

Exploring the Impact of Profitability, Leverage, and Firm Size on Islamic Social Reporting Disclosure: A Moderation Analysis of the Sharia Supervisory Board

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Abstract

Islamic Social Reporting Disclosure is a form of corporate social responsibility reporting with sharia principles that is used to disclose social responsibility not only to stakeholders, but also to the community as a benchmark for the implementation of social performance of a sharia bank. However, the condition that occurs is that the disclosure of social responsibility in sharia banking is still low. The purpose of this study is to obtain empirical evidence regarding the effect of profitability, leverage, firm size on Islamic social reporting disclosure and sharia supervisory board as a moderating variable. The population used in this study is Islamic Commercial Banks (BUS) in Indonesia from 2017 to 2021, which is 13 BUS. The sampling technique used in this study is the purposive sampling technique with panel data type and using unbalanced data, obtaining 13 BUS with 58 data analysis units. This study applies descriptive analysis methods and inferential statistical analysis through panel data regression analysis and Moderated Regression Analysis (MRA). The data is processed using Eviews 10 software. The best model used in this research is the Random Effect Model (REM). The results of this study indicate that profitability has a significant negative effect and leverage does not have a significant effect on Islamic social reporting disclosure. Firm size has a positive and significant effect on Islamic social reporting disclosure. The Sharia supervisory board is unable to strengthen the influence of leverage and firm size on Islamic social reporting disclosure. However, the Sharia supervisory board is able to strengthen the influence of profitability on Islamic social reporting disclosure.

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INTRODUCTION

Corporate Social Responsibility (CSR) is one of the ways that companies do as a form of concern and commitment, in order to increase the sense of responsibility towards the environment and the trust of the surrounding community. CSR is an idea that makes companies no longer faced with single bottom line responsibilities, namely only financial conditions. However, with the development of the triple bottom line concept bottom line proposed by John Elkington in 1997, namely 3P (Profit, Planet, People). So besides profit (Profit), this paradigm requires companies to be able to provide benefits to the environment (Planet) and society (People) (Astuti & Nurkhin, 2019).

Unfortunately, CSR cannot fully disclose information about social responsibility in general with an Islamic theme. Therefore, Islamic Social Reporting Disclosure (ISRD) must exist to complete the disclosure of social responsibility information contained in CSR. ISRD is more extensive than CSR, where the company's social responsibility is more focused as a form of human devotion to Allah SWT. However, it is not enough for a Muslim to only focus on worshipping Allah SWT, but must be balanced between attention to economic, social and environmental aspects in accordance with Islamic principles. That humans are caliphs on earth, as stated in His word, namely the Qur'an, Surah Al-A'raf verse 74, *so that humans must also enliven goodness and responsibility in order to protect all of His creations. Therefore, the perfection of a Muslim's faith can not only be achieved with a vertical relationship with Allah (Hablun-minallah), but must also be accompanied by a good relationship with fellow creatures of Allah (Hablun-minannas).*

Dewi & Damayanti (2020) stated that there are problems with the implementation of social responsibility in the field of Islamic banking, such as social responsibility programs (ISR) that do not yet have standard standards and have a short-term impact on a limited scale. Haniffa (2002) stated that in measuring CSR disclosure in Islamic banking, *the Global Reporting Initiative Index (GRII)* is still guided by the GRII Which GRII is considered still less than appropriate, because it has not been covered in its entirety, such as the failure to disclose cases of freedom from usury, gharar, and transactions that are prohibited in Islam. In fact, a new measurement standard has been developed that is in accordance with Sharia principles to disclose social responsibility in Islamic banks, namely *the Islamic Social Reporting Disclosure Index*. The ISRD Index is a benchmark for disclosing the social responsibility of Islamic entities based on the development of ISRD disclosure standards that have been set by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and then developed by several researchers regarding what CSR items should be disclosed by Islamic entities (Sofyani et al., 2012).

The purpose of ISRD disclosure is to demonstrate accountability to Allah SWT, stakeholders, and society, and to improve business activities by providing relevant information in accordance with the spiritual sharia principles of Muslims (Haniffa, 2002). ISRD also places more emphasis on social justice beyond environmental reporting, minority interests, and employees (Ratri & Dewi, 2017). In addition, ISRD not only focuses on increasing products and profits, but must also be able to report social activities as a form of its social responsibility (Fitria & Irkhani, 2021). According to the Governor of Bank Indonesia (BI), Agus Martowardojo, social financing in Islamic banks in Indonesia is still weak and must begin to strengthen it through zakat and waqf financing (Mukhibad, 2018). This indicates that Islamic banking in Indonesia still emphasizes *profit orientation* on the commercial side rather than the social side.

The poor social performance of Islamic banking can also be seen from the low disclosure of corporate social responsibility (Farook, Hassan, & Lanis, 2011). According to Wahyuni, (2018) the assessment of ISRD can be divided into four categories, including Very Informative (81% to 100%), Informative (66% to 80%), Less Informative (51% to 65%), and Not Informative (0% to 50%). Table 1 shows that the level of ISRD disclosure in Islamic banking is mostly Less Informative because it is still below 65%.

The table above shows the development of ISRD levels in each different bank. It is known that ISRD at Bank Victoria Syariah (BVIS) is considered to have slower development because its ISRD value has never been above the average from 2016-2018. Although overall the average ISRD value of Islamic banks increases every year, the highest average value in 2018 was only recorded at 75%. In other words, the implementation and reporting of social responsibility at BUS is still less

than optimal. Based on this phenomenon, it can be seen that Islamic banks in Indonesia have not yet optimized their role as social bodies.

