



Sharia Supervisory Board, *Maqāṣid al-Sharī'ah*, and Financial Performance: Evidence from Islamic Banks

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Abstract

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Sharia
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Islamic banking performance is increasingly evaluated not only through conventional financial indicators but also by the achievement of *Maqāṣid al-Sharī'ah*. However, evidence remains limited on how Sharia Supervisory Board (SSB) characteristics influence financial performance through *Maqāṣid* achievement, as well as how governance and disclosure mechanisms condition the relationship. Therefore, this study aimed to examine the direct, mediating, and moderating roles of Sharia governance mechanisms using panel data from 45 listed Islamic commercial bank across multiple countries during 2023–2025 (135 observations). The analysis was conducted using Panel Least Squares fixed-effects estimation. The SSB Index was measured across seven dimensions, while financial performance was proxied by the profit-and-loss-sharing (PLS) ratio. Mediation was tested through the Sobel test with bootstrapping (5,000 resamples), and moderation was assessed through interaction terms for Sharia Governance and Islamic Social Reporting (ISR). The results showed that SSB expertise, institutional affiliation, and board size significantly enhanced *Maqāṣid* achievement. Meanwhile, the *Maqāṣid al-Sharī'ah* Index strongly and positively affected financial performance and mediated the relationship between key SSB characteristics and outcomes. Sharia Governance and ISR further strengthened this relationship. In conclusion, Islamic banking performance is driven by substantive Sharia supervision and effective internalization of *Maqāṣid* objectives rather than symbolic governance. This study offers novel evidence that *Maqāṣid* achievement functions as a strategic, measurable driver of financial performance with implications for SSB competency and disclosure standards.

Abstrak

Kata Kunci:

Dewan
Pengawas
Syariah; Indeks
Maqāṣid Syariah;
Tata Kelola
Syariah;
Pelaporan Sosial
Islam; Kinerja
Keuangan
Perbankan
Syariah

Kinerja perbankan syariah semakin dievaluasi tidak hanya melalui indikator keuangan konvensional tetapi juga melalui pencapaian *Maqāṣid al-Sharī'ah*. Namun, bukti masih terbatas mengenai bagaimana karakteristik Dewan Pengawas Syariah (DPS) memengaruhi kinerja keuangan melalui pencapaian *Maqāṣid*, serta bagaimana mekanisme tata kelola dan pengungkapan mengkondisikan hubungan tersebut. Oleh karena itu, penelitian ini bertujuan untuk menguji peran langsung, mediasi, dan moderasi dari mekanisme tata kelola syariah menggunakan data panel dari 45 bank umum syariah yang terdaftar di berbagai negara selama 2023–2025 (135 observasi). Analisis dilakukan menggunakan estimasi fixed-effects Panel Least Squares. Indeks DPS diukur melalui tujuh dimensi, sementara kinerja keuangan diproksikan dengan rasio bagi hasil (profit-and-loss-sharing/PLS). Mediasi diuji melalui uji Sobel dengan bootstrapping (5.000 resampling), dan moderasi dinilai melalui suku interaksi untuk Tata Kelola Syariah dan Islamic Social Reporting (ISR). Hasil penelitian menunjukkan bahwa keahlian DPS, afiliasi institusional, dan ukuran dewan secara signifikan meningkatkan pencapaian *Maqāṣid*. Sementara itu, Indeks *Maqāṣid* Syariah berpengaruh kuat dan positif terhadap kinerja keuangan serta memediasi hubungan antara karakteristik utama DPS dan hasil. Tata Kelola Syariah dan ISR semakin memperkuat hubungan tersebut. Kesimpulannya, kinerja perbankan syariah didorong oleh pengawasan syariah yang substantif dan internalisasi tujuan *Maqāṣid* yang efektif, bukan sekadar tata kelola simbolis. Penelitian ini menawarkan bukti baru bahwa pencapaian *Maqāṣid* berfungsi sebagai pendorong kinerja keuangan yang strategis dan terukur dengan implikasi bagi kompetensi DPS dan standar pengungkapan.

