Csr disclosure and financial performance in Indonesia Islamic banks: the moderating role of board governance characteristics

.

ABSTRACT

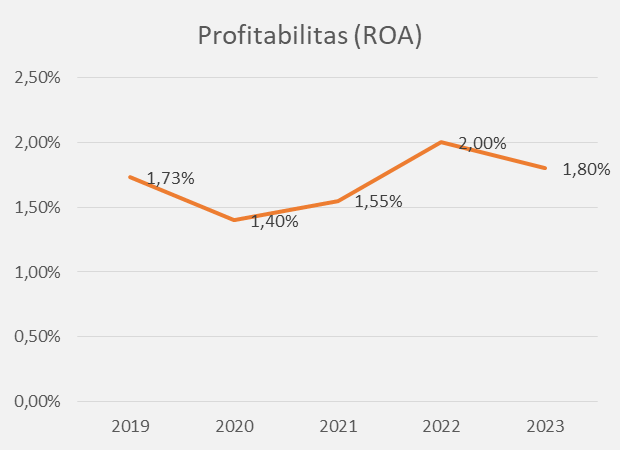
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| **Aims:** This study aims to analyze the effect of Corporate Social Responsibility (CSR) on the financial performance of Islamic commercial banks in Indonesia and to examine whether Good Corporate Governance (GCG), as measured by board size and board gender diversity, moderates this relationship.  **Study Design:** Quantitative approach using panel data regression.  **Place and Duration of Study:** The study focuses on 13 Islamic commercial banks in Indonesia during the period of 2018–2023, with a total of 66 bank year observations..  **Methodology:** CSR was measured using a disclosure index based on sustainability reports. GCG was assessed through board size and gender diversity ratio. Financial performance was proxied using Return on Assets (ROA). Data were analyzed using Random Effect Model (REM) regression with robust standard errors. Moderation analysis was performed using interaction terms between CSR and the two GCG indicators.  **Results:** The study finds that CSR disclosure has a positive effect on ROA. The direct effects of board size and gender diversity are insignificant. Moderating effects are weak: gender diversity shows marginal interaction, while board size has no meaningful moderating influence.  **Conclusion:** The study highlights the importance of CSR disclosure in enhancing the financial performance of Islamic banks. Although GCG indicators do not show strong moderation, the findings suggest that meaningful female board participation and robust CSR reporting may contribute to performance alignment with Sharia principles. This study contributes by integrating CSR–GCG interaction within the context of Sharia-based banking and offers practical insights for policymakers and financial institutions. |

*Keywords: Corporate Social Responsibility (CSR), Financial Performance, Good Corporate Governance (GCG), Board Size, Gender Diversity, Return on Assets (ROA), Islamic Banks*

1. INTRODUCTION

The Islamic banking sector in Indonesia has experienced significant advancement over the last ten years. As an integral component of the national financial framework, Islamic banks are expected to foster financial inclusivity while adhering to Sharia principles that underscore fairness, openness, and equilibrium. This positive development is reflected in the growing number of Islamic financial institutions and the consistent rise in total assets over the past three years. However, this accelerated expansion has also heightened the intensity of competition—both among Islamic banks themselves and between them and their conventional counterparts. In such a competitive environment, each Islamic bank is compelled to exhibit superior performance to maintain its position in Indonesia’s banking industry (Dewi et al., 2024; Juniwati & Rivanda, 2023; Purbayati et al., 2021, 2023). Despite the increasing asset base and broader service reach, Islamic banks still confront several critical issues in terms of financial performance. Data from the Financial Services Authority (OJK) and several scholarly investigations highlight that fluctuations in financial outcomes are closely associated with the quality of management and external pressures, such as economic downturns, uneven adoption of digital technologies, and limited innovation in banking products. Financial performance reflects the fiscal health and prosperity level of a firm within a given time frame. A commonly used metric is the profitability ratio, particularly Return on Assets (ROA), which assesses overall profitability while gauging the finance department's efficiency in leveraging assets over a set duration. Evaluating financial performance is essential as it reveals how effectively an institution utilizes its resources to produce earnings (Afgani et al., 2023; Rivanda & Muslim, 2021). In fact, Putri et al. (2023) observed that the ROA of Islamic banks in Indonesia tends to be unstable due to internal and external structural factors, including inefficient asset utilization and weak governance monitoring mechanisms, particularly in relation to social and ethical obligations.

The elevated profits derived from Islamic banking’s financing products play a central role in shaping financial performance. To enhance profitability, Islamic banks must ensure optimal use of their productive assets. Additionally, profitability has emerged as a key determinant in the growth of the Islamic banking sector during the 2019–2023 period, as illustrated in Figure 1.



**Figure 1. Profitability Trends of Indonesian Sharia Commercial Banks in 2019-2023**

Source: processed from Sharia Banking Statistics (2023)

Processed by : Asril Maulana et al., (2025).

According to Figure 1, the Return on Assets (ROA) of Islamic Commercial Banks in 2019 stood at 1.73%. However, this figure declined to 1.40% in 2020, primarily as a result of the global economic turmoil caused by the pandemic. Throughout the 2019–2023 period, the financial performance of Islamic Commercial Banks showed noticeable fluctuations. Despite the economic challenges, ROA improved to 1.55% in 2021, reflecting the sector’s resilience amidst widespread downturns in other industries. The Islamic finance sector succeeded in sustaining its presence, as indicated by the rise in ROA to 2.00% in 2022. However, this figure declined again to 1.88% in 2023. The continued fluctuations in ROA over the past five years reflect that the overall expansion of Islamic banking has yet to establish a consistently solid and upward trajectory.