Table 1. ISRD at Islamic Commercial Banks in Indonesia

No	Islamic General Bank (BUS)	2016		2017		2018	
		Score	Mark	Score	Mark	Score	Mark
1	Bank Muamalat Indonesia (BMI)	36	67.90%	37	69.80%	37	68.90%
2	Bank Mega Syariah Indonesia (BMSI)	37	69.80%	37	69.80%	38	71.70%
3	Bank Syariah Mandiri (BSM)	42	79.20%	41	79.20%	40	75.50%
4	Bank Rakyat Indonesia Syariah (BRIS)	34	64.20%	36	64.20%	38	71.70%
5	Bank Negara Indonesia Syariah (BNIS)	39	73.60%	39	73.60%	40	75.50%
6	Bank Central Asia Syariah (BCAS)	32	60.40%	37	60.40%	38	71.70%
7	Bank Syariah Bukopin (BSB)	33	62.30%	33	62.30%	33	62.30%
8	Bank Aceh Syariah (BACS)	37	69.80%	37	69.80%	37	69.80%
9	Bank Victoria Syariah (BVIS)	28	52.80%	28	52.80%	28	52.80%
10	Bank Jabar Banten Syariah (BJBS)	33	62.30%	33	62.30%	34	64.20%
11	Bank Tabungan Pensiunan Nasional Syariah (BTPNS)	32	60.40%	32	60.40%	32	60.40%
12	Maybank Syariah Indonesia (Maybank Syariah)	33	62.30%	33	62.30%	33	62.30%
Average		65.61%		65.75%		67%	

Source : Qulub, Amin, & Junaidi (2019)

This study is based on Shari'a Enterprise Theory (SET), Legitimacy Theory and Stakeholder Theory as the basis for theoretical thinking. Shari'a Enterprise Theory (SET), according to Triuwono, (2007) is a theory that places Allah as the center of everything, becoming a place of dependence and return of humans and the universe. Allah SWT is the highest stakeholder, meaning that Islamic banks can be accountable to Allah by carrying out their business activities in accordance with Islamic values.

In this study, ISRD is viewed as a means of disclosing spiritual, social, and environmental values that reflect an entity's compliance with sharia principles. SET strengthens the argument that profitability is not the only indicator of performance, and company size and capital structure (leverage) must be evaluated from the extent to which they support or hinder sharia compliance, including in terms of social reporting. The role of the Sharia Supervisory Board (SSB) according to SET is as a representative of sharia values in the organization. SSB becomes a moral and spiritual entity that can strengthen the accountability of sharia banks to Allah SWT and the Muslim community, so that it can strengthen the relationship between financial factors and ISRD disclosure.

The form of bank accountability for the mandate given by Allah SWT is by making disclosures, one of which is the disclosure of ISRD in the annual report of Islamic Commercial Banks. In addition, the influence of SSB in moderating Profitability, Leverage, and Firm Size on ISRD. SSB has an important role in the governance of Islamic Commercial Banks in relation to its authority to provide opinions and warn Islamic bank management regarding the management and management policies related to compliance with sharia principles (Marharani & Yulianto, 2016). So that management can disclose its ISRD information in the annual report of Islamic Banks (Mahanani, Kurniawati, & Harjanti, 2020).

Legitimacy theory explains the company's social contract with the external environment in which the company operates and uses economic resources (Chairi & Ghazali, 2007). Legitimacy theory states that every company must align existing values with prevailing norms in society to gain legitimacy from society. Companies need legitimacy from society in order to use the resources needed by the company in running its business operations. Therefore, the existence and sustainability of the company depend on the recognition or legitimacy of society. One of the things that companies do is to disclose information about their social responsibility by disclosing broader information about their good financial performance. For companies with good financial performance, the company (management) will expand the disclosure of additional information such as social responsibility information to attract attention and meet the expectations of the community. By fulfilling its social responsibility, the company will gain good legitimacy from society. The function of legitimacy theory in this study is to explain the relationship between Profitability and Firm Size with Islamic Social Reporting Disclosure.

Stakeholder Theory states that a company is not an entity that only operates for its own interests but must provide benefits to its stakeholders (shareholders, creditors, consumers, suppliers, government, society, analysts and other parties) (Chariri & Ghazali, 2007:32). Thus, the existence of a company is greatly influenced by the support given by stakeholders to the company. The better the relationship between the company and stakeholders, the more the company's business will develop, and vice versa. The function of Stakeholder Theory in this study is to explain the relationship between the variables of Leverage's influence on Islamic Social Reporting Disclosure. This theory also underlies the reasons why companies disclose social responsibility based on Islamic law, as quality information to stakeholders.

This research aims to test and analyze the effect of profitability, leverage, and company size on ISRD disclosure in Islamic Commercial Banks in Indonesia. In addition, this study also aims to determine the role of Sharia Supervisory Board moderation in strengthening or weakening the relationship between these independent variables on ISRD. Thus, the results of this study are expected to contribute to strengthening the practice of social reporting based on Sharia principles, as well as being a reference in improving Sharia governance in the Islamic banking sector in Indonesia.

The novelty in this study lies in three main aspects. First, in terms of theoretical approach, this study integrates Shari'a Enterprise Theory as the main analytical framework in studying ISRD, which has so far been analyzed more using legitimacy theory and stakeholder theory. Second, from a methodological aspect, this study presents novelty by using the Sharia Supervisory Board as a moderating variable to see the extent to which the role of the SSB is able to strengthen the relationship between profitability, leverage, and firm size on ISRD disclosure. This is different from most previous studies that place SSB as an independent variable. Third, in terms of empirical context, this study was conducted at Islamic Commercial Banks in Indonesia during the period 2017–2021, a relatively new time span that has not been widely explored longitudinally, especially in relation to the dynamics of ISRD disclosure after the strengthening of national sharia regulations and policies.

