerning the Health Level Assessment System for Commercial Banks, a bank can be said to be healthy if it has a CAR ratio more than 8%. According to OJK, (2023), the CAR ratio of IB in Indonesia for the 2018-2022 period is above 8%.

CAR is directly proportional to ROA. The higher the CAR ratio, the better the capital position and the higher the profitability of a bank (Devi, 2021). This phenomenon is in line with research by Rahman et al., (2020), Ramdani et al., (2023), Salsabila et al., (2023), Wahyudi et al., (2021), and Zuhroh, (2022) that high CAR is positively correlated with ROA. The higher the CAR, the greater the bank's opportunity to generate profits because management has more flexibility to allocate funds to profitable investments and handle operational risks that arise. In contrast to research by Devi (2021), Kurnia et al., (2022), and Rahman and Santoso (2020) that CAR has no effect on ROA.

According to Salsabila et al., (2023) when CAR increase, ROA as an indicator of profitability also increases due to asset turnover. IB can distribute this capital to customers in the form of financing. Financing distribution will be

risky if customers cannot make payments smoothly, thereby affecting company performance (Sihotang et al., 2022). NPF is a ratio to measure a bank's risk of problematic financing (Raharjo et al., 2020). NPF is used as a variable that influences IB growth in Indonesia, because it reflects financing risk and influences profit achievement (Raharjo et al., 2020). Based on Bank Indonesia Circular Letter No.9/24/DPbS of 2007 regarding the system for assessing the health level of Commercial Banks based on sharia principles, a bank is in the healthy category if it has a gross NPF ratio below 5%. According to OJK, (2023), the NPF ratio in Indonesia for the 2018-2022 period is below 5%.

NPF is inversely proportional to ROA. The higher the NPF, the unhealthy the bank's health condition, because of the large financing risks it bears (Sihotang et al., 2022). This is in line with research by Kurnia et al., (2022), Murtiningsih and Tohirin (2023), Ramdani et al., (2023), and Salsabila et al., (2023), that there is a negative relationship from NPF to ROA. In contrast to research by Devi (2021), Kusumastuti and Alam (2019), Nurwulandari et al., (2022), and Wahyudi et al., (2021), that NPF has no influence on ROA or financing performance.

Good Corporate Governance (GCG) is needed to maintain bank financial performance in a healthy condition, so that stakeholder's trust is maintained (Difoasih & Sihombing, 2023). Corporate Governance in sharia or Islamic Corporate Governance (ICG) includes transparency, accountability, responsibility, independent and fairness to Allah and human, mutual respect for others, and commitment to companies that are in line with Sharia law (Anggraini & Maiana, 2023). Based on Bank Indonesia Circular Letter No.11/33/PBI/2009 concerning the Implementation of Good Corporate Governance for IB is obliged to implement GCG which is applied by all levels of the organization in its operational activities. The principles of governance are transparency, accountability, responsibility, independent and fairness which are applied in accordance with sharia compliance.

The assessment method to determine whether corporate governance in IB is appropriate or not is through a self-assessment which consists of eleven aspects. If bank governance based on sharia principles is not carried out well, it will potentially lead to various kinds of risks, even the destruction of IB (Harisa et al., 2019). Therefore, IB needs to implement ICG, because this principle encourages banks to be able to compete with conventional banking and has an impact on improving company performance. In line with research by Anggraini and Mariana (2023), Ayuningrum (2022), Fuadah et al., (2019), Maulidar and Majid (2020), and Umiyati et al., (2020), that ICG has a positive influence on ROA. In contrast to the research results of Dewi et al., (2021), Nikmah et al., (2023), and Rahman and Santoso (2020) that ICG has no influence on ROA.

The novelty of this research lies in the existence of a mediating factor in the form of ISR on the financial performance of IB in Indonesia in the 2018-2022 period. Inconsistencies in previous research encourage this research to further explore the factors that can influence IB financial performance and the role of ISR in mediating this influence using multiple linear regression and Sobel test. This research aims to provide an understanding of the factors that influence IB's

financial performance in Indonesia and how ISR can mediate capital adequacy, financing risk and ICG on financial performance.

THEORETICAL REVIEW

Signaling Theory

Signaling theory explains how parties with information provide signals or cues in the form of relevant information about the company's condition to other parties who need that information (Spence, 1973). In the context of corporate finance, signaling theory describes how company management conveys information reflecting the company's condition to external parties, such as investors. This information, which can be in the form of financial reports or financial ratios, is used by investors as a basis for making investment decisions (Sari et al., 2021).

