



Financial Performance: Islamic Corporate Governance, Islamic Corporate Social Responsibility, and Intellectual Capital

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Abstract. *This study aims to examine the impact of Islamic Corporate Social Responsibility (ICSR), Islamic Corporate Governance (ICG), and Intellectual Capital (IC) on the financial performance of Islamic banks in Indonesia and Malaysia. Ten Islamic commercial banks from Indonesia and Malaysia were selected as samples, with a five-year observation period. Quantitative descriptive analysis using Eviews 12 software was utilized to analyze the data. The results of the first hypothesis indicate that ICSR has a positive but insignificant effect on the financial performance of Islamic banks. The second hypothesis shows that ICG has a positive impact on the financial performance of Islamic banks. The third hypothesis reveals that IC has a positive and significant effect on the financial performance of Islamic banks.*

Abstrak. Penelitian ini bertujuan untuk mengkaji dampak Islamic Corporate Social Responsibility (ICSR), Islamic Corporate Governance (ICG), dan Intellectual Capital (IC) terhadap kinerja keuangan bank syariah di Indonesia dan Malaysia. Sepuluh bank umum syariah dari Indonesia dan Malaysia dipilih sebagai sampel, dengan periode observasi selama lima tahun. Analisis deskriptif kuantitatif menggunakan perangkat lunak Eviews 12 digunakan untuk menganalisis data. Hasil hipotesis pertama menunjukkan bahwa ICSR berpengaruh positif namun tidak signifikan terhadap kinerja keuangan bank syariah. Hipotesis kedua menunjukkan bahwa ICG memiliki dampak positif terhadap kinerja keuangan bank syariah. Hipotesis ketiga mengungkapkan bahwa IC berpengaruh positif dan signifikan terhadap kinerja keuangan bank syariah.

Keywords:

Islamic Corporate Social Responsibility; Islamic Corporate Governance; Intellectual Capital

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Introduction

Islamic banking is globally recognized as Islamic banks. The term "sharia" is inseparable from the principles or Islamic law applied in these banks. Unlike conventional banks that use interest as a profit-oriented mechanism, Islamic banks apply contracts based on Islamic sharia principles in profit calculations (profit-sharing). The emergence of Islamic banking is driven by the objective of achieving equitable justice and eliminating all forms of exploitation. The global Islamic finance industry has experienced a 17% growth in the last two years (2021/2022), with Islamic financial assets reaching USD 3.96 trillion. This figure is projected to increase to USD 5.94 trillion by 2025/2026, with a compound annual growth rate (CAGR) of 9% (State of the Global Islamic Economy Report, 2023).

The development of Islamic banking in Indonesia and Malaysia must consistently adhere to compliance with Islamic values applied in banking. These sharia principles form the foundation of Islamic economics, including in the banking sector. According to Bombang (2018), ethics and law are inseparable, as God created humans with inherent norms and positive values to guide their behavior. One of the ethical practices implemented by Islamic banking as a form of accountability is the disclosure of Corporate Social Responsibility (CSR). CSR is understood as an organization's responsibility for the impacts of its activities on society and the environment, which is manifested through transparent and ethical behavior (Rahmat, 2017). Thus, when an organization, particularly a business, conducts its operations, it must consider not only economic aspects such as profits or dividends, but also its social and environmental impacts.

The implementation of CSR reflects the application of legitimacy theory, which posits that organizations strive to ensure that their activities align with societal norms and boundaries (Deegan, 2002). CSR is expected to enhance environmental awareness, improve relationships between businesses and communities, encourage corporate social investment, and gain public legitimacy. From an Islamic perspective, CSR also emphasizes consideration for the environment and social conditions. However, CSR in Islam is not solely intended for worldly purposes, such as ensuring the sustainability of the entity, but also for the hereafter, as it constitutes one of the obligations and commands of Allah SWT. This requires sincerity and purity of heart in every activity to attain blessings.

In addition to CSR, Islamic Corporate Governance (ICG) serves as an important predictor of Islamic banks' performance. The implementation of Good Corporate Governance (GCG) enables Islamic banks to maximize corporate value, improve the accuracy of bank assessments, and manage resources and risks more effectively and efficiently. This strengthens the trust of shareholders and stakeholders, thereby allowing Islamic banks to grow sustainably. Research by Rahmi et al. (2019) revealed that the effective implementation of GCG in accordance with regulations encourages positive investor responses to corporate performance and value.