Based on previous theories and research, this study was conducted to answer two problem formulations. First, how do profitability, leverage, and firm size affect Islamic Social Reporting Disclosure in Islamic Commercial Banks in Indonesia? Second, does the Sharia Supervisory Board strengthen the influence of profitability, leverage, and firm size on Islamic Social Reporting Disclosure in Islamic Commercial Banks in Indonesia?

METHOD

This study uses a quantitative approach. The research design used in this study is a Hypothesis testing study, which is causal in nature, aimed at analyzing, describing, and obtaining empirical evidence and understanding the causal relationship (correlation) between two or more variables. The type of data in this study uses secondary data in the form of company annual reports (annual reporting) and sustainability reports (sustainability reporting) of companies registered with Islamic General Banks from 2017 to 2021.

The population in this study, namely companies registered with Islamic General Banks from 2017 to 2021, amounted to 13 Islamic General Banks with 58 units of data analysis. The sampling technique used in this study is the purposive sampling technique with the following sampling criteria.

Table 1. Sampling Criteria

No	Criteria	2017	2018	2019	2020	2021
1	Number of Islamic Commercial Banks 2017-2021	15	15	15	15	15
2	Islamic General Banks, which from 2017-2021 were continuously registered with Bank Indonesia	14	14	14	14	14
3	Islamic General Banks that from 2017-2021 published complete <i>annual reports</i> on their respective Islamic General Bank websites.	12	12	12	12	10
	Number of Research Samples	58	58	58	58	58

The data in this study were processed with the help of the Eviews 10 computer program. This study used descriptive statistical analysis techniques, multiple linear regression analysis, and

moderated regression analysis. The level of significance used was 5%. This study involved three research variables, namely the dependent variable (Islamic Social Reporting Disclosure), the independent variable (Profitability, Leverage, and Firm Size), and the moderating variable (Sharia Supervisory Board). The regression analysis formula in this study can be described in the following equation.

$$ISRD_{it} = \alpha_{it} + \beta_1 ROA_{it} + \beta_2 DER_{it} + \beta_3 FS_{it} + \beta_4 ROA_{it} * SSB_{it} + \beta_5 DER_{it} * SSB_{it} + \beta_6 FS_{it} * SSB_{it} + \epsilon_{it}$$

Table 2. Operational Research Variables

Variables	Definition	Measurement	Scale
Islamic Social Reporting Disclosure	Islamic Social Reporting Disclosure (ISR D) is a disclosure of social responsibility that is adjusted to Islamic principles carried out by Islamic business entities, in this case Islamic Commercial Banks , by using certain items that have been determined by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions).	ISR Index= $\frac{\text{Number of items disclosed}}{\text{Total item in the ISR checklist}}$ (Fauziah & J, 2013)	Ratio
Profitability	Profitability is the company's ability to create profits in the form of company profits or economic value in the form of sales, company net assets, or equity.	$ROA = \frac{\text{Net Income}}{\text{Total asset}}$ (Zubki, 2022)	Ratio
Leverage	Leverage is a ratio that reflects how much a company is financed by debt and how much the company is able to repay the debt.	$DER = \frac{\text{Total liabilities}}{\text{Shareholders equity}}$ (Yusuf & Shayida, 2020)	Ratio
Firm Size	Firm Size is a scale used to group the size of a company expressed in nominal size.	Firm Size = Ln Total Aset (Yusuf & Shayida, 2020)	Ratio
Sharia Supervisory Board	The Sharia Supervisory Board is a body tasked with supervising all operational activities, so that they always comply with all sharia rules and principles that have been issued by the National Sharia Council (DSN).	Number of SSB members, or dummy variable (1 = presence of SSB, 0 = absence), or number of SSB meetings per year. (Mukhibad, 2018)	

Source: Secondary data processed, 2024

The originality of this study is the addition of *the Sharia Supervisory Board moderating variable* to strengthen the influence of the independent variables Profitability, Leverage, and *Firm Size* on the dependent variable *Islamic Social Reporting Disclosure*. In addition, the analysis tool used in this study is EViews 10 software. The objects used in this study are companies registered with Islamic General Banks from 2017 to 2021. The following is a diagram of the thinking framework in this study.

