

The mediating effect of Islamic ethical identity disclosure on financial performance

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Abstract

Purpose – The present study examines the impact of Islamic corporate governance and social responsibility on financial performance.

Methodology – The study was designed with a quantitative approach. Purposive sampling was used in this study. Data were garnered through panel data from annual reports on Islamic banking in Indonesia and Malaysia from 2018 to 2020. The data were analyzed employing the Path Analysis.

Findings – Study findings demonstrate that Islamic social responsibility and corporate governance did not significantly impact financial performance. Additionally, disclosing its Islamic ethical identity, Islamic corporate governance had a substantial impact on financial performance. Islamic social responsibility, however, had no impact on financial performance when Islamic ethical identity was disclosed.

Implication – The findings offer empirical insights for managing Islamic commercial banks in Indonesia and Malaysia to elevate the application of Islamic corporate governance and social responsibility. This transparently demonstrates the quality of governance and social responsibility of Islamic banking with the disclosure of Islamic ethical identity following the standards applied by Islamic banking affecting stakeholder satisfaction.

Originality – This research contributes significantly to the realm of Islamic banking management. It examines the level of stakeholder satisfaction through the enactment of Islamic corporate governance as a form of supervision of management performance, Islamic social responsibility as a form of corporate concern for the surrounding environment and Islamic ethical identity disclosure to promote the image of Islamic banking.

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Introduction

Investors now pay close attention to Islamic banking's financial performance due to its rapid development and growing importance in the Islamic economy. Sharia law is followed when conducting business through Islamic banking. Sharia principles state that *usury*, *maysr*, *gharar*, and *zulm* are prohibited in transactions and are not allowed (Rahman et al., 2016). *Mudharabah*, *musyarakah*, and *ijarah* are the three main sharia principles in Islamic finance. Although Islamic banking is profit-oriented, making money is not the primary objective (Zubairu et al., 2012).

Usury is prohibited by Sharia law. According to Surah Ali Imron, verse 130 of the Qur'an, "O people of faith, do not eat usury by increasing and be committed to Allah so that you may have

good luck,” usury is forbidden. Verse 278 and verse 279 in Surah Al Baqarah include, “If you are believers, then devote yourselves to Allah and abstain from the balance of the usury (which has not been assessed). Thus, if you choose not to labor (and instead continue to engage in usury), be aware that Allah and His Messenger will battle you. And if you turn from taking an interest, you will receive the principal of your treasure; you won’t persecute and be persecuted.”

Muslim communities that conduct business and manage finances according to Islamic principles are becoming more religious. The Islamic banking industry has registered as many as 14 public Sharia banks and 20 Sharia enterprise units for a total of 2,281 offices functioning in Indonesia as of today. Indonesia is one of the nations with the greatest Muslim populations in the world (Rahman et al., 2014).

The market share value of Indonesian Islamic banking, which represents only 5.85% of the total national banking market share, must be commensurate with the rapid development of Islamic banking (Financial Services Authority, 2020). When compared to other nations that follow Sharia law, such as the United Arab Emirates (19.6%), Malaysia (23.8%), and Saudi Arabia (51.1%), this value still appears low. Given that the majority of the population is Muslim, Indonesia should have a larger market share than other nations. The number of Sharia enterprise units operating under the supervision of conventional banks indicates that the rise of Islamic banking is still modest (Mardiani et al., 2019).

Similar to Indonesia, Malaysia is a Southeast Asian nation. In Malaysia, Islamic banking was first created in 1983. The market share value of Islamic banking in Malaysia is four times that of Islamic banking in Indonesia. This is the outcome of the Islamic banking system’s policies, which include the deregulation of the Islamic financial sector in cooperation with foreign parties to build Islamic banks in Malaysia, which are thought to be effective. The following policy, which is based on the 1989 Banking and Financial Institutions Act (BAFIA) Law, is to work with conventional banks to offer Islamic banking and financial products through subsidiary schemes and Islamic Windows. The most recent law governing Islamic financial institutions in Malaysia is the 2013 Islamic Financial Services Act (IFSA) law.

Financial statements are used by investors to evaluate the financial performance of Islamic institutions. In response to this, Islamic banks also take into account financial statements while formulating future plans. By examining profitability measures, company managers can evaluate the financial performance of Islamic banking. The profitability ratio is used to evaluate a company’s effectiveness and asset management (Triantoro et al., 2020). To estimate the level of profit based on the efficiency of the assets, this study uses Return on Asset (ROA) proxies (Ridwan & Mayapada, 2020).