Agency Theory

Agency theory, introduced by Jensen and Meckling (1976), explains the relationship between owners (principals) and managers (agents) within banking companies. The presence of regulators, such as the government, plays a role in reducing conflicts of interest and agency costs that may arise. In the context of IB, Islamic Corporate Governance (ICG) serves as a mechanism to motivate managers to maximize profitability while minimizing internal conflicts of interest (Dewi et al., 2021).

Legitimacy Theory

Legitimacy theory, introduced by Dowling and Pfeffer (1975), explains that legitimacy is the process by which society accepts an organization or company as a legitimate entity with the right to operate. To gain legitimacy, IB do social responsibility activities and disclosing them through Islamic Social Reporting (ISR). Companies are not only focused on profits but also have an obligation to pay attention to environmental and social aspects so that the company can conduct sustainable business in the long-term (Fauziah & Asyik, 2019).

Financial Performance

Financial performance refers to a company's achievements based on monetary value, reported in financial statements (Kasmir, 2019). Banks often use profitability as an indicator to measure their financial performance, utilizing various financial ratios (Almi & Aziz, 2023). According to Bank Indonesia Circular Letter No.6/23/DPNP of 2004, Return on Assets (ROA) is a profitability indicator used to measure a bank's performance in generating profit from its total assets.

Capital Adequacy Rasio(CAR)

Capital is the most crucial component for a company (Pramudena, 2020). According to Bank Indonesia Regulation No.10/15/2008, capital adequacy refers to the capital that must be reserved to anticipate any IB assets with indications of loss or risk. The level of capital adequacy in banks is determined by Bank Indonesia Regulation No. 9/1/PBI/2007 using the Capital Adequacy Rasio (CAR).

Non-Performing Financing (NPF)

Financing risk is the risk faced by banks due to customers' inability to repay financing granted by the bank (Kurnia et al., 2022). The Non-Performing Financing (NPF) ratio is used to measure financing risk caused by problematic financing (Kuswahariani et al., 2020).

Islamic Corporate Governance (ICG)

ICG has the same concept and objectives as GCG, but it is based on Islamic sharia (Anggraini & Maiana, 2023). According to Law No. 21 of 2008, IB are required to implement ICG.

Islamic Social Reporting (ISR)

Corporate Social Responsibility (CSR) is a company's activities related to social responsibility, incorporating economic, social, and environmental aspects for sustainable development, as per Law No. 40 of 2007 concerning Limited Liability Companies and Social and Environmental Responsibility (Faturahman et al., 2021). ISR is a report that discloses a company's CSR carried out by IB. ISR was introduced by Haniffa and Cooke (2002) and further developed in detail by Othman et al. (2010). ISR is important for company because it can improve the image of IB and demonstrate the bank's commitment to sharia principles, which can ultimately enhance financial performance of IB (Sutapa & Hanafi, 2019).

HYPOTHESIS AND RESEARCH FRAMEWORK

Capital Adequacy on Financial Performance

Capital adequacy is considered one of the indicators of a bank's health, as it influences public trust in depositing funds with the bank (Pronosokodewo et al., 2023). The collected funds will be distributed in form of financing, allowing IB to earn profit shares and drive profitability growth (Siregar & Fardinal, 2021). The higher CAR, the greater opportunity for IB to increase profitability. Based on signaling theory, if this happens, public trust will increase, so higher bank profitability. In line with research by Astuti et al. (2021), CAR has a positive effect on ROA. Similar research findings by Siregar and Fardinal (2021) indicate that CAR has a positive effect on ROA, as a larger amount of capital will increase financing and lead to increased profitability.

H1: Capital adequacy has a positive effect on financial performance..

Financing Risk on Financial Performance

Financing that cannot be smoothly repaid by customers constitutes financing risk for a bank (Kuswahariani et al., 2020). This leads to a decline in the quality of the financing portfolio, decreased and eroding profitability in the bank. Based on signaling theory, the good or bad NPF serves as a signal for investors to deposit their funds (Carolina & Maharani, 2023). Low NPF is one of the indicators of good bank performance and a consideration for management or investors in making decisions. The results of research by, Darma and Afandi, (2021) and Mardillasari et al., (2021) NPF also has a negative effect on ROA. For every increase in NPF, ROA also decreases. Therefore, IB must maintain a low NPF ratio to increase profitability.

H2: Financing risk has a negative effect on financial performance.

