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CSR expenditure and Islamic bank performance: the moderating role of Sharia supervisory board characteristics

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Abstract

Purpose – This study aims to examine the moderating effects of Sharia supervisory board (SSB) characteristics, specifically accounting background and gender diversity, on the relationship between corporate social responsibility (CSR) expenditure and Islamic bank performance in Indonesia.

Design/methodology/approach – This study uses dynamic panel data analysis for 16 Islamic Banks in Indonesia covering 2017–2023. In addition, the authors apply generalized least squares to ensure the consistency of the main findings.

Findings – The first finding shows a negative relationship between CSR expenditure and Islamic bank performance (IBP). The second finding reveals that CSR expenditure moderated by SSB members with accounting backgrounds significantly improves IBP. This demonstrates the vital role of SSB accounting expertise in supervising Islamic bank activities to maintain and enhance reputation and performance. Conversely, SSB gender diversity does not significantly moderate the CSR−performance relationship. These findings indicate the ability of professionally qualified SSB members to ensure banking product conformity with *Sharia* principles and enhance the effectiveness of Islamic bank strategies in maximizing fundraising and fund distribution performance.

Practical implications – This study has excellent value for Islamic bank management regarding the effectiveness and efficiency of CSR expenditure and the selection of members of the Islamic supervisory board with accounting education background.

Originality/value – This study investigates in depth the decision to spend of CSR activities in the Islamic banks and the competencies possessed by SSB with an accounting education background and gender diversity at the Islamic bank.

Keywords CSR expenditure, Islamic bank performance, Sharia Supervisory Board characteristics, Governance

Paper type Research paper

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1. Introduction

Company performance is essential in a business organization (Ramzan *et al.*, 2021). Company performance is one of the excellent indicators in assessing the success of a company's management. This also applies to companies in the *Sharia*-based banking sector. The presence of Islamic banks in Indonesia has been felt since 1991, when Bank Muamalat Indonesia was established as the first Islamic bank. However, prior to this, Islamic economic practices had been implemented through non-bank financial institutions that operated under the *Sharia* system. Subsequently, the government issued Law Number 7 of 1992 to regulate the operations of Islamic banks within the Islamic banking industry (Abdul *et al.*, 2022). In Indonesia, Islamic banking has gained significant attention due to its remarkable growth, which has reached 65% over the past five years (OJK, 2024).

Legitimacy theory assumes that companies that pay attention to investing in social performance will also improve financial performance, regardless of the size and type of Company (Khan and Zahid, 2020; Tasnia *et al.*, 2020; Ramzan *et al.*, 2021; Grassa *et al.*, 2023; Shahwan and Habib, 2023). Social performance must also be controlled by implementing good governance. According to agency theory, the existence of a Sharia supervisory board (SSB) as a representation of governance will help companies improve the quality of performance (Jabari and Muhamad, 2021; Zulfikar *et al.*, 2021; Shahzad Virk *et al.*, 2022). Stakeholder theory conveys the urgency for companies to care about the environment because the environment is considered a potential stakeholder for banking (Zhou *et al.*, 2021). The fulfillment of social and environmental performance, supported by proper supervision through good governance, is a strategy to encourage the excellence of Islamic banks.

Research to test the relationship between corporate social responsibility (CSR) and a company's performance has been conducted by several previous researchers (Belasri *et al.*, 2020; Tasnia *et al.*, 2020; Shahwan and Habib, 2023). Studies show mixed results, with the first study showing positive results on the relationship between CSR and performance (Rjiba *et al.*, 2020; Ramzan *et al.*, 2021; Zhang and Su, 2023). Other studies show that CSR has a negative effect on firm performance (Pekovic and Vogt, 2021; Zhou *et al.*, 2021). Meanwhile, other studies explain that social, environmental and governance dimensions have not been proven to influence company performance (Al-Hamshary *et al.*, 2025; Moufty *et al.*, 2021; Saadaoui and Ben Salah, 2023; Zaiane and Ellouze, 2023; Shabir *et al.*, 2024). These inconsistent results increase the researcher's belief in the importance of conducting further research with legitimacy theory to prove the relationship between CSR and company performance using Islamic banks as the object. The researcher added a moderating variable, namely, the SSB, to ensure the relationship between CSR and Islamic bank performance. Based on agency theory, the existence of supervisors such as SSB is a step to bridge the interests of shareholders and company management to achieve maximum performance.

This study will explore how CSR practices implemented by Islamic banks can affect their financial performance and reputation. The urgency of fulfilling social responsibility in business strategy is expected to improve the performance of Islamic banks. Through the role of SSB, the goal of fulfilling CSR is expected to run perfectly. Previous studies have found a positive relationship between SSB and company performance (Nomran *et al.*, 2018; Shahzad Virk *et al.*, 2022). SSB is also a positive moderator in the relationship between board effectiveness and firm performance (Neifar *et al.*, 2020) and between CEO arrogance and performance (Zulfikar *et al.*, 2021). While previous studies establish SSB importance in Islamic banking governance, none investigate the dual moderating role of SSB accounting expertise and gender diversity specifically on CSR−performance relationships in emerging Islamic banking markets. This study contributes by:

- introducing composite Islamic banking performance measures;
- examining dual SSB characteristics as moderators; and
- providing evidence from Indonesia's rapidly growing sector.