Advancement of the company and its business units, good corporate governance, and financial statements are presented in a responsible and transparent way. The adoption of Islamic corporate governance and its open disclosure demonstrates the excellence of Islamic banking governance, enhancing organizations reputations (Alhammad et al., 2020). Islamic corporate governance as a management activity monitoring tool to be utilized as a basis for Islamic banking evaluations of firm performance to be taken into consideration when analyzing and implementing sharia-compliant strategies for the future (Al-Homaidi et al., 2020a)

Islamic social responsibility (ISR) is a form of corporate social responsibility that draws on Islamic principles, philanthropy, and economics, as found in the Qur’an and Hadith. ISR is a set of rules based on the environment, people, and Allah the Almighty (Khairiyani, 2020). Aspects of human resources, goods and services, involvement in society, the environment, and social issues in the form of *bait maal* channeling funds from grants, *infuq*, *zakat*, *sadaqah*, and other sources are among the ISR disclosures to Islamic banks that are covered by article 4 paragraph (2) of Law No. 21 of 2008.

The revelation of Islamic ethical identity has an impact on stakeholders and financial performance. Business ethics are an issue today (Ridwan & Mayapada, 2020). The amount of disclosure of capital income that grows can improve the performance of the firm. According to the criteria used by Sharia banks, Islamic ethical identity has an effect on stakeholder satisfaction that can affect the company’s financial performance (Setiabudhi et al., 2020). In Indonesia, the

average revelation of Islamic ethical identity ranged from 64% to 73% between 2013 and 2017, compared to 58% to 63% in Malaysia. The order of Islamic banking institutions should be improved in terms of cultural and ethical issues, regulation, financial supervision, corporate governance, and improving economic and financial performance in order to improve the perception of Islamic banking (Ariyanto, 2014).

Literature Review

Shariah Enterprise Theory

Based on "Shariah Enterprise Theory," the metaphor of zakat's existence is measured by its ability to maintain balance. Shariah Enterprise Theory is intended to focus on the well-being of all parties concerned, not only the permanent shareholders (Abu Zayyad et al., 2021). This suggests that such a balance value exists. The theory examines various factors, including stakeholders like God, man, and the environment.

The execution of their obligations is influenced by applying the Shariah enterprise theory to Islamic commercial banks. Islamic banking also plays a role in placing equal emphasis on upholding Allah's authority and the interests of stakeholders. For both capital owners and the general public to have confidence in the accuracy of financial statement information released by Islamic banks, banks must adhere to a greater level of compliance with these standards (Abu Zayyad et al., 2021).

Signaling Theory

A managerial activity known as "Signaling Theory" may affect the company's stock price by raising its value. Debt collection is a good sign that can be used to gauge the availability of information. Management constantly strives to provide comprehensive information that might entice investors to invest in businesses, and the reliability of voluntary report disclosures has increased (Al-Homaidi et al., 2020b).

Myers and Maljuf (1984) point out that signaling theory explains why companies have the incentive to provide financial statement information to external parties. The company's drive to provide information is because there is an information asymmetry between the company and outsiders because the company knows more about the company and its future prospects than outsiders (investors and creditors) (Suwardjono, 2006). The lack of outside information about the company causes them to protect themselves by charging low prices for the company. Companies can increase value by reducing information asymmetry.

Hypotheses

The conflict between the principal and agent that results from different points of view and objectives is explained by agency theory. In this situation, Islamic corporate governance is seen as a system capable of balancing the interests of principals and agents by performing oversight and monitoring duties. By taking into account the interests of company stakeholders, Islamic corporate governance must be conducted in line with Islamic economic principles (Asrori, 2014). The Sharia supervisory board is responsible for overseeing Sharia compliance and serving as an advisory board for management decisions based on Sharia principles (Sutapa & Hanafi, 2019). In order to evaluate trustworthy and accurate financial statement information and enhance financial performance, stakeholders benefit from stakeholders' competence in corporate governance (Budi, 2021; Mardiani et al., 2019).

H₁: Islamic corporate governance directly affects positive financial performance

According to signaling theory, stakeholder signals are brought on by the information gap between the principal and agent. Islamic social responsibility is a corporate obligation to the general public in corporate social affairs. Due to the company's actions with Islamic social responsibility and its demonstration of environmental care, its positive reputation can be upheld. The profitability

(ROA) of the company increases as Islamic social responsibility disclosure increases (Arifin & Wardani, 2016; Sutapa & Hanafi, 2019). Examining the company's capability and financial data to determine the company's position, evaluation, and relevant decision-making strategies are developed (Al-Homaidi et al., 2020b). Through proper Islamic social responsibility, the transition from multiple conventional banks to Islamic banks is a good step (Arshad et al., 2012; Ridwan & Mayapada, 2020; Tasnia et al., 2021).

