



## Investigation of Islamic Social Reporting, Public Ownership, Size and Firm Value: Testing the Mediation Effect of Financial Performance

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### Abstract

*This study aims to analyze the influence of Islamic Social Reporting (ISR), public ownership, and firm size on firm value, with financial performance as a mediating variable, focusing on companies listed in the Jakarta Islamic Index (JII) on the Indonesia Stock Exchange (IDX). ISR serves as a crucial indicator for measuring corporate compliance with Sharia principles, encompassing social and environmental aspects. Research combining ISR with public ownership and firm size mediated by financial performance remains relatively rare in Indonesia. The study observes companies included in the JII, utilizing annual financial report data from 2019 to 2023. Path analysis is used to examine the relationships between variables through 10 research hypotheses. The analysis results indicate that ISR and public ownership (KPP) do not influence firm value (Tobin's Q, TBQ). Meanwhile, firm size (SIZ) negatively affects financial performance (KJK) and TBQ. In the second model test, KJK appears to positively affect TBQ, while ISR shows a negative effect on TBQ. Furthermore, the Sobel test results reveal that KJK can only mediate the effect of SIZ on TBQ. Mediation effects of KJK on TBQ are not observed for ISR and KPP. These findings confirm that ISR directly affects TBQ. The negative impact of ISR needs further investigation, as it is inconsistent with theoretical concepts.*

## Introduction

In the modern capital market, the objective of maximizing the value of firms is a primary focus in management decision making as well as investor actions. Firm value which can be expressed by valuation proxies, like Tobin q, are not just extensions of the financial efficiency but are being increasingly more indicative of other terms of credibility, sustainability, and quality of governance. In companies that are within the Islamic indexes like in the Jakarta Islamic Index (JII model), there is the pressure to maintain value of firms in addition to another obligation that can be dealt with, based on the sharia compliance. These companies are supposed to also work in the paradigms of profit-maximization but under the ethical, social as well as environmental limits, which are compliant with Islamic jurisprudential values (Attamiyah, 2022). This dual expectation requires them to participate in reporting activities which ascertain that their ethical commitments become visible to stakeholders and at the same time indicate that they are financially viable.

Islamic Social Reporting (ISR) turns out to be a formulated answer to this anticipation. Initially presented by Hanifa (2002) and further developed by Othman, Thani, and Ghani in 2009, ISR offers a coherent model of reporting the non-financial disclosures in a way consistent with the Islamic practices. Social justice, environmental stewardship, ethical conduct and welfare orientation are some of the dimensions of ISR which are anchored in Islamic sense of things (Adnan Khurshid et al., 2014; Case & Chavez, 2017; Yasin et al., 2024). It aims at ensuring

that the commitment of the firm to shareholders as well as the ummah is made visible through considering the corporate existence as a form of socio-economic trusteeship. Isolating, therefore the ISR is not only set as an additional corporate social responsibility tool but a representation of the covenant that the firm made with God and the society (Othman et al., 2009; Van Tulder & Van der Zwart, 2005). ISR has become publicly visible in the past years with scholars taking an academic interest to show how ISR has been used as a means of promoting corporate legitimacy and gain trust in companies among investors with an interest in ethical behavior and wish to see that the investment firms they choose to keep up with religious values, especially in their investments (Mukhibad & Fitri, 2020; Susbiyani et al., 2022; Sululing et al., 2024).

Although the theoretical argument of ISR is convincing, the empirical implication of its potential effect on financial performance and firm value is disputable. Many studies indicate that ISR exchanges help increase the quality of the firm and its ability to attract sharia-sensing investment funds, hence improving long-term profitability (Farook et al., 2011; Arifin et al., 2020). The above view has been further extended by other researchers who have associated ISR practices with the enhancement of stakeholder relationships, customer loyalty, and reputational capital all of which have been theorized to indirectly enhanced firm value (Handayani et al., 2020; Wulandari & Hasanah, 2018). Nonetheless, even the claims cannot be trusted until a new body of empirical evidence indicates that ISR acts are not consistently applied in other financial markets, including Indonesia and Islamic markets (Rosiana et al., 2021; Susbiyani et al., 2022). Such discrepancy casts doubts over the credibility of ISR, but also in the practical effectiveness of the instrument in the capital markets as a future signalling tool.

As well as ISR, firm structural factors that include public ownership and the size of a firm, are widely theorized as products of firm value. It is generally been assumed that public ownership, that is the concentration or percentage of equity in the hands of individual investors not controlled or managed by an institution, increases transparency as well as minimizes agency costs (Shah & Thakor, 1988; Coffee, 1991; Yahaya, 2025). The owners of fiduciaries will exert a broader ownership structure that is supposed to provide additional pressure on the managers to act in accordance with the interests of the shareholders, thereby increasing the performance of the firm (Jensen & Meckling, 1976). Nevertheless, there are even some empirical findings, which support and show that with the help of public ownership, the monitoring and level of financial disclosure are higher in Islamic markets, especially in cases when they are reinforced by regulatory features (Umar et al., 2022; Ramly et al., 2023). Recent evidence, however, has provided a complex picture as it indicates that, under environments of weak shareholder activism and lack of access to corporate governance mechanisms, the intervention of the owner could fail to motivate managerial accountability (Jusoh & Ghazali, 2011; Anggraini & Wulan, 2019; Gold & Taib, 2023). The success of the public ownership is hence seen to be dependent on maturity of the capital market as well as regulatory frameworks supportive of the shareholder participation.

Firm size has also been repeatedly mentioned as one of the variables affecting not just financial performance but also market valuation. Investors assume that the larger firms enjoy economies of scale, has a strong brand recognition, and more consistent cash flows which are all positive factors in terms of investors (Puente De La Vega Caceres, 2024). Generally, profitability and the perceived ability to survive in a downturn market have been shown to be positively connected to firm size (Fachrudin, 2020; Dina & Wahyuningtyas, 2022). The reasoning is that with its resources and effective capacity to operate, bigger companies are in a position to withstand shocks, undertake innovation, and work on long-term planning. Indeed, the relation

of size to ISR reporting and ethical control are much less clear-cut. As argued by some other researchers, although bigger companies might be more able to report ISR, there is a risk that they can be more inclined towards symbolic compliance, reporting smooth meaningless disclosures (Meutia et al., 2020; Sululing et al., 2024). This implies that size is not enough to forecast ethical matching or investor confidence but it must be analyzed by combining it with internal governance culture and management intent.