The role of gender diversity within the SSB becomes particularly crucial in Islamic banking governance due to the distinct decision-making characteristics that women bring to financial oversight. Research demonstrates that female board members tend to exhibit greater risk aversion and more cautious decision-making approaches, which are essential qualities for maintaining *Sharia* compliance and sustainable banking practices (Adams and Ferreira, 2009; Sila *et al.*, 2016). Studies specific to Islamic banking contexts reveal that women on supervisory boards contribute to enhanced risk management and more thorough evaluation of *Sharia*-compliant investment decisions (Grassa *et al.*, 2018; Mkadmi and Benali, 2025). Furthermore, female directors in Islamic financial institutions demonstrate superior monitoring capabilities and are more likely to question management decisions, thereby strengthening the governance framework that is fundamental to Islamic banking principles (Jabari and Muhamad, 2021; Nashirudin and Rosadi, 2025). This enhanced scrutiny becomes particularly valuable when evaluating CSR initiatives, as women board members tend to consider broader stakeholder interests and long-term sustainability implications, aligning with the ethical foundations of Islamic finance (Işık *et al.*, 2025). Given these characteristics, examining the moderating role of gender diversity within the SSB on the CSR−performance relationship provides valuable insights into how governance composition can optimize both social responsibility outcomes and financial performance in Islamic banking.

Islamic banking is increasingly getting world attention in Indonesia after officially naming Bank Syariah Indonesia Tbk as one of the Top 10 Global Islamic Banks in market capitalization, reaching IDR 131.47tn (Respati and Setiawan, 2024). This achievement is felt to increase confidence because Bank Syariah Indonesia Tbk is only three years old since the merger of three Islamic banks in Indonesia. It was conveyed directly by the President of the Republic of Indonesia that the growth of Islamic bank assets in 2024 of 9.07% has exceeded the growth of conventional bank assets, which is at 8.9% (CNBC Indonesia, 2024). This success is undoubtedly a trigger for other Islamic banks to develop and become the government's concern to echo the Islamic economy more widely, so research with the working areas of Islamic banks in Indonesia is feasible and enjoyable to conduct.

This study contributes to Islamic banking literature by:

- introducing composite Islamic banking performance measures reflecting *Sharia*-compliant intermediation;
- examining dual SSB characteristics as complementary moderators; and
- providing evidence from Indonesia's rapidly growing Islamic banking sector.

This growing prominence of Islamic banking, combined with increasing recognition of gender diversity's importance in governance, highlights the need for comprehensive research on CSR−performance relationships. There are various findings from research on the relationship between CSR and company performance in the banking sector. The first finding found a positive relationship between CSR and bank performance, as revealed by Liu *et al.* (2021), who conducted research to observe banking companies in China from 2009 to 2018. The result is that simultaneously, the CSR variable, along with environmental, social and governance performance measurements, positively influences banking performance. In line with the theory that has been put forward, the existence of CSR will have a good impact on the sustainability of the Company's business and the Company's image in the eyes of investors. This finding is reinforced by the results of other studies that show the same results (Rjiba *et al.*, 2020; Tasnia *et al.*, 2020; Bătae *et al.*, 2021; Ramzan *et al.*, 2021; Singh and Misra, 2021; Wei *et al.*, 2021; Bokhari *et al.*, 2023; Jan *et al.*, 2023; Shahwan and Habib, 2023; Zhang and Su, 2023).

The research with the second result also stated that there is a relationship between CSR and banking performance, but the results found have a negative influence. As noted in Zhou *et al.* (2021), which analyzes panel data to test the relationship between CSR and bank financial performance in China, in the short term, CSR will have an inverse impact on bank financial performance in China. This can be based on a significant increase in costs for CSR expenditures, resulting in decreased profitability. Although the results of this study are not widespread, other studies also obtain a negative relationship between CSR and bank performance (Su *et al.*, 2020; Pekovic and Vogt, 2021).

Other studies that obtained different results stated that there was no influence between CSR and company performance; CSR performance, which was partially broken down into environmental performance, social performance and corporate governance performance had no impact on company performance. This was revealed based on Saadaoui and Ben Salah (2023) research. Their research found no relationship between social and governance dimensions and banking performance in the EuroMed region. Other researchers with different objects also saw the zero impact of CSR on banking performance (Moufty *et al.*, 2021; Zaiane and Ellouze, 2023; Shabir *et al.*, 2024). The results contradicting this theory are the basis for researchers' interest in reexamining the relationship between CSR and Islamic banking performance in Indonesia, accompanied by accounting-qualified SSBs.

Based on the empirical data mentioned by Huang *et al.* (2020), the impact of CSR on corporate financial performance is still unclear. Evidence shows that out of 437 observations, 39.8% of results show a positive effect of CSR on corporate performance, while 10.5% of the impact is negative. Still, the most considerable result was a statistically insignificant impact of 49.7%.

In theory, experts say that fulfilling corporate responsibility in the form of CSR can influence corporate performance through profitability (Lins *et al.*, 2017) and stock returns (Saeed *et al.*, 2023). CSR can have contradictory performance impacts, banks implementing a strategic approach to social responsibility weaken the company's financial performance (Esteban-Sanchez *et al.*, 2017), while other researchers found that the relationship between CSR and bank performance was empirically rejected (Lin *et al.*, 2019; Kabir and Chowdhury, 2023).

The results of previous studies on the influence of CSR on company performance are continued and developed in this study. This study has several characteristics compared to previous studies. First, this study focuses on the performance measured by Islamic banks using the Islamic Bank Performance Indicator in terms of fund collection and fund distribution. Second, a moderating variable, the SSB, assists this study. The SSB does not have a direct influence on the company's operations, which has an impact on increasing profits. The existence of a competent SSB assures customers and prospective customers that *Sharia* principles have been used to organize and operate the company.

This research is structured with the following outline: Section 2 contains the literature review and hypothesis development; Section 3 includes the research methodology; Section 4 describes the results and discussion; Section 5 is the conclusion, contributions, limitations and suggestions for future research.

