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Islamic Social Reporting and Its Determinants: Indonesia-Malaysia Comparative Analysis

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Abstract
This study examines the influence of Sharia Supervisory Board (SSB) characteristics and ownership structure on Islamic Social Reporting (ISR) disclosure among Islamic commercial banks (ICBs) in Indonesia and Malaysia, while comparing disclosure practices between the two countries from 2017 to 2023. Employing a quantitative approach, the study analyzes panel data from 32 ICBs registered with Indonesia's Financial Services Authority (OJK) and Bank Negara Malaysia using panel regression analysis and the Mann–Whitney U test. The findings reveal that SSB size and institutional ownership have significant negative and positive associations with ISR disclosure in Indonesia, respectively, while SSB expertise is positively associated with ISR disclosure in Malaysia. Furthermore, significant differences in ISR disclosure are identified between the two countries. These findings highlight the importance of SSB composition and ownership structure in shaping Islamic banks' social reporting practices, with implications for regulators, bank management, and investors seeking to strengthen transparency and accountability. By providing cross-country evidence, this study contributes to the Islamic corporate governance literature and offers insights into the institutional determinants of ISR disclosure across different regulatory environments.

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Introduction

According to Islamic Financial Services Board., (2024), assets of the Islamic banking industry increased by 7.21% every year, which was driven by various factors, especially governance indicators. This indicator is a standard of practice related to regulation, corporate governance,

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and Sharia governance, which positively impacts the growth of Islamic bank assets through improved monitoring, control, and ethical compliance (Aslam et al., 2021).

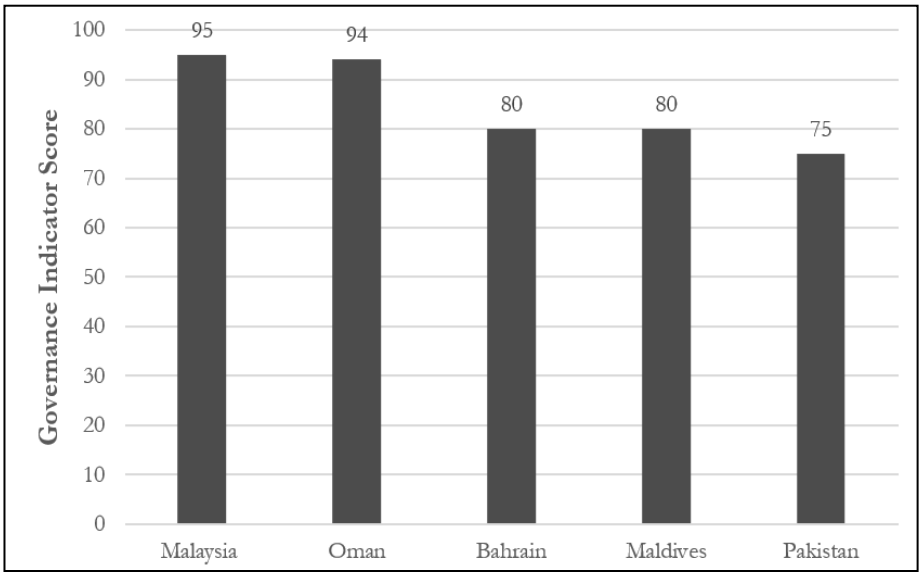


Figure 1. Global Governance Indicator Score Ranking in 2023

Malaysia leads with the highest governance indicator score according to IFDR 2023, reflecting the governance excellence of its Islamic finance sector. In addition, data processed by the author shows Malaysia has a higher percentage of institutional and foreign ownership than Indonesia in Islamic commercial banks, which supports better monitoring, transparency, disclosure standards, and sharia compliance. Nani (2019) said that Islamic Social Reporting is another part of CSR that is required by AAOIFI for Islamic entities. It gives decision-makers who adhere to sharia principles precise information and serves as a form of social and Allah SWT responsibility.

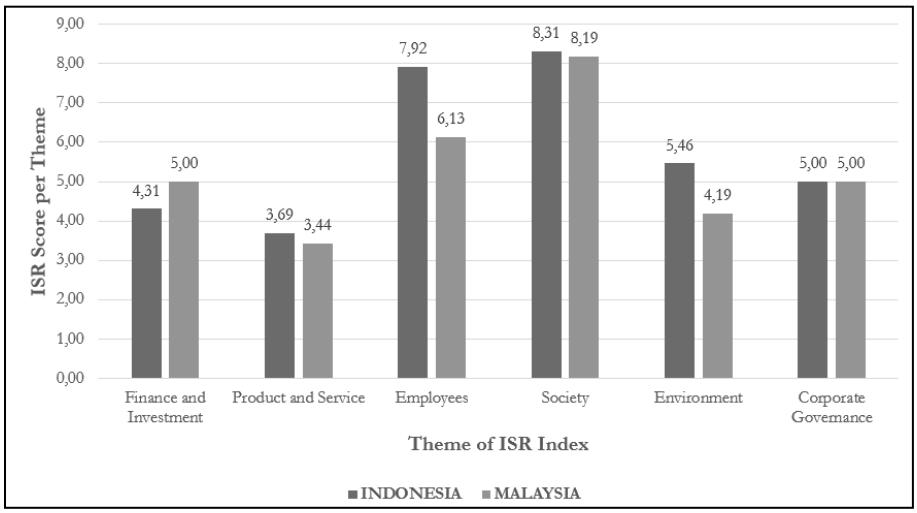


Figure 2. Comparison of Indonesian and Malaysian ICBs' ISR Scores in 2023

The chart shows that Indonesia outperformed Malaysia in four of the six Islamic Social Reporting (ISR) score categories in 2023. This pattern is puzzling because, although Malaysia consistently ranks higher on governance indicators, has a higher percentage of institutional