Islamic Corporate Governance on Financial Performance

IB management is the driving force of the company in achieving its goals, namely obtaining large profits with effective and efficient performance. This success can be achieved by implementing ICG principles. The application of ICG, in accordance with agency theory in IB, aims to increase the company's value due to the responsibility of corporate governance to provide accountable and transparent information to stakeholders (Puspitarini & Lutfiana, 2022). IB with a "Good" to "Very Good" rating are considered capable of minimizing violations by management, which impacts the company's performance and makes business prospects more convincing. Research by Umiyati et al., (2020) found that ICG has a positive effect on the financial performance of IB. Maulidar and Majid, (2020) research showed that the effective implementation of ICG can minimize fraud or the spread of asymmetric information from management to stakeholders. Good ICG can increase public trust in IB to deposit their funds, thus improving the financial performance of IB.

H3: Islamic Corporate Governance has a positive effect on financial performance.

Capital Adequacy on Islamic Social Reporting

Capital is the most important indicator for banks, whether obtained from their own operational activities or from other parties (Pramudena, 2020). Bank capital will grow if the accumulation of assets is larger, and most of these assets will likely be used to do CSR (Nurwulandari & Filia, 2023). According to legitimacy theory, the greater the capital, the more opportunities IB have to engage in CSR and report them through ISR. A high CAR will influence ISR disclosure (Yahawi et al., 2020). Based on research by Astuti (2019), CAR has a positive effect on ISR. IB will be more capable of carrying out CSR if they have a high level of capital adequacy. In line with research by Nurwulandari and Filia (2023), the more capital a bank has, the greater the company's opportunity to distribute its funds in the form of CSR to the community and surrounding environment due to its operational activities.

H4: Capital adequacy has a positive effect on ISR.

Financing Risk on Islamic Social Reporting

Financing risk in IB that measured by NPF, which represent the number of financing problems faced by IB (Kuswahariani et al., 2020). High NPF in IB will make the bank focus on resolving problematic financing by increasing the cost of provisioning for productive assets and other costs (Amalia & Purwanto, 2023). As a result of focusing on these issues, the social responsibility of IB towards the community and environment through CSR becomes less of a priority. IB CSR activities will decrease, resulting in a lower ISR index (Yahawi et al., 2020). Research by Amalia and Purwanto, (2023) shows that NPL has a negative effect on CSR disclosure because management and stakeholders reduce funds for social activities when the NPL ratio is high. The bank will focus on improving NPL by covering losses due to high non-performing loans. This differs from research by Yahawi et al. (2020), which found that NPF does not affect ISR.

H5: Financing risk has a negative effect on ISR.

Islamic Corporate Governance on Islamic Social Reporting

ICG, is guided by five main principles: transparency, accountability, responsibility, independence, and fairness, all grounded in Islamic principles. ICG is assessed through self-assessment, resulting in a composite score (Dewi et al., 2021). The principle of information transparency encompasses not only financial information but also information about the social and environmental impacts caused by the company's activities. Companies are expected to disclose this information to all stakeholders, both internal and external, and comply with applicable laws through ISR. The better the ICG composite score, the more likely the company will present ISR (Purba & Djamaluddin, 2020). Research by Ningsih, (2021) shows that ICG has a positive effect on ISR. The higher the IB's compliance in implementing ICG, the greater the level of ISR disclosure, allowing the public and investors to assess the bank as good and healthy. Similar results were found in Nurwulandari and Filia, (2023) which revealed that good GCG influences CSR. Good governance functions can increase social awareness and help avoid operational activities that harm the environment. ICG impacts the community and environment surrounding the bank, thus encouraging good and comprehensive ISR reporting.

H6: ICG has a positive effect on ISR.

Islamic Social Reporting on Financial Performance

The implementation of social responsibility, such as CSR, is expected to achieve the main goal of a company, which is to generate profits without neglecting the interests of stakeholders, maintaining environmental sustainability, acting ethically, avoiding injustice, and presenting accurate information that does not harm involved parties (Hamidi & Wothtington, 2020). The disclosure of CSR in IB through ISR can help companies maintain their brand image (Sutapa & Hanafi, 2019). Financial institutions that disclose ISR and have a high index value will increase customer and public trust in using the services, products, and financial services of IB, thus impacting their profitability. Research by Santika (2019) shows that ISR has a positive effect on ROA. Similar findings were also found in research by Dewi et al., (2021), which indicates that ISR has a positive effect on banking performance. The wider the scope of IB ISR, the greater the impact on profitability.