H₂: Islamic social responsibility directly affects positive financial performance

Islamic principles must be the foundation of Islamic corporate governance in Sharia-based Islamic banking. Financial performance measures the state of Islamic banking's finances over a specific time period by taking into account factors including capital sufficiency, money raising, and fund disbursement (Tasnia et al., 2021). The amount of profitability can be used to determine the financial element. Analyzing profitability by examining the state and capacity of Islamic banks to generate profits using the ROA ratio, the Sharia supervisory board's Islamic corporate governance system is tasked with monitoring, guiding, and overseeing Sharia-compliant Islamic banking operations. By assessing the maqasid sharia index, the Islamic corporate governance system seeks to help Islamic banks accomplish their long-term social and business objectives (Sutapa & Hanafi, 2019). Islamic banks' financial performance in Asia, as measured by a scale of ROA and ROE, is impacted by the declaration of Islamic ethical identity (Ariyanto, 2014). Increased investment in Islamic banking will be influenced by the disclosure of a credible Islamic ethical identity and fully disclosed information, which will increase investor satisfaction and encourage continued investment in Islamic banking, which will improve the company's financial performance with an increase in additional capital (Sumiyati & Vehtasvili, 2021).

H_{3a}: Islamic corporate governance affects positive financial performance through disclosure of Islamic ethical identity

According to the signaling theory, a company's financial performance and worth can be increased by providing enlightening Islamic social responsibility disclosures (Khairiyani & Mubyantoro, 2019). Investors, suppliers, clients, and other stakeholders' financial outcomes are impacted by Islamic social responsibility. If financial statement information is transparent and Islamic social responsibility disclosure demonstrates high accountability, interested people will continue to be loyal investors (Arifin & Wardani, 2016; Arshad et al., 2012). ROA, a metric used to evaluate financial performance, is positively impacted by Islamic social responsibility (Cahyaningtyas & Canggih, 2020). It is thought that by putting the Islamic social responsibility principle into practice, Islamic banking could perform better financially, which could lead to higher firm profits (Arifin & Wardani, 2016).

As a type of assurance for Islamic banking activities conducted in conformity with Sharia principles, disclosure of Islamic ethical identity is required. Increased shareholder engagement and loyalty due to the greater revelation of Islamic ethical identity may have an impact on financial performance in terms of profitability and liquidity (Tasnia et al., 2021). The Ethical Identity Index, which assesses the degree of conformance of annual report disclosures based on Islamic principles, is the Islamic ethical identity measurement tool (Marka & Serly, 2020). In light of several business issues, including those relating to rivalry, mismatch of products and services, the necessity for technology, and the impact of globalization, Islamic banking necessitates the revelation of Islamic ethical identity (Zaki et al., 2014). The company's provision of thorough, reliable disclosure of yearly reports is one of its strategies for reducing information asymmetry (Sumiyati & Vehtasvili, 2021).

H_{3b}: Islamic social responsibility affects positive financial performance through disclosure of Islamic ethical identity

Based on the four hypotheses, a research model of this study can be framed as it is illustrated in Figure 1:

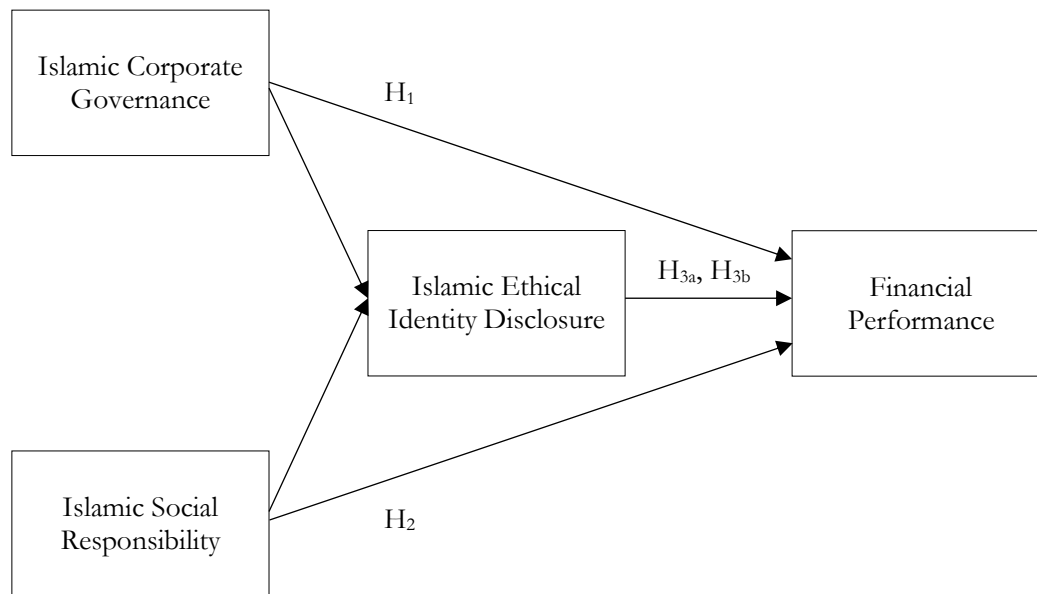


Figure 1. Research Model

Research Methods

This study is descriptive research with a quantitative approach. This study aims to describe the influence of Islamic corporate governance, Islamic social responsibility, and the disclosure of Islamic ethical identity on the financial performance of Islamic banking in Indonesia and Malaysia.

The population used in this study was all Sharia commercial banks in Indonesia and Malaysia. Samples were determined using purposive sampling techniques. The sample was determined based on three criteria, as follows:

1. Sharia banks operating in Indonesia and Malaysia
2. Sharia banks that have annual reports available in 2018-2020 both on the company's website and on stock exchanges in the country
3. Sharia banks, whose annual reports end on December 31

Operational Variables

- a. **Financial Performance.** Companies assess their financial condition over time using financial performance. The profitability ratio and the liquidity ratio are the financial performance metrics employed in this study (Srimindarti, 2006). Net income is calculated by dividing it by the total assets of the company, which yields the profitability ratio seen from the ROA value.
- b. **Corporate Islamic Governance.** The researcher modified the 2011 Sharia Business Good Governance Guidelines (GGBS), which are governed by the National Committee on Government Policy (KNKG) and consist of 25 items, based on the Regulation of Bank Indonesia (PBI) No. 11/33/PBI/2009. These 25 items include the structure and operation of the Sharia Advisory Board, which consists of four items, the structure and operation of the directors, which consists of eleven items; and the Sharia business ethics, which consists of ten items. It calculates Islamic corporate governance by dividing the total relevant items by the number of stated indicators.
- c. **Islamic Social Responsibility.** The Islamic Social Reporting Index (ISR Index), which was used in this study, consists of 38 disclosure categories, including financial and investment information. The ISR comprises 5 items for goods, 5 items for services, 3 items for corporate governance, 8 items for employees, and 8 items for social and environmental issues. Meanwhile, 9 items from the Islamic Financial Institutions' Accounting and Auditing Organization were adopted (AAOIFI, 2002). It calculates Islamic corporate responsibility by dividing the total relevant items by the number of declared indicators.

- d. Disclosure of Islamic Ethical Identity. According to the Ethical Identity Index (EII) proposed by Haniffa and Hudaib (2007), the disclosure of Islamic ethical identity in this study consists of 78 items, including nine items for vision and mission, 13 items for the board of directors and top management, 10 items for products, 15 items for zakat, ink, and charitable loans, 9 items for employees, 4 items for loan policy, 7 items for society, and 11 items for the sharia supervisory board. Islamic ethical identity measurement calculates disclosure by dividing the amount of relevant items by the number of disclosed indicators.

The data analysis technique used the classical assumption test and the IBM SPSS 23 Path Analysis test.

Hypothesis 1: $X_3 = \alpha + b_1 X_1 + b_2 X_2 + \epsilon$

Hypothesis 2: $Y = \alpha + b_1 X_1 + b_2 X_2 + b_3 X_3 + \epsilon$

The population of Sharia commercial banks in Indonesia registered with the Financial Services Authority (OJK) from 2018-2020 is 14 Islamic banks, while Sharia commercial banks in Malaysia registered with Bank Negara Malaysia (BNM) are 12 Islamic banks. The sample used in this study was Sharia commercial banks in Indonesia and Malaysia, each of which presented an Annual Report according to the data needed by the research (see Table 2).

Based on the sample determination criteria, the following sample selection was obtained in Table 1:

Table 1. Research Samples

No	Information	Total
1	Sharia banks registered with OJK in 2018-2020	14
2	Sharia banks do not publish annual reports on the Bank 17 website for 2018-2020 in Indonesia	(4) (2)
3	Incomplete annual report of Islamic commercial banks to measure variable operations	8
Samples of Sharia banks in Indonesia		
1	Sharia banks registered with BNM in 2018-2020	12
2	Sharia banks do not publish annual reports on the bank's website for 2018-2020 in Malaysia	(2) (2)
3	Incomplete annual report of Islamic commercial banks to measure variable operations	8
Samples of Sharia banks in Malaysia		
Samples		16
Total Samples 16 x 3		48