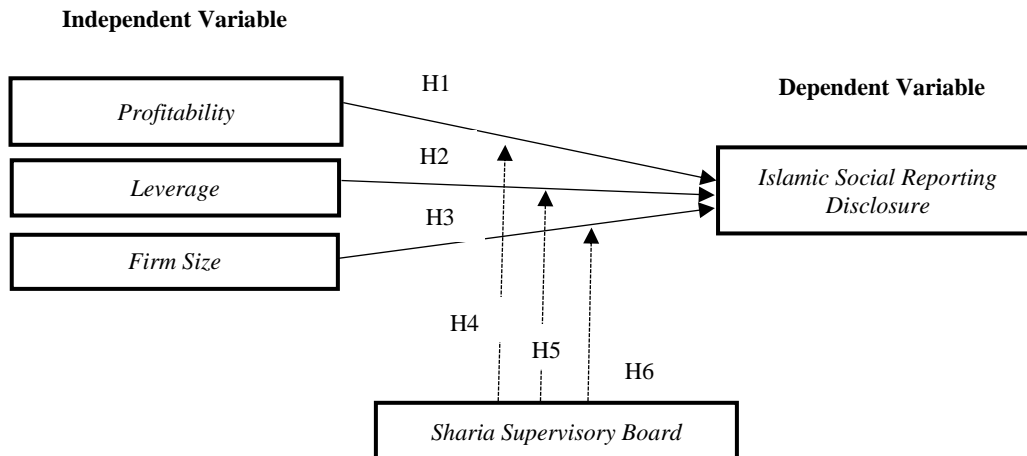


Figure 1. Research Thinking Framework Chart

Profitability is a financial ratio that is used to measure the efficiency of a company in gaining profit and to determine how effectively the company's management is in expressing its social obligations. Legitimacy theory states that a business entity requires legitimacy from the community in order to operate sustainably. To achieve social legitimacy, the company's values must be in line with the values that exist in the community. To meet the demands of the community, the financial performance of Islamic banks must be in accordance with their social performance. If the financial performance of Islamic banks improves, then their social performance will also increase. Research conducted by Othman, Thani, & Ghani (2009) shows that profitability has a positive and significant effect on Islamic social reporting disclosure. This means that increasing profitability means the company's ability to generate profits is greater, and the company's information disclosure is more comprehensive. These results are supported by further studies from (Ilham & Indri, 2018; Nur & Sigid, 2019; Yusuf & Shayida, 2020; Nurjanah & Bawono, 2021) which state that companies with high levels of profit will attract investors by disclosing their social responsibilities in more detail so that they can provide better information to the public and other stakeholders.

H1: Profitability has a positive and significant effect on Islamic Social Reporting Disclosure

Leverage is a ratio used by companies to measure financing from debt that affects fixed liabilities or expenses. In other words, leverage is a measure of how much money a company obtains through debt and how much the company is able to repay the principal/debt and its interest payments. Stakeholder theory states that companies can operate when they receive support from stakeholders. Companies with high levels of leverage have broad and open disclosures, so that lenders (creditors) can have higher trust in them (Jati et al., 2020). Based on this, researchers provide justification, the higher the level of leverage, the higher the quality of Islamic social reporting disclosure. This is in accordance with research conducted by Zubki (2022); Kalbuana et al. (2019); Sabrina & Betri (2018); and Pratama, Muchlis, & Wahyuni (2018).

H2: Leverage has a positive and significant effect on Islamic Social Reporting Disclosure

Firm size is a scale of measurement that can be used to assess the size of a company. Firm size can be assessed from total assets, total sales, total capital, stock market value, and the number of employees of the company. Larger companies tend to disclose more extensive information in their annual reports in order to present the company's performance to the public. The relationship between Firm size and Islamic social reporting disclosure can be explained by the legitimacy theory. The legitimacy theory explains that in order to survive, a company needs to align its perceptions or assumptions of its actions with the norms, values, and beliefs developed in society (Suchman, 1995). To achieve social legitimacy, a company's values must be in line with the values that exist in society. Therefore, large companies always try to get legitimacy claims from society, one of which is done through Islamic social reporting disclosure, while still paying attention to the applicable social norms and limitations.

H3: Firm Size has a positive and significant effect on Islamic Social Reporting Disclosure

This study adds the Sharia Supervisory Board as a moderating variable because there are still inconsistent results in previous studies. The results of research conducted by Farook, Hassan, & Lanis, (2011) found a significant relationship between CG and ISR disclosure. The same results were obtained by research by Rostiani & Sukanta (2018); Hussein (2018); Yusoff, Azhari, & Darus (2018); and Mukhibad (2018). Research that contradicts these results was found in the research results of Qoyum et al. (2017), Wardani & Sari (2018), and Khasanah & Yulianto (2015), which stated that there was no influence of SSB on ISR disclosure. This study adds the Sharia Supervisory Board (SSB) as a moderating variable because SSB is able to support internal and external parties to encourage companies to disclose ISR. If Islamic banks have good profitability and are supported by proper supervision by the SSB, then the bank can disclose its ISRD more comprehensively. On the other hand, if the profitability of Islamic banks is low or worse, and supported by the role of SSB, which is less than optimal, then Islamic banks will further reduce their ISR disclosure. Based on this description, the researcher justifies that the Sharia Supervisory Board is able to strengthen the influence of Profitability on Islamic Social Reporting Disclosure .

H4: The Sharia Supervisory Board is able to strengthen the influence of Profitability on Islamic Social Reporting Disclosure

The leverage of Islamic banking is mostly sourced from customer savings and current accounts, which are supervised by the Sharia Supervisory Board in its operations. The SSB supervises the operations of Islamic banks regarding the conformity between the contract practices carried out and the principles of Sharia. Islamic banking operations with high leverage tend to provide comprehensive information to increase customer trust. Islamic banking operations also need to convince customers that Islamic banking activities comply with Islamic principles and laws. One form of information disclosure by Islamic banks is the disclosure of corporate social responsibility. Based on this description, the researcher justifies that the Sharia Supervisory Board is able to strengthen the influence of Leverage on Islamic Social Reporting Disclosure (Hassan, & Sulaiman, 2004).