Nevertheless, corporate disclosure reports today must provide adequate information to stakeholders, especially concerning financial disclosures. Financial reports alone are often considered insufficient in reflecting the true performance of banks. To achieve superior performance, Islamic banks must mobilize all available resources. One key area of improvement is the management of Intellectual Capital (IC). Well-managed IC can enhance asset management, thereby increasing returns on Islamic banking assets (Sinurat et al., 2020).

Previous studies on Islamic Corporate Social Responsibility (ICSR), Islamic Corporate Governance (ICG), and Intellectual Capital (IC) have yielded mixed findings. Ananda & NR (2020) and Ilmi et al. (2020) found that ICG has a positive impact on the performance of Islamic commercial banks, while ICSR has a negative

effect. Conversely, Alfijri & Priyadi (2022) concluded that ICG has no significant effect, whereas ICSR positively and significantly affects Islamic banking financial performance. Setiabudhi (2022) argued that neither ICG nor ICSR significantly affect Islamic banking financial performance. Regarding IC, research by Krisna Jesica Anngriyanti (2021) revealed that IC (measured using the Value Added Intellectual Coefficient or VAIC), Capital Employed Efficiency (CEE), and Human Capital Efficiency (HCE) positively influence the financial performance of Islamic banks in Indonesia. Meanwhile, Alia et al. (2022) reported different results, indicating that IC (VAIC) and CEE negatively affect performance, while HCE positively contributes to Islamic banks' financial performance. Based on the background and theoretical review, the objective of this study is to analyze the effect of Islamic Corporate Social Responsibility (ICSR), Islamic Corporate Governance (ICG), and Intellectual Capital (IC) on the financial performance of Islamic banks in Indonesia.

Research Methods

In this study, the method used is a descriptive method with a quantitative approach. The purpose of this descriptive method is to test the hypothesis by analyzing the available data and/or answering questions related to the phenomenon or research subject. The population used consists of all Islamic Banks in Indonesia and Malaysia for the period 2019–2023. The selected population includes 14 Islamic Commercial Banks (BUS) in Indonesia registered with the Financial Services Authority (OJK), while in Malaysia there are 16 BUS. The sampling method used is purposive sampling. The measurement of variables in this study is explained in the following table:

Table 1. Variable Measurement

No	Variable	Indicator	Measurement
1	Islamic Social Responsibility	$ICG = \sum X_i / n$ (Ananda & Erinos, 2020)	Ratio
2	Islamic Corporate Governance	$ICSR = \sum X_{ij} / N_j$ (Billah & Fianto, 2021)	Ratio
3	Intellectual Capital	$VAIC = VACA + VAHU + STVA$ (Setiawan, 2014)	Ratio
4	Financial Performance of Islamic Banking	$ROA = \text{Net Income} / \text{Total Assets}$ (Ady & Wijono, 2013)	Ratio

The data analysis technique used in this study involves statistical calculations using the E-Views Series 12 application.

Result and Discussion

Multiple Linear Regression Analysis

Based on the regression estimation methods between Common Effect (CEM), Fixed Effect (FEM), and Random Effect (REM), the Random Effect (REM) model was selected for the multiple linear regression equation. The obtained estimation model is as follows:

Table 2. Multiple Linear Regression Analysis Results

C	-5.829645	2.898946	-2.010953	0.0502
ICSR	-0.315076	1.186834	-0.265476	0.7918
ICG	6.936664	3.423330	2.026292	0.0486
IC	0.311552	0.056586	5.505772	0.0000

Source: Processed data, 2024

$$ROA = -5.829645 - 0.315076ICSR + 6.936663ICG + 0.311552IC$$

The results of the panel data regression equation above show that the financial performance (ROA) has a constant value of -5.829645, meaning that other independent variables remain constant. From the results of the linear regression analysis, the following can be explained:

1. The regression coefficient for Islamic Corporate Social Responsibility (ICSR) is -0.315076, meaning that for every 1-unit increase in ICSR, the financial performance (ROA) will be affected by -0.32%. Since the ICSR value is negative, it indicates that ICSR and financial performance (ROA) are inversely related. Therefore, when the ICSR value increases, the ROA will decrease, and conversely, if the ROA decreases, the ICSR will also decrease.
2. The regression coefficient for Islamic Corporate Governance (ICG) is 6.936663, meaning that for every 1-unit increase in ICG, the financial performance (ROA) will be affected by 6.93%. Since the value is positive, ICG and ROA are inversely related. Therefore, when the ICG value increases, the ROA will decrease, and conversely, if the ROA increases, the ICG will decrease.
3. The regression coefficient for Intellectual Capital (IC) is 0.311552, meaning that for every 1-unit increase in IC, the financial performance (ROA) will be affected by 0.31%. Since the coefficient is positive, IC and ROA are directly related. Therefore, when the IC value increases, the ROA will also increase, and conversely, if the ROA increases, the IC will also increase.