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ownership, and holds more foreign funds in its Islamic commercial banks, the country does not consistently outperform Indonesia across all ISR dimensions. This discrepancy raises an important question: why has Malaysia, despite having stronger governance metrics, been unable to leverage them to achieve broader ISR disclosure compared to Indonesia? This study identifies the discrepancy between governance strength and ISR performance as the central research puzzle and the primary source of uniqueness. It not only notes that previous studies on the determinants of ISR disclosure have yielded inconsistent findings. Sharia banks with low levels of ISR transparency are vulnerable to reputational risks and Sharia non-compliance (Grassa et al., 2018). SSB ensures Sharia compliance and investor confidence by ensuring financial products and practices comply with Islamic principles. While many other factors, including size, meeting frequency, education, cross-membership, qualifications, expertise, age, and reputation, may affect ISR disclosure, this study just looks at the size and expertise of SSBs.

In addition, previous research by Susbiyani et al., (2023) and Rouf et al., (2026), showed that ownership structure affects ISR disclosure, as investors pressure companies to provide information about their performance and social activities. The effect of foreign and institutional ownership on ISR is the main topic of this study. The ISR revelations from ICBs in Malaysia and Indonesia are compared in this study. The study examines how ownership structure and SSB features affected the outcome between 2017 and 2023. This study has four characteristics, which are using determinants with inconsistent results, integrating SSB characteristics (size and expertise) with ownership structure (institutional and foreign) in a comprehensive model, examining Islamic banks in Indonesia and Malaysia simultaneously, and conducting comparative tests with current data to explain differences in ISR practices in the two countries.

This study examined 32 Islamic Commercial Banks (ICBs) in Indonesia and Malaysia, comprising 16 banks from each country, over the period 2017–2023. It employed a quantitative approach with associative and comparative analyses. Indonesia and Malaysia were selected due to their prominent positions in the global Islamic finance industry. According to the Islamic Finance Development Indicator (IFDI) 2023, Malaysia ranked first globally, while Indonesia ranked third, reflecting their significant contributions to Islamic finance development (ICD–LSEG, 2023). The IFDI assesses the development of the global Islamic finance industry based on five dimensions: financial performance, governance, sustainability, knowledge, and awareness.

Both countries also have predominantly Muslim populations, providing a relevant context for examining Islamic Social Reporting (ISR) practices. In Indonesia, Muslims accounted for 87.08% of the population, equivalent to approximately 245.97 million people, in the first semester of 2024 (Muhamad, 2024). Meanwhile, Muslims represented 63.5% of Malaysia's population according to the 2020 Population and Housing Census (Department of Statistics Malaysia, 2022). Despite these similarities in religious demographics, Indonesia and Malaysia differ in their Islamic banking regulatory frameworks, Sharia governance practices, product innovation, and banking services. These institutional differences provide a valuable basis for comparing ISR disclosure practices and identifying potential improvements in social transparency and accountability across the two countries.

Literature Review

Agency Theory

According to agency theory, banks function as agents to offer Sharia-compliant services (Mansour & Bhatti, 2018). Unlike conventional banks, Islamic banks have a layered management system (Mollah & Zaman, 2015), that may cause stakeholders to dispute agency (Farag et al., 2018). Incorporating Shariah compliance within the company's annual report is something that SSB can guarantee managers do. Because of SSB's function as a counselor to Islamic banks, this can lessen agency conflicts (Wijayanti & Setiawan, 2022). ISR disclosure

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is one type of Sharia compliance (Mai et al., 2023). Thus, Islamic commercial banks will benefit from having SSB members with good expertise.

Stakeholder Theory

According to Kandpal et al., (2024), based on the company's interactions with all stakeholders, the company is required to provide stakeholders with the most recent data regarding the business's social responsibility and performance. This is due to the fact that companies should not only work for the benefit of the company. Instead, companies should be able to help society, shareholders, and others.

Islamic Social Reporting

Companies can demonstrate a commitment to social responsibility and environmental stewardship through ISR, which recognizes a company's ability to operate in accordance with Islamic values (Wijayanti & Setiawan, 2022). Currently, further researchers continue to develop ISR. ISR discloses the company's social responsibility to all its stakeholders, including material, social, and moral aspects, as well as sharia compliance, which ensures the company does not commit usury and *gharar* and performs zakat, sadaqah, waqf, and *qardhul hassan* (Meutia et al., 2019).

Sharia Supervisory Board (SSB)

SSB is a separate organization placed within Islamic financial institutions upon the approval and recommendation of the National Sharia Council, that is overseen by the Indonesian Ulema Council. SSB has the authority to assist management practices and relevant standards by offering recommendations and guidance to the management of Islamic banks, always paying attention in accordance with Sharia law (Alam et al., 2021). By guaranteeing that financial procedures and products adhere to Islamic values, SSB increase investor confidence. The performance, independence, and ability of SSB greatly affect the credibility of Islamic banks, which is important for maintaining investor confidence (Tari et al., 2023).

Ownership Structure

The ownership structure explains how the shareholders act and how many shares the shareholders own in a company. There is a difference between managers and company owners in the ownership structure. According to Panda & Leepsa (2017), the owner, also known as the shareholder, is the entity that makes financial investments in the business, while the manager is an individual chosen by the owner to make decisions regarding business management in the best interests of the owner. Therefore, ownership structure can significantly determine corporate disclosure compliance (Ramdhony et al., 2024).