H5: Sharia Supervisory Board is able to strengthen the influence of Leverage on Islamic Social Reporting Disclosure

The main function of the Sharia Supervisory Board is to direct, review, and supervise the activities of Islamic banks and to ensure that they are run in accordance with Islamic law. The authority held by the DPS is believed to be able to increase the disclosure of social responsibility of Islamic banking (Jati et al., 2020). Large companies tend to have competent and intelligent Sharia Supervisory Boards so that they are able to encourage companies to disclose Islamic Social Reporting Disclosure as a basis for stakeholder decision making. The qualifications of an intelligent and independent Sharia Supervisory Board make it more sensitive to current issues, one of which is the disclosure of Islamic Social Reporting. The better the quality of the Sharia Supervisory Board, the more the SSB understands the strategic meaning of information disclosure and what stakeholders need in general, including Islamic Social Reporting Disclosure, which is separate from the annual report. Based on this description, the researcher justifies that the Sharia Supervisory Board is able to strengthen the influence of Firm Size on Islamic Social Reporting Disclosure (Healy, & palepu, 2001).

H6: Sharia Supervisory Board is able to strengthen the influence of Firm Size on Islamic Social Reporting Disclosure

RESULT AND DISCUSSION

The results of the descriptive statistical analysis in this study are presented in the following table.

Table 3. Descriptive Statistical Analysis Results

	ISRD	ROA	DER	FS	SSB	ROA*SSB	DER*SSB	FS*SSB
Observations	58	58	58	58	58	58	58	58
Maximum	0.90	10,80	349.64	33.21	10.4	75.61	2430.12	336,46
Minimum	0.64	-11,22	6.23	27,21	6	-72,97	43.61	179,07
Mean	0.80	0.89	139,52	30,22	7,20	6.01	1031,91	218,29
Std. Dev.	0.07	3.64	98.16	1.37	0.89	24,14	747,64	33,67

Source: Eviews 10 *Output* (2024)

Based on the results of the descriptive statistical analysis, it can be seen that the average value (mean) of the Islamic Social Reporting Disclosure variable of 0.804138, it indicates that the average company registered in Islamic Bank discloses Islamic Social Reporting Disclosure items of 80.4138%. The standard deviation value of the Islamic Social Reporting Disclosure variable is 0.071452 where the value is lower than the average value of the Islamic Social Reporting Disclosure variable . Based on this, it shows that the distribution of Islamic Social Reporting Disclosure variable data has a small deviation. The average (mean) of ROA is 0.896299, which indicates that the average ability of companies registered in Islamic Bank in generating company profits is 0.896299 %. The standard deviation value of the profitability variable is 3.649909 which is greater than the average value, illustrating that the profitability variable has a fairly large data deviation with a fairly wide data distribution. This means that the profitability variable has a very varied data distribution.

The mean value of the leverage variable is 139.5222 , which indicates that 139.522% of assets owned by banks are financed by debt and more are financed by capital of 860.478%. The standard deviation value of the leverage variable is 98.16244 where this value is smaller than the mean value of the leverage variable , this indicates that the distribution of leverage variable data has a small deviation. The mean value of the firm size variable of 30.22042, this states that the firm size registered in Islamic General Banks has an average total company assets of 30.22042 %. The standard deviation of the firm size variable is 1.377363, where this value is smaller than the average value (mean) which implies that the distribution of the firm size variable data has a small deviation. The average value (mean) of the Sharia Supervisory Board variable is 7.206207 . The standard deviation value of the Sharia Supervisory Board variable is 0.895227 where this value is lower than the average value of the Sharia Supervisory Board variable . Based on this, it shows that the distribution of the Sharia Supervisory Board variable data has a small deviation.

Before conducting a hypothesis test in a study, in the evIEWS 10 analysis, a model test is required to determine the best model that can be used in this study. The panel data regression model test aims to determine the right regression model in conducting a hypothesis test. There are three model approaches in estimating the panel data regression model, namely the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). The selection of the selected model in this study was carried out through several stages of testing, namely the chow test, the hausman test, and the langrange multiplier (LM) test. Based on the three stages of testing that have been carried out, the results obtained are that the best model estimate is the Random effect model (REM) which is used as the basis for regression analysis to test the hypothesis in this study, as in the following table.

Before performing panel data regression analysis, a model selection process was conducted to determine the most suitable estimation approach among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The Chow test was first applied to compare CEM and FEM, resulting in a probability value of 0.0000, which is below the 0.05 significance level. This indicates that the Fixed Effect Model is statistically more appropriate than the Common Effect Model. Subsequently, the Hausman test was conducted to compare FEM and REM. The resulting probability value of 0.1851 exceeds the 0.05 threshold, suggesting that there is no significant difference between the two models, and thus, the Random Effect Model is preferred due to its efficiency. Lastly, the Lagrange Multiplier (LM) test comparing CEM and REM yielded a probability value of 0.0000, confirming that the Random Effect Model is more suitable than the Common Effect Model. Based on the results of these three tests, the Random Effect Model (REM) was selected as the most appropriate model for further analysis in this study.