Table 2. Sample List of Sharia Banks

No	Sharia Banks in Indonesia	Sharia Banks in Malaysia
1	Bank Muamalat Indonesia	Bank Islam Berhad
2	Bank Syariah Bukopin	Affin Islamic Bank Berhad
3	BCA Syariah	HSBC Amanah Malaysia Berhad
4	Maybank Syariah Indonesia	AmBank Islamic Berhad
5	Bank Jabar Banten Syariah	Bank Islam Malaysia Berhad
6	Bank Victoria Syariah	Al Rahji Bank Malaysia
7	PT. Panin Syariah	Alliance Islamic Berhad
8	Bank Tabungan Pensiunan Nasional Syariah	Hong Leong Bank Berhad

Descriptive Statistics

Descriptive statistical analysis is carried out to describe research data regarding the distribution and behavior of data collected in research (Ghozali, 2017).

Table 3. Descriptive Statistics

Variable	N	Minimal	Maksimal	Mean	SD
Islamic Social Responsibility	48	0.50	0.87	0.6654	0.10491
Islamic Corporate Governance	48	0.40	0.92	0.7598	0.14337
Islamic Ethical Identity Disclosure	48	0.23	0.67	0.4821	0.11650
Return on Assets	48	0.02	13.60	1.5812	2.66481

Informed in Table 3, it was found that the minimum value of disclosure of Islamic ethical identity was 0.23, the maximum value was 0.67, the average was 0.4821, and the standard deviation was 0.11650. Furthermore, the minimum value of Return on Assets is 0.02, the maximum value is 0.67, the average is 1.5812, and the standard deviation is 2.66481.

Results and Discussion

Path Analysis is an extension of regression analysis to assess causal relationships between established variables (Ghozali, 2013). Path analysis is a method used to test the influence of intervening variables. Relationship patterns reveal the influence of a million other variables, either directly or indirectly, through other variables intervening.

a. Regression analysis of the influence of Islamic social responsibility, Islamic corporate governance on Islamic ethical identity disclosures_equation 1

The direct influence of Islamic social responsibility, and Islamic corporate governance on the disclosure of Islamic ethical identity can be explained in the following regression equation model 1:

Table 4. Hypothesis Test 1

No.	Information	Value		
1.	Model Summary			
	R	0.745		
	R Square	0.556		
2.	ANOVA			
	F	28.139		
	F Table	3.204		
	Sig	0.000		
		Coefficient	t value	Sig
3.	Coefficient			
	Constanta	-0.020	-0.268	
	t Table		2.014	
	Islamic Corporate Governance	0.525	4.930	0.000
	Islamic Social Responsibility	0.155	1.067	0.292

The output of the summary model above shows that the value of R squared for equation two is 0.556. Therefore, the magnitude of the value of $e1$ can be calculated by $\sqrt{1-R^2}$. Thus, the magnitude of the value $e1 = \sqrt{1-0.556} = 0.666$. Based on Table 4, the ANOVA or F test results are 28,139 with a significant level of 0.000. Because it is significantly 0.000 smaller than $(\alpha) = 0.05$, it means that Islamic social responsibility and Islamic corporate governance have a significant effect on the disclosure of Islamic ethical identity.

The results of the regression analysis output can be explained by the fact that the independent variable, namely the Islamic social responsibility variable, does not have a significant effect on the dependent variable of Islamic ethical identity disclosure with a significance level of 0.292, while Islamic corporate governance has a significant effect on the dependent variable of Islamic ethical identity disclosure with a significance level of 0.000.

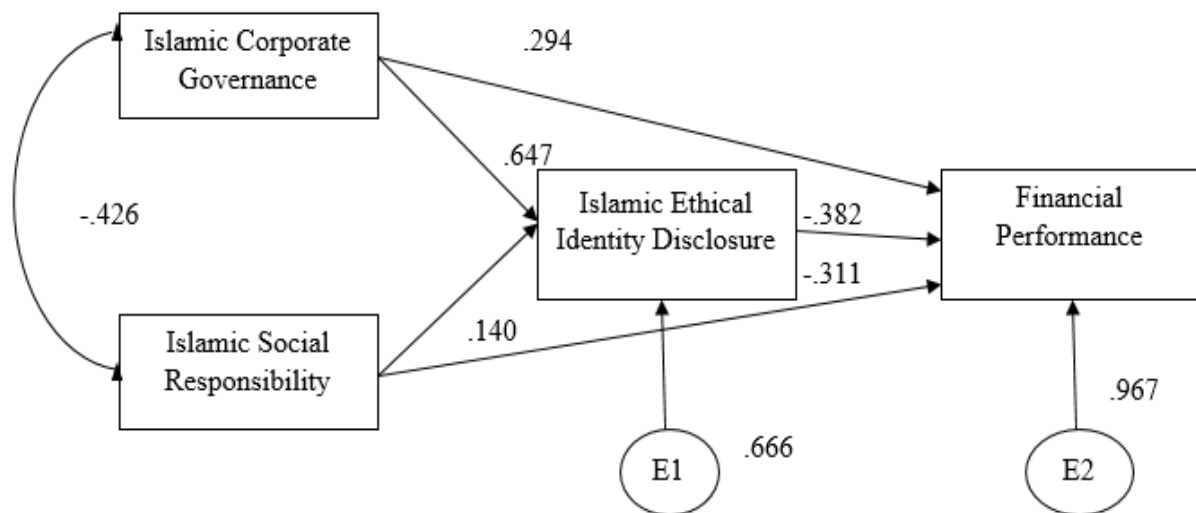
b. Regression analysis of the influence of Islamic social responsibility, Islamic corporate governance, and disclosure of Islamic ethical identity on financial performance_equation II