Governance Structure in Indonesia and Malaysia

Corporate governance structures differ between the two countries, so the findings of this study may not be applicable to their respective structures. According to Law No. 40 of 2007 on Limited Liability Companies, Indonesia has a two-tier board system. The Board of Directors performs management functions, and the Board of Commissioners performs supervisory functions. The Sharia Supervisory Board is part of the National Sharia Council (Farag et al., 2018; Mollah & Zaman, 2015). Malaysia, like other common law countries, employs a single-tier board system, in which the Board of Directors combines both roles and the Sharia Committee reports directly to it. How the characteristics of the SSB/Sharia Committee are reflected in SRI disclosures may be influenced by this structural difference. In Indonesia, a

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separate structure emphasizes oversight and coordination among board members, whereas in Malaysia, an integrated structure emphasizes the direct expertise of the board of directors.

Hypotheses Development

The quality of ISR and the effectiveness of oversight may be impacted by the SSB's size, as represented by how many people are on the board. As stated by Mai et al., (2023) a smaller board size can benefit banks by preventing coordination and communication problems that can reduce the quality of board decisions, which in turn can reduce the quality of banks' ISR disclosures according to agency theory. This is supported by earlier studies who discovered the SSB size had a detrimental impact on the disclosure of ISR in ICBs (Najah & Andraeny, 2023).

H1a: ISR disclosure in Indonesian ICBs for the years 2017–2023 is negatively impacted by SSB size.
H1b: ISR disclosure in Malaysian ICBs for the years 2017–2023 is negatively impacted by SSB size.

According to Veltrop et al., (2017) SSB members with training and experience in economics, accounting, finance, and fiqh muamalah can help improve management oversight. According to stakeholder theory and agency theory, the knowledge of SSB members improves bank performance. Previous research supports this argument, which shows that SSB knowledge can increase ISR disclosure (Rukmana et al., 2023).

H2a: ISR disclosure in Indonesian ICBs for the years 2017–2023 is positively impacted by SSB expertise.
H2b: ISR disclosure in Malaysian ICBs for the years 2017–2023 is positively impacted by SSB expertise.

According to stakeholder theory, foreign ownership expands the number of stakeholders, thus requiring more thorough social reporting to meet various stakeholder expectations. Alshbili et al., (2025) said that foreign ownership encourages companies to disclose more CSR to be seen as legitimate by stakeholders outside the company. These results are supported by several other studies, namely Purnomo & Prasetyo (2021).

H3a: ISR disclosure in Indonesian ICBs for the years 2017–2023 is positively impacted by the structure of foreign ownership.
H3b: ISR disclosure in Malaysian ICBs for the years 2017–2023 is positively impacted by the structure of foreign ownership.

According to Saleh et al., (2024), institutional ownership refers to capital owned by third parties, including banks, insurance providers, pension funds, and private investment corporations, in addition to individual investors. According to stakeholder theory, institutional investors are stakeholders who require better stakeholder management procedures and higher-quality social reporting. Research conducted by Indriastuti & Chariri., 2022 and Muhsyaf, (2023) shows that ISR disclosure is positively influenced by institutional ownership.

H4a: ISR disclosure in Indonesian ICBs for the years 2017–2023 is positively impacted by the structure of institutional ownership.
H4b: ISR disclosure in Malaysian ICBs for the years 2017–2023 is positively impacted by the structure of institutional ownership.

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Based on the data processed by the authors, it shows that in 2023, the ISR disclosure scores in Indonesia and Malaysia had significant differences in several aspects. As a result, the authors of this study predict that, between 2017 and 2023, Indonesian and Malaysian ICBS will disclose ISRs differently.

H5: Indonesian and Malaysian ICBs' ISR disclosures for the years 2017–2023 differ.

The following is a framework for this research based on the previous explanation:

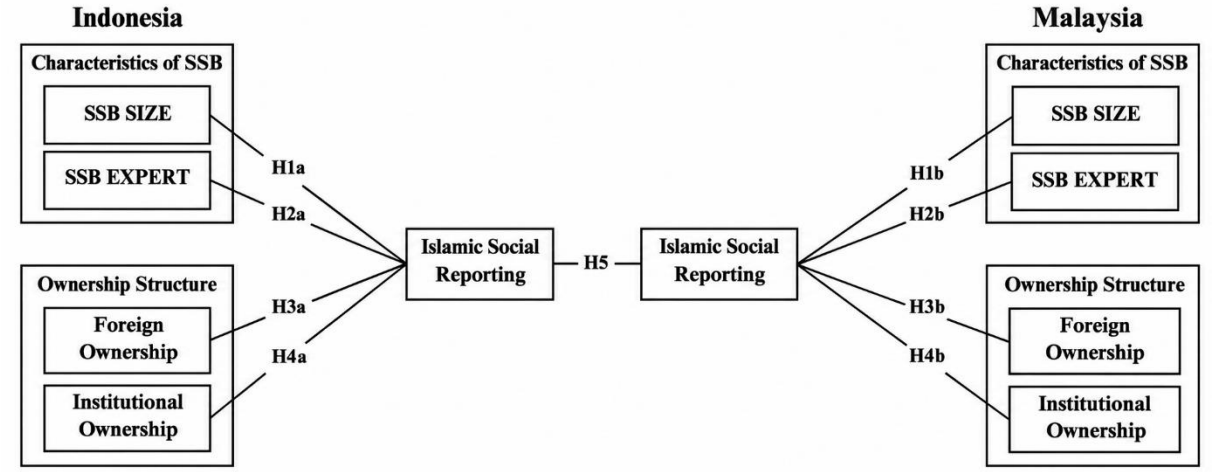


Figure 3. Thinking Framework

Methodology

Quantitative methods with associative and comparative approaches are used in this research to examine how various independent factors impact the dependent variable and test differences between variables. Data utilized in this research was obtained from Islamic Commercial Banks' sustainability reports and financial statements. Every Islamic Commercial Bank (ICB) registered with the Otoritas Jasa Keuangan (OJK) in Indonesia and the Bank Negara Malaysia (BNM) in Malaysia that published annual reports from 2017 to 2023 was included in the study population. Each bank that met the criteria was included as a sample unit, and a saturated (census) sampling technique was used. ICB annual reports and sustainability reports can be found on the websites of Bank Negara Malaysia (BNM) at https://www.bnm.gov.my/ and the Otoritas Jasa Keuangan (OJK) at https://www.ojk.go.id/ . This resulted in a sample of 32 ICBs: 16 banks from Indonesia and 16 banks from Malaysia. During the 2017–2023 period, a total of 194 year-bank panel observations were generated, 85 for Indonesia and 109 for Malaysia.

Because saturated sampling was used, no bank meeting the population criterion was deliberately excluded from the sample. However, the resulting dataset constitutes an unbalanced panel, since not every bank has completed annual-report data available for all seven years (2017–2023). This is primarily due to the merger of Bank Syariah Mandiri, BNI Syariah, and BRI Syariah into Bank Syariah Indonesia in 2021. This merger resulted in a shortage of available financial statements for these three state-owned Islamic banks. In Malaysia, the imbalance is also due to differences in the banks' dates of establishment and reporting histories during the observation period. As a result, the panel yielded 194 bank-years of observations, 85 for Indonesia and 109 for Malaysia falling short of the theoretical maximum of 112 observations per country (16 banks × 7 years).

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Data analysis involved descriptive, inferential, and comparative statistics. Descriptive statistics were used to summarize the research data, providing insight into the minimum, mean, standard deviation and maximum values. The inferential data analysis step utilizes panel data regression analysis. The regression model for panel data estimate starts this step, which concludes with the Goodness of Fit test. The regression model developed is shown in equations (1) and (2) below:

$$ISR_{\{i,t\}}^{\{IDN\}} = \beta_0 + \beta_1 SSB_SIZE_{\{i,t\}} + \beta_2 SSB_EXPERT_{\{i,t\}} + \beta_3 INST_OWN_{\{i,t\}} + \beta_4 FORN_OWN_{\{i,t\}} + \beta_5 SIZE_{\{i,t\}} + \beta_6 GDP_PC_{\{i,t\}} + \varepsilon_{\{i,t\}} \quad (1)$$

$$ISR_{\{i,t\}}^{\{MYS\}} = \beta_0 + \beta_1 SSB_SIZE_{\{i,t\}} + \beta_2 SSB_EXPERT_{\{i,t\}} + \beta_3 INST_OWN_{\{i,t\}} + \beta_4 FORN_OWN_{\{i,t\}} + \beta_5 SIZE_{\{i,t\}} + \beta_6 GDP_PC_{\{i,t\}} + \varepsilon_{\{i,t\}} \quad (2)$$

Description: $ISR_{\{i,t\}}$ = Islamic Social Reporting, SSB_SIZE= Sharia Supervisory Board Size, SSB_EXPERT = Sharia Supervisory Board Expertise, $INST_OWN$ = Institutional Ownership, $FORN_OWN$ = Foreign Ownership, $SIZE$ = Company Size, GDP_PC = Gross Domestic Product per capita, ε = Variables outside the model, t = Period, i = Entity

A descriptive analysis of the disparity between Indonesian and Malaysian Islamic banks' levels of ISR disclosure is conducted from 2017 to 2023. Furthermore, quantitative analysis specifically, the Independent Sample t-test or Mann-Whitney difference test is used to examine the difference in the degree of ISR revelation of ICBs between Indonesia and Malaysia. This research uses the content analysis method in measuring the ISR index (Wijayanti & Setiawan, 2022). Every indication that is displayed in the annual report has and those that aren't are assigned the value "0." Furthermore, the overall disclosure score is split by the quantity of ISR index elements. The ISR disclosure rate is expressed as a percentage; for example, 0.724 is written as 72.4%, in accordance with the 0–1 ratio scale shown in Tables 2 and 3. This is done to make this discussion easier to understand. The 43 indicator elements in this ISR index were created by Othman et al., (2009). The formula used is:

$$\text{ISR} = \frac{\text{The quantity of index item utilized}}{\text{The total quantity of index items}} \; x\; 100\% \qquad (3)$$

After knowing the score of disclosure level from the content analysis that has been done before, the next step is quantitative analysis. To determine the differences in ISR disclosure in both countries, the Normality test and independent sample t-test or Mann-Whitney test were used. Table 1 displays details of the dependent, independent, and control variables utilized in this research:

Table 1. Details of Operational Variables

Type	Name	Variable Measurement	Reference
Dependent	Islamic Social Reporting	ISR index score, ranging from 0 to 1, calculated as the number of disclosed items divided by the total number of index items	Othman et al., (2009)
Independent	**SSB Characteristic**		

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	SSB Size	Total number of SSB members	Meutia et al., (2019)
	SSB Expertise	Sum of SSB expert weights divided by the number of members	Najah & Andraeny, (2023)
	Ownership Structure		
	Foreign Ownership	The proportion of shares held by foreign entities	Maulana & Violita (2020)
	Institutional Ownership	The proportion of shares held by institution entities	Abas (2026)
Control	**Bank's Spesific Variable**		
	Bank Size	Total bank assets logarithmized	Mai et al., (2023)
	Macroeconomics variables		
	Domestic Product per Capita Income	Logarithm of GDP per capita (US$)	World Bank (2024)

Result

Descriptive Statistics

Before conducting data analysis, the standard deviation, minimum, mean, and maximum value of each study variable are presented using descriptive statistics.