Hypothesis Test

F-test (Simultan) and R Square

The F-test (Simultaneous Test) aims to determine whether all independent variables together (simultaneously) have an effect on the dependent variable. This test is conducted with a significance level of 0.05. The decision rule is: if the p-value is less than 0.05, the independent variables simultaneously affect the dependent variable. On the other hand, if the p-value is greater than 0.05, the independent variables do not simultaneously affect the dependent variable. Additionally, the coefficient of determination (R-squared) test is used to measure how much the independent variables can explain the variation in the dependent variable. The R-squared value represents the proportion of variance in the dependent variable that can be explained by the independent variables in the model.

Table 3. F-test and R Square

Root MSE	0.326915	R-squared	0.396147
Mean dependent var	0.225628	Adjusted R-squared	0.356766
S.D. dependent var	0.424968	S.E. of regression	0.340832
Sum squared resid	5.343666	F-statistic	10.05918
Durbin-Watson stat	2.054231	Prob(F-statistic)	0.000033

Source: Processed data, 2024

The results of the F-test show that the F-statistic is 10.05918 with a probability of 0.000033, which is less than 0.05. This indicates that at the significance level of $\alpha = 0.05\%$, the variables ICSR, ICG, and IC simultaneously have an effect on financial performance (ROA). Meanwhile, the adjusted R-square value is 0.356766, which means that 35.6% of the variation in financial performance (ROA) is influenced by ICSR, ICG, and IC, while the remaining 64.4% is influenced by other variables not studied in this research.

T-test (Parsial)

The t-test (Partial Test) is used to analyze the effect of each independent variable on the dependent variable individually, by measuring the significance level of the regression coefficient of the independent variables on the dependent variable. The decision rule for this test is as follows: if the t-statistic is greater than the t-table value or the significance (sig) is less than 0.05, then H0 is rejected and H1 is accepted, meaning that the independent variable has a partial effect on the dependent variable. Conversely, if the t-statistic is smaller than the t-table value or the significance (sig) is greater than 0.05, then H1 is rejected and H0 is accepted, indicating that the independent variable does not have a partial effect on the dependent variable.

Table 4. T-test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.829645	2.898946	-2.010953	0.0502
ICSR	-0.315076	1.186834	-0.265476	0.7918
ICG	6.936664	3.423330	2.026292	0.0486
IC	0.311552	0.056586	5.505772	0.0000

Source: Processed data, 2024

Based on the panel data regression results above, the findings are as follows:

1. **First Hypothesis (H1):** The effect of ICSR on financial performance (ROA) produces a probability value of $0.7918 > 0.05$ with a t-statistic of -0.265476 . This indicates that the ICSR variable does not have a positive and significant effect on financial performance (ROA).
2. **Second Hypothesis (H2):** The effect of ICG on financial performance (ROA) results in a probability value of $0.0486 < 0.05$ with a t-statistic of 2.026292 . This indicates that the ICG variable has a positive and significant effect on financial performance (ROA).
3. **Third Hypothesis (H3):** The effect of IC on financial performance (ROA) produces a probability value of $0.0000 < 0.05$ with a t-statistic of 5.50772 . This indicates that the IC variable has a positive and significant effect on financial performance (ROA).

Discussion

The Influence of Islamic Corporate Social Responsibility (ICSR) on Financial Performance (ROA)

The statistical test results for the first hypothesis showed a probability value of $0.7918 > 0.05$, indicating that ICSR does not significantly influence the financial performance of Islamic banking in Indonesia and Malaysia. Return on Assets (ROA) measures a company's ability to generate profit from the assets utilized. Companies with higher ROA tend to perform broader disclosures, reflecting their commitment to transparency and accountability. However, in this case, the findings suggest that ICSR practices may not directly translate into improved financial performance, particularly in the context of Islamic banking in the studied regions.