INTRODUCTION

The global Islamic finance industry has demonstrated a remarkably strong growth trajectory, with total Islamic financial assets reaching approximately US\$3.88 trillion in 2024, of which the banking sector accounted for more than 71.6%.¹ In line with the acceleration of digital transformation and increasing global regulatory pressure toward sustainability, Islamic bank are required to integrate the objectives of *Maqāṣid al-Sharī'ah*, emphasizing justice,² balance, and social welfare, into business practices consistent with the principles of sustainable Environmental, Social, and Governance (ESG) frameworks.³ Despite significant progress in ethical financing and the development of halal financial products,⁴ the majority of Islamic financial institutions remain profit-oriented and have not fully balanced the social and spiritual dimensions.⁵ This imbalance is reflected in the limited contribution of Islamic bank to key social indicators,⁶ such as community economic empowerment, education, and environmental preservation.⁷ Furthermore, the absence of a globally standardized *Maqāṣid al-Sharī'ah* Index (MSI)⁸ has limited the comparability of social performance across countries.⁹ In many jurisdictions, *Maqāṣid* reporting remains voluntary and largely dependent on institutional initiatives rather than being a regulatory requirement comparable to conventional financial reporting.¹⁰

Empirically, the implementation of *Maqāṣid al-Sharī'ah* principles across Islamic bank in Indonesia and other Muslim-majority countries remains uneven and inconsistent. Studies have shown that the realization of core dimensions, including *Hifz al-Dīn* (protection of faith), *Hifz al-Nafs* (protection of life), and *Hifz al-Māl* (protection of wealth), varies significantly among institutions due to differences in governance quality, resource allocation, and the commitment of management to Sharia objectives. In Indonesia, the measurement of MSI remains voluntary and has not been standardized by the Financial Services Authority (OJK), resulting in fragmented and incomparable evaluations of social and ethical performance

¹ Islamic Financial Services Board (IFSB), *Islamic Financial Services Industry Stability Report 2024* (Kuala Lumpur: IFSB, 2024)..

² Mehmet Asutay and Ubaidillah, "Examining the Impact of Intellectual Capital Performance on Financial Performance in Islamic Banks," *Journal of the Knowledge Economy* 15, no. 1 (2024), <https://doi.org/10.1007/s13132-023-01114-1>.

³ Siti Andini, Nurkholis, and Syaiful Iqbal, "Exploring Sharia Compliance and Intellectual Capital for a New Approach to Maqasid Performance," *Australasian Accounting, Business and Finance Journal* 19, no. 3 (2025).

⁴ Abdul Aziz Rahman and Rohani Haron, "The Impact of Islamic Governance, Ethical Identity and Disclosure on Performance: Maqashid al-Sharia Index Evidence," *Journal of Islamic Accounting and Business Research* 10, no. 4 (2019): 575–595.

⁵ Muhammad S. Y. Ali, "Impacts of Service Quality on Future Intentions of Loan Purchase under the Mediating of Borrowers' Bank Image and Moderating Fatwa and Sharia Supervisory Board Reputation," *International Journal of Advanced and Applied Sciences* 8, no. 4 (2021): 29–43, <https://doi.org/10.21833/ijaas.2021.04.005>.

⁶ Sri Sulistiawati and Annisa Fithria, "Corporate Governance and Maqasid Sharia Performance on Islamic Banks in Indonesia," *Tasarruf: Journal of Economics and Business of Islam* 6, no. 2 (2021): 136–149, doi: 10.30984/tjebi.v6i2.1633.

⁷ Wahyu Arif, Abdul Hamid Habbe, Suryani Rasyid, and Andi Madein, "Intellectual Capital and Maqashid al-Sharia Performance of Islamic Banking in Indonesia: The Moderating Role of Islamic Sustainable Development Goals (SDGs)," *Journal of Lifestyle and SDGs Review* 5, no. 2 (2025): e03850, doi: 10.47172/2965-730X.SDGsReview.v5.n02.pe03850.

