



## THE EFFECT OF ISLAMIC SOCIAL REPORTING, BANK SIZE, AND NON-PERFORMING FINANCING ON THE PROFITABILITY OF SHARIA COMMERCIAL BANKS IN INDONESIA

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### ABSTRACT:

*This study examines the effect of Islamic Social Reporting (ISR), bank size, and non-performing financing (NPF) on the profitability of Sharia Commercial Banks (BUS) in Indonesia during the post-merger period of 2021–2024. The study employs a quantitative explanatory approach using secondary data obtained from annual reports, sustainability reports, and Islamic banking statistics issued by the Financial Services Authority (OJK). ISR is measured using a disclosure index based on content analysis, while profitability is proxied by return on assets (ROA). The sample consists of 8 Sharia Commercial Banks, resulting in 24 effective observations after incorporating lagged ISR to mitigate potential reverse causality. Panel data regression is conducted using a fixed effects model, as confirmed by specification tests. The results indicate that lagged ISR has a positive and significant effect on ROA, suggesting that improved Islamic social disclosure enhances bank profitability in subsequent periods. Bank size also shows a positive and significant influence on profitability, reflecting the role of scale and operational capacity. In addition, non-performing financing is positively associated with ROA within the fixed effects framework, indicating a short-run risk–return trade-off during the post-merger and post-pandemic recovery period. These findings highlight the strategic importance of Islamic Social Reporting and structural bank characteristics in supporting sustainable profitability in Indonesia’s Islamic banking sector.*

### INTRODUCTION

The banking sector plays a pivotal role in modern economic systems, not only by maintaining financial stability but also by shaping economic development trajectories and promoting financial inclusion. Over time, banks have evolved from traditional financial intermediaries into institutions that actively support sustainable economic growth and social welfare. This transformation has increased expectations for banks to be accountable not only for financial performance but also for their social and environmental impacts through the implementation of Corporate Social Responsibility (CSR). CSR reflects a firm’s commitment to conducting business ethically while contributing to economic development, improving the quality of life of employees, local communities, and society at large. In the financial services industry, CSR assumes a distinctive role because banks operate primarily on public trust and systemic stability rather than physical production processes. Consequently, CSR has been



recognized as a core concept in the banking industry, closely linked to reputation, legitimacy, and stakeholder confidence (Scholtens, 2009; Quazi et al., 2015).

Prior studies suggest that effective CSR practices can enhance corporate image, strengthen stakeholder relationships, and ultimately contribute to improved financial performance (Chen et al., 2018; Belasri et al., 2020). Within this broader context, Islamic banking occupies a unique position, as it integrates commercial objectives with ethical and social principles derived from Islamic law. In Indonesia, Islamic banking particularly Sharia Commercial Banks (Bank Umum Syariah/BUS) plays a strategic role in promoting inclusive finance while adhering to values of fairness, social justice, and sustainability. CSR in Islamic banks is therefore not merely a regulatory or reputational instrument, but an inherent component of their value proposition aligned with *maqashid al-shariah*. This dual mandate requires Islamic banks to balance profitability with social responsibility, making CSR a potentially important determinant of financial performance.

Empirically, the performance of Islamic banking in Indonesia has demonstrated relative resilience, especially during periods of economic stress. During and after the COVID-19 pandemic, Islamic banks were able to maintain adequate capital buffers and relatively stable asset quality. Reports indicate that the Capital Adequacy Ratio (CAR) of Sharia Commercial Banks remained at healthy levels, while Non-Performing Financing (NPF) ratios were generally more controlled than those of conventional banks. Furthermore, the recovery of Return on Assets (ROA) in the post-pandemic period (2021–2024) reflects improving operational efficiency and risk management within the Islamic banking sector (Supiyadi et al., 2019; Ardana, 2025). These developments highlight the importance of examining both financial and non-financial determinants of profitability in Islamic banks.