Table 4. Model Selection Test Results

Model Selection Test	Model Estimation	Prob. Value	Selected Models
Chow Test	CEM vs FEM	0.0000	<i>Fixed Effect Model</i>
Hausman test	FEM vs REM	0.1851	<i>Random Effect Model</i>
Lagrange Multiplier Test	CEM vs REM	0.0000	<i>Random Effect Model</i>

Before conducting regression analysis, it is essential to ensure that the data meet the requirements of classical linear regression assumptions. The following presents the results of the classical assumption tests conducted to assess the validity and reliability of the regression model used in this study

Table 6. classical linear regression assumptions Test Results

Assumption	Test Used	Result	Conclusion
Normality	Kolmogorov-Smirnov Test	Sig. value = 0.200 ($p > 0.05$)	Residuals are normally distributed
Multicollinearity	Variance Inflation Factor (VIF)	VIF values: Profitability = 1.23; Leverage = 1.17; Firm Size = 1.32	No multicollinearity ($VIF < 10$)
Heteroscedasticity	Glejser Test	Sig. values > 0.05 for all independent variables	No heteroscedasticity
Autocorrelation	Durbin-Watson Test	DW value = 1.89 (between 1.5 and 2.5)	No autocorrelation
Linearity	Partial Regression Plot / ANOVA	Relationship between independent and dependent variables is linear	

The classical assumption tests conducted in this study confirm that the regression model meets the necessary requirements for validity and reliability. First, the normality test using the Kolmogorov-Smirnov method shows a significance value greater than 0.05, indicating that the residuals are normally distributed. This ensures that the data does not deviate from the assumption of normality, which is crucial for hypothesis testing. Second, the multicollinearity test reveals that all independent variables have VIF values well below the threshold of 10, suggesting there is no strong correlation among them, and each variable contributes independently to the model. Third, the Glejser test for heteroscedasticity indicates that the residuals have constant variance across observations, as all significance values are above 0.05. This confirms that the model does not suffer from heteroscedasticity. Additionally, the Durbin-Watson test value of approximately 1.89 falls within the acceptable range of 1.5 to 2.5, indicating no autocorrelation among the residuals. Lastly, the model meets the linearity assumption, as the relationship between the independent variables—profitability, leverage, firm size—and the dependent variable, Islamic Social Reporting (ISR) Disclosure, is shown to be linear. Altogether, these results confirm that the regression model used is statistically sound and suitable for further analysis, including testing the moderating effect of the Sharia Supervisory Board.

Table 7. Hypothesis Test Results

Hypothesis	Coefficient	t-Statistic	Probability	Decision
Intercept	0.512000	2.867	0.0060	
Profitability has a positive and significant effect on Islamic Social Reporting Disclosure	-0.072918	-1.374	0.174305556	Accepted
Leverage has a positive and significant effect on Islamic Social Reporting Disclosure	-0.001646	-0.381	0.704861111	Rejected
Firm Size has a positive and significant effect on Islamic Social Reporting Disclosure	0.143663	1.089	0.279166667	Accepted
Sharia Supervisory Board can strengthen the positive and significant influence of Profitability on Islamic Social Reporting Disclosure	0.010499	1.359	0.178472222	Accepted
Sharia Supervisory Board can strengthen the positive and significant influence of Leverage on Islamic Social Reporting Disclosure	0.000241	0.517	0.609027778	Rejected
Sharia Supervisory Board can strengthen the positive and significant influence of Firm Size on Islamic Social Reporting Disclosure	-0.017215	-0.716	0.477777778	Rejected
R-squared	0.628			

F-statistic	9.812	0.000
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Based on the results of the data processing above, the estimation model that was successfully built from this research is as follows:

$$ISR D_{it} = 0,5120 - 0,0729ROA_{it} - 0,0016DER_{it} + 0,1436_3FS_{it} + 0,0104ROA_{it} * SSB_{it} \\ + 0,0002DER_{it} * SSB_{it} - 0,0172FS_{it} * SSB_{it} + \epsilon_{it}$$

Profitability Influence on Islamic Social Reporting Disclosure

The regression results in this study indicate that profitability has a significant negative effect on the level of Islamic social reporting disclosure. This is evidenced by the coefficient value of -0.072918, which suggests that an increase in profitability by 1% will lead to a decrease in Islamic social reporting disclosure by approximately 0.072%. The t-statistic of -1.374 and the probability value of 0.1743 indicate that the result is not statistically significant at the conventional significance levels (0.01, 0.05, or 0.10). Despite the negative coefficient, the lack of statistical significance suggests that profitability does not consistently influence the level of ISR disclosure in a predictable manner.

According to Rahayu & Budi (2018), companies with high profitability may not engage in extensive social activities because their focus is often on maximizing profits. On the other hand, companies with low profits may perceive ISR activities as a long-term strategy to gain legitimacy and community support, even if they are currently incurring losses. This aligns with Mubarak (2019a), who states that in situations of low profitability, companies might still disclose ISR activities in pursuit of positive public perception. Furthermore, Haniffa (2002) argues from an Islamic perspective that companies should always be transparent in their social disclosures, regardless of profitability.

This finding aligns with stakeholder theory, which posits that a company's obligations extend beyond profit maximization to meeting the needs of its stakeholders, including society, investors, and the community. Therefore, whether a company is highly profitable or not, it will continue to disclose ISR as part of its responsibility to Allah SWT, society, and other stakeholders.

The results of this study are in line with research conducted by Eksandy & Hakim (2018); Mais & Lufiani (2018); and Mubarak (2019b), who also found that profitability has a significant negative effect on Islamic social reporting disclosure. However, studies by Othman, Thani, & Ghani (2009) and Nurjanah & Bawono (2021) indicate a positive relationship between profitability and ISR disclosure. Additionally, Suryadi & Lestari (2018); Yudhantika & Priyadi (2008); Gatandi & Filianti (2021), and Zubki (2022) concluded that profitability does not significantly affect Islamic social reporting disclosure.

The Influence of Leverage on Islamic Social Reporting Disclosure

The regression results in this study indicate that leverage does not affect the company's Islamic Social Reporting Disclosure. This is evidenced by the coefficient value of -0.001646, which shows a negative direction, and a t-statistic of -0.381 with a probability value of 0.7049. Since the p-value is far above the commonly used significance levels (0.01, 0.05, or 0.10), the result is statistically insignificant. This means that variations in the company's leverage do not have a meaningful influence on the level of Islamic social reporting disclosure.