The financial performance of Islamic banking in Indonesia still shows volatility and has yet to reach its full potential, which calls for strategies that can enhance performance in a sustainable manner—one of which is through the effective implementation of CSR and GCG (Maulana et al., 2025; Suci & Muflih, 2024). According to the World Business Council for Sustainable Development (WBCSD), CSR refers to business commitments that contribute to sustainable economic development by working with employees and local communities to improve quality of life in ways that are beneficial for both the business and societal development. CSR is believed to strengthen reputation, customer loyalty, and public trust, which ultimately has a positive impact on financial performance (Handayani, Wahyudi, & Suharnomo, 2017; Haryono & Iskandar, 2015). The implementation of CSR has been proven to have a positive effect on financial performance (Yeni et al., 2024). Thus, CSR plays a crucial role in enhancing firm value through increased sales generated by various social initiatives. However, prior studies have shown inconsistent findings. For instance, Cahyaningrum et al. (2022) found that corporate social responsibility had no significant effect on a company’s financial performance. These inconsistencies indicate a research gap that warrants further investigation into the direct and indirect effects of CSR on financial outcomes (Putri & Yuliansyah, 2021). Such instability underscores the need for internal mechanisms that can balance financial objectives with ethical mandates, particularly through initiatives such as Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG), which are essential in aligning the banks' financial goals with their Sharia-based identity (Hafidz et al., 2025). Hafidz et al. (2025) support this view by showing that CSR, when aligned with Islamic values and embedded into the corporate structure, can serve not only as a social instrument but also as a competitive advantage in enhancing financial outcomes in Islamic banks.

Implementation of GCG has proven to be vital in improving financial performance and managing risk, though some studies suggest its influence is not always significant or may be moderated by other variables such as Non-Performing Financing (NPF) (Sari et al., 2025). This study explicitly emphasizes the need for deeper analysis of the moderating role of GCG, particularly as measured by board structure and gender diversity, in the relationship between CSR and financial performance—especially in the context of Islamic banking in Indonesia, which has its own distinct characteristics. Here, the role of Good Corporate Governance (GCG) becomes particularly important, especially in terms of board size of director and board gender diversity. An optimal board size is believed to influence the effectiveness of decision-making, risk oversight, and strategic efficiency. A board that is too small may lack competence and diversity of thought, while a board that is too large can hinder decision-making efficiency. Research by Fauzi and Idris (2022) showed that board size is significantly associated with improved CSR oversight and accountability of social programs. Their study underscores that the size and competence of the board determine how strategically CSR is implemented to support financial performance. Dwitarani et al. (2023) also highlight that board size can strengthen social disclosure but does not necessarily lead to better financial outcomes unless supported by governance effectiveness.

Previous studies also indicate that board attributes may serve as moderating variables, either strengthening or weakening the impact of CSR on financial performance, depending on the quality of board engagement (El Gammal, Yassine, & Fakih, 2020). A board gender diversity may offer broader perspectives and enhance social awareness in CSR initiatives. However, Abu Alia et al. (2024) emphasize that these positive effects materialize only when female board members hold substantive, rather than symbolic, roles. The involvement of women in strategic positions has been shown to broaden decision-making perspectives, improve a company’s social sensitivity, and lead to more inclusive policy innovations. In the generally conservative landscape of Islamic banking, the presence of women in board roles can become a distinguishing factor that increases public trust in values-based financial institutions. Arifin and Nurhayati (2020) stated that Islamic banks with more gender-diverse boards tend to have more structured and impactful CSR programs. Additionally, a study by Amri and Prasetya (2023) demonstrated that gender diversity within the board of commissioners correlates positively with a firm’s social efficiency and investor trust. Pratama et al. (2020) further emphasize that gender diversity within boards not only encourages CSR transparency but also facilitates more ethical and stakeholder-oriented strategies, aligning with the Islamic banking ethos. Given that CSR in Islamic banking is based on *maqashid* Sharia principles—which integrate ethical, social, and economic objectives—examining how GCG mechanisms, especially board size and gender diversity, moderate the relationship between CSR and financial performance is essential in assessing the strategic governance role in value creation.

This study aims to examine the impact of Corporate Social Responsibility (CSR) on the financial performance of Indonesian Islamic commercial banks, as reflected by Return on Assets (ROA) over the 2018–2023 period. Additionally, it seeks to explore the moderating role of Good Corporate Governance (GCG), represented by board size and board gender diversity, in the relationship between CSR and financial performance. Through these objectives, the study aspires to offer a more in-depth understanding of the factors that affect the financial performance of Islamic banks in Indonesia, and to provide strategic recommendations for enhancing performance through more effective implementation of CSR and GCG. In Islamic finance, CSR and GCG are not merely regulatory requirements but are deeply rooted in the ethical and moral values embedded in Sharia principles. Concepts such as justice (‘adl), accountability (mas’uliyyah), and public welfare (maslahah) form the foundation for how Islamic banks operate and engage with their stakeholders. These principles encourage organizations to go beyond profit maximization by fostering transparency, social equity, and sustainability in business conduct (Dusuki & Abdullah, 2007; Sehen Issa et al., 2022; Harahap, 2023).