In addition to the macroeconomic shock caused by the pandemic, the structure of the Islamic banking industry in Indonesia experienced a major transformation following the consolidation of state-owned Islamic banks in 2021. This consolidation marked the beginning of a post-merger phase characterized by more integrated governance structures, standardized financial reporting, and more comprehensive social responsibility disclosure practices among Sharia Commercial Banks. As a result, post-merger Islamic banks operate within a more homogeneous institutional and operational framework, which has important implications for profitability formation, risk management, and the strategic role of CSR. Despite growing attention to CSR in banking research, empirical findings on the relationship between CSR and profitability remain inconclusive. Several international studies report a positive association, arguing that CSR enhances efficiency, reduces risk, and strengthens long-term performance (Belasri et al., 2020; Platonova et al., 2018). Conversely, other studies suggest that CSR may negatively affect profitability due to increased operational costs and resource allocation trade-offs, particularly in the short term (Al-Homaidi et al., 2020; Lee & Yang, 2021). This inconsistency indicates that the CSR–profitability relationship is highly context-dependent and influenced by institutional settings, bank characteristics, and risk profiles.

Recent state-of-the-art literature (2020–2024) further reveals several unresolved issues. First, many studies focus on conventional banks or combine different types of Islamic banking institutions without distinguishing their structural differences. This approach may obscure the specific dynamics of Sharia Commercial Banks, which differ from Sharia Business Units (UUS) and Islamic Rural Banks (BPRS) in terms of scale, governance, disclosure obligations, and risk exposure. Second, existing research often examines CSR in isolation, without integrating key financial determinants such as bank size and credit risk, commonly proxied by



NPF. Prior evidence from Indonesia consistently shows that NPF has a significant negative effect on profitability, underscoring the central role of risk management in Islamic banking performance (Hosen et al., 2021; Karunia Putri & Indrarini, 2023). Ignoring these factors may lead to biased or incomplete conclusions regarding the true impact of CSR.

Furthermore, recent meta-analyses and reviews highlight substantial heterogeneity in CSR measurement and disclosure practices among Islamic banks, suggesting that the effectiveness of CSR may vary depending on scale, strategy, and financial conditions (Zafar & Yasin, 2025). In the Indonesian context, empirical studies that explicitly focus on Sharia Commercial Banks and utilize post-merger, post-pandemic data remain limited. This gap is particularly important given the increasing regulatory and societal pressure on banks to demonstrate sustainable and socially responsible performance within a more consolidated Islamic banking system. This study offers three key novelties. First, it focuses exclusively on Sharia Commercial Banks in Indonesia, providing a more homogeneous and policy-relevant analysis compared to studies that aggregate different types of Islamic banks. Second, it employs an integrated model that simultaneously examines the effects of CSR, bank size, and Non-Performing Financing on profitability, thereby capturing the interaction between social responsibility, structural capacity, and financial risk. Third, by focusing on the post-merger period, this study provides updated empirical evidence that reflects the current institutional and operational conditions of Islamic banking in Indonesia.

Accordingly, this research aims to analyze the effect of CSR, bank size, and NPF on the profitability of Sharia Commercial Banks in Indonesia during the post-merger period. The findings are expected to contribute theoretically to the CSR and Islamic banking literature by clarifying the contextual role of CSR in determining financial performance. Practically, the results may inform bank management and regulators in designing CSR strategies and risk management policies that support sustainable profitability in the Islamic banking industry.

## LITERATURE REVIEW

The examination of bank profitability has long been a central theme in financial and banking literature, particularly in the context of institutions operating under heightened ethical, regulatory, and risk constraints such as Islamic banks. Profitability in Islamic banking is not solely determined by traditional financial indicators but is also shaped by social responsibility orientation, organizational scale, and financing risk. This perspective aligns with contemporary views that emphasize a multidimensional approach to bank performance, integrating financial, social, and risk-related dimensions. Corporate social responsibility (CSR) is theoretically rooted in stakeholder theory and legitimacy theory, which posit that firms achieve sustainable performance by aligning their objectives with stakeholder expectations and societal norms. In the banking sector, CSR assumes strategic importance because banks rely heavily on trust, reputation, and long-term relationships rather than tangible products. Recent literature suggests that CSR engagement enhances relational capital with stakeholders, reduces information asymmetry, and strengthens reputational assets, which can indirectly improve financial performance (Fatemi et al., 2018; Shakil et al., 2019). In Islamic banking, CSR is further reinforced by Sharia principles that emphasize social justice, ethical conduct, and accountability, making social responsibility an intrinsic element of business operations rather than an optional activity.