Financial performance is at the center of these associations that remain as mediating and dependent variable in firm value models (Laili et al., 2019; Afiani & Bernawati, 2019). It is often noted there is no direct effect of ISR, public ownership, and firm size on firm value, but indirectly through its effects on such concepts as profitability, efficiency, and risk profile. Another proxy measure used indicates that managerial effectiveness and operational health is measured by financial performance which is commonly described by indicators such as Return on Assets (ROA). Researchers have also demonstrated that ethical disclosures in the Islamic markets are more likely to produce a positive reaction among stakeholders when such disclosures are also measured against solid financial performance (Iswajuni et al., 2018; Aldi et al., 2020). The intermediary position financial performance, can thus not be underestimated with regard to determining whether the non-financial factors like ISR and ownership structure make any real difference to the setting of firm value. The lack of proper channels between such inputs to economic performance threatens to push kindred values such as ethical reporting and structural governance into the peripheral margins of corporate strategy.

Against this background of theoretical insight and empirical ambiguity, this paper aims to offer an even more integrative interpretation of the interaction of ISR, public ownership, firm size and financial performance to affect firm value (Ali et al., 2023; Miroshnychenko et al., 2024). It targets particularly the firms listed in the Jakarta Islamic Index (JII), the representative sample of the Indonesian Islamic capital market. With the help of path analysis and mediation testing over five years of data on finance, the research will attempt to separate the direct and indirect influences of these factors, and pay specific interest to the operational constraints of the ISR in the current state. This paper not only aims at putting ten hypotheses based on valid theories into the test, but also critically assesses the epistemological assumptions on which the assumed connections between ethics, structure, performance, and value are built. In this manner, it helps the current debate on how the Islamic principles may be or not translated into economic performance in the reality of corporate governance and market performance.

## Literature Review

### Company Values

Corporate value is a reflection of the market's perception of the company's future prospects. Corporate value is measured using Tobin's Q, which compares the market value of a company's assets with the replacement value of those assets. The higher the Tobin's Q, the higher the company's value in the eyes of the market (Chung & Pruitt, 1994). Corporate value is influenced by various factors, including financial performance, corporate policies, and corporate social responsibility strategies.

In this study, the firm value as a dependent variable is influenced by ISR, public ownership, firm size, and financial performance. According to a study conducted by Orlitzky et al. (2003), companies that focus on social responsibility tend to have higher values in the market, especially when combined with financial performance.

## **Islamic Social Reporting (ISR), Financial Performance and Company Value**

ISR is a report that reflects a company's compliance with Islamic principles in its business operations that include economic, environmental, and social aspects in accordance with Islamic values. This report is not only about economic responsibility, but also ethical responsibility in accordance with sharia teachings. By showing a commitment to Islamic social reporting, companies are expected to gain more trust from stakeholders, which ultimately contributes to improving financial performance. Companies not only pay attention to investor rights but also to public rights (Kingsbury & Schill, 2010).

Research shows that companies that actively report ISR have a good reputation that can attract more capital and investment from the sharia market. This provides a competitive advantage that can improve financial performance. Research conducted in companies that are members of JII shows a positive influence between ISR reporting and increased profitability Othman et al (2009) These findings strengthen the author's argument in formulating the first hypothesis.

H<sub>1</sub> : ISR has a positive effect on the company's financial performance.

Consistent implementation of ISR reflects the company's commitment to ethical principles, sharia, and social responsibility. By meeting the expectations of investors who care about spiritual and social aspects, the company can improve its image and reputation, which ultimately increases the company's value.

Signal Theory (1973) is also relevant in explaining this relationship. When companies report ISR, they send a positive signal to the market that the company has good governance and is socially responsible, which can encourage an increase in stock prices and company value. Empirical studies on companies included in the JII on the IDX show that companies that are more transparent in reporting ISR tend to have higher market value. This is related to investor perceptions that the company has lower risk and better growth opportunities, especially among investors who care about sharia aspects. According to research conducted by Farook, Lanis, and Hassan (2011), companies that implement ISR tend to get positive perceptions from stakeholders, which in turn increases the company's reputation and value.

In a study by Othman et al. (2009), ISR reporting can also influence investor decision-making that pays attention to sharia principles, where investors tend to give more value to companies that actively report their social responsibility. In line with this, Said et al. (2018) also found that companies that have a good level of ISR reporting tend to have better market performance.

In the coding of the ISR index, it is divided into six major themes, namely investment and finance, products and services, labor, social, environment and organizational governance. The next stage of assessment carried out is using scoring with the provision of a value of 0 (no disclosure related to the point) and a value of 1 (there is disclosure related to the point).

If all ISR points are disclosed in the financial report, then the maximum value that can be achieved is 100% of the total disclosure points (43 points). According to research conducted by Farook, Lanis, and Hassan (2011), companies that implement ISR tend to get positive perceptions from stakeholders, which in turn increases the company's reputation and value. Arifin's research (2023) shows that ISR has a positive effect on company value. The results of this study are in accordance with the signal theory put forward by Cheng and Christiawan (2011) where disclosure of social responsibility can increase investor confidence so as to maximize company profits.

H<sub>2</sub> : ISR has a positive effect on company value.

## **Public Ownership, Financial Performance and Firm Value**

In the context of public ownership, if the proportion of public ownership increases and many shareholders are involved in monitoring management. Thus, the potential for agency conflict between shareholders and management can be reduced through more effective monitoring. The influence of large public ownership will encourage management to act in the interests of shareholders, which in turn will improve the company's financial performance. Significant public ownership puts pressure on management to generate higher profits and make more efficient financial decisions, as investor return expectations increase.

Large public ownership can give a positive signal to the market that the company has transparent and stable management. When public investors trust a company with a large proportion of shares, it shows that the company has good governance and is able to manage financial performance well. The market responds positively to this signal by giving a better assessment of the company's financial performance.