In Indonesia’s rapidly growing Islamic banking sector—founded on ethical accountability and Sharia compliance—the role of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) is increasingly critical to achieving sustainable financial performance. Despite the growing literature on CSR and GCG as separate constructs, their combined or interactive effect on financial outcomes remains underexplored, particularly in Sharia-compliant institutions. Given the dual imperative of profit and ethical integrity in Islamic finance, this study is timely and significant in addressing this empirical gap and informing governance practices tailored to the unique demands of Islamic banking.

1. **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**
2. **Literature Review**

Corporate Social Responsibility (CSR) has gained increasing attention in the financial sector as a strategic mechanism to align business objectives with broader social and ethical considerations. In the context of Islamic banking, where ethical compliance is not merely voluntary but mandated by Sharia principles, CSR assumes an even more central role. While the extant literature provides substantial evidence linking CSR to improved financial performance, the results across regions and institutions remain mixed.

A recent meta-analysis by Li et al. (2025), synthesizing over 200 empirical studies, confirms that CSR generally has a positive and significant effect on firm financial performance, particularly in developing markets where regulatory frameworks and stakeholder pressures are intensifying. However, the strength and consistency of this relationship are often influenced by institutional, social, and cultural factors. Vishwanathan (2020) further emphasizes that CSR outcomes are shaped by stakeholder salience, institutional norms, and the degree to which CSR is embedded in governance structures, highlighting the necessity for localized empirical studies in ethically-driven sectors such as Islamic banking.

The theoretical foundation of this study lies in stakeholder theory (Freeman, 1984), which posits that corporations are accountable not only to shareholders but also to a broad spectrum of stakeholders, including employees, customers, suppliers, regulators, and the wider community. The concept of “stakeholder” refers to individuals and groups, both internal and external, who can affect or be affected by the achievement of an organization’s objectives. Stakeholder theory asserts that executives must consider the interests of these groups to ensure long-term sustainability in dynamic business environments (Essel, 2023; Harjoto et al., 2014).

In recent years, stakeholders have increasingly demanded greater transparency and accountability, particularly regarding social and governance dimensions in business practices. By addressing these expectations through CSR initiatives, companies can reduce reputational risk, build stakeholder trust, and ultimately improve financial performance. In this context, CSR is not merely a philanthropic obligation but a strategic signal of organizational commitment to sustainability and stakeholder alignment (Widayanti, Inayati, & Pramono, 2023).

Moreover, stakeholder theory supports the integration of Good Corporate Governance (GCG) as a moderating force in the CSR–performance nexus. Board characteristics such as board size and gender diversity play crucial roles in mediating stakeholder interests. Larger boards are typically associated with a broader range of expertise and perspectives, which enhance oversight and strategic decision-making in CSR-related matters (Essel, 2023). Concurrently, gender-diverse boards are found to be more responsive to stakeholder concerns and more inclined toward robust CSR performance, thereby contributing positively to financial outcomes (Kahloul et al., 2022; Wu et al., 2021; Galbreath, 2018). This study focuses on two key indicators of Good Corporate Governance (GCG)—board size and gender diversity—as moderators in the CSR–financial performance relationship. These proxies are selected based on their empirical relevance and measurability in the Indonesian Islamic banking context. Prior studies suggest that board size reflects organizational capacity for oversight and strategic CSR alignment, while gender diversity is linked to inclusive decision-making and stakeholder responsiveness (Wu et al., 2021; Galbreath, 2018). Other governance indicators, such as board independence or audit quality, were not included due to limitations in data availability and consistency across the sample. Therefore, the selected proxies offer a parsimonious yet theoretically grounded approach to capturing the governance dimensions most pertinent to CSR implementation.

Empirical studies echo this theoretical lens. Hossan (2021) demonstrates that both board size and female representation significantly enhance CSR transparency and financial outcomes in South Asian banking. In Islamic banking, Tumewang et al. (2024) reveal that banks with stronger internal governance—particularly those emphasizing inclusivity and human capital development—perform better on social and environmental dimensions, though the direct impact on governance indicators remains limited. Rabbani et al. (2024) find that gender diversity in boards modestly moderates the CSR–performance relationship in Islamic banks, albeit with a lower magnitude compared to conventional financial institutions. This study focuses on two GCG indicators: board size and gender diversity. These were selected due to their theoretical relevance and empirical measurability, particularly in emerging markets and Islamic banking contexts. Board size reflects oversight capacity, while gender diversity signals inclusiveness and stakeholder orientation—both critical under stakeholder theory (Harjoto et al., 2014; Essel, 2023). Compared to less observable governance metrics (e.g., ownership or audit structure), these indicators are more consistently reported and directly linked to CSR and financial outcomes (Rabbani et al., 2020).

* 1. **Hypothese Development**

1. **The effect of CSR disclosure on financial performance.**

Stakeholder theory argues that firms are accountable not only to shareholders but also to broader stakeholders, including employees, customers, and communities. In this regard, Corporate Social Responsibility (CSR) serves as a strategic tool to fulfill those obligations and enhance corporate legitimacy and reputation. Empirical evidence supports a positive link between CSR disclosure and financial performance (Hasmi & Rukmana, 2018; Dewi & Gustyana, 2020; Maryanti & Fithri, 2017), as CSR strengthens stakeholder trust and contributes to long-term profitability. This relationship is also supported by Mariyantini & Putri (2018) and Wijayanti (2017), who concluded that CSR initiatives play a positive role in enhancing firm outcomes.