Table 2. Descriptive Statistics of ICBs in Indonesia

Variables	Obs	Mean	Std. Dev.	Min	Max
ISR	85	0.724	0.095	0.512	0.953
SSB_SIZE	85	2.271	0.585	2	5
SSB_EXPERT	85	0.735	0.328	0	1
INST_OWN	85	0.889	0.278	0	1
FORN_OWN	85	0.080	0.199	0	0.881
SIZE	85	7.166	0.526	6.106	8.549
GDP_PC	85	3.625	0.043	3.584	3.7

Source: Authors' calculations based on secondary data.

Table 3. Descriptive Statistics of ICBs in Malaysia

Variables	Obs	Mean	Std. Dev.	Min	Max
ISR	109	0.778	0.053	0.512	0.884
SSB_SIZE	109	5.294	1.270	2	8
SSB_EXPERT	109	0.986	0.065	0.667	1
INST_OWN	109	0.677	0.091	0.43	0.897
FORN_OWN	109	0.064	0.078	0.000	0.314
SIZE	109	7.522	0.493	6.823	8.718
GDP_PC	109	11.032	0.685	9.98	11.993

Source: Authors' calculations based on secondary data.

Islamic Commercial Banks in Indonesia and Malaysia differ characteristically in several ways, as shown by the descriptive statistics presented in Tables 2 and 3. For the ISR (Islamic Social Reporting) variable, ICBS in Malaysia has a higher average (mean) value, which is 77.8%, compared to ICBS in Indonesia, which is only 72.4%. However, ICBS in Indonesia has

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a higher maximum value, which is 95.3%, compared to Malaysia, which is only 88.4%. This finding is higher than that of studies by Mai et al., (2023) and Nugraha et al., (2019), which found that ISR disclosure average for ICBs in Indonesia and Malaysia was 30.88% and 60%, respectively. This is due to the fact that the company's sustainability report and annual report are both used to determine the ISR disclosure score. In the SSB size variable (SSB_SIZE), ICBs in Malaysia has a higher average value, which is 5 to 6 people, compared to ICBs in Indonesia, which is only 2 to 3 people. This indicates that SSB in Malaysia tends to be larger and adjusts to the type of governance applied. For the SSB expertise variable (SSB_EXPERT), ICBS in Malaysia has a higher average value, which is 98.6%, compared to ICBS in Indonesia, which is only 73.5%. This may indicate that almost all SSB members in ICBS Malaysia have expertise in accounting/economics/finance. On the other hand, for the institutional ownership variable (INST_OWN), ICBs in Indonesia have a higher average value of 88.9%, compared to ICBs in Malaysia which is only 67.7%.

Data Regression Analysis for Panels

Which of the FEM, REM, and CEM is most appropriate for panel data regression is ascertained using the Chow and Hausman tests. Initially, the Chow test was used to identify which of the two models CEM and FEM was the most appropriate. FEM occurs when the p-value is less than the significance criterion $\alpha = 0.05$ (p-value < 0.05).

Table 4. Malaysian and Indonesian Chow Test Results

Effect Test	Indonesia	Malaysia
Number of Obs	85	109
F Statistic	9.57	2.30
Prob > F	0.0006	0.0051

Source: Authors' calculations based on secondary data.

The probability value obtained for Indonesia is 0.0006 and Malaysia is 0.0051, each lower than 0.05, according to the Chow test results presented in Table 4. Therefore, the fixed effects model (FEM) is considered most appropriate for this research in Indonesia and Malaysia. Hence, the Hausman test is the next step. Between FEM and REM, the Hausman test is performed to ascertain which model is best. REM occurs if the significance criterion $\alpha = 0.05$ is exceeded by the p-value (p-value > 0.05).

Table 5. Malaysian and Indonesian Hausman Test Results

Effect Test	Indonesia	Malaysia
Number of Obs	85	109
Chi2	7.15	2.97
Prob > F	0.3068	0.8126

Source: Authors' calculations based on secondary data.

According to Table 5, REM is the best for both countries, as the Hausman test probability value for Indonesia is 0.3068 and Malaysia is 0.8126. The probability value of the Hausman test for both countries is greater than 0.05. Gujarati & Porter (2009) state that the REM model uses the Generalized Least Square (GLS) estimation method. Since the number of cross-sections is greater than the number of periods analyzed, GLS does not require classical assumption testing. The classical assumption test has been largely accepted by this study, so that hypothesis testing using regression can be carried out. Below, Tables 6 and 7 show each country's regression findings.

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Table 6. Indonesian Regression Results

Variables	Coefficient	Std. err.	t-Statistic	Prob.	Result
SSB_SIZE	-0.0496005	0.0163966	-3.03	0.002	Significant
SSB_EXPERT	0.0341999	0.030981	1.10	0.270	Insignificant
INST_OWN	0.101664	0.0343759	2.96	0.003	Significant
FORN_OWN	0.0006027	0.0348534	0.02	0.986	Insignificant
SIZE	0.1420481	0.0224878	6.32	0.000	Significant
GDP_PC	0.577946	0.1583855	3.65	0.000	Significant
Effect Specification					
Number of obs	85	R-square:			
Number of groups	16	Within		0.4006	
Prob > chi2	0.0000	Between		0.6880	
corr(u_i, x)	0	Overall		0.5553	

Source: Authors' calculations based on secondary data.