⁸ Hichem Ezzedine Bedoui and Walid Mansour, "Performance and Maqasid al-Shariah Efficiency of Islamic Banks," *Humanomics* 31, no. 2 (2015): 134–157.

⁹ Dwi Febrianti Septiani, Imam Yahya, Sri Budi Hartono, Tri Wahyu Ningsih, and Fajar Iman Maula, "Analysis of the Influence of Intellectual Capital and Bank Risk on the Performance of Maqashid al-Sharia-Based Islamic Banking in Indonesia," *Journal of Islamic Accounting and Finance Research* 3, no. 2 (2021), doi: 10.21580/jiafr.2021.3.2.8615.

¹⁰ Muhammad Taufik, Rachmat Muhammad, and Putri Nugraheni, "Determinants and Consequences of Maqashid al-Sharia Performance: Evidence from Islamic Banks in Indonesia and Malaysia," *Journal of Islamic Accounting and Business Research* 14, no. 8 (2023): 1426–1450.

among Islamic bank.¹¹ Moreover, the Sharia Supervisory Board (SSB), a key institutional body mandated to ensure Sharia compliance, often performs its role only as a formal oversight mechanism without exerting a substantial strategic influence on decision-making or value creation.¹² Legally, the SSB is established based on fatwas issued by the National Sharia Supervisory Board (DSN-MUI) and is mandated under Law No. 21 of 2008 on Islamic Banking, POJK No. 8/2014, and relevant AAOIFI standards. The authority is consequently a binding regulatory character rather than only serving as an internal governance mechanism. This legal foundation underscores the importance of examining how SSB characteristics translate into substantive oversight and institutional performance.¹³

In practice, many SSB are underutilized despite their potential as strategic resources that provide expertise, religious legitimacy, and external linkages, altogether enhancing the realization of *Maqāṣid* and strengthening financial performance.¹⁴ Regulatory frameworks such as Law No. 21 of 2008, POJK No. 8/2014, and PSAK Syariah have not included operational indicators for *Maqāṣid*-based performance,¹⁵ creating a gap between formal compliance and substantive impact.¹⁶ Similarly, mechanisms such as Islamic Social Reporting (ISR) and Sharia Governance, which should function as instruments of transparency and accountability, remain underdeveloped¹⁷ and have not been systematically implemented to be standardized tools for the assessment or disclosure of *Maqāṣid* performance in Islamic financial institutions.¹⁸

The preceding empirical conditions show that inconsistencies in *Maqāṣid al-Sharī'ah* realization across Islamic bank are largely driven by the varying effectiveness of institutional mechanisms, particularly SSB.¹⁹ Within this context, the Sharia Supervisory Board Index (SSBI), reflecting the structural and qualitative characteristics of the board, including its size, expertise, reputation, and cross-membership, plays a decisive role in determining the extent to which Islamic financial institutions can uphold the higher objectives of Sharia.²⁰ A strong

¹¹ Putri Prasajo, "Exploring the Relationship between Intellectual Capital and Maqasid Sharia-Based Performance: The Moderating Role of Sharia Governance," *Journal of Islamic Marketing* 14, no. 8 (2023): 2130–2146, <https://doi.org/10.1108/JIMA-07-2021-0226>.

¹² Iwan Anisykurlillah, "Examining the Role of Sharia Supervisory Board Attributes in Reducing Financial Statement Fraud by Islamic Banks," *Banks and Bank Systems* 15, no. 3 (2020): 106–116, [https://doi.org/10.21511/bbs.15\(3\).2020.10](https://doi.org/10.21511/bbs.15(3).2020.10).

¹³ Darwanto and Anis Chariri, "Corporate Governance and Financial Performance in Islamic Banks: The Role of the Sharia Supervisory Board in Multiple-Layer Management," *Banks and Bank Systems* 14, no. 4 (2019): 183–191, [https://doi.org/10.21511/bbs.14\(4\).2019.17](https://doi.org/10.21511/bbs.14(4).2019.17).