Empirical studies on Islamic banks provide mixed evidence regarding the CSR–profitability relationship. Some studies argue that CSR and Islamic Social Reporting (ISR)



disclosure contribute positively to profitability by strengthening stakeholder trust and institutional legitimacy, particularly in emerging markets where ethical banking is valued by customers (Hassan et al., 2021; Farooq & Zaheer, 2019). Other studies, however, indicate that CSR initiatives may exert downward pressure on short-term profitability due to additional costs and managerial complexity, especially when CSR is pursued primarily to meet disclosure requirements rather than as part of a coherent business strategy (Nollet et al., 2016; Orazalin, 2019). These inconsistent findings suggest that the impact of CSR on profitability is contingent upon contextual and organizational factors, reinforcing the need for empirical testing within specific banking systems such as Sharia Commercial Banks in Indonesia.

### **Measurement of Islamic Social Reporting (ISR) Disclosure**

While corporate social responsibility (CSR) provides the general framework of social accountability discussed in the preceding literature, Islamic Social Reporting (ISR) offers a more suitable disclosure framework for Islamic banking institutions, as it incorporates Sharia-based ethical and governance principles. This study measures corporate social responsibility using the Islamic Social Reporting (ISR) disclosure index, which is considered more appropriate for Islamic banking institutions than conventional CSR frameworks such as the Global Reporting Initiative (GRI). The ISR framework explicitly incorporates Sharia-based ethical values, including social justice, accountability, transparency, and prohibition of non-halal activities, thereby reflecting the dual commercial and social objectives of Islamic banks. Previous studies on Islamic banking in Indonesia consistently argue that ISR provides a more contextually valid representation of social responsibility practices in Sharia Commercial Banks (Haniffa & Hudaib, 2007; Riduwan, 2020; Firmansyah & Prasetyo, 2021).

The ISR disclosure index in this study is constructed based on item lists developed and validated in prior empirical studies on Sharia Commercial Banks in Indonesia, ensuring contextual relevance and comparability. Consistent with the Indonesian Islamic banking literature, the ISR items are grouped into six main dimensions: financing and investment practices, products and services, employees, society, environment, and corporate governance. These dimensions capture both the ethical compliance and social contribution aspects of Islamic banking operations, which are central to the concept of *maqashid al-shariah*.

The measurement of ISR disclosure is conducted using a content analysis approach applied to the annual reports and sustainability reports of each sampled Sharia Commercial Bank for every year of observation. Content analysis is widely used in CSR and ISR studies because it enables systematic and replicable assessment of disclosure practices based on publicly available documents. Each ISR item is scored using a dichotomous method, where a value of one is assigned if the item is disclosed in the report for a given bank-year, and zero otherwise. The total ISR score for each bank-year observation is calculated as the ratio of the number of disclosed items to the total number of expected items, resulting in an index value ranging from zero to one. This approach emphasizes the breadth of disclosure rather than the monetary magnitude of CSR expenditure, which is consistent with prior ISR-based research in Indonesia (Putri, 2020; Riduwan, 2020).