The regression findings for Indonesia are shown in Table 6, with an R2 value of 55.53%, which shows how much the independent variables in the model can explain the dependent variable. The model as a whole is statistically significant ($p < 0.001$) when the chi-squared probability value is 0.000, indicating that the independent variables together explain the variation in ISR disclosure. This does not imply that the statistical significance of each variable differs. Instead, as seen in Table 6, each variable's significance is evaluated independently using its corresponding t-statistic and p-value. The remaining variation in ISR disclosure is explained by parameters that are not part of the model used in this study.

Table 7. Malaysian Regression Results

Variables	Coefficient	Std. err.	t-Statistic	Prob.	Result
SSB_SIZE	-0.0017643	0.0093093	-0.19	0.850	Insignificant
SSB_EXPERT	0.3784993	0.1833843	2.06	0.039	Significant
INST_OWN	0.1809934	0.1580131	1.15	0.252	Insignificant
FORN_OWN	-0.1762245	0.1939798	-0.91	0.364	Insignificant
SIZE	-0.0005494	0.0296267	-0.02	0.985	Insignificant
GDP_PC	-0.0334484	0.0128429	-2.60	0.009	Significant
Effect Specification					
Number of obs	109	R-square:			
Number of groups	16	Within		0.1168	
Prob > chi2	0.0391	Between		0.1147	
corr(u_i, x)	0	Overall		0.1089	

Source: Authors' calculations based on secondary data.

The regression findings for Malaysia are shown in Table 7, where the R^2 value of 10.89% shows how much the independent variables affect the dependent variable. The model as a whole is statistically significant at the 5% significance level ($p < 0.05$) if the Prob value is higher than the chi-squared value of 0.0391, indicating that the independent variables collectively help to explain the variation in the model. This does not imply that every variable is statistically significant in its entirety. Instead, as seen in Table 7, each variable's significance is evaluated independently using the corresponding t-statistic and p-value. GDP per capita and company size are used as control variables in this study.

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Discussion

In Indonesia, SSB size has a p-value of 0.002 < 0.05 and a coefficient of -0.0496005. This result is consistent with H1a, which states that SSB size negatively affects ISR disclosure. Therefore, ISR disclosure in ICBs Indonesia may increase when the number of SSB members decreases. Based on Law No. 40 Year 2007 on Limited Liability Companies, Indonesia uses a two-tier governance system or two levels of leadership, where management and supervisory functions are separated. This causes problems when making decisions and coordination. A larger number of SSB in this two-tier structure may slow down ISR policy implementation and decision-making processes. This conclusion is supported by agency theory since fewer SSB members may lessen the possibility of coordination and communication issues, which could result in lower-quality board decision-making (Beiner et al., 2015; Mai et al., 2023).

On the other hand, the findings of studies carried out in Malaysia indicate that the p-value of 0.850 is exceeds 0.05 and the coefficient is -0.0017643. These results indicate that, although not significant, SSB size also has a negative impact on ISR revelation. This result contradicts H1b, but the connection aligns with agency theory, which asserts that ISR is influenced by SSB size. The characteristics of the one-tier system implemented by the Companies Act 2016 may explain the negative effect of SSB size on ISR in Malaysian ICBs. This system combines the management and supervisory functions into one board, so that the process of supervising and implementing ISR practices can run more smoothly no matter how many SSB members there are. Smaller SSB size can actually improve coordination and decision-making (Mai et al., 2023). As the one-tier system essentially creates efficient governance, the impact is not large. Jannah et al., (2024), Fujianti et al., (2023) and Gusrianti & Sari (2023) also support the findings of this study.

According to this study, DPS expertise in Indonesia has a p-value of 0.270 which is exceed 0.05 and a coefficient of 0.0341999. These results indicate that DPS expertise has a positive but insignificant impact on ISR disclosure. This result contradicts H2a, but the relationship is consistent with agency theory which states that SSB expertise has a positive impact on ISR. Good SSB expertise also helps provide direction and supervision regarding ISR practices. Since it needs to go through various stages of coordination with the Board of Commissioners and Board of Directors before it can be implemented effectively, the impact is small. In addition, the insignificance could be due to the possibility that the DPS and the Board of Commissioners have the same supervisory function in a two-tier system. Although DPSs are highly proficient in sharia and social topics, other supervisory mechanisms within the organization may interfere with their oversight of ISR practices. The study conducted by Gusrianti & Sari (2023) also supports this finding.

In addition, the findings of studies carried out in Malaysia show that the p-value of 0.039 is less than 0.05 and the coefficient is 0.3784993. This outcome supports the assertion of H2b that SSB expertise increases ISR disclosure. If SSB members have outstanding knowledge in accounting, economics, finance, and muamalah fiqh, then ICBS Malaysia may disclose more ISR. Previous studies by (Baklouti, 2022; Gusrianti & Sari, 2023; Veltrop et al., 2017) further support this. SSB can better understand the complexity of Islamic banks' operations and find potential areas where ISR practices can be optimized thanks to their expertise. Consequently, this is in line with agency theory, which emphasizes that an effective supervisory system is necessary to ensure that agents act in accordance with stakeholder's interests.