H7: ISR has a positive effect on financial performance.

The Effect of Islamic Social Reporting in Mediating Capital Adequacy on Financial Performance

Capital adequacy, measured by the CAR, is one of the indicators of a bank's health (Alim & Sina, 2020). The higher CAR, so better capital position in bank. In addition to considering the CAR, banks also need to consider the disclosure of relevant social data through CSR activities for the surrounding community and environment. According to Arianugrahini and Firmansyah, (2020), the greater the available capital, the more opportunities management has to conduct CSR more frequently. In accordance with signaling and legitimacy theory, the higher the CAR, the higher the ISR disclosure. Research by Nurwulandari and Filia, (2023) found that capital adequacy has a positive effect on ROA through CSR as an intervening variable. The public is more attracted to and purchases services

or products from companies that engage in CSR, thus impacting the company's profitability. However, different results were found in research by Nadila and Annisa (2021), where ISR could not mediate CAR on financial performance.

H8: ISR mediates capital adequacy on financial performance.

The Effect of Islamic Social Reporting in Mediating Financing Risk on Financial Performance

Financing risk arises when customers fail or are unable to repay financing and profit shares that are due (Mustika et al., 2021). IB with a low NPF will be increase in profitability (Darma & Afandi, 2021). IB with a low level of problematic financing do not need to set aside reserve funds to cover losses due to such financing, providing an opportunity for the company to allocate its funds to beneficial activities, such as CSR. CSR can contribute to the company's long-term financial performance (Yahawi et al., 2020). By engaging in CSR, IB will create ISR. Based on signaling and legitimacy theory, this will be a consideration for investors when making investments, thus influencing profitability. Research by Boussaada et al. (2023) shows that NPL affects ROA with CSR as a mediating variable. CSR activities can influence the decrease in the NPL ratio, thus affecting the increase in profits. Similar results were found in research by Yahawi et al., (2020), where NPF affects ROA with CSR as a mediator.

H9: ISR mediates financing risk on financial performance.

The Effect of Islamic Social Reporting in Mediating Islamic Corporate Governance on Financial Performance

Corporate Governance affects business competition and increases stakeholder trust (Ariani & Agustia, 2020). This principle aligns with Sharia, which includes transparency, accountability, responsibility, independence, and fairness to Allah SWT and humans, mutual respect, and commitment to the company (Anggraini & Maiana, 2023). The relationship of accountability will have a positive impact on ISR disclosure. The professional implementation of ICG with high compliance with Islamic law and regulations in Indonesia will create good ISR and affect the profitability of IB. According to agency and legitimacy theory, IB management must make decisions in implementing CSR and carefully consider its impact on stakeholders who will deposit their funds in IB (Zahra & Irkhami, 2021). Research by Ariani and Agustia, (2020) found that GCG affects company performance through CSR disclosure. Similarly, research by Zahra and Irkhami, (2021) found that CSR can mediate GCG on profitability.

H10: ISR mediates ICG on financial performance.

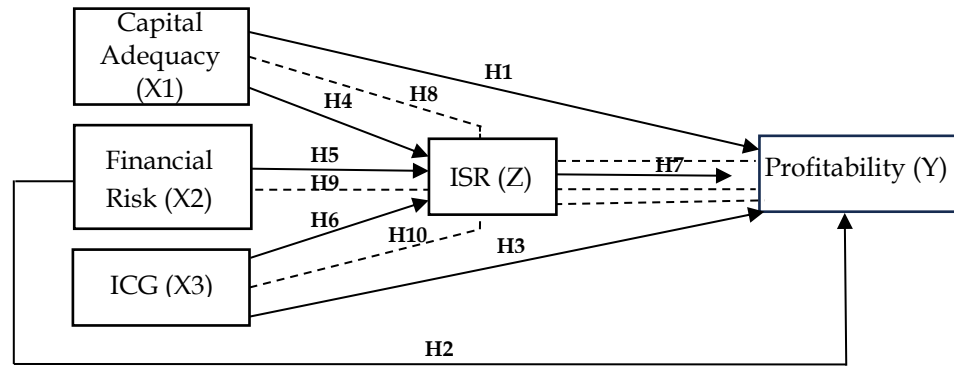


Figure 2. Conceptual Framework

METHODOLOGY

This research used a quantitative method. Based on the level of explanation of the variable positions, this research is associative causal, it tests hypotheses and examines cause-and-effect relationships between independent variables (X) - capital adequacy (proxied by Capital Adequacy Ratio - CAR), financing risk (proxied by Non-Performing Financing - NPF), and Islamic Corporate Governance (ICG) - and the dependent variable (Y) - financial performance in the form of profitability (proxied by Return on Assets - ROA) (Sugiyono, 2017). This study also includes an intervening variable, namely Islamic Social Reporting (ISR).