Table 5. Hypothesis II

No	Information	Value		
1.	Model Summary			
	R	0.254		
	R Square	0.064		
2.	ANOVA			
	F	3.008		
	F Table	2.816		
	Sig	0.008		
		Coefficient	t value	Sig
3.	Coefficient			
	Constanta	3.677	1.432	
	t Table		2.015	
	Islamic Corporate Governance	5.463	1.230	0.225
	Islamic Social Responsibility	-7.906	-1.597	0.117
	Islamic Ethical Identity Disclosure	-2.043	-2.408	0.035

The output of the summary model in Table 5 can be seen that the value of R square for equation two is 0.064. Therefore, the magnitude of the value of e_1 can be calculated by $\sqrt{(1-R^2)}$. Thus, the magnitude of the value $e_2 = \sqrt{(1-0.064)} = 0.967$. Based on Table 5, the ANOVA or F test results are 3,008 with a significant level of 0.008. Because it is significantly 0.008 smaller than $(\alpha) = 0.05$, it shows that Islamic social responsibility, Islamic corporate governance, and disclosure of Islamic ethical identity have a significant effect on financial performance.

The results of the regression analysis output can be explained by the fact that the Islamic ethical identity disclosure has a significant effect on the financial performance variable with a significance level of 0.035. While Islamic social responsibility, Islamic corporate governance does not have a significant effect on financial performance, with a significance level of 0.117 and 0.225, respectively.

**Figure 2.** Path Analysis Model

Based on Figure 2, the direct influence of Islamic corporate governance on financial performance beta value is 0.294, while the indirect influence of Islamic corporate governance on financial performance mediated with Islamic ethical identity disclosure is $0.647 \times 0.382 = 0.247$, so the total influence is 0.541. The direct impact of Islamic social responsibility on financial performance beta value is 0.311, while the indirect influence of Islamic Islamic social responsibility on financial performance mediated with Islamic ethical identity disclosure is $0.140 \times 0.382 = 0.053$ so the total influence is 0.347.

Table 6. Sobel Test Results on the Influence of Islamic Corporate Governance on Financial Performance through Islamic Ethical Identity Disclosure

Sobel Test	Test Statistic	Two-tailed Probability	Std. Error	
Islamic Corporate Governance	-3.96718972	0.0000	<0.05	Passed

Table 6 explains that the Std. The error value is smaller than the alpha value of $0.000 < 0.05$. It indicates that the Islamic ethical identity disclosure variable is an intervening variable on the influence of Islamic corporate governance on financial performance.

The regression output results reveal that the computed t value is 1.230 with a degree of significance of $0.225 > 0.05$ according to the results of the Hypothesis 1 test. This indicates that Islamic corporate governance has little immediate impact on the financial sector. Thus, the first hypothesis is disproved. The agency theory explains the conflict between the principal and agent caused by different points of view and objectives. In this situation, Islamic corporate governance is seen as a system capable of balancing the interests of principals and agents by performing oversight and monitoring duties. By taking into account the interests of company stakeholders, Islamic corporate governance must be conducted in line with Islamic economic principles (Asrori, 2014).

The study findings are consistent with prior research (Cahyaningtyas & Canggih, 2020; Mardiani et al., 2019), which found that the application of Islamic corporate governance has little to no impact on Islamic banking's financial performance. The adoption of Islamic corporate governance (ICG) has a good impact on financial performance, according to research (Gunardi et al., 2021), yet the study findings do not support that claim. The financial performance of Islamic banks is increased by the use of ICG (Marka & Serly, 2020). The adoption of Islamic corporate governance has a negative impact on the profitability of Islamic banks (Sutapa & Hanafi, 2019).