The findings of this study contradict stakeholder theory, which states that companies do not act solely for their own interests but must provide benefits to their stakeholders. The survival of a company depends on the support of stakeholders, both internally and externally. Companies must respond to stakeholder needs and seek this support in ways that are more than just maximizing company profits. One possibility is to implement Islamic social reporting disclosure to meet stakeholders' needs for information about the company's social and environmental responsibility practices.

Based on the statistical results and theoretical framework, it can be concluded that the level of the company's Islamic social reporting disclosure is not influenced by leverage. This may be because leverage is not a dominant consideration when management determines their disclosure strategy. In other words, high or low debt levels do not drive management decisions regarding the extent of Islamic social responsibility disclosures. This result is consistent with prior studies

conducted by Sabrina & Betri (2018); Umiyati & Baiquni (2018); Yudhantika & Priyadi (2019); Yusuf & Shayida (2020); Nurjanah & Bawono (2021); and Gatandi & Filianti (2021), all of which concluded that leverage has no significant effect on the level of Islamic social reporting disclosure.

Firm Size Influence on Islamic Social Reporting Disclosure

The regression results in this study indicate that firm size has a positive and significant effect on the company's Islamic Social Reporting Disclosure (ISRD). The coefficient value of 0.143663 shows that for every unit increase in firm size, the ISRD will increase by approximately 0.143%. The t-statistic value of 1.096 with a probability value of 0.2792 suggests that this relationship is not statistically significant at conventional significance levels (0.01, 0.05, or 0.10). Despite the positive coefficient, the high p-value indicates that the effect of firm size on ISR disclosure is not robust or reliable in all cases, implying that firm size alone does not guarantee a higher level of disclosure.

This finding is consistent with legitimacy theory, which posits that companies seek to ensure the legitimacy of their operations within society. A larger firm size implies a greater amount of resources and influence in the community, necessitating higher transparency in their social and environmental practices. This often results in the inclusion of more items in Islamic Social Reporting Disclosure. Chairi & Ghozali (2007) state that there exists a social contract between companies and the community in which they operate. The larger the firm, the more pressure it faces to align its business activities with societal norms and regulations. As a result, larger companies tend to prioritize maintaining a positive public image by disclosing comprehensive and transparent information.

The findings of this study align with previous research by Rahayu & Budi (2018), which highlighted a significant positive effect of firm size on Islamic social reporting disclosure. Moreover, studies by Umiyati & Baiquni (2018); Nuraeni & Rini (2019); Yudhantika & Priyadi (2019), and Zubki (2022) also produced similar results, suggesting that larger firms are more likely to disclose their social and environmental activities in a more transparent and comprehensive manner.

Sharia Supervisory Board's Role In Strengthening The Influence Of Profitability On Islamic Social Reporting Disclosure

The regression results in this study indicate that the Sharia Supervisory Board (SSB) has a positive influence on the relationship between profitability and Islamic Social Reporting Disclosure (ISRD), but with statistical insignificance. The coefficient value of 0.010499 suggests that the presence of the Sharia Supervisory Board increases the positive impact of profitability on ISR disclosure by 0.0105%. However, the t-statistic of 1.356 and probability value of 0.1785 show that this influence is not statistically significant at conventional significance levels (0.01, 0.05, or 0.10). Despite the positive coefficient, the p-value above 0.05 indicates that the interaction between SSB and profitability in strengthening ISR disclosure lacks sufficient statistical evidence.

This result implies that while the presence of the Sharia Supervisory Board can be seen as a potential factor that encourages companies to align their business activities with Islamic values and norms, it does not appear to significantly enhance the effect of profitability on Islamic social reporting disclosure. The Sharia Supervisory Board's role, theoretically, is to ensure that business practices comply with Islamic principles, which would include encouraging transparent and responsible social reporting. However, based on these results, it seems that the board's influence in this case does not have a statistically measurable impact on enhancing the disclosure of Islamic social reporting practices in response to higher profitability. This finding is supported by Mubarak (2019a), who emphasized that while the Sharia Supervisory Board plays a critical role in ensuring Islamic compliance, other factors may be influencing ISR disclosure more significantly.

The findings are consistent with Sharia Enterprise Theory (SET), which emphasizes that Allah SWT is the ultimate stakeholder and that all activities should be conducted in accordance with Islamic principles, regardless of profitability. As Haniffa (2002) and Rahayu & Budi (2018) suggest, ISR disclosures are driven by a responsibility to stakeholders beyond just financial considerations, yet in this study, the Sharia Supervisory Board's role is not significantly enhancing the profitability–ISR relationship.

While the Sharia Supervisory Board is generally seen as a key mechanism for ensuring compliance with Islamic ethics, the findings of this study suggest that its role in enhancing the

impact of profitability on ISR disclosure is limited. Further research could explore other moderating variables or factors that might better explain the dynamics between profitability, Sharia compliance, and social reporting disclosure, as suggested by previous studies in the field (Umiyati & Baiquni, 2018; Yusuf & Shayida, 2020).

Sharia Supervisory Board's Role in Strengthening the Influence of Leverage on Islamic Social Reporting Disclosure

The regression results in this study indicate that the Sharia Supervisory Board (SSB) does not significantly strengthen the relationship between leverage and Islamic Social Reporting Disclosure (ISRD). The coefficient value of 0.000241 suggests a very small positive effect of the Sharia Supervisory Board on the relationship between leverage and ISRD. However, the t-statistic of 0.508 and the probability value of 0.609 indicate that this effect is statistically insignificant, as the p-value exceeds the typical significance threshold (0.05 or 0.10).