In the context of Islamic banking, CSR aligns closely with the principles of maqashid shariah, which emphasize justice, transparency, and social welfare. Thus, CSR initiatives in Islamic banks are not only business strategies but also reflect religious and ethical obligations, potentially leading to enhanced financial outcomes. However, limited studies have explored this relationship in Indonesian Islamic banks, where CSR is expected to comply with both commercial and shariah mandates. Furthermore, prior findings remain inconsistent. For instance, a study by I. Made and Pradna Wirakanada (2024) revealed that in Indonesia’s banking sector, CSR implementation significantly influences financial inclusion and firm value, but not the bank’s own financial performance. This inconsistency highlights a research gap. Therefore, this study tests whether CSR disclosure, rooted in Islamic ethical values, significantly improves financial performance in the context of Islamic banks in Indonesia.

**H1**: CSR disclosure has a significant positive effect on financial performance.

1. **The effect of board size on financial performance**

Board size reflects a firm’s governance structure and its capacity for strategic decision-making. According to stakeholder theory, the board plays a vital role in safeguarding the interests of diverse stakeholders. In Islamic banking, an effective board structure is essential to uphold the objectives of maqashid shariah—particularly justice, transparency, and balance in decision-making. Prior studies report mixed findings. Musah & Adutwumwaa (2021) and Al Farooque et al. (2020) found that larger boards improve financial performance through broader expertise and oversight. Conversely, Isik & Ince (2016) and Zelalem et al. (2022) argue that smaller boards are more efficient due to faster coordination and accountability. These inconsistencies may arise from differences in governance quality, organizational complexity, and regulatory environments across regions. Given these contradictions, further investigation is necessary in the context of Indonesian Islamic banks, where governance structures are shaped by both corporate and shariah principles**.**

**H2:** Board size has a significant positive effect on financial performance.

1. **The effect of board gender diversity on financial performance**

Board gender diversity reflects a firm's commitment to inclusivity, fairness, and ethical decision-making, aligning with the stakeholder theory, which emphasizes responsiveness to all affected parties. In the context of Islamic banking, gender diversity also resonates with maqashid shariah principles, particularly in promoting justice and ethical governance. Empirical studies present mixed results. For instance, Usamah (2022) and Inayah et al. (2021) found that female directors contribute positively to firm performance through enhanced monitoring and ethical oversight. In contrast, studies from Sudan and Pakistan (Elgadi & Ghardallou, 2021; Shehar Yar & Ahmed, 2020) report no significant or even negative impacts, potentially due to socio-cultural and institutional factors.

In Indonesia, Auwala et al. (2024) observed that while female board members can strengthen risk management in Islamic banks, overly cautious behavior may inadvertently increase financial distress. These contradictory findings suggest that the impact of gender diversity on financial performance is not universal and may vary across cultural, religious, and institutional contexts. Specifically, within the Indonesian Islamic banking sector—where governance is shaped by both shariah principles and local values—further investigation is needed to clarify this relationship.

**H3:** Board gender diversity has a significant positive effect on financial performance

1. **The moderating effect of board size on the relationship between CSR and financial performance**

Board size is a fundamental component of corporate governance that shapes the effectiveness of strategic oversight, including in the implementation of Corporate Social Responsibility (CSR) initiatives. Within the framework of stakeholder theory, a larger board can represent a broader spectrum of stakeholder interests, potentially enhancing the planning and execution of socially responsible activities. In the context of Islamic banking, CSR holds a strategic role not only in reputation-building but also in fulfilling the objectives of maqashid shariah—particularly the preservation of wealth, justice, and social welfare. Thus, an effective board structure is essential to ensure that CSR initiatives align with Islamic values and contribute meaningfully to both financial and social outcomes.

Theoretically, a larger board can enhance CSR effectiveness through diverse expertise and broader stakeholder representation. However, studies have also found that excessively large boards may pose coordination challenges and slow decision-making processes, ultimately reducing the efficiency and impact of CSR programs (Hudan Baihaqi Malik et al., 2024; Mendonca & Haque, 2020). The moderating effect of board size on the CSR–financial performance link is often nonlinear and highly contextual, depending on the quality of governance and transparency in Shariah implementation (Muhfiatun et al., 2022). These findings emphasize the importance of an optimal board structure to ensure that CSR is not merely a compliance tool, but also delivers tangible financial and societal value in Islamic banks.

Empirical findings on this issue remain inconsistent. Yulfiswandi & Susanti (2024) observed that board size does not always directly impact financial performance but plays a role in shaping the effectiveness of CSR strategies. Similarly, Nomran & Haron (2020) found that an optimally sized board strengthens CSR contributions to profitability, while larger or smaller boards may have less impact.

These contradictions highlight a research gap, particularly in Islamic banking institutions where CSR is expected to serve both financial and ethical objectives under Islamic governance. Therefore, this study examines whether board size in Indonesian Islamic banks moderates the CSR–financial performance relationship, strengthening the rationale for board optimization as a strategic governance tool.

**H4**: Board size moderates the relationship between CSR and financial performance, such that a larger board strengthens the positive effect of CSR on financial performance.