Based on empirical studies conducted on companies in JII, it was found that public ownership has a significant influence on the company's financial performance. Increasing public ownership tends to result in increased financial performance, especially due to pressure from public shareholders who expect management to work more efficiently and increase transparency of financial reports.

Agency theory also plays an important role in explaining how public ownership affects firm value. As public ownership increases, control and supervision from public shareholders tend to reduce agency problems, which will improve management performance. With reduced conflicts of interest between management and shareholders, decision-making that is more oriented towards increasing firm value can be achieved. Therefore, increasing public ownership is seen as a factor that can increase firm value.

Empirical research on groups of companies listed on JII shows that public ownership has a significant influence on company value, both directly and indirectly through financial performance. Companies with greater public ownership tend to have higher company value due to tighter supervision and improved financial performance. Supervision from public shareholders encourages management to be more transparent and efficient in managing the company's finances, which is then reflected in the increase in the company's value in the market. Based on agency theory and signaling theory, the higher the public ownership, the greater the supervision given to management, which ultimately improves the company's financial performance.

Previous research has shown that public ownership can function as a control mechanism for management, because public shareholders have a direct interest in the company's performance and the value of the shares they own (Shleifer & Vishny, 1986). According to Jensen and Meckling (1976), the greater the public ownership, the greater the pressure faced by management to act in accordance with the interests of shareholders, which can ultimately increase the value of the company.

In the context of companies included in the Jakarta Islamic Index (JII), public ownership can have an impact on the level of transparency and accountability of the company. A study by Jusoh and Ghazali (2011) found that companies with higher public ownership tend to be more transparent in disclosing social and financial reports, which ultimately has a positive impact on

company value. The conceptual and empirical studies above support the development of hypotheses three and four.

H<sub>3</sub> : Public ownership has a positive effect on financial performance.

H<sub>4</sub> : Public ownership has a positive effect on company value.

### **Company Size, Financial Performance and Company Value**

Firm size is often associated with operational efficiency. According to the theory of economies of scale, larger firms can utilize resources more efficiently than smaller firms. Larger firms tend to have better access to capital, more sophisticated technology, and wider market networks, all of which can increase productivity and lower operating costs per unit. As a result, larger firms are expected to perform better financially due to their ability to generate higher profits at relatively lower costs.

Empirical research on companies JII shows that company size has a significant effect on financial performance. Large companies tend to be more financially stable and have the ability to adapt to market changes better than small companies. The results of this study indicate that the larger the company size, the better the company's financial performance, especially in terms of managing operational costs, product development, and market expansion.

Signaling theory explains that company size also provides a signal to investors about the stability and long-term prospects of the company. According to signaling theory, large companies tend to be considered more stable and have better prospects than small companies. Large size is often associated with the ability to survive in the face of economic uncertainty and market volatility. Investors tend to have more confidence in large companies because they are considered to be in a stronger position to survive and thrive in the future.

In the context of agency theory, large firms also tend to have more formal and complex management structures, which help reduce conflicts of interest between managers and shareholders. This reduces agency risk, which in turn can increase firm value. With a better governance structure, the management of large firms is more likely to make decisions that benefit shareholders, thereby increasing market confidence and the company's stock price. Firm size not only affects firm value directly, but also through financial performance. Large firms tend to have better financial performance because they can utilize resources and economies of scale, as explained above. Good financial performance will increase investor confidence, which ultimately increases firm value. Thus, financial performance plays an important role in mediating the relationship between firm size and firm value.

Empirical research shows that company size has a significant influence on company value, both directly and indirectly through financial performance. Large companies in the JII index on the IDX tend to have higher company values because large size gives the perception that the company is more stable and can survive in the long term. Good financial performance of large companies is also a major factor driving increased company value. Economies of scale theory and resource theory explain that large firms have advantages in terms of operational efficiency and resource management, which ultimately improves financial performance. Empirical research on JII firms supports this hypothesis by showing that larger firm size is correlated with better financial performance.

Signaling theory and agency theory support a positive relationship between firm size and firm value. In addition, financial performance mediates this relationship because large firms tend to have good financial performance, which in turn increases firm value. Empirical findings also

show that large firms in JII have higher corporate values due to their strong financial performance and greater stability.

Firm size, often measured by total assets or revenue, also plays an important role in determining firm value. Larger firms generally have more resources and capabilities to invest in social initiatives and maintain stable financial performance (Chen & Hambrick, 1995). Research by Agyemang & Ansong (2017) shows that firm size is positively related to firm value, as larger firms tend to have better access to capital and have a stronger reputation in the market. Company size also affects the company's ability to report social and environmental responsibility. Large companies usually have more pressure from stakeholders to report ISR activities, which in turn can affect public and investor perceptions of the company. According to a study by Brammer and Millington (2006), large companies tend to be more active in CSR activities and social reporting, which can increase the company's value in the eyes of investors. Empirical findings from these studies support the development of hypotheses five and six.

H<sub>5</sub>: Company size has a positive effect on financial performance.

H<sub>6</sub>: Company size has a positive effect on company value.

### **The Role of Financial Performance Mediating**

According to signaling theory, good financial performance is a positive signal for the market. Optimal financial performance indicates that the company is well managed, has sufficient liquidity, generates stable profits, and is able to manage assets and liabilities well. This will increase investor confidence, which will ultimately increase the company's stock price and market value.

The company's value is determined by the company's future profit prospects reflected in its current financial performance. If the company can generate consistent profits and good profit growth, it will increase investor perceptions of the company's value. Thus, good financial performance has a direct impact on increasing the company's value through increasing stock prices and investor confidence in the company's ability to generate long-term profits. Based on empirical research on companies in JII, financial performance has been proven to have a significant influence on company value. Companies with good and healthy financial performance indicators tend to have higher market value so that investors and stakeholders assess the company's long-term prospects, which directly affects the company's value in the market.