2. Theoretical background and hypothesis development

2.1 Legitimacy theory on corporate social responsibility and Islamic bank performance

Indonesia's Islamic banking evolution reflects the unique intersection of regulatory mandates and religious requirements. As the world's largest Muslim population, Indonesia's CSR framework differs significantly from developed countries through its regulatory-driven approach, mandated by Law No. 40 of 2007 concerning Limited Liability Companies (UUPT) regulates Corporate Social Responsibility (CSR) or Social and Environmental Responsibility (TJSL) in Article 74 and is strengthened by the Financial Services Authority (OJK) regulation Number 51/POJK.03 / 2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies (Hassan and Harahap, 2010). Unlike Western voluntary CSR models following Carroll's pyramid, Indonesian Islamic banks operate under dual compliance requirements: national CSR regulations and *Sharia* principles, creating a distinctive legitimacy framework that encompasses regulatory, social and religious dimensions (Cahyono *et al.*, 2024b; Bukair and Rahma, 2015; Khémiri and Alsulami, 2023).

Discussion on CSR has become a frequently discussed topic, with legitimacy theory consistently used by researchers to explain CSR practices in companies (Uadiale and Uwuigbe, 2011; Ntim and Soobaroyen, 2013; Liu *et al.*, 2021; Zhou *et al.*, 2021). Legitimacy theory becomes particularly crucial in Indonesian Islamic banking due to multidimensional legitimacy challenges these institutions face. Beyond conventional stakeholder legitimacy, Islamic banks must maintain religious legitimacy among Muslim consumers and *Sharia* compliance legitimacy with religious authorities (Srairi, 2015; Tasnia *et al.*, 2020). This multilayered legitimacy requirement makes CSR–performance relationships in Islamic banks distinct from conventional banking, as they must simultaneously navigate cultural, religious and regulatory expectations (Khémiri and Alsulami, 2023; Islam *et al.*, 2025; Ningsih *et al.*, 2023).

Recent empirical evidence strongly supports the positive CSR–performance relationship in Islamic banking contexts. Lestari *et al.* (2025) demonstrate that Islamic CSR and Islamic income ratio significantly enhance profitability levels in Indonesian Islamic banks, with findings reinforced when moderated by Zakat Performance Ratio. Similarly, Alarabeyyat *et al.* (2025) confirm that CSR positively affects Return on Equity and Tobin's Q in Middle Eastern Islamic banks, while Suandi *et al.* (2025) reveal that CSR implementation directly improves Islamic bank performance in Indonesia. These consistent findings across different regional contexts validate the legitimacy theory's prediction that socially responsible practices enhance organizational performance through improved stakeholder relationships and institutional legitimacy.

The CSR–performance relationship in Islamic banking is further strengthened by *Sharia*-specific dimensions that align with Islamic principles. Prasojo *et al.* (2025) demonstrate that Indonesian Islamic banks' CSR activities successfully align with Maqasid Shariah's five key elements (faith, life, intellect, progeny and wealth), significantly enhancing community welfare and customer satisfaction. Moreover, Rehan *et al.* (2025) establish that CSR initiatives in Pakistani Islamic banks improve sustainable social performance through Green Intellectual Capital mediation, while Chafai and Alsulami (2025) identify an inverted U-shaped relationship between CSR disclosure and Islamic bank efficiency in GCC countries. These findings suggest that Islamic banks can achieve superior performance outcomes through CSR practices that simultaneously fulfill regulatory requirements, stakeholder expectations and religious obligations.

Based on the perspective of legitimacy theory, a company's image with better fulfillment of CSR will have a positive effect on company performance (Tasnia *et al.*, 2020; Ramzan *et al.*, 2021; Zaiane and Ellouze, 2023). Corporate legitimacy in the eyes of stakeholders can be achieved by applying ethics in business and increasing CSR. CSR has several benefits, such as improving the company's reputation and maintaining the company's image and strategy. The convergent evidence from multiple regional studies and the unique regulatory-religious context of Indonesian Islamic banking provide strong theoretical and empirical foundation for examining this relationship. Based on these arguments, the researcher developed the first hypothesis, namely:

H1. CSR has a positive influence on the Islamic banks' performance (IBP).

2.2 Resource dependence theory (RDT) on the Sharia supervisory board

The obligation of Islamic banking companies to have an SSB is an effort to supervise banking operations following *Sharia* principles and rules (Baklouti, 2022). Finally, with banking managed according to the regulations, maximum profits are hoped to be obtained (Mukhibad *et al.*, 2023).

RDT considers the role of the board of directors in a company as a resource for the company (Johnson *et al.*, 1996). From the perspective of RDT theory, increasing corporate competitiveness can be supported by highly qualified board members (Gabrielsson and Huse, 2005). In this research variable, SSB is used as the supervisory board of Islamic banks. The high level of education of the SSB board is in line with the company's high profitability (Musibah and Alfattani, 2014; Permatasari *et al.*, 2024). The educational qualifications of SSB members who have doctoral degrees and expertise relevant to their duties certainly have adequate knowledge regarding Islamic finance and banking (Azad *et al.*, 2025; Farook and Lanis, 2007; Farook *et al.*, 2011; Rahman and Bukair, 2013; Nomran *et al.*, 2018). Based on the development of these thoughts, a second hypothesis was formulated, namely:

H2a. SSB accounting background moderates the relationship between CSR and Islamic bank performance (IBP).