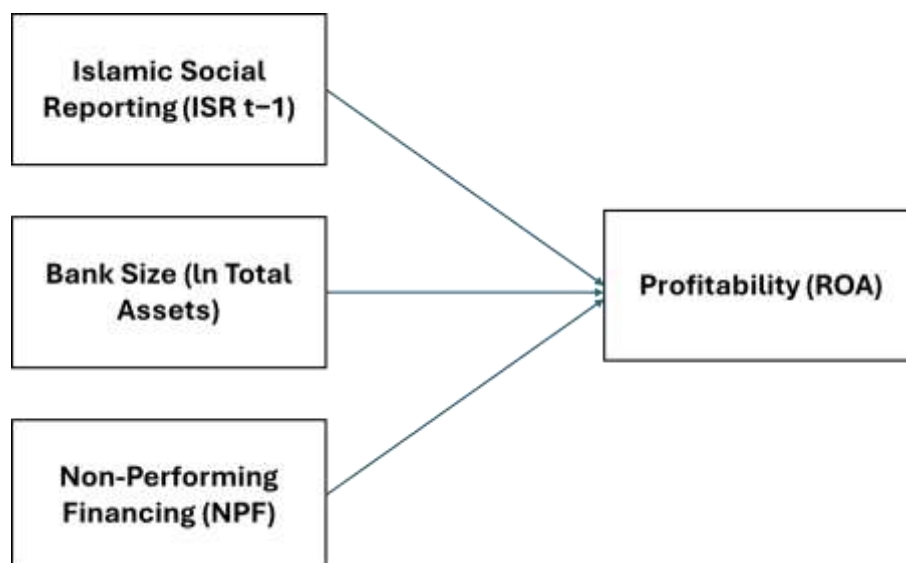
To enhance reliability, the content analysis follows a consistent coding procedure across all bank-year observations. The same ISR item checklist is applied uniformly, and disclosures are identified based on explicit statements within the reports to minimize subjectivity. This method allows the study to capture temporal changes in ISR disclosure practices and cross-sectional differences among Sharia Commercial Banks, thereby providing a robust measure of



social responsibility engagement over time. By operationalizing CSR through ISR disclosure and content analysis, this study aligns its measurement strategy with established practices in Islamic banking research and strengthens the validity of its empirical findings.

Beyond social responsibility, bank size represents a key structural factor influencing profitability (Budiantara et al., 2024). From the perspective of economies of scale theory, larger banks are expected to operate more efficiently by spreading fixed costs over a broader asset base, diversifying income streams, and accessing capital at lower costs. In Islamic banking, size also reflects institutional maturity, technological capability, and governance capacity. Recent empirical evidence indicates that larger Islamic banks tend to exhibit higher profitability due to improved operational efficiency and stronger market positioning, although the relationship may weaken if scale expansion is accompanied by rising operational complexity (Saeed & Zahid, 2016; Mensi et al., 2020). In the Indonesian context, the consolidation and growth of Sharia Commercial Banks have enhanced their ability to compete with conventional banks and implement strategic initiatives, including CSR programs, more effectively.

Risk management, particularly financing risk, constitutes another fundamental determinant of Islamic bank profitability. Non-performing financing (NPF) reflects the quality of financing portfolios and the effectiveness of credit screening and monitoring mechanisms. High NPF levels signal increased default risk, higher provisioning expenses, and reduced income-generating capacity, which directly erode profitability. Empirical research consistently demonstrates a negative relationship between NPF and profitability in Islamic banks across different regions and economic cycles (Supiyadi et al., 2019; Ghosh, 2017). During periods of economic stress, such as the COVID-19 pandemic, the adverse impact of financing risk on profitability becomes even more pronounced, underscoring the importance of incorporating NPF into any comprehensive profitability model.



**Figure 1.** Conceptual Research Framework

Figure 1 illustrates the conceptual research model of this study, which examines the effect of Islamic Social Reporting (ISR), bank size, and non-performing financing (NPF) on



the profitability of Sharia Commercial Banks in Indonesia. ISR is incorporated in a lagged form to capture its dynamic effect on bank performance and to mitigate potential reverse causality. Bank size represents the structural capacity of banks, while NPF reflects financing risk and asset quality. Profitability is measured using return on assets (ROA). The model is empirically tested using panel data regression within a fixed effects framework (Baltagi, 2005).