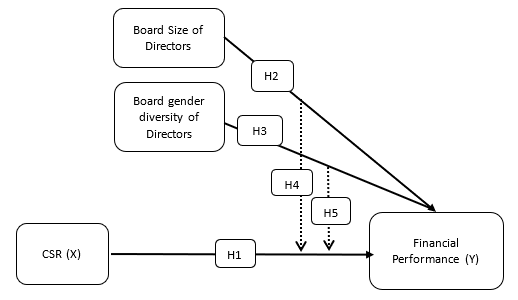
1. **The moderating effect of board gender diversity on the relationship between CSR and financial performance**

Board gender diversity represents a key dimension of inclusive corporate governance. From the stakeholder theory perspective, the presence of women on the board reflects a company’s commitment to representing diverse stakeholder interests, particularly in strategic decisions like Corporate Social Responsibility (CSR). Several studies indicate that female directors tend to bring higher social awareness, ethical sensitivity, and a stronger commitment to sustainability, making them instrumental in enhancing CSR effectiveness. In the context of Islamic banking, these values align closely with the principles of maqashid sharia, especially in promoting justice, social welfare, and environmental responsibility. Thus, female board members may contribute to more ethically grounded and socially responsible CSR decisions, strengthening the positive relationship between CSR and financial performance. Their involvement can ensure that CSR implementation is not only a matter of compliance but also reflects Islamic ethical commitments.

Empirical findings on the role of board gender diversity remain mixed. Research by Usamah (2022) and Inayah et al. (2021) found that gender-diverse boards positively affect financial performance through improved stakeholder engagement and more balanced decision-making. In contrast, studies in countries like Sudan and Pakistan (Elgadi & Ghardallou, 2021; Shehar Yar & Ahmed, 2020) report that gender diversity does not always yield significant or positive effects, often due to cultural and structural constraints. In Indonesia, Auwala et al. (2024) highlighted that female directors can contribute to more prudent risk management; however, excessive caution may hinder banks from taking necessary strategic risks.

These contradictory findings suggest that the impact of board gender diversity is context-specific and influenced by cultural, religious, and institutional factors, particularly in the Islamic banking sector in Indonesia. In such settings, Islamic governance structures and social norms provide a unique environment where gender diversity may either be an asset or a limitation depending on how inclusivity and ethical leadership are embraced. Therefore, this study examines whether gender diversity in the boards of Indonesian Islamic banks strengthens the CSR–financial performance relationship, based on the premise that Islamic values support ethical governance, social responsibility, and stakeholder fairness.

**H5:** Board gender diversity moderates the relationship between CSR and financial performance, such that greater board gender diversity strengthens the positive effect of CSR on financial performance.

**Fig. 2. Conceptual framework**

1. **METHODS**

A quantitative method is used as the research methodology approach. Quantitative research is an approach that involves analysis based on numerical and statistical data. The type of data used in this study is obtained from external sources. The sampling technique applied is purposive sampling. Several criteria are required for this sampling method, namely Islamic commercial banks (Bank Umum Syariah) that are registered with the Financial Services Authority (OJK) and have published annual financial reports and sustainability reports from 2018 to 2023. This information is obtained from the official websites of Islamic banks operating in Indonesia.Statistical regression tools are employed to analyze the existing financial report data using the Stata application. This study aims to examine the effect of Corporate Social Responsibility (CSR) on financial performance, with Good Corporate Governance (GCG) as a moderating variable in the banking sector.The population selected for this research consists of Islamic commercial banks (BUS), with a sample of 13 banks registered as BUS. To ensure the research objectives are achieved, data from the financial reports of these 13 banks over the past six years (2018–2023) are required.

The measurement method for the Corporate Social Responsibility (CSR) variable generally uses a CSR disclosure index. One commonly used method is to identify a number of CSR disclosure indicators or items based on certain standards, such as the Global Reporting Initiative (GRI), and then calculate the score based on the number of items disclosed by the company compared to the total items that should be disclosed. This study used a checklist based on the Global Reporting Initiative (GRI) 4th Generation (G4) guidelines as the basis for sustainability reporting, comprising 91 disclosure items.The measurement uses the following equation, modified from Haniffa & Cooke (2005):

Information:

CSRDIj : Index of disclosure of CSR implementation in companies j

∑Xij : The total number of items disclosed by the company j

Nj : 91 CSR disclosure items according to GRI version 4.0

For the Good Corporate Governance (GCG) variable, two main indicators are used:

board size and gender diversity on the board of directors:

Board Size is measured by counting the number of board members active in one reporting period. This method is used in various studies, such as by (Itan, 2020). The formula:

***Board Size = Number of board members***

Gender Diversity is measured by the ratio of female board members to the total number of board members. This method is used in various studies, such as by (Fanesha & Sebrina, 2024) The formula:

Meanwhile, financial performance is measured using Return on Assets (ROA), which is the ratio of net income to total assets. This method is used in various studies, such as by (Itan, 2020)The formula:

ROA is widely used as an indicator of a company’s efficiency in generating profits from its assets and has been used in many studies related to CSR, GCG, and financial performance.

This study deliberately excludes control variables in the regression model to maintain parsimony and to focus on the core relationships between CSR, GCG indicators, and financial performance. This modeling approach is consistent with recent studies that prioritize interaction effects over extended specifications when testing moderation in CSR–performance frameworks (Rabbani et al., 2024).

**Table 1. list of Islamic general banks in Indonesia**

|  |  |
| --- | --- |
| **NO** | **BANK NAME** |
| 1. | Bank Aceh Syariah |
| 2. | Bank BNI Syariah |
| 3. | Bank BCA Syariah |
| 4. | Bank BRI Syariah |
| 5. | Bank Syariah Indonesia |
| 6. | Bank Mandiri Syariah |
| 7. | BTPN Syariah |
| 8. | Bank Aladin Syariah |
| 9. | Bank Muamalat Syariah |
| 10. | Bank NTB Syariah |
| 11. | Bank Panin Dubai Syariah |
| 12. | BJB Syariah |
| 13. | Bank Victoria Syariah |

* 1. **Data Analysis Technique**

This study adopts a panel data regression approach to examine the impact of Corporate Social Responsibility (CSR) on the financial performance of Islamic banks, with Good Corporate Governance (GCG)—represented by board size and gender diversity—as moderating variables. Given the structure of the data, which covers 13 Islamic banks over six years (2018–2023), panel regression is deemed appropriate for addressing unobserved heterogeneity across banks and time periods (Hsiao, 2022).