Beyond educational qualifications, the demographic composition of the SSB, particularly gender diversity, represents another important dimension of board resources that warrants investigation. Gender diversity within the SSB represents another critical dimension of board composition that can enhance resource availability and decision-making quality in Islamic banks. RDT suggests that gender-diverse boards provide access to broader networks, diverse perspectives and varied expertise that can improve organizational performance (Jabari and Muhamad, 2021). Female members of the SSB bring distinctive characteristics that are particularly valuable in the context of Islamic banking governance. Research demonstrates that women exhibit more cautious and thorough decision-making approaches, with superior risk assessment capabilities and comprehensive consideration of potential outcomes (Mkadmi and Benali, 2025; Nashirudin and Rosadi, 2025). These characteristics align well with the prudential requirements of *Sharia* compliance, where careful evaluation of financial products and services is essential to ensure adherence to Islamic principles.

In the context of CSR implementation, gender diversity within the SSB can provide valuable resources for evaluating and monitoring CSR initiatives. Female board members tend to demonstrate greater concern for stakeholder welfare and long-term sustainability, which are fundamental aspects of Islamic banking philosophy (Rabbani *et al.*, 2024; Cahyono *et al.*, 2024a). The presence of women on the SSB can enhance the board's ability to assess whether CSR activities align with *Sharia* principles and contribute to the bank's overall performance objectives. However, empirical evidence on how gender diversity within SSB moderates the CSR−performance relationship in Islamic banks remains limited, particularly in emerging markets like Indonesia. Based on these theoretical foundations and empirical gaps, the following hypothesis is formulated:

H2b. SSB gender diversity moderates the relationship between CSR and Islamic bank performance (IBP).

3. Method

3.1 Samples and data

This study uses all Islamic banks in Indonesia, namely, 16 banks, from 2017 to 2023 as presented on Table 1. The observation period commences in 2017 to capture the regulatory impact following the implementation of Financial Services Authority Regulation Number 1/POJK.07 / 2016 concerning Increasing Financial Literacy and Inclusion, which strengthened CSR mandates for financial institutions. This regulatory milestone provides a natural starting point for examining CSR–performance relationships under enhanced regulatory scrutiny (Darmadi, 2013). The 2017–2023 period encompasses significant developments in Indonesian Islamic banking, including regulatory changes, digital transformation and industry consolidation, providing a comprehensive timeframe for analyzing CSR dynamics in a rapidly evolving sector.

This research sample uses unbalanced panel data, with a time series observation period of seven years and a cross-sectional unit of 16 Islamic banks. Unbalanced panel data is a condition where the cross-sectional unit has unequal time series observations (Ghozali and Ratmono, 2017). The use of unbalanced panel data is methodologically appropriate given the structural changes in Indonesian Islamic banking during the observation period (Wooldridge, 2010). This approach prevents the loss of valuable information that would occur with balanced panel restrictions, particularly given the strategic importance of the 2021 merger creating Bank Syariah Indonesia. The unbalanced structure accommodates natural entry and exit patterns while maintaining statistical validity through appropriate econometric techniques (Baltagi, 2021). Observations conducted in the period 2017–2023 resulted in 93 research samples. The following is a list of Islamic banks included in the research sample.

3.2 Measurement of variables

Variable measurement in this study follows established Islamic banking literature while addressing the unique characteristics of Indonesian regulatory environment. CSR is measured as the independent variable using the natural logarithm of actual CSR expenditure in the previous year (t − 1), consistent with financial disclosure practices that emphasize

Table 1. List of Islamic banks

No.	Islamic bank name	Observation year
1	Bank BRI Syariah	2017–2020
2	Bank BNI Syariah	2017–2020
3	Bank Syariah Mandiri	2017–2020
4	Bank Aceh	2017–2023
5	Bank NTB Syariah	2018–2023
6	Bank Muamalat Indonesia	2017–2023
7	Bank Victoria Syariah	2017–2023
8	Bank Syariah Indonesia	2021–2023
9	Bank Jabar Banten Syariah	2017–2023
10	Bank Panin Dubai Syariah	2017–2023
11	Bank Bukopin Syariah	2017–2023
12	Bank BCA Syariah	2017–2023
13	Bank BTPN Syariah	2017–2023
14	Bank Aladin Syariah	2017–2023
15	Bank Riau Kepri Syariah	2022–2023
16	Bank Mega Syariah	2017–2023

Source(s): Data processed by the author (2025) monetary commitments to social responsibility (Ramzan *et al.*, 2021). The second data type is Islamic banking performance data, a dependent variable. Islamic bank performance measurement departs from conventional banking metrics to reflect *Sharia*-compliant operational principles. Performance is conceptualized through the dual-function approach encompassing fund collection and fund distribution, representing the core Islamic banking intermediation process (Johnes *et al.*, 2014). The indicator of fund collection uses the ratio of total temporary syirkah funds (Mukhibad *et al.*, 2019) to total assets, while the indicator of fund distribution is the profit-sharing ratio (PSR) (AlQashouti and Shirazi, 2024). The Islamic bank performance composite measure uses equal weighting (50:50) for fund collection and fund distribution components, reflecting the balanced importance of these functions in Islamic banking theory where neither mobilization nor allocation of funds should dominate the other in achieving *Sharia* compliance and financial sustainability (Beck *et al.*, 2013). The moderating variable in this study is the SSB, which measures SSB using the percentage of Sharia board members with an accounting education background (Ardianto *et al.*, 2024a; Khan and Zahid, 2020; Nasih *et al.*, 2025a, 2025b). The conceptual model of this study is displayed in Figure 1.

3.3 Empirical model

The empirical strategy uses fixed-effects panel regression to control for unobserved bank-specific heterogeneity and address potential endogeneity concerns (Wooldridge, 2010). This approach exploits within-bank variation over time, reducing selection bias while the lagged CSR variable ($t-1$) mitigates reverse causality.