Table 1. Measurement Variables

Variable	Measurement Formula
ROA (Y)	$ROA = \frac{Earning\ Before\ Tax}{Total\ Asset} \times 100\%$
CAR(X1)	$CAR = \frac{Capital}{ATMR} \times 100\%$
NPF (X2)	$NPF = \frac{Non-Performing\ Financing}{Total\ Financing} \times 100\%$
ICG (X3)	Self-Assessment by each IB in Indonesia consists of 11 Indicators
ISR (Z)	$ISR = \frac{Number\ of\ scores\ disclosed}{Maximum\ Score} \times 100\%$

This research utilizes secondary data sourced from published financial reports on the official websites of IB and the Financial Services Authority (OJK). Data is processed using panel data regression analysis, a combination of time series and cross-section, and the Sobel test to examine indirect effects. Analysis is conducted with the assistance of Eviews-13 and Microsoft Excel 2019.

The sampling technique in this research utilizes non-probability sampling with a purposive sampling method. The research population are fifteen IB companies in Indonesia, registered with the Financial Services Authority (OJK) for the period 2018-2022. The sample criteria are IB that are registered with the OJK for the period 2018-2022 and have consistently published Islamic Social Reporting (ISR) reports during that period. Based on these criteria, ten IBs in Indonesia were selected as the sample. These IB are Bank Aceh Syariah, Bank

Jabar Banten Syariah, Bank Panin Dubai Syariah, Bank Mega Syariah, Bank Syariah Bukopin, Bank Tabungan Pensiunan Nasional Syariah, Bank Muamalat Indonesia, Bank Victoria Syariah, and Bank BCA Syariah.

RESULTS

Descriptive Statistical Analysis

Descriptive analysis is a data analysis conducted by describing the collected data without making general conclusions. It involves calculating the mean, median, maximum, and minimum values for each variable (Sugiyono, 2017).

Table 2. Descriptive Statistics Results

	CAR (X1)	NPF (X2)	ICG (X3)	ROA (Y)	ISR (Z)
Mean	26,5122	2,6412	2,0800	1,1787	0,7507
Median	24,1460	2,2390	2,0000	0,8432	0,7674
Maximum	53,6590	5,9935	3,0000	10,7900	0,8372
Minimum	12,3430	0,0740	1,0000	0,0005	0,5814

Sources: Data processing, 2024

Based on Table 2, total of 50 data observations were made in this research. Capital adequacy (X1), proxied by CAR, has mean value of 26.5122% for the period 2018-2022. According to Bank Indonesia Circular Letter No. 9/24/DPbS of 2007, the average CAR of IB or "very healthy" category, which is above 12%. The banks are considered capable of facing potential risks due to their sufficient capital. The highest CAR was obtained by Bank Tabungan Pensiunan Nasional Syariah in 2022, at 53.659%. The lowest CAR was obtained by Bank Muamalat at 12.343% in 2018.

Financing risk (X2), proxied by NPF, has mean value of 2.6412% for the period 2018-2022. According to Bank Indonesia Circular Letter No. 9/24/DPbS of 2007, the average NPF of IB in Indonesia during 2018-2022 or "good" category, which is between 2% and 5%. The highest NPF was obtained by Bank Syariah Bukopin in 2021, at 5.9935%. The lowest NPF was obtained by Bank BCA Syariah at 0.074% in 2018.

ICG (X3), has mean value of 2.0800 for the period 2018-2022. According to Bank Indonesia Circular Letter No. 13/24/DNDP/2011, the average ICG of IB in Indonesia during 2018-2022 or "fairly good" category, which is between 2 and 3. Corporate governance has been implemented by IB management, but it is not yet considered a priority. The company cannot do optimal efforts to achieve its goals. The ICG is taken from the composite value. The highest ICG was obtained by Bank Jabar Banten Syariah from 2018 to 2021, at 3. In this case, the highest ICG has a composite value of 3 "Fairly Good". The lowest ICG was obtained by Bank BCA Syariah at 1 throughout the research period. The lowest ICG means it has a composite value of 1 "Very Good".