¹⁴ Hassan Umar Umar, Muhammad Abduh, and Mohd Hisham Abdul Besar, "Shari'a Supervisory Board and Islamic Banks' Insolvency Risk," *Journal of Islamic Monetary Economics and Finance* 9, no. 3 (2023): 419–442, <https://doi.org/10.21098/jimf.v9i3.1635>.

¹⁵ Muhammad Syarofi and Laila Putri, "The Importance of Sharia Supervisory Board on Islamic Financial," *Airlangga Journal of Innovation Management* 4 (2023): 74–83, doi: 10.20473/ajim.v4i1.45357."

¹⁶ Tri Berlianty, Marthinus Tjoanda, Johanes A. S. Titahelu, and Muhammad M. Sahid, "Reassessing Islamic Banking Supervision in Indonesia: A Contemporary Islamic and Socio-Legal Perspective on OJK's Integrated Model," *MILRev: Metro Islamic Law Review* 4, no. 1 (2025): 619–644, doi: 10.32332/milrev.v4i1.10851.

¹⁷ Abdelilah Haddad and Mohamed N. Souissi, "The Impact of Shariah Advisory Board Characteristics on the Financial Performance of Islamic Banks," *Cogent Economics & Finance* 10, no. 1 (2022), doi: 10.1080/23322039.2022.2062911.

¹⁸ Ratna Wijayanti and Dwi Setiawan, "The Role of the Board of Directors and the Sharia Supervisory Board on Sustainability Reports," *Journal of Open Innovation: Technology, Market, and Complexity* 9 (2023): 100083, <https://doi.org/10.1016/j.joitmc.2023.100083>.

¹⁹ Mohammed S. Bashir, Mohammed M. Edris, and Muslichah, "Does Shari'ah Supervisory Board Characteristics Affect Islamic Banks' Financial Performance? Evidence from Saudi Arabia," *Corporate Board: Role, Duties and Composition* 19, no. 2 (2023): 15–25, doi: 10.22495/cbv19i2art2.

²⁰ Hendra Mauliansyah, "The Effect of Sharia Supervisory Board Characteristics on Financial Performance of Islamic Banks in Indonesia," *Global Research in Economics and Advanced Theory (GREAT)* 1, no. 3 (2024): 101–110, doi: 10.65788/greatjournal.v1i3.54.

and credible SSB is more than a compliance-oriented organ. It acts as a catalyst for embedding ethical and religious principles in operational policies, thereby enhancing both the *Hifz al-Dīn* (protection of faith)²¹ and *Hifz al-Māl* (protection of wealth) dimensions.²² Expertise and independence allow SSB members to guide management in aligning financial strategies with Sharia principles and promoting innovation in Sharia-compliant products.²³ Furthermore, SSB with strong reputational standing tend to strengthen stakeholder trust, reduce agency conflicts,²⁴ as well as enhance investor confidence, which ultimately contributes to improved profit-and-loss sharing (PLS) mechanisms and more resilient financial performance. The presence of an effective and reputable SSB is expected to exert a direct positive influence on both the *Maqāṣid al-Sharī'ah* Index (MSI) and financial performance, serving as a key institutional pillar for Islamic banking sustainability.²⁵

In this conceptual framework, MSI operates as a mediating construct that bridges the relationship between SSBI and financial performance. Bank that demonstrate higher *Maqāṣid* achievement tend to show superior financial stability and long-term profitability since their operations are grounded in justice, transparency, and social responsibility, key tenets of Islamic economics.²⁶ However, the strength of this relationship is contingent upon the moderating effects of Sharia Governance and ISR, both of which are essential instruments in ensuring managerial accountability and social legitimacy.²⁷ Effective Sharia Governance mechanisms provide institutional checks and balances, preventing opportunistic managerial behavior and ensuring that decision-making adheres to Sharia principles.²⁸ Meanwhile, ISR enhances transparency and public trust by communicating how the institution fulfills *Maqāṣid*-oriented objectives beyond financial returns.²⁹ These moderating factors collectively amplify the impact of the SSB strategic and supervisory roles, creating a synergistic framework in which institutional credibility, ethical governance, and social

²¹ Omar Kachkar and Mehmet K. Yilmaz, "How Diverse Are Shariah Supervisory Boards of Islamic Banks? A Global Empirical Survey," *International Journal of Ethics and Systems* 39, no. 2 (2023): 312–341, doi: 10.1108/IJOES-10-2021-0195.