Control variables address three categories of potential confounders:

(1) governance controls (board composition) capture corporate governance effects on both CSR decisions and performance (Ardianto *et al.*, 2024b; Farag *et al.*, 2018);

(2) financial controls (lagged ROA, ROE, BOPO) address performance persistence and operational efficiency variations (Johnes *et al.*, 2014; Nasih *et al.*, 2025a, 2025b; Purwoaji *et al.*, 2025); and

(3) Islamic banking-specific controls (DST, Murabahah ratios) ensure results reflect CSR effects rather than *Sharia* compliance differences (Mollah *et al.*, 2017; Nasih *et al.*, 2025a, 2025b).

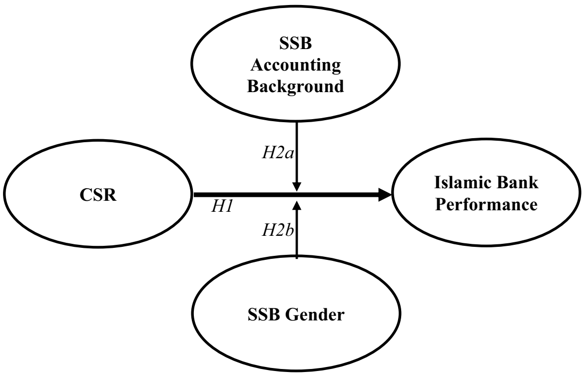

Figure 1. Conceptual framework
Source: Figure by author (2025)

$$IBP_{i,t} = \beta_0 + \beta_1 CSR_{i,t-1} + \beta_2 R\_SSBAcc_{i,t} + \beta_3 Gen\_SSB_{i,t} + \beta_4 Liability_{i,t} + \beta_5 DST_{i,t} + \beta_6 Equity_{i,t} + \beta_7 Laba_{i,t} + \beta_8 Murabahah_{i,t} + \beta_9 Tot\_Com_{i,t} + \beta_{10} Com\_Ind_{i,t} + \beta_{11} Com\_Gen_{i,t} + \beta_{12} T\_ASET_{i,t-1} + \beta_{13} ROA_{i,t-1} + \beta_{14} ROE_{i,t-1} + \beta_{15} BOPO_{i,t} + Fixed\,Effect + \varepsilon_{i,t} \tag{1}$$

$$IBP_{i,t} = \beta_0 + \beta_1 CSR_{i,t-1} + \beta_2 R\_SSBAcc_{i,t} + \beta_3 Gen\_SSB_{i,t} + \beta_4 CSRxAcc_{i,t} + \beta_5 CSRxGen\_SSB_{i,t} + \beta_6 Liability_{i,t} + \beta_7 DST_{i,t} + \beta_8 Equity_{i,t} + \beta_9 Laba_{i,t} + \beta_{10} Murabahah_{i,t} + \beta_{11} Tot\_Com_{i,t} + \beta_{12} Com\_Ind_{i,t} + \beta_{13} Com\_Gen_{i,t} + \beta_{14} T\_ASET_{i,t-1} + \beta_{15} ROA_{i,t-1} + \beta_{16} ROE_{i,t-1} + \beta_{17} BOPO_{i,t} + Fixed\,Effect + \varepsilon_{i,t} \tag{2}$$

where IBP is Islamic bank performance; CSR is corporate social responsibility in the previous year; R_SSBAcc is percentage of board members who have an accounting education background; Gen_SSB is percentage of female members in Sharia supervisory boards; liability is liability or obligation; DST is Temporary Syirkah Fund; Equity is equity; Profit is Islamic bank profit; Murabahah is murabahah receivables; Tot_Com is total board of commissioners; Com_Ind is total independent commissioners; Com_Gen is female board of commissioners; ROA is Return on Assets in the previous year; ROE is Return on Equity in the previous year; BOPO is the ratio between operating costs and operating income; and Fixed Effects are fixed regression component factors. All definition and measurement of this variables are referred in Table 2.

4. Results and discussion

4.1 Descriptive statistics

Table 3 presents comprehensive statistical information for the entire sample related to CSR expenditure, Islamic bank performance and SSB, which includes the average, minimum and maximum values. The IBP variable averages 0.541, ranging between 0.000 and 0.862. CSR expenditure has an average value of IDR 14,221,388,706 (equivalent to US$880,200), with values ranging from a minimum of IDR 30,000,000 (US$1,856) to a maximum of IDR 187,568,570,310 (US$11,610,472), all calculated based on the exchange rate of IDR 16,157 per US$1 as of December 31, 2024. The moderating variable in this study, namely, the ratio of the Sharia Supervisory Board with an accounting background in the board, shows an average value of 0.086 in the range of 0–1, indicating that from the entire sample, there are only 8.6% of SSB members with an accounting background. Still, from the maximum value, it can also be seen that there are Islamic banks with an SSB entirely with an accounting background.