Financial performance is often a mediating variable in the relationship between corporate social responsibility and firm value. Good financial performance indicates that the company is able to manage its assets efficiently and generate stable profits, thereby increasing investor confidence and the company's market value (Margolis & Walsh, 2003). In a study conducted by Waddock & Graves (1997), companies that have good social performance also tend to have good financial performance, thus strengthening the relationship between ISR reporting and firm value. Financial performance indicators that are often used include Return on Assets (ROA)

Financial performance as a mediator indicates that financial performance is an intermediary variable that can explain how other factors such as ISR, Public Ownership (KP) and Company Size (UP) affect company value. These factors can affect financial performance first, which then has an impact on company value.

Empirical research shows that ISR disclosure has an indirect effect on firm value through financial performance. Companies that actively report social and environmental activities in

accordance with sharia principles have a better reputation, which increases consumer loyalty and attracts investor interest. This has an impact on increasing profits and operational efficiency which ultimately increases firm value.

High public ownership increases monitoring of management, encouraging them to act more efficiently and transparently in managing the company. Agency Theory states that increased monitoring by public shareholders can reduce agency problems, thereby improving financial performance. Good financial performance resulting from this tighter monitoring will increase investor confidence and ultimately increase the value of the company. Based on empirical research on companies in JII , public ownership has a significant influence on financial performance, which ultimately affects the value of the company. The theory of Economies of Scale states *that* large companies have operational advantages in terms of reduced costs per unit due to greater production. Good financial performance will have a positive impact on the value of the company, because large and efficient companies are usually considered more stable and attractive to investors.

Various theoretical concepts and previous empirical studies have strengthened the author's argument in placing financial performance as a mediator that supports the development of hypotheses seven, eight, nine and ten.

H<sub>7</sub> : Financial performance has a positive effect on company value.

H<sub>8</sub> : Financial performance mediates the effect of ISR on firm value.

H<sub>9</sub> : Financial performance mediates the effect of Public Ownership on firm value.

H<sub>10</sub> : Financial performance mediates the effect of company size on company value.

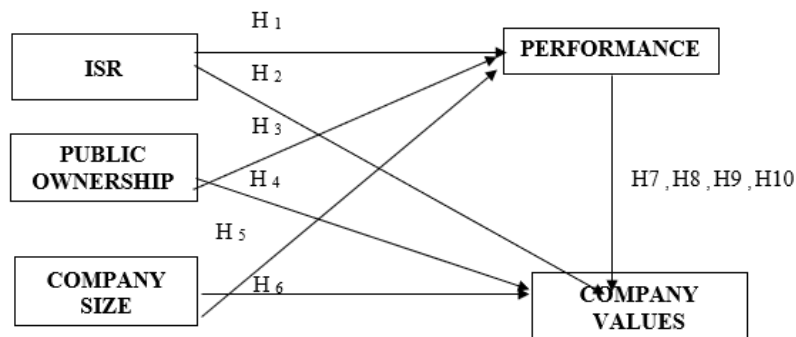


Figure 1. Conceptual Framework

## Methods

This study aims to analyze the influence of Islamic Social Reporting (ISR) , public ownership, and company size on company value , with financial performance as a mediating variable in companies listed in JII on the IDX . This study uses a quantitative approach with regression analysis and path analysis methods to test the relationship between the variables studied.

This research is a quantitative research that aims to test the hypothesis regarding the influence of ISR, public ownership, and company size on company value through financial performance. According to Sugiono (2010) Quantitative research is research that will explain the relationship between variables that influence the researcher's hypothesis. The data used is secondary data sourced from the annual reports of companies listed in JII on the IDX in 2019-2023.

The population in this study were all companies that are members of JII on the IDX . The research sample was taken using the purposive sampling method , namely the selection of

samples based on certain criteria that are relevant to the research objectives. The criteria used are as follows: a) Companies that were members of JII during the research period; b) Companies that consistently publish annual reports and financial statements during the research period; 3) Companies that provide complete data related to the variables studied (ISR, public ownership, company size, financial performance, and company value).

The data used in this study is secondary data obtained from: a) annual report is published on the official BEI website or the official website of each company; b) financial report data related to financial performance variables, company size, and company value; c) ISR disclosure , which will be measured using the ISR index based on guidelines developed by Haniffa & Hudaib (2007) and Othman et al. (2009); c) Public ownership , measured by the percentage of public share ownership recorded in the company's annual report.

Table 1. Operational definitions and indicators

Variables	Operational Definition	Measurement Indicators
Islamic Social Reporting (ISR)	The form of social responsibility reporting developed based on sharia principles, includes social, ethical and environmental aspects measured using the ISR index (religious, social responsibility, ethics, environment and employees).	ISR Disclosure: $\frac{\text{number of disclosure scores fulfilled}}{\text{maximum score}}$ (Othman et al., 2009; Dewi, 2012; Raditya, 2012; and Nurman, 2013)
Public Ownership	Ownership by individual investors outside management and who have no special relationship with the company.	The percentage of a company's shares owned by the public other than controlling or institutional shareholders. (Suchman, 1995)
Company Size (Firm Size)	It is a scale that shows the size of a company seen from total assets or market capitalization.	Size = Natural Logarithm (LN) of total assets. (Wendy, 2020)
Financial performance	It is a comparison between net profit after tax and the company's total assets which shows financial performance during a period.	$ROA = \frac{\text{Profit After Tax}}{\text{Total Aset}}$ (Warchowicz, 2012)
Company Values	It is an investor's view of a company that has a good image, so that it can attract investor trust and have an impact on share prices.	$\text{Tobin'sQ} = \frac{\text{MVE} + \text{Debt}}{\text{Total Asset}}$ (Fahriyal, 2020)

The data obtained will be analyzed using multiple linear regression analysis and path analysis to test the direct and indirect influences between the variables studied.