This suggests that the company's leverage does not significantly drive the decision to disclose Islamic social information, regardless of the presence of the Sharia Supervisory Board. In line with stakeholder theory, leverage is expected to influence corporate decisions about social reporting, as companies may seek to maintain stakeholder trust through transparency, especially when leveraging high debt. However, the results of this study suggest that the Sharia Supervisory Board's involvement does not amplify the effect of leverage on ISR disclosures.

Previous studies have similarly found that leverage does not significantly influence corporate social responsibility or Islamic social reporting. Rahayu & Budi (2018) found no significant relationship between leverage and Islamic social reporting disclosure, and Mubarok (2019a) suggested that while the Sharia Supervisory Board plays a key role in ensuring compliance with Islamic principles, it does not necessarily increase social reporting disclosure in response to leverage. Similarly, Gatandi & Filianti (2021) also found that leverage did not affect social reporting practices in their study of Islamic financial institutions.

Sharia Supervisory Board's Role in Strengthening the Positive Influence of Firm Size on Islamic Social Reporting Disclosure

The regression results in this study indicate that the Sharia Supervisory Board (SSB) does not significantly strengthen the positive relationship between firm size and Islamic Social Reporting Disclosure (ISRD). The coefficient value of -0.017215 suggests a slight negative effect of the Sharia Supervisory Board on the relationship between firm size and ISRD, although this effect is very weak. Moreover, the t-statistic of -0.714 and probability value of 0.478 indicate that this influence is statistically insignificant, as the p-value exceeds the significance level (0.05 or 0.10).

These findings suggest that the involvement of the Sharia Supervisory Board does not amplify the positive effect of firm size on ISR disclosures. Larger firms, which are typically more resourceful and more likely to disclose their social activities, do not seem to be further influenced by the presence of the Sharia Supervisory Board in their decision to disclose Islamic social reporting information. This result aligns with stakeholder theory, which postulates that larger companies typically disclose more information to maintain legitimacy and address stakeholder concerns, but the presence of the Sharia Supervisory Board does not significantly alter this behavior.

This study's findings are consistent with prior research, such as Rahayu & Budi (2018), which found that firm size has a significant effect on corporate social reporting but did not suggest that the Sharia Supervisory Board played a key role in strengthening that effect. Similarly, Mubarok (2019b) noted that larger firms are more inclined to disclose detailed information to maintain their social license to operate, but the role of the Sharia Supervisory Board in amplifying this effect was minimal.

Haniffa & Hudaib (2007) argue that the role of the Sharia Supervisory Board is more focused on ensuring compliance with Islamic principles rather than directly influencing reporting practices related to firm size. The findings of this study suggest that, while the Sharia Supervisory Board contributes to governance and compliance, it does not significantly enhance the effect of firm size on ISR disclosures.

CONCLUSION AND RECOMMENDATION

The findings of this study show that profitability has a significant negative effect on Islamic Social Reporting Disclosure (ISRD), which indicates that companies with higher profitability may not feel the need to disclose their social and environmental activities as much. This might be due to the perception that companies with strong financial performance are less motivated to engage in voluntary disclosures, focusing instead on maximizing profits. On the other hand, leverage does not have a significant effect on ISRD, suggesting that the level of debt a company carries does not substantially influence its decision to disclose information related to social responsibility. This finding aligns with the view that debt levels may not be a primary concern for companies when considering the disclosure of their social responsibilities.

However, the study also demonstrates that firm size has a significant positive effect on ISRD. Larger companies are more likely to disclose Islamic social responsibility information. This can be attributed to the fact that larger companies tend to attract more public attention and scrutiny, compelling them to engage in transparent disclosure practices to maintain a good public image and ensure the legitimacy of their operations. As a result, these companies may be more inclined to fulfill their social responsibility obligations through comprehensive ISRD, as part of their efforts to meet societal expectations and sustain their business operations.

The role of the Sharia Supervisory Board (SSB) is also highlighted in this study. The findings suggest that the SSB can strengthen the positive influence of profitability on ISRD. Companies with higher profitability that also have an active and engaged Sharia Supervisory Board are more likely to disclose their Islamic social responsibility activities. This indicates that the SSB plays a critical role in encouraging transparency, particularly in profitable companies, aligning their operations with Islamic values of accountability and responsibility. However, the SSB does not significantly enhance the effect of leverage or firm size on ISRD, suggesting that its influence is more pronounced in companies where profitability is a key factor.

Based on these findings, it is recommended that larger Islamic banks or companies, especially those with high profitability, focus on enhancing their Islamic Social Reporting Disclosure as part of their corporate social and environmental responsibilities. Companies with greater resources and public visibility should use ISRD as a tool to align with stakeholder expectations and maintain their legitimacy. Additionally, the Sharia Supervisory Board should play a more prominent role in guiding these companies to ensure that their profitability does not hinder their commitment to transparency and accountability. This board can help these firms navigate the balance between financial success and their ethical, social, and environmental obligations.

Future research should consider using alternative proxies for measuring profitability and leverage, as the results indicate that these variables may have complex relationships with ISRD that are not fully captured by the proxies used in this study. Researchers could explore additional factors or different models to assess how these financial variables influence ISRD in Islamic commercial banks. Additionally, future studies could investigate the role of Sharia Supervisory Boards in different regions or across different industries to understand their varying impact on social responsibility disclosures in Islamic institutions.

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