## RESEARCH METHODE

This study employs a quantitative explanatory research design to examine the effect of Islamic Social Reporting (ISR), bank size, and non-performing financing (NPF) on the profitability of Sharia Commercial Banks (Bank Umum Syariah/BUS) in Indonesia. The explanatory approach is used to test theoretically grounded relationships and identify causal associations among variables through statistical inference (Hair et al., 2022; Sekaran & Bougie, 2016). The unit of analysis consists of Sharia Commercial Banks, which represent the core segment of the Islamic banking industry in Indonesia and operate under relatively homogeneous regulatory, governance, and disclosure frameworks.

The population of this study includes all Sharia Commercial Banks operating in Indonesia during the post-merger period. The sample is selected using a purposive sampling technique to ensure data consistency and panel reliability. A bank is included in the sample if it consistently publishes annual reports during the 2021–2024 period, provides sufficient Islamic Social Reporting (ISR) or CSR disclosure either through standalone sustainability reports or CSR/sustainability sections within annual reports, and reports complete financial data required for the analysis, namely return on assets (ROA), total assets, and non-performing financing (NPF). Banks operating as Sharia Business Units (UUS) or Islamic Rural Banks (BPRS), as well as banks with limited or inconsistent ISR disclosure or incomplete reporting, are excluded. Based on these criteria, the final sample comprises eight Sharia Commercial Banks. This study uses secondary data obtained from publicly available and audited sources. Financial data are collected from the annual financial statements of the sampled banks and cross-validated using Islamic Banking Statistics published by the Indonesian Financial Services Authority (Otoritas Jasa Keuangan/OJK). Data on social responsibility disclosure are obtained through systematic content analysis of annual reports and sustainability reports. The use of audited financial statements and regulator-validated statistics enhances the credibility and robustness of the empirical analysis (OJK, 2024).

The observation period covers 2021–2024, corresponding to the post-merger phase of Islamic banking consolidation in Indonesia. In particular, PT Bank Syariah Indonesia Tbk is treated as a single consolidated entity following the legal merger of state-owned Islamic banks in 2021. Pre-merger observations are excluded to avoid structural breaks and inconsistencies in financial reporting and ISR disclosure. This period also captures the post-pandemic recovery phase, during which Islamic banks experienced adjustments in financing structures and risk management practices (Hosen et al., 2021; Ardana, 2025).

## Operational Definition and Measurement of Variables

To ensure empirical clarity and measurement consistency, all variables are operationalized based on observable and commonly applied proxies in Islamic banking research. Profitability is measured using return on assets (ROA), calculated as profit before tax divided by total assets. The use of profit before tax—rather than net profit—is consistent with OJK-prescribed Islamic banking reporting standards and with prior Indonesian Islamic banking



literature (Platonova et al., 2018; Hosen et al., 2021), which employs this pre-tax measure to allow comparability across institutions with varying tax treatment and to avoid distortions arising from deferred tax accounting. Islamic Social Reporting (ISR) is measured using a disclosure index constructed through content analysis of annual and sustainability reports. The index applies a dichotomous scoring method, where each disclosure item is assigned a value of one if disclosed and zero otherwise. Bank size is proxied by the natural logarithm of total assets, representing the scale of bank operations and allowing comparability across institutions. Non-performing financing (NPF) is measured as the ratio of non-performing financing to total financing, reflecting asset quality and financing risk (Wulandari, 2024). The operational definitions and measurement approaches are summarized in Table 1.

**Table 1. Operational Definition and Measurement of Variables**

Variable	Definition	Proxy / Measurement	Data Source
Profitability (ROA)	The ability of a bank to generate earnings from its total assets	Profit before tax divided by total assets (Return on Assets). Note: Pre-tax profit is used consistent with OJK Islamic banking reporting standards and prior Indonesian Islamic banking literature (Platonova et al., 2018; Hosen et al., 2021), which employs this measure to ensure comparability across institutions.	Annual reports; Islamic Banking Statistics (OJK)
Islamic Social Reporting (ISR)	The extent of Sharia-based social responsibility disclosure by Islamic banks	ISR disclosure index based on content analysis with dichotomous (1/0) scoring	Annual reports and/or sustainability reports
Bank Size (SIZE)	The scale of bank operations and structural capacity	Natural logarithm of total assets	Annual reports; Islamic Banking Statistics (OJK)
Non-Performing Financing (NPF)	The level of financing risk and asset quality	Ratio of non-performing financing to total financing (gross)	Annual reports; Islamic Banking Statistics (OJK)

Sources: results of the authors' data analysis, 2025.