This research model uses a mediation approach with financial performance as a mediating variable between ISR, public ownership, company size, and company value. The model to be tested in this study is described as follows:

$$KJK_{it} = \alpha + \beta_1.ISR_{it} + \beta_2.KPP_{it} + \beta_3.SIZ_{it} + e_{it} \quad \dots\dots\dots (1)$$

$$TBQ = \alpha + \beta_1 .ISR_{it} + \beta_2 .KPP_{it} + \beta_3 .SIZ_{it} + \beta_4 .KJK_{it} + e_{it} \dots \dots \dots (2)$$

Information :

- $\alpha$  : Constant
- $\beta$  : Regression Coefficient
- TBQ : Tobin's Q (Firm value)
- ISR : *Islamic Social Reporting*
- KPP : Public Ownership
- SIZ : *Firm Size*
- KJK : Financial Performance (ROA)
- e : Residual

In this study, the *Content Analysis method* is used to analyze and measure the level of ISR reporting in each company through a review of the information written in the financial statements. This process is complemented by *the Classical Assumption Test* to ensure that the regression model used meets the methodological rules (normality, linearity, *multicollinearity*, *heteroscedasticity* , and *autocorrelation tests*) . Furthermore, a *multiple linear regression analysis is carried out* involving independent variables (ISR, public ownership, and company size) to test the direct effect on company value and to test the indirect effect of financial performance on company value. The final stage in this data analysis is *the Sobel Test* to ensure the mediating role of financial performance.

Thus, this study is expected to provide empirical evidence regarding the influence of ISR, public ownership, and company size on company value, by considering financial performance as a mediating factor in companies listed in JII on the IDX

## Result and Discussion

### Level of Company ISR Disclosure based on Total Points Disclosed

In this study, the corporate social responsibility disclosure indicator based on the *Islamic Social Reporting (ISR)* index consists of six themes, namely finance and investment, products and services, labor, society, environment and corporate governance consisting of 43 disclosure points. The following is a description of the level of ISR disclosure of companies listed on JII during 2019 - 2023.

Table 1. ISR Disclosure Description

Company name	Number of Points and Percentage Disclosed										Avg per Year	Avgr ISR Disclosure
	2019		2020		2021		2022		2023			
	Amnt	%	Amnt	%	Amnt	%	Amnt	%	Amnt	%		
TINS	23	53.49	23	53.49	21	48.84	22	51.16	23	53.49	22.40	43.41
ADRO	20	46.51	22	51.16	20	46.51	28	65.12	20	46.51	22.00	42.64
AKRA	20	46.51	23	53.49	17	39.53	21	48.84	14	32.56	19.00	36.82
ITMG	17	39.53	16	37.21	18	41.86	19	44.19	16	37.21	17.20	33.33
BRPT	17	39.53	15	34.88	15	34.88	15	34.88	13	30.23	15.00	29.07
UNTR	14	32.56	15	34.88	14	32.56	15	34.88	14	32.56	14.40	27.91
INDF	15	34.88	16	37.21	14	32.56	13	30.23	13	30.23	14.20	27.52
TPIA	13	30.23	14	32.56	15	34.88	13	30.23	14	32.56	13.80	26.74
UNVR	14	32.56	14	32.56	13	30.23	14	32.56	14	32.56	13.80	26.74
PTBA	13	30.23	14	32.56	13	30.23	14	32.56	14	32.56	13.60	26.36
EXCL	14	32.56	15	34.88	11	25.58	14	32.56	14	32.56	13.60	26.36
PGAS	13	30.23	13	30.23	14	32.56	13	30.23	13	30.23	13.20	25.58
ANTM	14	32.56	15	34.88	12	27.91	11	25.58	13	30.23	13.00	25.19
ICBP	11	25.58	13	30.23	13	30.23	14	32.56	12	27.91	12.60	24.42
INTP	14	32.56	12	27.91	10	23.26	15	34.88	11	25.58	12.40	24.03
SIDO	12	27.91	12	27.91	12	27.91	12	27.91	12	27.91	12.00	23.26

SMGR	11	25.58	12	27.91	11	25.58	12	27.91	12	27.91	11.60	22.48
HRUM	10	23.26	9	20.93	9	20.93	14	32.56	16	37.21	11.60	22.48
KLBF	11	25.58	12	27.91	11	25.58	12	27.91	11	25.58	11.40	22.09
SCMA	9	20.93	10	23.26	10	23.26	11	25.58	11	25.58	10.20	19.77
TLKM	11	25.58	14	32.56	8	18.60	7	16.28	8	18.60	9.60	18.60
BRMS	9	20.93	9	20.93	9	20.93	8	18.60	13	30.23	9.60	18.60
ACES	2	4.65	12	27.91	8	18.60	10	23.26	15	34.88	9.40	18.22
HEAL	9	20.93	10	23.26	10	23.26	8	18.60	8	18.60	9.00	17.44
CPIN	6	13.95	7	16.28	5	11.63	4	9.30	5	11.63	5.40	10.47
INCO	5	11.63	5	11.63	4	9.30	4	9.30	6	13.95	4.80	9.30
MIKA	4	9.30	4	9.30	4	9.30	4	9.30	5	11.63	4.20	8.14
INKP	3	6.98	1	2.33	3	6.98	3	6.98	3	6.98	2.60	5.04
<b>Total Point</b>			<b>357</b>		<b>324</b>		<b>350</b>		<b>343</b>			
<b>Avg per Company</b>		<b>27.74</b>	<b>12.75</b>	<b>29.65</b>	<b>11,571</b>	<b>26.91</b>	<b>12.5</b>	<b>29.07</b>	<b>12.25</b>	<b>28.49</b>		

Source: Processed Secondary Data, 202 5

Based on the ISR percentage in the table above, the company rankings are sequentially starting from the highest to the lowest based on their ISR index level. The number of points disclosed by companies each year varies greatly. Some experience an increase every year, remain the same or decrease. If we look at the total points disclosed by all companies each year, it can be seen that there is an increase in ISR disclosure points each year, namely 334 disclosure points in 2019 with an average per company of 11.93 points and a percentage reaching 27.74%, then increasing by twenty-three points in 2020, namely to 357 disclosure points with a percentage of 29.65%, then a significant decrease in 2021 down 33 points, namely to 324 disclosure points with a percentage of 26.91%. In 2022, there was a very significant increase in ISR disclosure points to 350 points with a percentage of 29.07% or an increase of 26 points and decreased again in 2023 by 343 points with a percentage of 28.49% or with a company average of 12.25.

The company with the highest average disclosure points was achieved by PT Timah Tbk (TINS) with an average of 22 points out of a total of 43 points with an ISR index of 43.41%. The disclosure of social responsibility is certainly followed by the implementation of actual social responsibility. In addition, the annual ISR disclosure by PT Timah Tbk (TINS) shows consistent figures every year. The company with the lowest ISR disclosure points is PT. Indah Kiat Pulp & Paper Tbk – INKP which only managed to disclose an average of 2.60 points over the past five years with a percentage of 5.04%.