Financial performance (Y), proxied by ROA, has mean value of 1.1787% for the period 2018-2022. According to Bank Indonesia Circular Letter No. 9/24/DPbS of 2007, the average ROA of IB in Indonesia during 2018-2022 or "very healthy" category, which is above 1.5%. IB have the ability to generate profits by utilizing all the assets they manage. The highest ROA value was

obtained by Bank Tabungan Pensiunan Nasional Syariah in 2018, at 10.7900%. The lowest value was obtained by Bank Bukopin Syariah at 0.0005% in 2020.

The ISR (Z) has mean value of 0.7507% for the period 2018-2022. IB have been conducting CSR performance activities aimed at strengthening the company's image, which can be a consideration for investors to invest and will impact the long-term sustainability of IB. The highest ISR value was obtained by Bank Jabar Banten Syariah in 2020 and 2022, at 0.8372%. The lowest value was obtained by Bank Bukopin Syariah at 0.5814% in 2017.

Results of Panel Data Regression Analysis

This research consists of three independent variables, one intervening variable, and one dependent variable, resulting in direct and indirect effect tests between the variables. Structure I explains the direct effect test between CAR, NPF, and ICG on ISR. Structure II explains the direct effect test between CAR, NPF, ICG, and ISR on ROA. The indirect effect test utilizes the Sobel test.

Panel data regression analysis is conducted with model estimation tests consisting of the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The model to be applied in this research is determined through the best model estimation based on the results of the Chow test, Hausman test, and Lagrange Multiplier test. The results of the best model selection test for panel data regression Structure I and II can be seen in Table 3.

Table 3. Results of the Best Model Selection Test for Panel Data Regression

Test	Hypothesis	Structure I	Structure II
Chow Test	FEM vs CEM	FEM	FEM
Hausman Test	FEM vs REM	REM	FEM
Lagrange Multiplier Test	REM vs CEM	REM	Not tested

Sources: Data processing, 2024

Normality Test

The normality test aims to determine if the data for each variable is normally distributed. This research uses the Jarque-Bera test. Based on the normality test for Structure I, the value is $0.4721 > 0.05$. For Structure II, the probability value is $0.1678 > 0.05$. Therefore, it can be concluded that both Structure I and Structure II meet the normality assumption with the research data being normally distributed.

Heteroscedasticity Test

The heteroscedasticity test aims to examine the inequality of residuals from one observation to another in a regression model (Ghozali, 2018). The Probability Chi-square value for Structure I is $0.17288 > 0.05$, and for Structure II, it is $0.8622 > 0.05$. It can be concluded that there is no heteroscedasticity problem in Structure I and II.

Multicollinearity Test

The multicollinearity test examines correlations between independent variables in a regression model. The results in Table 4 indicate that both Structure I and Structure II are free from multicollinearity, as all Pearson correlation coefficients between variables are less than 0.90. This suggests that the independent variables in both models are not highly correlated with each other, ensuring the reliability of the regression analysis.

Table 4. Multicollinearity Test Results for Structure I and II

Variable	Structure I			Structure II			
	CAR	NPF	ICG	CAR	NPF	ICG	ISR
CAR	1,000	-0,3777	-4,4566	1,0000	-0,3777	-0,4566	0,1445
NPF	-0,3777	1,000	0,5380	-0,3777	1,0000	0,5380	-0,3236
ICG	-4,4566	0,5380	1,000	-0,4566	0,5380	1,0000	0,0682
ISR				0,1445	-0,3236	0,0682	1,0000

Sources: Data processing, 2024

Coefficient of Determination (R-squared)

The coefficient of determination (R-squared) measures the proportion of variance in the dependent variable that is explained by the independent variables. In Structure I, the adjusted R-squared value is 0.1395, indicating that CAR, NPF, and ICG explain 13.95% of the variance in ISR. The remaining 86.05% is influenced by other variables not included in the model. In Structure II, the adjusted R-squared value is 0.9179, indicating that CAR, NPF, ICG, and ISR explain 91.79% of the variance in ROA. The remaining 8.21% is influenced by other variables not included in the model.

F-Statistic Test

The F-statistic test assesses the overall significance of the regression model, determining whether all independent variables collectively have a significant effect on the dependent variable. In Structure I, the probability (F-statistic) value is 0.0192, which is less than 0.05. This indicates that CAR, NPF, and ICG together have a statistically significant effect on ISR. In Structure II, the probability (F-statistic) value is 0.0000, which is less than 0.05. This indicates that CAR, NPF, ICG, and ISR together have a statistically significant effect on ROA.