Based on these operational definitions, the statistical formulation of the variables is expressed as follows:



$$ROA_{it} = \text{Profit Before Tax}_{it} / \text{Total Assets}_{it}$$

$$ISR_{it} = \sum_{j=1 \text{ to } n} D_{ijt} / n$$

where  $D_{ijt}$  equals one if disclosure item  $j$  is reported by bank  $i$  in year  $t$ , and zero otherwise, and  $n$  represents the total number of ISR disclosure items.

$$SIZE_{it} = \ln(\text{Total Assets}_{it})$$

$$NPF_{it} = \text{Non-performing Financing}_{it} / \text{Total Financing}_{it}$$

To estimate the relationships among variables, this study applies panel data regression analysis, which enables simultaneous examination of cross-sectional and time-series variations (Hair et al., 2022). The estimation considers common effects, fixed effects, and random effects models, with model selection conducted using standard specification tests. Diagnostic tests are performed to detect potential econometric issues, and robust standard errors are applied where necessary to ensure valid statistical inference.

### Classical Assumption Diagnostic Tests

Prior to model estimation, classical assumption diagnostic tests were conducted to ensure the reliability of the panel regression results. The normality of residuals was assessed using the Jarque–Bera test, with results indicating that residuals are approximately normally distributed ( $p > 0.05$ ). Multicollinearity was examined through variance inflation factors (VIF); all independent variables recorded VIF values below 5, indicating no serious multicollinearity among the regressors. Heteroskedasticity was addressed by applying White cross-section robust standard errors in the fixed effects estimation, which is the standard approach for panel data with a small cross-section dimension. Serial autocorrelation was assessed using the Durbin–Watson statistic and was found to be within acceptable bounds. The Hausman specification test (chi-squared = 20.14,  $p < 0.05$ ) confirmed that the fixed effects model is preferred over the random effects model, indicating that unobserved bank-specific effects are correlated with the regressors. Overall, the diagnostic results support the validity and robustness of the empirical estimates.

## RESEARCH RESULTS AND DISCUSSION

This section presents and discusses the empirical findings of the study by integrating the estimation results with the theoretical arguments and empirical evidence reviewed in the preceding sections. The analysis focuses on the effect of Islamic Social Reporting (ISR), bank size, and non-performing financing (NPF) on the profitability of Sharia Commercial Banks (BUS) in Indonesia during the post-merger period of 2021–2024. Consistent with the methodological design, the discussion emphasizes within-bank dynamics captured through a fixed effects panel regression framework.

The estimation results from the baseline fixed effects model indicate that lagged Islamic Social Reporting ( $ISR(t-1)$ ) has a positive and statistically significant effect on return on assets (ROA). This finding suggests that improvements in ISR disclosure contribute to higher profitability in subsequent periods. The use of lagged ISR strengthens the interpretation of this relationship by mitigating potential reverse causality, where more profitable banks may simply have greater resources to engage in social responsibility activities. Instead, the results support the argument that ISR functions as a strategic and forward-looking mechanism that enhances bank performance over time.

### Table 2. Summary of Panel Regression Results



Dependent Variable : ROA (Before Tax)  
Sample : 8 Sharia Commercial Banks, 2021–2024  
Estimation Method : Fixed Effects Model (FEM)

**Baseline Model**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant (C)	-74.36201	12.09663	-6.147331	0
ISR (t-1)	2.005758	0.554504	3.617208	0.0031
NPF (Gross)	0.135408	0.05929	2.283838	0.0398
SIZE (ln Total Assets)	4.513537	0.76714	5.883589	0.0001

**Effects Specification**

Cross-section fixed effects	Yes
Period fixed effects	No
Covariance method	White cross-section