### Statistical Analysis and Hypothesis Testing

Table 2. Statistical Analysis

INFORMATION	TSQ	ISR	KPP	SIZ
Mean	2,3910	0,2834	0,0218	31.2499
Median	1,3892	0,3023	0,0035	31,0882
Maximum	16,2636	0,6511	0,4304	35,8922
Minimum	0,0367	0,0232	0,0007	1,3293
Standar Deviasi	2,4955	0,1143	0,0834	1,3293
Skewness	2,8600	0,1748	4,4566	0,5527
Kurtosis	13,1983	3.4438	21,4285	3,4977
Observation	139	139	139	139

Source: Processed Secondary Data, 202 5

Descriptive statistics in table 2 show the mean value for each variable (TSQ, ISR and KPP) is in the range of 2.3910 to 31.2499. This distribution identifies a relatively good variation value, which is supported by stable standard deviation data (in the interval of 0.0834 to 2.4955) so that outlier observation data is not found. While the Median for all TSQ, ISR, and SIZ variables is close to the mean value, which is in the range of 1.3892 to 31.0882 except KPP shows a fairly symmetrical data distribution of 0.0035. From the total number of observations as many as 139 which indicates that there is a match between the research sample data.

These conditions support the next stage of testing, which is discussed in the following subsections:

Table 3. Regression Analysis

Variables	Model 1	Model 2
	KJK	TBQ
Konstanta	0,5292	20,3266
P-Value	0,0126**	0,0000***
ISR	0,0673	-2,7955
P-Value	0,3905	0,0542
KPP	-0,1110	-0,4220
P-Value	0,3017	0,8310
SIZ	-0,0140	-0,5889
P-Value	0,0399**	0,0000***
KJK	-	11,7419
P-Value	-	0,0000***
F	2,0950	25,0599
P-Value	0.1037	0.0000***
Adjusted R <sup>2</sup>	0.0230	0.4090

Description: Dependent variables = KJK and TBQ: significance signs \*, \*\*, \*\*\* = 10%, 50%, and 100%

Table 3 shows a comparison of the results of the regression analysis of 2 models, namely model 1 with the dependent variable KJK and model 2 with the dependent variable TBQ.

The results of the model-1 test show that the ISR variable is statistically insignificant far above 10%. Because ISR shows a positive influence which means it is consistent with the hypothesis statement. While public ownership (KPP) on company value shows data that is not significant far above 10% and the KPP regression coefficient is also contrary to the formulation of the hypothesis, so that from the model test the hypothesis is rejected.

*Islamic Social Reporting (ISR)* test on the company's value is also statistically insignificant, which is contrary to the hypothesis formulation which shows a significant negative effect. Among the three variables, the company size (SIZ) is significant at 5% (P-Value = 0.0399). This shows that SIZ has a significant effect on KJK. In accordance with the hypothesis that KJK to TBQ, the hypothesis is accepted because it is consistent with the hypothesis formula.

Table 4. Sobel Analysis of KJK, ISR, TBQ

Parameter	Mark
A (Path coefficient A)	0.06738
B (Path coefficient B)	11.7419

SE A (Standard Error A)	0.07822
SE B (Standard Error B)	1.57358
Sobel test statistic	0.85573328
One-tailed probability	0.19607266

Source: Processed Secondary Data, 2025

Based on the data presented in the table and the results of the Sobel test, it can be understood how the relationship between the independent, mediator, and dependent variables. The Sobel test is used to test the significance of the mediation effect, namely the extent to which the mediator variable is able to bridge the influence of the independent variable on the dependent variable.

From table 4 it can be analyzed that the path coefficient A of 0.06738 describes the relationship between the independent variable and the mediator. This value is small, indicating that the influence of the independent variable on the mediator is very weak. Furthermore, the coefficient **n** B of 11.7419 indicates that the mediator has a strong potential influence on the dependent variable.

The Sobel test statistic value obtained is 0.8557. This value is much smaller than 1.96, which is usually used as the significance limit at the 95% confidence level. The small value of Z indicates that the mediation effect through the mediator variable is very weak or even approaching insignificance.

In addition, the one-tailed probability is 0.196. This means a one-tailed test,  $p > 0.05$ , so we cannot reject the null hypothesis (no mediation effect).

Overall, these results indicate that the mediator variable does not significantly explain the relationship between the independent variable and the dependent variable. In other words, the influence of the independent variable on the dependent variable is not mediated significantly by the tested mediator variables.

With these results, it can be concluded that the tested mediator variables do not play a significant role in transmitting the influence of the independent variable on the dependent variable, so that the mediation effect hypothesis cannot be accepted or in accordance with the hypothesis. The results of the Sobel test show that the hypothesis is rejected, not significant 0.196. KJK is unable to mediate the influence of ISR on TBQ (there is no indirect effect)

Table 5. Sobel Analysis of KJK, KPP, TBQ

Parameter	Mark
A (Path coefficient A)	-0.1110
B (Path coefficient B)	11.7419
SE A (Standard Error A)	0.10710
SE B (Standard Error B)	1.57358
Sobel test statistic	-1.0265988
One-tailed probability	0.15231388

The Sobel test study aims to test the role of mediator variables in explaining the relationship between independent variables and dependent variables. From the table, it can be seen that the path coefficient A of -0.1110 indicates a negative relationship between the independent variable and the mediator. This means that an increase in the independent variable tends to decrease the value of the mediator variable. This negative relationship can reduce the strength

of mediation, because the mediator does not move in the same direction as the independent variable.

Meanwhile, the path coefficient B of 11.7419 indicates a strong positive relationship between the mediator and the dependent variable. An increase in the mediator value will significantly increase the value of the dependent variable. However, the existence of this relationship is not enough to prove a significant mediation effect. In the results of the Sobel test, the Sobel test value statistic of -1.0266 provides information that the mediation effect is statistically insignificant. This is reinforced by the One-tailed probability value = 0.1523 (greater than 0.05). With this result, it can be concluded that the tested mediation effect is not significant. The mediator variable does not provide a significant contribution in bridging the relationship between the independent variable and the dependent variable. Or KJK is unable to mediate the influence of KPP to TBQ or there is no indirect influence.