4.2 Pearson correlation

Table 4 shows the results of the Pearson correlation matrix, which shows the relationship between variables. Specifically, the variable representing CSR shows a statistically significant negative correlation with the variable representing Islamic bank performance (IBP) at a significance level of 5% (coefficient = −0.007). This indicates that Islamic bank spending on CSR tends to have a negative effect on Islamic bank performance. On the other hand, the variable representing the ratio of the Sharia Supervisory Board with an accounting background (R_AccSSB) shows a significant

Table 2. Measurement for variables

No.	Variable	Indicator	Measurement	Source
1	Islamic bank performance (dependent)	Profit sharing ratio (PSR)	PSR = (Mudharabah + Musyarakah) / total financing	Annual report
		DST to asset ratio	Temporary Syirkah Fund / total assets	Annual report
2	Corporate social responsibility (independent)	CSR expenditure	Natural logarithm of CSR expenditure	Annual report
3	Sharia supervisory board (SSB) accounting background (moderating)	Board educational background	Percentage of board members who have an accounting education background	Annual report
4	Sharia supervisory board (SSB) gender (moderating)	Female Sharia supervisory board member	Percentage of female members in Sharia supervisory boards	Annual report

Source(s): Data processed by the author (2025)

Table 3. Descriptive statistics

			Descriptive statistics		
Variables	Obs.	Mean	SD	Min.	Max.
IBP	93	0.541	0.191	0	0.862
CSR	93	14221388706	36335617982	30000000	187568570310
R AccSSB	93	0.086	0.248	0	1
Gen SSB	93	0.055	0.148	0	0.5
Liability	93	14.574	1.485	10.596	18.284
DST	93	16.041	1.378	10.601	19.243
Equity	93	14.587	0.996	12.522	17.472
Laba	93	11.414	2.195	4.852	15.557
Murabahah	93	14.815	2.171	3.951	18.732
Tot com	93	3.634	1.309	1	9
Com ind	93	2.312	0.751	1	5
Com gen	93	0.602	0.739	0	2
T ASET	93	28100000	49900000	661912	305727438
ROA	93	0.012	0.041	−0.108	0.136
ROE	93	0.046	0.171	−0.94	0.365
BOPO	93	1.003	0.53	0.562	4.284

Source(s): Data processed by the author (2025)

negative correlation with Islamic bank performance (IBP) at a significance level of −0.094. As for other correlations between variables that produce significant results, there is no indication of multicollinearity problems, which ensures its suitability for further analysis.

4.3 Regression analysis

4.3.1 Corporate social responsibility and Islamic bank performance. Table 5 presents the results of the regression analysis conducted to test *H1*. The first column investigates the

Table 4. Pearson correlation

	Matrix of correlations															
Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1) IBP	1															
(2) CSR	−0.007	1														
(3) R_AccSSB	−0.094	−0.208	1													
(4) Gen_SSB	0.316	0.021	−0.146	1												
(5) Liability	−0.101	0.716	0.01	−0.069	1											
(6) DST	0.071	0.796	−0.038	0.001	0.909	1										
(7) Equity	−0.28	0.634	−0.182	−0.18	0.854	0.816	1									
(8) Laba	−0.455	0.468	−0.122	−0.331	0.498	0.51	0.666	1								
(9) Murabahah	−0.189	0.67	0.075	−0.081	0.795	0.864	0.682	0.521	1							
(10) Tot_Com	−0.094	0.48	−0.09	0.073	0.568	0.522	0.587	0.328	0.402	1						
(11) Com_Ind	−0.02	0.58	−0.15	−0.008	0.534	0.539	0.528	0.339	0.418	0.769	1					
(12) Com_Gen	−0.102	−0.593	−0.191	−0.016	−0.401	−0.46	−0.112	−0.009	−0.389	−0.182	−0.381	1				
(13) T_ASET	−0.054	0.654	−0.116	0.057	0.713	0.699	0.74	0.432	0.538	0.805	0.651	−0.301	1			
(14) ROA	−0.622	−0.156	−0.224	−0.195	−0.033	−0.098	0.279	0.472	0.049	0.055	−0.044	0.486	−0.047	1		
(15) ROE	−0.353	0.223	−0.327	−0.176	0.192	0.194	0.37	0.509	0.236	0.078	0.11	0.167	0.149	0.755	1	
(16) BOPO	0.469	−0.099	0.3	0.293	−0.04	−0.002	−0.343	−0.619	−0.02	−0.072	−0.085	−0.324	−0.105	−0.815	−0.857	1

Source(s): Data processed by the author (2025)

Table 5. Regression analysis

IBP	Coef.	St.err.	*Linear regression* *t*-value	*p*-value	[95% Conf	Interval]	Sig
CSR	−0.021	0.011	−1.93	0.059	−0.042	0.001	*
R_AccSSB	−0.131	0.035	−3.73	0	−0.201	−0.061	***
Gen_SSB	−0.104	0.057	−1.83	0.072	−0.218	0.01	*
Liability	−0.009	0.013	−0.72	0.473	−0.035	0.016	
DST	0.248	0.026	9.68	0	0.197	0.299	***
Equity	−0.2	0.032	−6.25	0	−0.264	−0.136	***
Laba	−0.019	0.008	−2.34	0.023	−0.035	−0.003	**
Murabahah	−0.054	0.01	−5.12	0	−0.075	−0.033	***
Tot_Com	−0.009	0.013	−0.67	0.504	−0.034	0.017	
Com_Ind	0.028	0.017	1.70	0.095	−0.005	0.062	*
Com_Gen	0.076	0.02	3.86	0	0.037	0.115	***
T_ASET	0	0	1.27	0.211	0	0	
ROA	−1.568	0.646	−2.43	0.018	−2.861	−0.274	**
ROE	−0.063	0.216	−0.29	0.771	−0.496	0.37	
BOPO	−0.187	0.296	−0.63	0.529	−0.779	0.404	
Year	Include	Include	Include	Include	Include	Include	
Constant	1.155	0.311	3.71	0	0.533	1.778	***

Mean dependent var	0.551	SD dependent var	0.157
R-squared	0.862	Number of obs	81
F-test	–	Prob > F	–
Akaike crit. (AIC)	−189.947	Bayesian crit. (BIC)	−139.663

Note(s): ***$p < 0.01$, **$p < 0.05$ and *$p < 0.1$
Source(s): Data processed by the author (2025)

relationship between CSR and Islamic bank performance. The findings reveal a significant negative relationship at the 5% significance level (coefficient = −0.021, t = −1.93), with an adjusted R-squared of 0.862.