According to the findings, foreign ownership in Indonesia has a favorable but negligible impact on ISR disclosure (p-value = 0.986 > 0.05, coefficient = 0.0006027). Although this conclusion deviates from H3a, the relationship's direction is consistent with stakeholder theory, which holds that foreign ownership boosts ISR. Based on the descriptive statistics found in Table 2, the mean value of foreign ownership structure in Indonesia is only 8%, and the shares held by foreigners are modest, indicating that there is no discernible impact of foreign

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ownership structure in Indonesia. The unique characteristics of the Indonesian Islamic banking market may also help explain the small effect of foreign ownership. Although foreign investors bring international best practices, the implementation of ISR in Indonesia is more influenced by local elements such as OJK regulations, DSN-MUI standards, and Indonesian people's expectations of Islamic banks. In addition, the low proportion of foreign ownership may also limit the influence of investors in encouraging major changes to ISR practices. Previous studies by Rouf et al., (2026), Purnomo & Prasetyo (2021), and Said et al., (2015), support this finding, ISR disclosure is not significantly impacted by foreign ownership.

On the other hand, with a p-value of 0.364 exceed 0.05 and a coefficient of -0.1762245, the findings of a study carried out in Malaysia indicate that foreign ownership has a negative but negligible effect on the disclosure of ISR. This result contradicts H3b, and the direction of the relationship is inconsistent with stakeholder theory which says that foreign ownership increases ISR disclosure. Differences that may affect foreign investors' interest and international business focus. As foreign investors must account for their investments to stakeholders in their home countries, they prioritize financial performance and operational efficiency over social disclosure. As Malaysia's strong regulatory and supervisory system ensures that minimum ISR standards are met, foreign investors entering the Malaysian market have generally understood and adapted to local Shariah practices, including ISR. As a result, this negative effect is not significant. This is supported by data collected by the Global Islamic Economy Indicator (GIEI) 2023, which shows that Malaysia is the highest ranked Islamic economy.

The results of the study in Indonesia show that institutional ownership has a p-value of 0.003 < 0.05 and a coefficient of 0.101664. H4a shows that institutional ownership has a positive impact on ISR coverage, and stakeholder theory suggests that as institutional ownership increases, the coverage of ISR will also increase. In addition, the results of study conducted by Indriastuti & Chariri 2022 and Muhsyaf, (2023) support this. Institutional investors are usually oriented towards long-term investments, so institutional investors actively push for higher ISR standards because they realize that good social disclosure practices can improve a bank's reputation and reduce long-term investment risks. Institutional investors also have a significant say in strategic decision-making, as shown by the average institutional ownership data at ICBS Indonesia, which is 88.9%. Thus, institutional investors can influence banking policies related to ISR practices more effectively, one of which is by implementing a stronger checks and balances mechanism to improve supervision of ISR disclosure.

However, a study carried out in Malaysia demonstrates that institutional ownership has a favorable effect on ISR revelation, as evidenced by a coefficient of 0.180934 and a p-value of 0.252 that is >0.05. This finding defies H4b since it demonstrates that institutional ownership has little beneficial effect on ISR disclosure. However, the relationship is based on stakeholder theory, which states that institutional ownership increases ISR. Through valuable resources and experience, institutional investors have a positive effect. However, this insignificance is due to the strong supervisory and governance system, strong sharia infrastructure, and the condition of Malaysia's Islamic financial market which has reached high maturity as a global Islamic financial center. Therefore, the additional role of institutional investors in encouraging ISR practices becomes less important.

The results of the research show that ISR Reporting by ICBs in Indonesia is significantly positively influenced by control variables proxied by bank size (SIZE) and domestic product income per capita (GDP_PC). Larger banks have greater resources to allocate to ISR, which allows companies to make more detailed and comprehensive bank social responsibility reports (1). Increasing GDP per capita indicates good economic growth. This allows ICBs to allocate

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more resources to social activities and broader reporting. However, a study conducted on Malaysian ICBs showed that bank size (SIZE) and gross domestic product per capita (GDP_PC) negatively impact ISR. Large banks have high organizational complexity, which may reduce the willingness of companies to disclose ISR. Similarly, with increasing GDP per capita, banks will focus more on financial performance than ISR disclosure.

Difference Test between ISR Disclosure in Indonesia and Malaysia

Before conducting a difference test, the data must be tested for normality to ensure that they are normally distributed. The data is regarded as regularly distributed if the P value is higher than 0.05. Then, to test the comparison, an Independent Sample T-test is the following step. Meanwhile, the Mann-Whitney test is used if the P value <0.05, then the data is not normally distributed. According to Table 8, the ISR index value in Malaysian and Indonesian ICBs has a significance level of 0.00000, which is less than 0.05. Consequently, there is no normal distribution in the data.

Table 8. Shapiro-wilk Test

Variable	Obs	W	V	z	Prob>z
ISR	194	0.94579	7.876	4.741	0.00000

Source: Authors' calculations based on secondary data.

After that, the comparison is tested using the Mann-Whitney test. When data are not normally distributed, it can be used as a stand-in for the Independent Samples T test and is regarded as a non-parametric statistic. According to the test criteria, a significant difference is indicated by a Prob value less than 0.05, while no significant difference is as shown by a P-value greater than 0.05.

Table 9. Mann-Whitney Test (Two-Sample Wilcoxon Rank-Sum)

Countries	Obs	Rank sum	Expected
Indonesia	85	6575.5	8287.5
Malaysia	109	12339.5	10627.5
Combined	194	18915	18915
Unadjusted variance	150556.25	z =	-4.438
Adjustment for ties	-1750.09	Prob > |z| =	0.0000
Adjusted variance	148806.16	Exact prob =	0.0000

Source: Authors' calculations based on secondary data.