Table 6. hypothesis testing results

Direction of Hypothesis	Probability	Author's Hypothesis	Hypothesis Results	Conclusion
ISR > KJK	0.3905	Positive	Positive	Supported
KPP > KJK	0.3017	Positive	Rejected	Not Supported
SIZ > KJK	0.0399	Positive	Rejected	Not Supported
ISR > TBQ	0.0542	Positive	Rejected	Not Supported
KPP > TBQ	0.8310	Positive	Rejected	Not Supported
SIZ > TBQ	0.0000	Positive	Rejected	Not Supported
KJK > TBQ	0.0000	Positive	Accepted	Supported
ISR > KJK > TBQ	0.1960	Positive	Rejected	Not Supported
KPP > KJK > TBQ	0.1523	Positive	Rejected	Not Supported
SIZ > KJK > TBQ	0.0228	Positive	Accepted	Supported

Source: Processed Secondary Data, 2025

Based on the table of hypothesis testing results, it can be concluded that out of 10 hypotheses proposed by the author, only 3 hypotheses are supported or accepted, while the other 7 hypotheses are not supported. The supported hypothesis is, The hypothesis is rejected because it is statistically insignificant (see probability 0.3905) far above 10%. In terms of the ISR sign (positive) it means that it is consistent with the statement of hypothesis 1. The second hypothesis accepted is KJK to TBQ, the hypothesis is supported (accepted), because it is consistent with the formulation of the hypothesis with a probability of 0.0228. The next accepted hypothesis is that KJK is able to mediate the influence of SIZ on company value (TBQ).

The unsupported hypothesis is The direct relationship of ISR, KPP, and SIZ to TBQ and KJK is mostly rejected because the probability value exceeds 0.05. In addition, several mediation paths (ISR → KJK → TBQ and KPP → KJK → TBQ) are also insignificant and rejected. The significant relationship is mainly seen in the KJK path to TBQ and the SIZ → KJK → TBQ mediation path, which indicates that the KJK variable plays an important role in influencing TBQ. Thus, the direct relationship between the independent variables (ISR, KPP, SIZ) and the dependent variables (KJK, TBQ) is generally not significant, except in certain paths.

### Islamic Social Reporting and the Strategic Vacuum

The results provided in this research paper call upon a clear intellectual account to the commonly professed structure of the Islamic Social Reporting. ISR, being theoretically commended as the benchmark of the practice-sharia-compliant firm behavior, cannot deliver a

strategic effect that can be measured in the JII corporate environment. Such a widely-spread story that the ISR enhances the reputation of the firm, the confidence of stakeholders, and the inflow of investments sounds conceptually acceptable but operationally weak. The new research still emphasizes the symbolic importance of ISR among the companies included in Islamic indices, but it does not clarify its substance in value creation (Othman & Thani, 2010; Widigdo, 2013). This ineffectiveness appears to have taken root in the manner ISR is built into these firms not as a strategic pillar of financial governance but as a tool of compliance frequently isolated to high level business control. With the decoupled disclosures there is no prescription and there is no independent assurance hence this makes the information market signaling to be cheapened. Such reporting, as Susbiyani et al. (2022) notice in their evaluation of ISR adopted by Indonesian firms, is more of a ceremony than having the framework integration that could alter the behavior of the investors.

ISR in its present fragmented state is unable to bridge this disconnection between ethical disclosure and valuation in the capital market. The traditional conception that investors working following the dictates of Islam care less about the material performance is not true. They still lay stress on reliability, risk disclosure and future-oriented indicators of the financial accounts. ISR disclosures do not have a significant informational value when performed without the third party verification, something that compromises their potential to shape investor judgement. Said et al. (2020) clarify that the very presence of ISR in corporates reports is insufficient to change investment calculus beyond the one correlated to governance quality and financial strength. Therefore, ISR should move out of rhetoric content to analytic proofs of social and environmental effects. As long as ISR is integrated into internal value strategy, instead of the internal PR gadget, there are more chances that ISR will breach investment heuristics. Arifin et al. (2020) warn about the overconfidence of religiosity among investors, as they revealed that, even in the sharia-compliant markets, economic rationality may outweigh the degree of religiosity unless the value channels are proved.

One more serious drawback revealed by the current research data is associated with the overestimation of the role of public ownership as the safeguard system. The classical agency theory assumes that the collective discipline is extended by dispersed shareholders to management hence enhancing transparency and alignment of the performance. Nevertheless, such anticipation is insufficient to reflect the institutional settings in which shareholders lack the mechanism or power to affect the corporate actions of executives. Based on the empirical evidence of the researchers represented by Umar et al. (2022) and Ramly et al. (2023), it is confirmed about the most Indonesian Islamic firms that public shareholders do not play the role of active monitors but passively observe. Their involvement cannot automatically mean a better financial accountability without any form of participation in governance or access to enforcement tools. In this case, there is a possibility of having public ownership in numbers but ineffectively institutionally. This makes it ineffective as an instrument of improving ISR or optimising financial performance, a conclusion, which is consistent with the earlier criticism on the lack of shareholder engagement in Islamic markets (Jusoh & Ghazali, 2011; Syafira et al., 2025; Soediro et al., 2024).

More problematic is that the nature of the relation between the size of firms and their superior value creation was found to be further confused as it is still interpreted as being a linear factor. Even though the larger firms enjoy the benefits of scale of operation and wider access to capital, whether the benefits would translate to ethical leadership or disclosure excellence is not automatically granted. According to Fachrudin (2020) and Dina & Wahyuningtyas (2022), bigger companies have a tendency to abuse their position on the market in order to avoid responsibility, hiding their performance fluctuation under bureaucracy. This complexity in the

case of ISR can be too voluminous with superficial disclosures that do justice only on form but not on substance. The inert nature of large companies can be a real hindrance to the true progress of ISR when ISR is viewed as a reputation safeguarding tool more than as a gauge of performance. Furthermore, according to Wendy (2020), the effect of size most of the time depends on managerial deliberateness. Unless internalized into the mission, size does not lead to social responsiveness or stakeholder engagement simply because in absence of organizational internalization, there is no explicit connection between thought and action. This further validates the need to take a contextual approach to the concept of firm size that cannot be considered as an advantage in itself but rather as a factor that only proves its effectiveness under the influence of a culture of governance and values of leaders.