The negative relationship of the variable of Islamic bank expenditure in CSR funds to Islamic bank performance shows that the first hypothesis in this study is not statistically supported. This result implies that the more significant Islamic bank expenditure for CSR can weaken the performance of Islamic banks. This finding can occur due to the lack of effectiveness and efficiency of the CSR program designed by Islamic banks, which does not directly affect the performance of Islamic banks in terms of bank reputation and customer loyalty. This result does not support the legitimacy theory, which assumes that increasing customer trust or potential customers can improve the company's commitment to fulfilling social responsibility.

In line with these findings, research from Zhou *et al.* (2021) conducted on commercial banks in China shows that CSR has a negative impact on bank financial performance. The CSR relationship has also been shown to weaken the performance of manufacturing companies (Su *et al.*, 2020).

4.3.2 The moderating effect of the Sharia supervisory board on the relationship between corporate social responsibility and Islamic bank performance. The results of the regression analysis to test *H2* are presented in Table 7. We investigated the moderating effect of the SSB on the relationship between CSR and Islamic bank performance. The findings of this study revealed significant results, with an R-squared of 0.868. Table 6 shows a significant positive

Table 6. Moderation regression analysis

			Linear regression				
IBP	Coef.	St.err.	*t*-value	*p*-value	[95% Conf	Interval]	Sig
CSR	−0.022	0.011	−2.09	0.041	−0.043	−0.001	**
R_AccSSB	−1.492	0.643	−2.32	0.024	−2.78	−0.204	**
Gen_SSB	−0.323	0.575	−0.56	0.576	−1.474	0.827	
CSRxAcc	0.066	0.031	2.12	0.038	0.004	0.129	**
CSRxGen_SSB	0.009	0.026	0.36	0.721	−0.043	0.062	
Liability	−0.015	0.013	−1.09	0.279	−0.042	0.012	
DST	0.259	0.027	9.56	0	0.205	0.314	***
Equity	−0.217	0.035	−6.25	0	−0.287	−0.148	***
Laba	−0.02	0.008	−2.49	0.016	−0.035	−0.004	**
Murabahah	−0.052	0.011	−4.91	0	−0.073	−0.031	***
Tot_Com	−0.01	0.013	−0.77	0.444	−0.035	0.015	
Com_Ind	0.029	0.017	1.73	0.089	−0.005	0.062	*
Com_Gen	0.076	0.02	3.84	0	0.036	0.115	***
T_ASET	0	0	1.77	0.082	0	0	*
ROA	−1.307	0.658	−1.99	0.052	−2.626	0.011	*
ROE	−0.173	0.224	−0.77	0.443	−0.621	0.275	
BOPO	−0.25	0.299	−0.83	0.408	−0.849	0.35	
Year	Include	Include	Include	Include	Include	Include	
Constant	1.383	0.36	3.84	0	0.663	2.103	***

Mean dependent var	0.551	SD dependent var	0.157
R-squared	0.868	Number of obs	81
F-test	–	Prob > F	–
Akaike crit. (AIC)	−189.195	Bayesian crit. (BIC)	−134.122

Note(s): ***$p < 0.01$, **$p < 0.05$ and *$p < 0.1$
Source(s): Data processed by the author (2025)

relationship between CSR and the SSB with Islamic bank performance at a significance level of 5% (coefficient = −0.022, $t = -2.09$).

The results shown in Table 6 highlight a significant positive relationship between the interaction of corporate social responsibility and Sharia supervisory board (CSRxAcc) and Sharia bank performance (IBP). Empirical evidence shows a significance value of 0.066, meaning this second hypothesis is statistically supported. These results indicate that a more prominent SSB with an accounting background can strengthen the relationship between CSR and Sharia bank performance, in line with the RDT that the existence of a SSB with a high education in this study with accounting education, can encourage the effectiveness and efficiency of the use of CSR funds optimally by *Sharia* values and provide good benefits to strengthen the bank's reputation and improve its performance. SSB, which has expertise in accounting, not only plays a role as a supporter of *Sharia* banks in terms of *Sharia* compliance but also has added value that can provide direction and input in integrating CSR into the financial and operational strategies of *Sharia* banks so that the relationship between CSR and performance becomes more substantial and more positive.

However, the interaction between CSR and female representation in the Sharia Supervisory Board (CSRxGen_SSB) demonstrates no significant moderating effect on Islamic bank performance (coefficient = 0.009, $p = 0.721$). This result indicates that gender diversity within SSB does not materially alter the CSR−performance relationship in Indonesian Islamic banks, presenting a contrasting finding to several studies in the Islamic banking literature.

This unexpected result diverges from recent empirical evidence documenting positive effects of SSB gender diversity. Jabari and Muhamad (2021) found that Islamic banks with more gender-diverse SSB demonstrated better financial performance in Indonesia and Malaysia, while Pratama *et al.* (2022) revealed that gender diversity among SSBs positively impacts social performance of Islamic banks in South-East Asia. Similarly, Mkadmi and Benali (2025) documented that gender diversity in Shari'ah committees positively influences Islamic bank performance in Gulf Cooperation Council countries.

Several contextual factors may explain this divergence. First, the specialized focus on CSR−performance relationships may differ from general performance effects documented in prior studies. Nashirudin and Rosadi (2025) noted that SSB gender diversity effects can vary significantly depending on the specific strategic initiatives being examined. Second, the moderating role context may require different mechanisms compared to direct effects, as Khan *et al.* (2024) found that SSB gender diversity had no significant impact on overall Islamic bank performance in Pakistan, suggesting context-dependent outcomes. These findings collectively suggest that while SSB gender diversity may enhance general governance quality, its specific moderating influence on CSR effectiveness requires further investigation across different institutional contexts.