²² Mohammad Al Thnaibat, Khaled Al-Hajaya, and Mohammad Q. Alshhadat, "Do the Characteristics of the Sharia Supervisory Board Affect the Islamic Banks' Performance? Evidence from Arab Countries," *Journal of Financial Reporting and Accounting* (2024), <https://doi.org/10.1108/JFRA-05-2024-0271>.

²³ Mohammad K. Alam and Mohammad S. Miah, "Independence and Effectiveness of Shariah Supervisory Board of Islamic Banks: Evidence from an Emerging Economy," *Asian Review of Accounting* 29, no. 2 (2021): 173–191, doi: 10.1108/ARA-01-2020-0005.

²⁴ Salma Neifar, Belgacem Salhi, and Abdelwahed Jarboui, "The Moderating Role of Shariah Supervisory Board on the Relationship between Board Effectiveness, Operational Risk Transparency and Bank Performance," *International Journal of Ethics and Systems* 36, no. 3 (2020): 325–349 doi: 10.1108/IJOES-09-2019-0155.

²⁵ Jing Li and Masahiro Sasaki, "The Impact of State Ownership on Corporate Social Responsibility Reporting: A Comparison between State-Owned and Non-State-Owned Enterprises in China," *Management Communication Quarterly* 38, no. 3 (2024): 504–533, doi: 10.1177/08933189231209727.

²⁶ Nabila Muna, Muhammad Hafizh, and Muhammad M. Nur, "The Influence of Good Corporate Governance, Maqashid al-Sharia, and Profitability on Company Value (Empirical Study of Sharia Commercial Banks in Indonesia)," *eCo-Buss* 7, no. 2 (2024): 1025–1037, doi: 10.32877/eb.v7i2.1589.

²⁷ Mohamed Ben Abdallah and Souhir Bahloul, "Disclosure, Shariah Governance and Financial Performance in Islamic Banks," *Asian Journal of Economics and Banking* 5, no. 3 (2021): 234–254, <https://doi.org/10.1108/ajeb-03-2021-0038>.

²⁸ Nor Hidayah Zainal Abidin, Farah Mat Yasin, and Ahmad Zainal Abidin, "Independence from the Perspective of the Shari'ah Committee," *Asian Journal of Accounting Research* 6, no. 2 (2020): 196–209, <https://doi.org/10.1108/AJAR-07-2020-0053>.

²⁹ Joseph Bananuka, Michael Kasera, Grace M. Najjemba, David Musimenta, Benon Ssekiziyivu, and Simon N. L. Kimuli, "Attitude: Mediator of Subjective Norm, Religiosity and Intention to Adopt Islamic Banking," *Journal of Islamic Marketing* 11, no. 1 (2020): 81–96, doi: 10.1108/JIMA-02-2018-0025.

disclosure collectively drive the dual goals of Sharia compliance and financial sustainability.³⁰ The integrative relationship underscores the idea that Islamic banking excellence lies not only in profitability, but in achieving balanced growth serving both economic and moral purposes, a reflection of the holistic philosophy of *Maqāṣid al-Sharī'ah*.

Existing studies show substantial theoretical, empirical, and regulatory gaps in explaining how SSB contributes to Islamic banking performance. Theoretically, most studies rely on Agency Theory,³¹ which limits the SSB role to monitoring compliance and mitigating agency conflicts, overlooking the broader strategic function. In contrast, Resource Dependence Theory (RDT)³² views the SSB as a crucial external resource that provides expertise, legitimacy, and strategic support. Integrating these two perspectives offers a more comprehensive understanding of the SSB not only as a governance monitor but also a driver of institutional credibility and competitiveness. Most studies empirically focus on financial indicators such as ROA and ROE,³³ while limited evidence explores SSB effect on MSI or the moderating roles of Sharia Governance and ISR.³⁴ In Indonesia, empirical investigations remain scarce despite its unique regulatory framework involving OJK, DSN–MUI, and Bank Indonesia. Additionally, there is no standardized *Maqāṣid*-based reporting aligned with AAOIFI, IFSB, or BCBS–IFSB, resulting in fragmented governance practices. Methodologically, previous studies tend to use simple cross-sectional models. This study employs global panel data and dual moderation (Sharia Governance and ISR) to fill the gaps and provide a holistic model connecting SSBI, MSI, and financial performance.