In this grid of lagging ISR activities and institutional indifference, there is only one variable which stands true: the financial performance of the firm. This finding complement what the current literature has repeatedly stressed: the language of capital markets is still largely financial in nature, in settings as seemingly unlikely ones as faith-based investment. As highlighted by Aldi et al. (2020) and Iswajuni et al. (2018), the profitability ratios, specifically ROA, are the common performance indicators cutting across the religious and traditional investor profiles. The ethical storytelling still remains free by its reliance on hard financial indicator as opposed to market responsiveness on stories that are not based on empirical foundation. The investor is not refuting the principles applied in ISR rather they need these principles to be realizable by having practical financial implications which make it operational. According to Segal (2011), a failure of firms to show the impact of ISR activities on margins, growing costs, or exposure risk is simply pushed to the side very quickly in valuation models.

The bigger point of such revelations is not that ISR is performing poorly but that it is being structural misapplied. This common belief that ISR can have an independent effect on the value of firms ignores the ethical grounds that ethics and economics are mutually dependent in Islamic finance. Ethical reporting should be part of strategic planning, and its disclosure quality should be assessed based on the measurable outcomes, as it is explained by Sululing et al. (2024) in their empirical study concerning the quality of disclosure on ISR. ISR is not made effective by burst symbolic frequency, but it is made central through cost systems, risk systems, and innovation systems. The moment disclosures are stacked against long term financial objectives, i.e. via better resource/stakeholder fidelity, or reputational risk alleviation, shareholders start attaching tangible worth to them. The failure to align it in such a way will leave ISR as being ideologically significant but commercially irrelevant.

No less important is the necessity to readdress the academic approach to ISR by itself. The current body of literature is still basically a belief in prescriptive optimism that ISR will better be linked to performance and value with a little time or training. Nonetheless, this type of projection is becoming less viable. According to Handayani et al. (2020), it is impossible to study ISR without taking into account institutional mechanics, enforcement regimes, and the actions of entities concerned. A strong ISR habitats need both voluntary pledge in addition to regulatory force, benchmarking and disclosure assurance. The corresponding structural preconditions are not predominant in Indonesian Islamic capital market. ISR can not shift out of peripheral rhetoric to strategic core until patterns are formulated to support it.

With this, regulatory agencies and market players must create a paradigm shift in the ISR governance. There should be an abolishment of the existing system of self-disclosure in place of mandatory structures, standardized scoring systems, and compulsory audits. According to Meutia et al. (2020), national undertaking of an index of ISR with sector-adjusted benchmarks and third-party validation would take long in resuscitating the credulity of ISR declarations.

Companies should also be responsible not just on what they report but on the implications to which the reports are supposed to indicate. But it is not just more that needs to be measured but better that should be measured. Then, only then will ISR start meeting the ethical requirements of Islamic business jurisprudence as well as economic demands of capital markets.

The empirical mismatch identified in the given research is not the accusation towards the theoretical usefulness of ISR but the impudence of its institutionalization. The prospect of ISR to work out the perfection between market efficiency and moral responsibility has not been fulfilled, but still present. ISR needs to be turned inside-out to achieve this potential, rather than a compliance box checking exercise, but rather a strategic pivot-point where governance, innovation and value come together. The idea of changing ISR into such a force will not rise in the form of conceptual clarity. It needs regulatory will, managerial commitment, academic perusal and most importantly investor discretion that will reward its long-run worth as opposed to short-term disclosure formalism. Such a concerted approach is the only possible way of making ISR grow out of the current state of theoretical idealism into a viable engine of sustainable and sharia-compliant corporate development.

## Conclusion

The study attempted to test how much the variables of Islamic Social Reporting (ISR), public ownership and firm size affect firm value in terms of the sharia-compliant listed firms in Jakarta Islamic Index (JII) and how this effect was mediated by the financial performance. The findings introduce an interesting story that is a far cry of what most people may assume in the Islamic corporate discourse. As opposed to theoretical expectations, there is no significant impact of both ISR and public ownership, on both financial performance and value of the firm.. The size of a firm that many tend to assume to be related to strength in operation only provides an oblique effect on a firms value by affecting financial performance. Out of all variables, only the financial performance shows reliable and direct effects on firm value because the market view of a company as the focus on profitability first and second, or structural and ethical considerations are secondary.

The implications of such findings are enormous. According to them, the effectiveness of ISR remains hobbled by their non-standardization, un-enforcability and these functions do not feature part of the strategy. As much as public ownership is theoretically correct based on agency theory, it fails to capitalize its monitoring aspect in the case of non-existing structures of participatory governance. Size in firms, which is useful in the build-up of resources, must be purposefully made to conform to ethics and performance requirements to yield anything of investor confidence. Consequently, conventional linearity between ISR disclosure and market valuation notion is brought under question in the study, proposing a re-conceptualization of how ethical practices are instated and measured in the Islamic capital markets. In addition, the research reveals an urgent disconnect between moral message and monetary estimation. It underlines the importance of substantive adherence to the norms of ISR, which should bring measurable effect. The one thing that must be instituted, in order to make a difference as far as ISR goes, is putting it into firms strategy and operations. Similarly regulators will need to take into account moving towards mandatory as opposed to voluntary ISR regimes and same measurement standards, independent assurance and sector-specific benchmarks so that they are both credible and comparable.

However, the study does not go without limitations. The data used in the study will be limited to a given Islamic index that will be used in the Indonesian capital market which might be seen to be a limitation concerning the generalizability of the study in other contexts. The analysis is also inclined on short-term financial measures which could fail to reveal the long term effects

of ISRs which could take years to reflect. Future research should consider longitudinal designs, incorporate qualitative assessments of stakeholder perception, and explore sector-specific ISR dynamics to deepen the analytical framework.

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