Previous research that also used the SSB as a moderating variable showed results that the expertise of SSB members did not have a moderating effect on the relationship between CEO arrogance and Islamic bank performance (Zulfikar *et al.*, 2021), but managed to moderate the relationship between the effectiveness of the board of directors and the performance of Islamic Banks (Neifar *et al.*, 2020). The difference between previous studies and this study is that the independent variables used to predict the performance of Islamic banks.

Among the control variables, several findings warrant attention. Total assets (T_ASET) show no significant impact on Islamic bank performance, suggesting that bank size alone does not determine operational effectiveness in the Indonesian Islamic banking sector. The significant negative relationship between lagged ROA and current performance (coefficient = −1.568, $p = 0.018$) indicates potential mean reversion in profitability, where banks with higher past performance may face challenges maintaining the same level in subsequent periods. Interestingly, ROE shows no significant relationship with current performance, which may reflect the unique capital structure dynamics of Islamic banks compared to conventional banking.

4.4 Robustness analysis

To address potential endogeneity issues and improve the reliability of our findings, we incorporate robustness tests. We use the generalized least squares (GLS) procedure to estimate the regression models because our data are unbalanced panel data (Wang *et al.*, 2022) and data with a cross-sectional basis of aggregated time series, so there is the possibility of cross-sectional heteroscedasticity and serial correlation within units (Lee *et al.*, 2009). Table 7 provides information that the regression model in this study offers consistent results using other methods, namely, GLS with a coefficient of −0.022. The CSR variable is statistically proven to have a negative effect on Islamic bank performance (IBP) with a significance level of 1%.

5. Conclusion

This study reveals that CSR expenditure negatively impacts Islamic bank performance in Indonesia, contradicting legitimacy theory predictions and suggesting that increased social spending may reduce operational efficiency without corresponding reputational benefits. However, SSB accounting expertise significantly moderates this relationship, supporting RDT by demonstrating that professional qualifications enhance CSR effectiveness. Conversely, gender diversity within SSB shows no moderating effect, highlighting that professional

Table 7. Generalized least square (GLS) analysis

			Cross-sectional time-series FGLS regression				
IBP	Coef.	St.Err.	*t*-value	*p*-value	[95% Conf	Interval]	Sig
ln_CSR	−0.022	0.008	−2.83	0.005	−0.038	−0.007	***
R_AccSSB	−1.492	0.761	−1.96	0.05	−2.983	−0.001	**
Gen_SSB	−0.323	0.599	−0.54	0.589	−1.498	0.851	
CSRxAcc	0.066	0.037	1.79	0.073	−0.006	0.139	*
CSRxGen_SSB	0.009	0.027	0.35	0.729	−0.044	0.063	
ln_Liability	−0.015	0.015	−0.96	0.339	−0.045	0.015	
ln_DST	0.259	0.023	11.23	0	0.214	0.304	***
ln_Equity	−0.217	0.033	−6.60	0	−0.282	−0.153	***
ln_Laba	−0.02	0.006	−3.03	0.002	−0.032	−0.007	***
ln_Murabahah	−0.052	0.008	−6.22	0	−0.068	−0.036	***
Tot_Com	−0.01	0.012	−0.79	0.427	−0.033	0.014	
Com_Ind	0.029	0.016	1.82	0.069	−0.002	0.06	*
Com_Gen	0.076	0.016	4.65	0	0.044	0.108	***
T_ASET	0	0	1.47	0.14	0	0	
ROA	−1.307	0.727	−1.80	0.072	−2.732	0.118	*
ROE	−0.173	0.193	−0.89	0.372	−0.552	0.206	
BOPO	−0.25	0.233	−1.07	0.285	−0.707	0.208	
Year	Include	Include	Include	Include	Include	Include	
Constant	1.383	0.353	3.92	0	0.69	2.075	***

Mean dependent var	0.551	SD dependent var	0.157
Number of obs	81	Chi-square	528.688
Prob > chi2	0.000	Akaike crit. (AIC)	−189.195

Note(s): $^{***}p < 0.01$, $^{**}p < 0.05$ and $^{*}p < 0.1$
Source(s): Data processed by the author (2025)

expertise takes precedence over demographic characteristics in optimizing CSR−performance relationships. These findings were robustly validated using GLS regression analysis.

These findings advance Islamic banking literature by demonstrating that CSR effectiveness depends on governance expertise rather than expenditure magnitude, challenging conventional assumptions about social responsibility investments. The study contributes by introducing composite Islamic banking performance measures reflecting *Sharia*-compliant intermediation and revealing the critical role of SSB educational background in moderating strategic initiatives. Practically, Islamic banks should prioritize recruiting accounting-qualified SSB members to optimize CSR resource allocation and enhance performance outcomes. Regulators may consider implementing educational requirements for SSB appointments to strengthen Islamic banking governance frameworks and improve sector-wide effectiveness.

This research acknowledges several limitations. The study focuses exclusively on Indonesia, which has unique regulatory, cultural and market characteristics that may limit generalizability to other Islamic banking jurisdictions. The relatively small sample size, constrained by the scope of Indonesian Islamic banks, necessitates cautious interpretation of results. Future research should expand to multicountry studies encompassing diverse Islamic banking markets to validate these findings across different institutional contexts. Additionally, researchers could explore alternative CSR measurement approaches, examine other governance characteristics as moderating variables or investigate the role of ownership structure, managerial strategy and regulatory frameworks in shaping CSR−performance relationships within Islamic banking.

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