A systematic review of previous studies shows three compounding gaps. Empirically, studies, including Haddad & Souissi³⁵ and Al Thnaibat et al.,³⁶ examine the effect of SSB characteristics on financial performance (ROA/ROE) but do not incorporate the *Maqāṣid al-Sharī'ah* Index as a mediating variable, leaving the pathway between governance and value creation unexplored. Methodologically, most studies rely on single-country cross-sectional data, limiting generalizability across regulatory environments. Contextually, no previous study has simultaneously examined Sharia Governance and ISR as dual moderators of the *Maqāṣid*–financial performance relationship within a global panel framework. This study addresses all three gaps by constructing a seven-dimensional SSBI, employing dual moderation with ISR and Sharia Governance. It also uses global panel data from 45 listed Islamic bank across multiple jurisdictions during 2023–2025.

³⁰ Syamsul A. Muhsyaf, “Unraveling the Complex Dynamics of Islamic Social Reporting and Financial Performance: A Study of Mediating and Moderating Factors in Islamic Banks,” *Global Review of Islamic Economics and Business* 11, no. 1 (2023): 1–24, doi: 10.14421/grieb.2023.111-01.

³¹ Michael C. Jensen and William H. Meckling, “Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure,” *Journal of Financial Economics* 3, no. 4 (1976): 305–360, doi: 10.1016/0304-405X(76)90026-X.

³² Jeffrey Pfeffer and Gerald R. Salancik, *The External Control of Organizations: A Resource Dependence Perspective* (New York: Harper & Row, 1978).

³³ Muhammad Azam, Muhammad U. Khalid, and Syed Z. Zia, “Board Diversity and Corporate Social Responsibility: The Moderating Role of Shariah Compliance,” *Corporate Governance: The International Journal of Business in Society* 19, no. 6 (2019): 1274–1288, doi: 10.1108/CG-01-2019-0022.

³⁴ Johan Christianto and Vina Y. E. Putri, “Bank Mergers, Corporate Governance, and the Impact on Maqashid al-Sharia Performance,” *International Journal of Research in Business and Social Science* 13, no. 7 (2024): 293–300, doi: 10.20525/ijrbs.v13i7.3607.

³⁵ Haddad and Souissi, “The Impact of Shariah Advisory Board Characteristics on the Financial Performance of Islamic Banks..

³⁶ Mohammad Al Thnaibat, Khaled Al-Hajaya, and Mohammad Q. Alshhadat, “Do the Characteristics of the Sharia Supervisory Board Affect the Islamic Banks’ Performance? Evidence from Arab Countries,” *Journal of Financial Reporting and Accounting* (2024), <https://doi.org/10.1108/JFRA-05-2024-0271..>

The novelty of this study is grounded in its integrative contribution across three dimensions, namely (1) the construction of a seven-dimensional SSBI that captures both formal and substantive attributes of Sharia supervisory capacity, (2) the use of the *Maqāṣid al-Sharī'ah* Index as a mediating variable linking governance to financial performance, providing a value-based bridge absent in previous studies, and (3) the simultaneous application of dual moderation by both Sharia Governance and ISR within a global panel data framework covering the 2023–2025 period. In contrast to previous studies that treat the dimensions separately, this study offers a unified model integrating SSB characteristics, *Maqāṣid* achievement, and contextual governance disclosure mechanisms into a single empirical framework.