**Statistic**

**Value**

R-squared (within)	0.905514
Adjusted R-squared	0.832832
F-statistic	12.45865
Prob(F-statistic)	0.000041
Observations	24
Number of banks	8

**Robustness Check – Alternative Estimators**

Variable	Pooled OLS	Random Effects
ISR (t-1)	0.0075(t=2.986473)	0.047(t=0.009382)
NPF / NPF (t-1)	0.0215(t=0.36715)	0.039(t=0.44494)
SIZE (ln Total Assets)	0.012(t=1.598757)	0.014(t=4.412978)
Bank effects	No	Yes
Observations	24	24

**Hausman Test for Model Selection**

Test Summary	Statistic	Prob.
Cross-section random	$\chi^2 = 20.1414$	< 0.05

**Decision:** Fixed Effects Model is preferred.

Sources: results of the authors' data analysis, 2025.

This result aligns with the conceptual foundation of Islamic banking, which emphasizes ethical conduct, social responsibility, and accountability as integral components of business operations rather than peripheral activities. As discussed in the literature review, ISR represents a Sharia-compliant extension of conventional corporate social responsibility, grounded in the principles of maqashid al-shariah. The positive association between ISR and profitability observed in this study reinforces the notion that social and ethical disclosures are not merely symbolic, but can generate tangible economic benefits for Islamic banks. This finding is consistent with prior empirical studies that document a positive relationship between social responsibility disclosure and financial performance in the banking sector, particularly in contexts where stakeholder trust and legitimacy play a central role (Scholtens, 2009; Chen et al., 2018; Belasri et al., 2020). Thus, H1 is supported.



Within the Indonesian context, the positive effect of ISR on ROA can be interpreted as evidence that stakeholders—including depositors, investors, and regulators—respond favorably to transparent and comprehensive social disclosure by Islamic banks. During the post-merger period, Sharia Commercial Banks faced heightened scrutiny regarding their governance quality, risk management practices, and commitment to Islamic values. Enhanced ISR disclosure may have strengthened stakeholder confidence, reduced informational asymmetry, and improved reputational capital, which in turn supported profitability. This interpretation is in line with the legitimacy and stakeholder theories discussed in the literature review, which posit that socially responsible behavior enhances organizational survival and performance by aligning corporate actions with societal expectations.

Bank size, proxied by the natural logarithm of total assets, is also found to have a positive and statistically significant effect on ROA, supporting H2. This result indicates that larger Sharia Commercial Banks tend to achieve higher profitability, holding other factors constant. The positive size effect suggests the presence of economies of scale, whereby larger banks are able to spread operational costs over a broader asset base, invest more efficiently in technology and human capital, and diversify their financing portfolios. This finding is consistent with the expectation that size captures structural capacity and operational sophistication within the banking industry.

The significance of bank size in the post-merger period is particularly relevant given the structural consolidation and expansion experienced by the Islamic banking sector in Indonesia. Larger banks may have been better positioned to absorb the economic shocks associated with the COVID-19 pandemic and the subsequent recovery phase, enabling them to maintain operational efficiency and profitability. This result supports earlier findings in the Islamic banking literature that identify bank size as an important determinant of financial performance, especially in emerging markets where scale can enhance competitive advantage and regulatory compliance (Platonova et al., 2018; Hosen et al., 2021).

An interesting and noteworthy result of the analysis concerns the effect of non-performing financing (NPF) on profitability. The fixed effects estimation shows that NPF has a positive and statistically significant association with ROA, which appears at first glance to diverge from the conventional expectation that higher credit risk adversely affects bank profitability (Supiyadi et al., 2019; Ghosh, 2017). It is important to acknowledge upfront that this result may partially reflect the limitations of the dataset, specifically the short three-year observation window and the small sample of 24 observations, which may not be sufficient to fully capture the long-run adverse consequences of elevated financing risk. The high within-group R-squared of 0.91 further raises the possibility of overfitting in this small-sample context, and the finding should therefore be interpreted with caution.