This is because the Islamic commercial banks that operate there only publish a limited amount of information. People have begun to question the application of Islamic principles to the United States due to information on the governance rules of several banks that merge conventional commercial banks with Islamic commercial banks (Mardiani et al., 2019). Because operating Islamic commercial banks is not the main activity but rather one aspect of business development to generate a profit, it is not necessary to inform stakeholders about the low disclosure of Islamic corporate governance. Because poor corporate governance makes companies more susceptible to economic downturns and increases the likelihood of running into financial difficulties, it is crucial to improve corporate governance in Islamic banks in order for the sector to continue to grow effectively and maintain its competitiveness (Samra, 2016; Hassan Al-Tamimi, 2012). Effective corporate governance in the banking industry will raise the efficiency of the bank's operations, lower risk, boost market growth, boost investor confidence, stabilize the economy, and lower the cost of capital for the bank's operational activities (Marcinkowska, 2012; Ghaffar, 2014).

The evaluation of Hypothesis 2 reveals that according to the output data from the regression, the calculated t-value is -1.597, and the level of significance is $0.117 > 0.05$. Thus, there is no clear relationship between Islamic social responsibility and financial performance. Thus, the second theory is disproved. According to the signaling theory, stakeholder signals are identified by the information gap between the principal and the agent. Islamic social responsibility is a corporate obligation to the general public in the area of corporate social affairs. Due to the company's actions involving Islamic social responsibility and its demonstration of environmental care, its positive reputation can be upheld. The level of profitability (ROA) of the company increases as Islamic social responsibility disclosure increases (Arifin & Wardani, 2016; Sutapa & Hanafi, 2019).

According to Arshad et al. (2012) and Budi's (2021) study, the declaration of Islamic social responsibility has no effect on financial performance. The study results corroborate this finding. While studies have shown that Islamic social responsibility has a considerable impact on financial success (Gunardi et al., 2021; Khairiyani & Mubyantoro, 2019; Arifin & Wardani, 2016), there is no evidence to support this claim.

This is so because Return on Assets (ROA) gauges how profitable a company may be given the assets at hand. Therefore, if a corporation has a high ROA, it has a significant chance to boost

its own capital growth. Businesses that are profitable typically disclose more information. Based on the study findings, ROA is unaffected by the Islamic social responsibility level of transparency. This is most likely a result of the fact that Islamic banks do not frequently link the activity of making a profit off of assets used with the information disclosed in Islamic social responsibility.

A disclosure system with an ISR index is used by Islamic social responsibility disclosure, and in that system, the amount of disclosure reported from activities that expose 38 items is displayed in Islamic social responsibility, which is a wider disclosure system. Islamic banking employs Islamic social responsibility reports on the legal basis of applicable laws that are the same as corporate social responsibility reports generally; thus, the assessment indicators of Islamic social responsibility are not optimal since Islamic banks are not informed.

According to the regression output results and the results of the Hypothesis 3a test, the calculated t-value is 4.930 with a level of significance of $0.000 < 0.05$. This indicates that the disclosure of Islamic ethical identity has a computed value of -2.408 with a level of significance of $0.035 < 0.05$ and that the degree of Islamic corporate governance has a substantial impact on this disclosure. This implies that financial performance is significantly impacted by the disclosure of Islamic ethical identity. As a result, hypothesis 3a is accepted because Islamic corporate governance indirectly influences financial performance (via the revealing of Islamic ethical identity). Islamic principles must be the foundation of Islamic corporate governance in Sharia-based Islamic banking. Financial performance measures the state of Islamic banking finances over a specific time period by taking into account factors including capital sufficiency, money raising, and fund disbursement (Tasnia et al., 2021).

The findings of this study are consistent with research that shows that disclosing one's Islamic ethical identity has a considerable impact on financial performance (Marka & Serly, 2020; Rahman et al., 2014; Sumiyati & Vehtasvili, 2021; Zaki et al., 2014), despite the fact that the study (Al-Homaidi et al., 2020b; Alhammadi et al., 2020) found no connection between financial performance and the declaration of Islamic ethical identity. Further, implementing labor standards that are consistent with Islamic ethics will significantly boost the company's growth (Marka & Serly, 2020). Increased investment in Islamic banking tends to be influenced by the disclosure of a credible Islamic ethical identity and fully disclosed information. This increases investor satisfaction and encourages continued investment in Islamic banking, which may improve the company's financial performance with an increase in additional capital (Sumiyati & Vehtasvili, 2021).