The research findings indicate that the level of corporate social responsibility (CSR) disclosure does not affect ROA. This may be because ICSR disclosures by Islamic banks are not closely tied to activities generating profit from asset utilization. When linked to stakeholder theory, which posits that companies have responsibilities not only to shareholders but also to various other stakeholders such as employees, customers, society, and the environment, it becomes evident that Islamic banks aim to meet the expectations of multiple stakeholders. These expectations may not always align with the interests of shareholders. Consequently, Islamic banks do not always

prioritize ICSR disclosure, as numerous other supporting factors can influence company performance. Moreover, Islamic banks lack mandatory guidelines for ICSR disclosure and reporting, leading to voluntary CSR reporting based on individual bank needs. These findings align with the research of Arifin & Wardani, (2016) , which concluded that the level of ICSR disclosure in financial statements does not influence financial performance as measured by ROA.

The Influence of Islamic Corporate Governance (ICG) on Financial Performance (ROA)

The statistical test results for the second hypothesis showed a probability value of $0.0486 < 0.05$, indicating that ICG has a positive influence on the financial performance of Islamic banking in Indonesia and Malaysia. This finding demonstrates that the implementation of good ICG should adhere to Islamic business ethics and principles of Islamic economics and finance. This aligns with stakeholder theory, which emphasizes the importance of protecting the rights and relationships of stakeholders to ensure business sustainability. The effective implementation of ICG enhances risk management, enabling banks to identify risks more effectively, thereby minimizing potential losses and improving financial performance. These results are consistent with the study by Ananda & NR, (2020) which found that ICG positively impacts the financial performance of Islamic banking.

The Influence of Intellectual Capital (IC) on Financial Performance (ROA)

The statistical test results showed a probability value of $0.0000 < 0.05$, indicating that IC significantly influences the financial performance of Islamic banking in Indonesia and Malaysia. Intellectual Capital is an intangible asset owned by an organization, encompassing knowledge, expertise, innovation, and reputation. In the context of Islamic banking, intellectual capital plays a critical role as it involves not only physical assets but also intellectual assets capable of creating added value.

By effectively managing and developing intellectual capital, Islamic banks can enhance operational efficiency, asset quality, reputation, and competitive advantage, ultimately leading to improved financial performance. This finding is supported by the study of Krisna Jesica Annngriyanti, (2021) which concluded that IC has a positive and significant impact on the financial performance of Islamic banking.

The Influence of Islamic Corporate Social Responsibility, Islamic Corporate Governance, and Intellectual Capital on Financial Performance (ROA)

The statistical test results indicated a probability value of 0.0000 , which is below the 0.05 significance level. This demonstrates that Islamic Corporate Social Responsibility (ICSR), Islamic Corporate Governance (ICG), and Intellectual Capital collectively have a significant influence on the financial performance of Islamic banking in Indonesia and Malaysia.

Overall, the implementation of Islamic Corporate Social Responsibility (ICSR) ensures that Islamic banks carry out business activities not only oriented toward profit but also toward social responsibility in accordance with Sharia principles. Islamic Corporate Governance (ICG) adds a dimension of transparent, accountable, and integrity-based management, which fosters trust among stakeholders and supports the sustainability of bank operations. Meanwhile, Intellectual Capital serves as the foundation for innovation and efficiency in Sharia financial services and products, enhancing the bank's competitiveness in the market.

These three variables, when working together, strengthen the strategic foundation of Islamic banks to achieve optimal financial performance. Their simultaneous influence demonstrates that it is insufficient for Islamic banks to focus on just one aspect; a holistic approach that integrates social responsibility, sound governance, and the maximized utilization of intellectual capital is the key to success in addressing the challenges of the banking industry in both Indonesia and Malaysia.

Conclusion and Suggestions

The findings of this study provide several important implications for academics, practitioners, and policymakers in the field of Islamic banking. The results indicate that the Islamic Corporate Social Responsibility (ICSR) variable does not have a positive and significant effect on financial performance (ROA), suggesting that while ICSR initiatives are important from an ethical and social perspective, they may not directly translate into improved financial outcomes for Islamic banks. However, the study finds that Islamic Corporate Governance (ICG) has a positive and significant effect on financial performance (ROA), reinforcing the critical role of strong governance in ensuring transparency, accountability, and adherence to Sharia principles, which ultimately enhances financial stability and performance. Additionally, Intellectual Capital (IC) also has a positive and significant effect on financial performance (ROA), highlighting the importance of investing in knowledge management, human capital, and innovation to drive profitability and competitiveness in Islamic banking. These findings suggest that while social responsibility remains an essential aspect of Islamic banking, greater emphasis should be placed on governance and intellectual capital development to achieve sustainable financial growth. For policymakers, this study underscores the need for regulatory frameworks that support effective governance structures and intellectual capital investments in the Islamic banking sector, ensuring long-term financial resilience and market competitiveness.

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