Based on Table 9, this study found that the Prob> z value was 0.0000 (<0.05), which means that H5 is accepted that ISR disclosure in Indonesian and Malaysian Commercial Islamic Banks differs from 2017 to 2023. This difference is due to the nature of the ISR disclosure obligations that apply in each country. According to Nastiti & Kasri, (2019), the availability of regulations plays a crucial part in increasing the growth of Islamic banking. The existence of explicit, systematic, and comprehensive regulations will increase Islamic banking compliance, so the clarity and nature of the regulations will also affect the level of ISR revelation in each country. According to the rank sum value, the level of ISR revelation of ICBs in Indonesia is lower than in Malaysia. The ISR regulation stipulated in Law No. 40 of 2007 is still unclear because it only applies to state-owned companies and companies related to natural resources. Meanwhile, in Malaysia, companies that will go public must disclose ISR (Sallehhuddin et al., 2022). From the differences in regulatory nature, of course, ICBS in Malaysia is more compliant

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with its social responsibilities, especially sharia institutions that its independent institutions directly supervise.

Furthermore, the findings of this investigation support the claims made by Fatmawati et al., (2022) and Nugraha et al., (2019), who stated that the Malaysian government implements a strict approach, even though it forces Sharia institutions to comply with and adhere to applicable Sharia regulations. The Sharia Advisory Council (SAC), which is the exclusive responsibility of the SSB, is proof of this. Every Islamic financial institution has a Sharia Committee, but only Bank Negara Malaysia has this authority. A number of countries, including Indonesia, have a free or light regulatory framework. The authority to make its own regulations is given to organizations.

The varying degrees of ISR disclosure are also indicated by the maturation of the Sharia banking system in each nation. With a more developed regulatory and supervisory framework, Malaysia long the global center of Islamic finance is able to promote reliable and superior ISR procedures. Better standardization helps a single-tier system, enabling more efficient policy implementation and faster decision-making. Meanwhile, although a single-tier system has significant market potential in Indonesia, the development of ISR standards and practices is still incomplete because the two-tier system makes it difficult to harmonize social disclosure practices among Islamic banks.

Conclusion

This study examined the determinants of Islamic Social Reporting (ISR) disclosure among Islamic commercial banks in Indonesia and Malaysia during 2017–2023, focusing on Sharia Supervisory Board (SSB) characteristics and ownership structure. The findings reveal distinct patterns across the two countries. In Indonesia, SSB size is negatively and significantly associated with ISR disclosure, while institutional ownership demonstrates a positive and significant association. In contrast, SSB expertise and foreign ownership show no significant associations. In Malaysia, only SSB expertise exhibits a positive and significant association with ISR disclosure, whereas SSB size, institutional ownership, and foreign ownership are insignificant. Furthermore, ISR disclosure differs significantly between the two countries, with Malaysian Islamic banks demonstrating higher average disclosure levels. These findings suggest that the relationship between governance characteristics and ISR disclosure may depend on the institutional and regulatory environments in which Islamic banks operate. Overall, the study contributes to the Islamic corporate governance literature by highlighting the importance of considering country-specific governance characteristics rather than assuming that similar governance mechanisms produce uniform disclosure outcomes.

Practical Implication

The findings offer practical implications for Islamic bank management, regulators, and institutional investors. In Indonesia, the negative association between SSB size and ISR disclosure suggests that banks should prioritize effective coordination, clear supervisory responsibilities, and efficient decision-making rather than merely increasing board membership. Meanwhile, the positive association with institutional ownership highlights the importance of encouraging institutional investors to actively participate in governance oversight and promote greater transparency in social reporting. In Malaysia, the positive association between SSB expertise and ISR disclosure suggests that banks should prioritize professional qualifications, continuous training, and the involvement of Sharia Committee members in social reporting activities. Furthermore, regulators in both countries should

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strengthen Sharia governance oversight and encourage more consistent ISR disclosure guidelines to improve transparency, accountability, and comparability across Islamic banks. These measures should consider the different institutional and regulatory environments of Indonesia and Malaysia.

Study Limitation and Future Research Recommendation

This study has several limitations. First, the analysis covers only 32 Islamic commercial banks in Indonesia and Malaysia during 2017–2023, limiting the generalizability of the findings to other countries and Islamic financial institutions. Second, the study examines only selected SSB characteristics and ownership variables, while other potentially relevant factors, such as SSB independence, meeting frequency, reputation, and cross-membership, are not considered. Third, the unbalanced panel resulting from differences in financial reporting availability may affect the precision of the estimates. Moreover, the observational research design identifies statistical associations rather than causal relationships. Future research could extend the observation period, include additional countries, and incorporate broader governance and institutional variables. Further studies may also examine the moderating role of regulatory frameworks and Sharia governance practices in explaining cross-country differences. Combining quantitative analysis with interviews involving SSB members, bank management, and regulators could provide deeper insights into the mechanisms shaping ISR disclosure.

Author's Contributions (CRediT Taxonomy)

Nova Aulia Khoirunnisa: Writing – original draft, Data curation, Formal analysis, Investigation.
Fifi Afiyanti Tripuspitorini: Supervision, Writing – review & editing.
Ulfah Nurul Fauziah: Writing – review & editing.

All authors have read and approved the final version of the manuscript.

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Declarations

Ethical considerations

This study utilized publicly available secondary data obtained from annual reports and sustainability reports of Islamic commercial banks. As the research did not involve human participants or the collection of personal information, ethical approval and informed consent were not required.

Use of artificial intelligence (AI)

The authors used AI-assisted tools to improve language clarity, grammar, and readability during manuscript preparation. All research analyses, interpretations, and conclusions were conducted and verified by the authors, who take full responsibility for the manuscript's content.

Conflict of Interest

The authors declare that they have no financial or non-financial conflicts of interest related to this research.

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