Within these empirical constraints, the positive coefficient on NPF in the fixed effects model can be explained as follows. First, the fixed effects model captures within-bank variation over time rather than cross-sectional differences across banks. Consequently, the positive coefficient indicates that, within the same bank, periods characterized by slightly higher NPF are associated with higher profitability not that banks with persistently high NPF are more profitable in general. Second, during the post-merger and post-pandemic recovery period, Islamic banks in Indonesia were actively expanding financing to support economic recovery. Such expansion may have generated higher margins and income, contributing positively to profitability, while simultaneously increasing exposure to financing risk. As long as NPF levels remained below regulatory thresholds and were adequately provisioned, the short-term



profitability gains could outweigh the associated risk. This reflects a risk–return trade-off consistent with financial intermediation theory. Nevertheless, the authors acknowledge that this result is potentially anomalous given the short observation period and limited sample size, and longer panel data would be needed to confirm whether the relationship holds beyond this recovery phase.

The robustness analysis using alternative estimators further supports the validity of the main findings. The consistency of coefficient signs across pooled ordinary least squares and random effects models indicates that the positive relationship between ISR and profitability is not sensitive to the choice of estimation technique. Although the Hausman test confirms that the fixed effects model is the most appropriate specification, the robustness checks strengthen confidence in the stability of the results and reduce concerns regarding model dependence. The use of lagged ISR in both the baseline and robustness models reinforces the argument that social responsibility disclosure precedes, rather than merely accompanies, improved financial performance.

Overall, the empirical findings are coherent with the theoretical framework and empirical literature reviewed earlier. The positive effect of ISR on profitability supports H1, confirming that social responsibility, when embedded in Islamic ethical principles and disclosed transparently, can enhance bank performance. The significance of bank size supports H2, underscoring the importance of structural capacity in navigating economic uncertainty. The positive association between NPF and ROA partially supports H3, highlighting the complex interplay between risk and return in Islamic banking during periods of expansion and recovery, albeit with the caveat that this finding requires further validation with longer-horizon data.

From a practical perspective, these results have important implications for bank management and regulators. For bank managers, the findings suggest that investments in ISR disclosure should be viewed not as a cost burden, but as a strategic instrument that contributes to long-term profitability. Strengthening the quality and consistency of ISR disclosure may enhance stakeholder trust and support sustainable performance. For regulators, the results highlight the importance of encouraging standardized and transparent ISR practices while maintaining prudent oversight of financing risk, particularly in periods of rapid growth.

## CONCLUSION

This study investigates the effect of Islamic Social Reporting (ISR), bank size, and non-performing financing (NPF) on the profitability of Sharia Commercial Banks (BUS) in Indonesia during the post-merger period of 2021–2024. Using a fixed effects panel regression with lagged ISR to address potential reverse causality, the results provide clear evidence that social responsibility disclosure and structural bank characteristics play an important role in shaping profitability. The findings show that lagged ISR has a positive and significant effect on return on assets, indicating that improvements in Islamic social disclosure contribute to higher profitability in subsequent periods, thereby supporting H1. This result confirms that ISR functions as a strategic mechanism rather than a symbolic disclosure, supporting stakeholder trust and legitimacy in Islamic banking. Bank size is also found to positively influence profitability, reflecting the importance of scale and operational capacity in enhancing performance during the post-merger and post-pandemic recovery period, consistent with H2. In addition, non-performing financing exhibits a positive association with profitability within the fixed effects framework, partially supporting H3, albeit with the acknowledgment that this result likely reflects the short-run risk–return dynamics of the post-pandemic recovery phase



rather than a general structural relationship. From a practical perspective, these results imply that Islamic banks should integrate ISR more firmly into their core business strategy, as stronger and more consistent social disclosure can support sustainable profitability. For regulators, the findings highlight the importance of encouraging standardized ISR practices while maintaining prudent supervision of financing risk, particularly during periods of expansion. Overall, this study contributes empirical evidence on the role of Islamic Social Reporting and bank-specific characteristics in determining profitability in Indonesia's Islamic banking sector, offering relevant insights for both managerial decision-making and regulatory policy in the post-merger context.

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