Financial performance can be enhanced by the application of strong Islamic corporate governance and its disclosure in the annual reports of Islamic banks. Implementing good corporate governance is essential to overcoming agents who frequently act in their own interests in order to guarantee the rights and relationships of all stakeholders, avoid the emergence of agency conflicts, minimize risks resulting from management decisions that frequently serve their own interests, and ultimately enhance a company's performance. Aspects of corporate governance and adherence to Sharia principles are both implemented as part of Islamic corporate governance in Islamic banks. All aspects of Islamic banks operating in conformity with applicable policies, rules, and Sharia principles are reflected in good Islamic corporate governance. It indicates that the company's business wheels run well and improve financial performance.

Stakeholders are reassured of the appropriateness of operations with the ideal identity that Islamic banks should have through the disclosure of Islamic Ethical Identity. The level of commitment to Islamic principles increases with the importance of disclosing Islamic Ethical Identity. In the end, it will encourage investor engagement and devotion to Islamic banks, which will have an effect on enhancing financial performance.

Regression output findings reveal that the computed t value is 1.067 with a level of significance of $0.292 > 0.05$, according to the results of the 3b Hypothesis test. The disclosure of Islamic ethical identity has a calculated value of -2.408 with a level of significance of $0.035 < 0.05$, which indicates that Islamic social responsibility has no discernible impact on it. This implies that financial performance is significantly impacted by the disclosure of Islamic ethical identity. The 3b hypothesis is disproved because Islamic social responsibility has no indirect impact (through the disclosure of Islamic ethical identity) on financial performance. According to the signaling theory,

a company's financial performance and worth can be increased by providing enlightening Islamic social responsibility disclosures (Khairiyani & Mubyantoro, 2019).

Investors, suppliers, clients, and other stakeholders' financial outcomes are impacted by Islamic social responsibility. If financial statement information is transparent and Islamic social responsibility disclosure demonstrates high accountability, interested people will continue to be loyal investors (Arifin & Wardani, 2016; Arshad et al., 2012). The declaration of Islamic social responsibility does not affect financial performance (Arshad et al., 2012; Budi, 2021). The study results are also consistent with this finding, despite several studies (Arifin & Wardani, 2016; Cahyaningtyas & Canggih, 2020) demonstrating that Islamic social responsibility positively affects ROA to evaluate financial performance.

There are still many Sharia commercial banks that have not been run and disclosed in the annual report included in the ISR index, such as from the community pillar, including the empowerment of school or college graduates, development of the younger generation where the information is still not obtained in the index. It can be seen in the disclosure of Islamic social responsibility in Islamic banks that occurred in the 2018-2020 period. If this is put into practice, all Islamic commercial banks are likely to have greater confidence in and willingness to support the growth and advancement of Islamic commercial banks. Graduates and the younger generation are striving to advance Sharia commercial banks and cause an increase in the company as well as its income.

Another pillar, like the environment, arises since Islamic social responsibility is still a voluntary practice at this time (voluntary disclosure) in order to raise operating expenses and satisfy stakeholder requests or enhance the company's reputation. Corporate social responsibility initiatives must strengthen the company's relationships with shareholders and the government. The expenditures incurred will increase as a result of Islamic banks' increased awareness of the need to engage in more activities related to Islamic social responsibility, burdening the business financially (Pan et al., 2014), coupled with low public awareness of the issue of Islamic social responsibility, will cause people to be less interested in using the services of Islamic bank, which will reduce the profits obtained.

Conclusion

The findings of this study indicate that Islamic social responsibility and Islamic corporate governance do not directly influence financial performance. Since operating Islamic commercial banks is not the primary activity, stakeholders do not need to be informed about the limited disclosure of Islamic corporate governance. Islamic social responsibility information is not frequently linked to the endeavor of generating a return on the resources employed. It indicates that disclosure on Islamic social responsibility is a broader aspect of the disclosure system with the Islamic social responsibility index, where in that system, the level of disclosure reported from activity exposes 38 items.

The disclosure of Islamic ethical identity influences financial performance as the following outcome or Islamic corporate governance. Islamic social responsibility, however, does not affect financial performance when Islamic ethical identity is disclosed. The outcomes of the various tests revealed that Indonesia and Malaysia's 2018-2020 annual reports on Islamic banking differed in their disclosure of Islamic corporate governance, Islamic social responsibility, and Islamic ethical identity. In order to create more accurate statistics, more studies can include samples from Islamic banking in Southeast Asian or Middle Eastern nations with a research term of more than three years. Other performance indicators not examined in this study, such as liquidity, solvency, activity, and so on, may be used in further studies.

One of its limitations is the sample employed in this study, which only included Indonesia and Malaysia. In order to allow future studies to use more samples, this study used 48 samples over the course of three years. To enable future research to create a tool for measuring financial performance, the dependent variable in this study is that financial performance exclusively employs ROA.

Author Contributions

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