Hypothesis Testing (t-Statistic Test)

The t-statistic test is used to determine the effect of independent variables on the dependent variable. This study uses a 95% confidence level or a 5% (0.05) significance level. The results of the t-statistic test for Structure I and II can be seen in Table 5.

Table 5. Results of t-Statistic Test for Structure I and II

Effect Between Variables	Coefficient	Probability Value	t-statistic	Result
Structure I	0,6315			
CAR on ISR	0,0021	0,1134	1,6138	Not Significant
NPF on ISR	-0,0153	0,0487	-2,0248	Negative Effect
ICG on ISR	0,0501	0,0156	2,5117	Positive Effect
Structure II	0,3320			
CAR on ROA	0,0550	0,0396	2,1351	Positive Effect
NPF on ROA	-0,0593	0,6772	-0,4198	Not Significant
ICG on ROA	0,6786	0,0794	1,8054	Not Significant
ISR on ROA	-1,6728	0,5084	-0,6680	Not Significant

Sources: Data processing, 2024

The panel data regression equations based on Table 5 are as follows:

$$ROA (Y) = 0,3320 + 0,0550 CAR(X_1) - 0,0593 NPF(X_2) + 0,6786 ICG(X_3) - 1,6728 ISR(Z) + \varepsilon_1 \quad \dots (1)$$

$$ISR (Z) = 06315 + 0,021CAR(X_1) - 0,0153 NPF(X_2) + 0,0501 ICG(X_3) + \varepsilon_2 \quad \dots (2)$$

Based on Table 5, in Structure I, CAR does not affect ISR, NPF has negative effect through ISR, and ICG has positive effect through ISR. In Structure II, CAR has positive affects ROA. NPF, ICG, and ISR do not affect ROA.

Sobel Test

The Sobel test is used to determine the indirect effect of independent variables (CAR, NPF, and ICG) on the dependent variable (ROA) through the intervening variable (ISR). This test is calculated using unstandardized regression coefficients of each independent variable on the dependent variable. The results of the Sobel test can be seen in Table 6.

Table 6. Sobel Test Results for Structure I and II

Effect Between Variables	Indirect Effect	Z Sobel	P value	Indirect Effect
CAR -> ISR -> ROA	-0,00033	-0,61730	0,53703	Not Able to Mediate
NPF -> ISR -> ROA	0,00256	0.63483	0,52554	Not Able to Mediate
ICG -> ISR -> ROA	-0,08364	-0,64545	0,51864	Not Able to Mediate

Sources: Data processing, 2024

The results indicate that intervening variable (ISR) does not mediate the relationship between the independent variables (CAR, NPF, ICG) through dependent variable (ROA).

DISCUSSION

Based on the research results, capital adequacy has positive effect on financial performance of IB in Indonesia during the period 2018-2022, so H1 is accepted. The higher the CAR, the better the bank's ability to bear operational risks that may occur in the future. The collected funds are distributed by the bank in the form of financing. Profit sharing from this financing will drive the profitability growth of IB, so a higher CAR value will increase the bank's profits.

Financing risk does not affect on financial performance of IB in Indonesia in 2018-2022, so H2 is rejected. This phenomenon indicates that financing risk does not influence the profitability of IB. The lower NPF, the better quality of financing, as the number of problematic financing in the bank is low. The decrease of NPF has not been able to increase the bank's profitability, but there are other factors that can increase profitability.

ICG does not affect on financial performance of IB in 2018-2022, so H3 is rejected. Corporate governance during the research period was good and in accordance with regulations, but the financial performance of IB has not been stable. One of the contributing factors is Covid-19, which caused relatively slow economic growth. The results of ICG implementation will have a long-term effect, while ROA has a short-term effect that is directly used as a basis for decision-making by both stakeholders and shareholders.

Capital adequacy does not affect on ISR of IB in Indonesia in 2018-2022, so H4 is rejected. Based on signaling and legitimacy theory, a larger amount of capital would influence the bank management's opportunity to increase CSR activities and disclose them in ISR. However, many IB with large capital are more focused on maintaining their capital or providing financing to customers rather than conducting CSR with that capital. Additionally, IB also allocate low funds for CSR activities despite having a relatively high level of capital adequacy.

Financing risk has negative effect on ISR of IB in Indonesia in the years 2018-2022, so H5 is accepted. The NPF is inversely proportional to ISR. This means that the lower financing risk, the company more often engages in CSR. The low NPF will increase the transparency of IB in ISR disclosure. In accordance with signaling and legitimacy theory, stakeholders will receive more information regarding the company's social and environmental activities.