The analysis begins with the application of both Fixed Effects (FE) and Random Effects (RE) models using STATA 17. To determine the most appropriate model, the Hausman specification test is performed. The results support the use of the Random Effects model, which assumes that unobserved individual effects are uncorrelated with the explanatory variables (Gujarati & Porter, 2020). To ensure the robustness of the estimates, heteroskedasticity-consistent standard errors (robust standard errors) are applied.

The analysis employs two regression equations. Model (1) examines the direct relationship between CSR and financial performance (proxied by ROA). Model (2) includes interaction terms between CSR and each GCG indicator to test the moderating effects:

1. ROA = β₀ + β₁CSR + e
2. ROA = β₀ + β₁CSR + β₂GCG + β₃(CSR × GCG) + e

**Descriptions :**

ROA : Return on Asset

α : Constant

β : Coefficient

CSR : Corporate Social Responsibility

GCG : Good Corporate Governance

e : error term

1. **RESULTS AND DISCUSSION**
2. **. RESULTS**
3. **Descriptive Statistics**

This study utilizes panel data from 13 Islamic banks in Indonesia over the period 2018 to 2023, with a total of 66 observations. The main variables in this research include Return on Assets (ROA) as a proxy for financial performance (y), Corporate Social Responsibility (CSR/x1), and two moderating variables: board size (x2) and board gender diversity (x3), which refers to the proportion of female members on the board. Descriptive statistics show that the average ROA is 0.7249, while the average CSR score is 0.7580, indicating a moderately dispersed dataset.

**Table 2- Descriptive Statistics**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variabel** | **Observasi** | **Mean** | **Std. Deviasi** | **Minimum** | **Maksimum** |
| ROA (Y) | 66 | 0.72497 | 0.68146 | -0.978 | 1.900 |
| CSR (X1) | 66 | 0.75808 | 0.09952 | 0.560 | 0.891 |
| Board Size (X2) | 66 | 4.68182 | 1.51057 | 2.000 | 10.000 |
| Gender Diversity (X3) | 66 | 0.18047 | 0.17227 | 0.000 | 0.750 |

1. **Results of Assumption Testing and Baseline Model**

Preliminary **testing was conducted to determine the most appropriate model between the Fixed Effect Model (FEM) and the Random Effect Model (REM) using the Hausman test. The test results showed a Prob > Chi² value of 0.9967, which is greater than 0.05, indicating that the REM is the preferred model. Heteroskedasticity was tested using the Modified Wald test, which yielded a Prob > Chi² of 0.0000, indicating the presence of heteroskedasticity. Meanwhile, the Wooldridge test for autocorrelation produced a Prob > F of 0.3957, suggesting no autocorrelation. Therefore, the model used is REM with robust standard errors. The regression results show that CSR has a significant positive effect on ROA (β = 4.684, p < 0.01), while board size and gender ratio are not statistically significant in influencing ROA.**

1. **Moderation Test Results**

To examine the moderating effect of corporate governance (GCG) on the relationship between CSR and ROA, a regression was conducted by including interaction variables between CSR and two GCG indicators: board size (x1\_m1) and gender ratio (x1\_m2). The model used was the Random Effect Model (REM) with robust standard errors, as the Hausman test yielded a Prob > Chi² of 0.9991. The results show that the interaction between CSR and gender ratio (x1\_m2) has a positive direction (β = 4.769) and is statistically significant at the 10% level (p = 0.082). This indicates that the gender ratio on the board of directors tends to strengthen the effect of CSR on ROA. Meanwhile, the interaction between CSR and board size (x1\_m1) is not statistically significant (p = 0.652).

1. **T-test**

This panel data regression analysis evaluates the effect of CSR and board characteristics on financial performance, and whether board size and gender diversity moderate this relationship. In Model 1, CSR has a strong and statistically significant positive effect on ROA (p = 0.000), with an R-squared of 56.57%. The overall model is significant (Wald Chi² = 64.33, p < 0.01). In Model 2, moderation variables are added. The R-squared increases slightly to 58.01%, and the model remains overall significant (Wald Chi² = 88.09, p = 0.0000). Although CSR becomes statistically insignificant on its own (p = 0.141), the interaction CSR × Gender Diversity (x1\_m2) becomes significant (p = 0.082), indicating a possible moderating effect. However, the interaction with board size (x1\_m1) remains insignificant, suggesting board size alone is not an effective moderator in this context.