This study holds significant urgency both theoretically and practically in advancing the understanding of Islamic banking governance. Theoretically, it integrates Agency Theory and Resource Dependence Theory to explain how SSBI influences both MSI and financial performance, positioning the SSB as not only a monitoring mechanism but also a strategic resource provider that strengthens institutional legitimacy and competitiveness. Empirically, this study offers a new measurement model for MSI based on institutional dimensions, providing strong evidence for how governance quality and Sharia-based reporting affect performance outcomes. Practically, the results are expected to guide OJK and DSN–MUI in developing standardized *Maqāṣid*-oriented reporting and Sharia governance frameworks. Contextually, the analysis focuses on Indonesia strategic role as one of the world largest Islamic finance markets and presents a conceptual model consistent with the OJK Roadmap 2020–2025 and the UN Sustainable Development Goals (SDGs), reinforcing the contribution to global Islamic finance development. Therefore, this study aimed to empirically examine the effect of SSBI on MSI and financial performance, as well as to analyze the moderating roles of Sharia Governance and ISR in strengthening these relationships within global Islamic bank.

RESEARCH METHODS

Study Type

This study employs a quantitative inferential approach using panel data regression analysis to examine the direct, indirect, and moderating effects among the examined variables. The objective is to empirically validate the influence of SSBI on both MSI and financial performance, as well as to analyze how Sharia Governance and ISR moderate the relationships across global Islamic bank. The use of panel data enables the analysis to capture both cross-sectional variations among Islamic bank and time-series dynamics over the observation period, providing a more comprehensive understanding of institutional behavior and performance consistency. This approach allows the study to evaluate not only the direct impact of SSBI on MSI and financial outcomes but also the mediating role of MSI and the strengthening effects of governance as well as social disclosure practices in achieving sustainable Sharia-based performance.

Unit of Analysis and Sampling

The unit of analysis is the Islamic commercial bank (*full-fledged Islamic bank*) operating globally. Based on the BankFocus Database, there are 279 Islamic banks across 49 countries. However, only 107 provide publicly accessible annual reports, while 172 were excluded due to the unavailability of reports or the use of languages other than English or Indonesian. One additional institution was excluded because of non-fluctuating or incomplete data, resulting in 106 bank that met the initial data availability criteria. This study further restricts the final analytical sample to listed Islamic bank only, as listed institutions are subject to stricter regulatory oversight, mandatory disclosure requirements, and higher governance transparency, which are essential for the reliable measurement of SSBI, MSI, Sharia Governance, and ISR. From the 106 eligible banks, 45 publicly listed Islamic bank constitute the final sample, selected through purposive sampling based on the availability of complete, consistent, and comparable financial and governance disclosures in English or Indonesian. The observation period spanned 2023–2025, capturing the post-pandemic recovery phase as well as the ongoing digital and governance transformation in the Islamic banking sector. The year 2023 reflects the early stage of Sharia governance strengthening and alignment with international standards, while 2025 represents the more recent global landscape following broader adoption of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB) frameworks.

Table 1. Samples Based on Selection Criteria

No.	Criteria Description	Number of Bank
1	Total Islamic bank based on BankFocus Database	279
2	Bank with unavailable or non-English/Indonesian annual reports	172
3	Bank with accessible annual reports	107
4	Excluded outlier (non-fluctuating or incomplete data)	1
5	Bank meeting initial data criteria	106
6	Unlisted Islamic bank excluded from analysis	61
7	Final study sample (listed Islamic bank)	45

Source: Author's Analysis

The sample selection process is presented in Table 1. Among the 87 Islamic banks identified globally, a total of 45 met the selection criteria and were included as the final sample for the 2023–2025 observation period, yielding 135 bank-year observations.

Operational Definition of Variables

This study examined five main variables, namely SSBI (independent), MSI (mediating), Sharia Governance (SG) and ISR (moderating), as well as Financial Performance (dependent). Each variable was operationalized using relevant indicators and measurement formulas adopted from previous studies to ensure validity, reliability, and consistency with international Sharia governance standards.