ICG has positive effect on ISR of IB in Indonesia in the years 2018-2022, so H6 is accepted. The higher ICG rating, the greater the level of ISR disclosure. This means that the higher the ICG rating, the management more comply regulations, including conducting CSR, and reported in accordance with the principle of transparency. The ISR index will be maximized, so it can be useful for stakeholders and shareholders to know the company's business activities in terms of profit, people, and planet as known as 3P.

ISR does not affect on financial performance of IB in Indonesia in the years 2018-2022, so H7 is rejected. ISR is an activity carried out by companies to generate long-term profits and as a report on social and environmental responsibility carried out by the company. Banks with high values will disclose more broadly. However, until now, stakeholders have not paid much attention to ISR in annual reports for their investment decision-making, so IB have not focused on ISR. In addition, there are no regulations governing ISR standardization, so there is no IB in Indonesia has an ISR index reaching 100%.

ISR is not able to mediate capital adequacy on financial performance of IB in the years 2018-2022, so H8 is rejected. ISR cannot mediate capital adequacy on financial performance because there is no standardization of ISR reports. This makes IB not too focused when carrying out CSR. The level of the bank's capital adequacy is quite large, while the budget for social and environmental responsibility activities is quite low. Banks carry out CSR only to the extent of fulfilling their obligations. Banks choose to allocate excess capital for financing, so they can generate profits directly, rather than carrying out CSR activities that generate long-term profits due to the image of a bank that cares about the social environment.

ISR is not able to mediate the relationship between financing risk and financial performance of IB in the years 2018-2022, so H9 is rejected. IB prioritize their financial performance through profit acquisition. If the IB's financing risk is high, then IB will focus on using the funds to increase financing loss provisions or CKPN, rather than fulfilling CSR obligations. CSR reported through ISR will affect ROA in the long-term, while financing risk improvement is needed in the current

period. In addition, a decrease in financing risk in one period does not directly affect profits at that time.

ISR is not able to mediate the relationship between ICG and financial performance of IB in the years 2018-2022, so H10 is rejected. According to agency theory, management as an agent chosen by shareholders as a principal has worked according to their respective interests, so that corporate governance has been good. However, CSR have not yet become a focus for IB, as there are no specific reporting standards for IB. ISR is considered only an obligation for companies, so banks do this to dismissing their reporting obligations to regulators. In addition, currently, stakeholders make investments without considering the ISR index.

CONCLUSIONS AND RECOMMENDATION

Based on the findings and analysis of this research, it can be concluded that capital adequacy has a positive effect on the financial performance of IB in Indonesia during the period 2018-2022. IB are considered capable and stable in anticipating problems or other risks that may arise due to operations if they have sufficient capital. The collected capital will be distributed by IB in the form of financing. However, financing risk, ICG, and ISR do not affect financial performance. The financing risk has not been able to increase bank profitability, corporate governance during this research period has been good and in accordance with regulations, but the financial performance of IB has not been stable. Then, there is no ISR reporting standard for IB, so CSR is only carried out to dismissing IB's obligations. Furthermore, capital adequacy does not influence ISR. IB more focus on providing financing, fulfilling and developing sharia products rather than carrying out social activities with that capital. While financing risk negatively affects ISR. IB will reduce or postpone CSR to save funds, resulting in low-index and less comprehensive ISR. ICG has a positive effect on ISR. Good governance will encourage IB to continue to carry out its social, environmental and community responsibilities, and express them through ISR. ISR does not mediate the relationship between capital adequacy, financing risk, or ICG and financial performance in IB during this research period. There is no ISR reporting standard for IB, so IB only carries out CSR to dismissing its obligations.

These research findings can serve as a tool for investors when conducting further analysis, especially when considering investments in IB. This research also contributes to the understanding of financial performance growth in IB in Indonesia. For IB management, this research can be a reference for developing strategies to improve company performance. For the government and regulators, it can inform the implementation of rewards for companies that comply with regulations and strict sanctions for those that do not comply with the rules regarding IB. Additionally, standardized ISR is needed, so that IB are motivated to compete in conducting CSR and can increase their ISR index.

FURTHER STUDY

This research has limitations and shortcomings that can be addressed in future studies through improvements, such as modifying the intervening variable, using data transformations, and expanding the research period. These

modifications could provide different perspectives and results, contributing to the advancement of financial performance in IB in Indonesia in the future.

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