**Table 3. Hausman Test Results**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model** | **Chi-Square Value** | **df** | **Prob > Chi²** | **Selected Models** |
| Model 1 (No Moderation) | 0.05 | 3 | 0.9967 | Random Effect (RE) |
| Model 2 (With Moderation) | 0.20 | 5 | 0.9991 | Random Effect (RE) |

**Table 4. Autocorrelation Test Results (Wooldridge Test)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model** | **F Value** | **df** | **Prob > F** | **Autocorrelations** |
| Model 1 (No Moderation) | 0.776 | (1, 12) | 0.3957 | None |
| Model 2 (With Moderation) | 1.297 | (1, 12) | 0.2769 | None |

**Table 5. Heteroscedasticity Test Results (Modified Wald Test)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model** | **Chi² Value** | **df** | **Prob > Chi²** | **Heteroskedastisitas** |
| Model 1 (No Moderation) | 47.20 | 13 | 0.0000 | Present |
| Model 2 (With Moderation) | 54.30 | 13 | 0.0000 | Present |

**Table 6. hypothesis test results**

|  |  |  |
| --- | --- | --- |
| **Variabel** | **Model 1 (No Moderation)** | **Model 2 (With Moderation)** |
| x1 (CSR) | p = 0.000 (**significant)** | p = 0.141 (insignificant) |
| x2 (Board Size) | p = 0.517 (insignificant) | p = 0.757 (insignificant) |
| x3 (Gender) | p = 0.239 (insignificant) | p = 0.054 (**significant**) |
| x1\_m1 | — | p = 0.652 (insignificant) |
| x1\_m2 | — | p = 0.082 (**significant**) |

**Table 7. Regression results- panel data analysis (REM with robust SE)**

**Model 1 without moderation**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variable** | **Coefficient** | **Std. Error** | **z / t** | **p-value** | **Remark** |
| CSR (x1) | 4.6846 | 0.9282 | 5.05 | 0.000 | **Significant** |
| Board Size (x2) | 0.0345 | 0.0532 | 0.65 | 0.517 | Not significant |
| Gender Diversity (x3) | -0.2226 | 0.1891 | -1.18 | 0.239 | Not significant |
| \_cons | -2.9184 | 0.5404 | -5.40 | 0.000 | Significant |

* **R-squared (Overall):** 0.5657
* **Wald Chi² (F-Test):** 64.33
* **Prob > Chi²:** 0.0000

**Table 8-Model 2 with moderation**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variable** | **Coefficient** | **Std. Error** | **z / t** | **p-value** | **Remark** |
| CSR (x1) | 2.9197 | 1.9836 | 1.47 | 0.141 | Not significant |
| Board Size (x2) | -0.1034 | 0.3339 | -0.31 | 0.757 | Not significant |
| Gender Diversity (x3) | -3.4887 | 1.8132 | -1.92 | 0.054 | **Significant** |
| CSR × Board Size (x1\_m1) | 0.1944 | 0.4310 | 0.45 | 0.652 | Not significant |
| CSR × Gender Diversity (x1\_m2) | 4.7692 | 2.7455 | 1.74 | 0.082 | **Significant** |
| \_cons | -1.6803 | 1.4023 | -1.20 | 0.231 | Not significant |

* **R-squared (Overall):** 0.5801
* **Wald Chi² (F-Test):** 88.09
* **Prob > Chi²:** 0.0000

1. **DISCUSSION**

The regression results show that the CSR variable (x1) has a coefficient of 4.684 and is significant at the 5% level (p = 0.000). The regression results provide a comprehensive understanding of the complex relationships between corporate social responsibility (CSR), board characteristics, and financial performance in Indonesian Islamic banks. The empirical findings indicate that CSR disclosure has a statistically significant and positive impact on financial performance, thereby confirming H1. This suggests that greater transparency and commitment to social responsibility not only align with the ethical values of Islamic banking but also contribute to enhanced financial outcomes. Such results underscore the strategic importance of CSR as more than a compliance obligation—it serves as a driver of value creation within the Islamic financial sector. This supports the view that CSR is not merely symbolic but strategically aligned with the maqashid sharia principles, where ethical conduct, social contribution, and stakeholder engagement are essential. CSR enhances a bank’s reputation and operational efficiency, which in turn supports long-term profitability. This is consistent with Innayah & Arofah (2023), who emphasized the financial value of sharia-driven CSR in Islamic banking. The positive and significant relationship between CSR disclosure and the financial performance of Islamic banks is supported by several studies. For instance, Mohd Shukor Harun et al. (2020) found that CSR disclosure in GCC Islamic banks is positively associated with firm value, especially when supported by strong governance mechanisms. Similarly, B. Pratama et al. (2022) demonstrated that board oversight of social activities enhances the social and financial performance of Indonesian Islamic banks. However, Muhamad Farhan Auwala and Faqiatul Mariya Waharini (2024) caution that excessive CSR expenditure can increase the risk of financial distress, emphasizing the need for prudent management. These results are also in line with stakeholder theory, which states that companies need to meet the expectations and interests of stakeholders to gain legitimacy and support, so that good CSR disclosure can increase stakeholder trust and loyalty, which ultimately has a positive impact on financial performance (Singh & Misra, 2021; Ali et al., 2019).

In contrast, board size (H2) and board gender diversity (H3) do not show statistically significant direct effects on financial performance. The coefficient for board size is positive but insignificant, suggesting that a larger board does not inherently improve performance. This result aligns with prior studies (e.g., Septyana Eka Palupi, 2024; Farida et al., 2018), which stress that effectiveness depends more on board quality, expertise, and coordination rather than sheer number. Similarly, the negative and insignificant coefficient for board gender diversity implies that gender or background diversity alone has not yet translated into measurable financial gains. This may reflect structural limitations, such as minimal female representation in key decision-making roles or insufficient integration of diverse perspectives (Dewi et al., 2021; Muturi & Oluoch, 2020). The finding that board size does not significantly affect the financial performance of Islamic banks is echoed by A. Bukair and Azhar A. Rahman (2015), who found a negative relationship between board size and performance in GCC Islamic banks. Entissar Elgadi and Wafa Ghardallou (2021) also reported that larger boards tend to reduce performance in Sudanese Islamic banks. Nationally, B. Pratama et al. (2022) observed that while board size can enhance social performance, it does not guarantee improved financial outcomes unless accompanied by effective governance. The lack of a significant relationship between board diversity and financial performance is supported by Elgadi and Ghardallou (2021), who found that gender diversity on boards does not significantly influence performance in Sudanese Islamic banks. Ismail Khan et al. (2023) reported that gender, tenure, and general educational diversity in Sharia supervisory boards have no significant impact on performance in Pakistan, though relevant educational background diversity does. In the MENA region, Mustafa Raza Rabbani et al. (2024) found that gender diversity in boards and top management does not significantly affect ESG performance in Islamic banks. According to stakeholder theory, gender diversity and optimal board size are expected to increase supervision and more inclusive decision-making, so as to be able to meet the expectations of various stakeholder groups. However, if diversity and board size are not followed by active roles and strong integration of perspectives, then the impact on financial performance becomes insignificant (Nwude & Nwude, 2021; Ali et al., 2019).

Further, the interaction terms provide insights into the moderating roles of board characteristics. The interaction between CSR and board size (H4) is not significant (p = 0.652), indicating that board size does not meaningfully strengthen the CSR–performance relationship unless accompanied by strategic engagement and ethical oversight. This aligns with findings by El Gammal et al. (2020) and Dwekat et al. (2024), who argue that the effectiveness of board size as a moderator depends more on competence, role clarity, and governance structure than size alone. The insignificant moderating effect of board size on the relationship between CSR and financial performance is consistent with findings by Mohd Shukor Harun et al. (2020), who noted that while board size can enhance CSR disclosure, its effect on performance is limited without effective governance. Stakeholder theory also emphasizes that the role of boards in moderating CSR relationships and financial performance is highly dependent on their ability to channel stakeholder aspirations and interests into the company's strategy, not just the number of board members (Rossi et al., 2021).

Meanwhile, the interaction between CSR and board diversity (H5) yields a positive coefficient and approaches statistical significance (p = 0.082), suggesting a potential moderating effect. Though not conclusive, this result implies that board diversity may enhance the impact of CSR on financial performance, especially in Islamic banking contexts where ethical and social values are core to institutional identity. Consistent with Innayah & Arofah (2023), female directors and diverse board members can contribute to more socially attuned and value-driven CSR strategies when supported by inclusive cultures and sharia-based leadership development. The insignificant moderating effect of board size on the relationship between CSR and financial performance is consistent with findings by Mohd Shukor Harun et al. (2020), who noted that while board size can enhance CSR disclosure, its effect on performance is limited without effective governance. Dwekat et al. (2024) also emphasize that board capacity and competence, rather than size alone, are crucial in moderating the CSR–performance link. The diversity of the board can strengthen the relationship between CSR and financial performance if the board members are able to represent and fight for the interests of diverse stakeholders, so that the CSR strategy becomes more relevant and has a wide impact (Ali et al., 2019).

Overall, these findings underscore that CSR plays a central role in enhancing financial performance in Islamic banks, while board characteristics—particularly size and diversity—require further strategic alignment and empowerment to exert a stronger influence, either directly or as moderators.

1. **CONCLUSION AND RECOMMENDATIONS**

One of the key strategies for ensuring long-term sustainability in the Islamic banking industry is the alignment between financial performance and ethical business practices. Stakeholders — including investors, regulators, and the public — increasingly assess company value not just from profitability but also from how well institutions incorporate social and governance responsibilities in line with sharia principles. CSR activities have emerged as a relevant driver of both public trust and performance consistency.This study reveals that Corporate Social Responsibility (CSR) disclosure has a statistically significant and positive relationship with financial performance, as measured by Return on Assets (ROA), in Indonesian Islamic banks. In contrast, board size and board gender diversity, as indicators of Good Corporate Governance (GCG), do not directly influence financial outcomes in a significant way. The moderating effect of gender diversity, while not strongly conclusive, suggests a positive potential when diversity is implemented meaningfully. Board size, however, shows no moderating influence on the CSR–performance relationship, implying that effectiveness lies not in the number of board members, but in how governance roles are executed.

The insights from this research are relevant for internal stakeholders (management and board members) as well as external parties (regulators, investors, and customers), particularly in making governance-related decisions and evaluating performance beyond financial metrics. Institutions should not only report CSR and governance indicators but also demonstrate accountability in how these programs contribute to organizational performance and social value.

To create sustainable value, Islamic banks are encouraged to promote transparency and ethical behavior, especially in disclosing CSR initiatives. At the same time, institutions must focus on strengthening the quality of board participation, ensuring that female members hold strategic roles rather than symbolic ones. This will enhance the institution’s responsiveness to social values while reinforcing ethical leadership.

Given the scope and design limitations of this study, future research is advised to explore additional variables, such as board independence, ownership structure, sharia supervisory board attributes, and financial risk indicators. Moreover, alternative proxies for CSR and GCG could offer more nuanced findings, as results may vary depending on sample selection, measurement tools, and analytic techniques used. Expanding the dataset and time period may also yield deeper insights into long-term impacts on financial performance.

**DISCLAIMER (ARTIFICIAL INTELLIGENCE)**

Author(s) hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc.) and text-to-image generators have been used during the writing or editing of this manuscript.

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