Table 2. Operational Definition of Variables

No.	Variable	Dimensions / Sub-Variables	Measurement Method	Source
1	Sharia Supervisory Board Index (SSBI) (X_1)	D1 = Board Size D2 = Expertise D3 = Educational Background (Ph.D.) D4 = Religious Affiliation / Reputation D5 = Meeting Frequency D6 = Gender Diversity D7 = International Exposure (Global Engagement)	– Size = Number of SSB members / 3 – Expertise = Number of members with an accounting background / Total SSB members – PhD = Number of members holding a PhD degree / Total SSB members – Affiliation = Number of members affiliated with DSN-AAOIFI / Total SSB members – Meeting = Number of SSB meetings per year / 6 – Gender (Female) = Number of female members / Total SSB members – Gender (International Experience) = Number of members with international experience / Total SSB members	Hudayati et al. ³⁷ ; Wijayanti & Setiawan ³⁸ ; Darwanto & Chariri ³⁹ ; Mai et al. ⁴⁰ ; Muna et al. ⁴¹ ; Umar et al. ⁴² ; Anisykurlillah et al. ⁴³ ; Muhammad et al. ⁴⁴
2	Sharia Governance (SG) (Moderator 1)	Transparency Accountability Independence Responsibility	SG Score = (Total Disclosed Governance Items) / (Total Governance Items)	Prasojo et al. ⁴⁵ ; Haddad & Souissi ⁴⁶
3	Islamic	Zakat Disclosure	ISR Score = (Total Disclosed	Muhsyaf ⁴⁷ ;

³⁷ Ataina Hudayati, Ihsan Muhamad, and Marfuah Marfuah, "The Effect of Board of Directors and Sharia Supervisory Board on Zakat Funds at Islamic Banks in Indonesia," *Cogent Business & Management* 10, no. 2 (2023): 2231206, doi: 10.1080/23311975.2023.2231206.

³⁸ Wijayanti and Setiawan, "Boards and Sustainability Reports," 6.

³⁹ Darwanto and Chariri, "Corporate Governance and the Sharia Supervisory Board."

⁴⁰ Muhamad Umar Mai, Sudradjat, and Etti Ernita Sembiring, "Board Characteristics, State Ownership, and Corporate Social Responsibility: Evidence from Indonesian Islamic Banks," *Cogent Economics & Finance* 11, no. 2 (2023): 2266323, doi: 10.1080/23322039.2023.2266323.

⁴¹ Muna, Hafizh, and Nur, "Good Corporate Governance and Company Value."

⁴² Umar, Abduh, and Besar, "Shari'a Supervisory Board and Insolvency Risk."

⁴³ Anisykurlillah et al., "Sharia Supervisory Board Attributes and Fraud".

⁴⁴ R. Muhammad et al., "The Influence of the Sharia Supervisory Board's Characteristics toward Sharia Compliance of Islamic Banks" (unpublished manuscript, 2021)..

⁴⁵ Prasjo et al., "Intellectual Capital and Maqasid Performance."

⁴⁶ Haddad and Souissi, "The Impact of Shariah Advisory Board Characteristics on the Financial Performance of Islamic Banks."

No.	Variable	Dimensions / Sub-Variables	Measurement Method	Source
	Social Reporting (ISR) (Moderator 2)	Halal Assurance Environmental Responsibility Employee Welfare Social Contribution	ISR Items) / (Total ISR Items)	Taufik et al ⁴⁸
4	Financial Performance (Y)	Sharia Profit-and-Loss Sharing (PLS) Ratio	PLS = $\frac{(Mudharabah + Musyarakah \text{ Financing})}{(\text{Total Financing})}$	Nurkhin et al. ⁴⁹ ; Muna et al. ⁵⁰ ; Rizal et al. ⁵¹

Source: Author's Analysis

Table 2 shows the operationalization of all variables, including the measurement indicators, formula or scoring method, and source references for each. The independent variable (SSBI) was composed of seven dimensions, while the dependent variable employed the Sharia Profit-and-Loss Sharing (PLS) ratio. The mediating and moderating variables were measured using the MSI, Sharia Governance score, and ISR disclosure index, respectively. The PLS ratio was used as a proxy for the bank risk-sharing financing orientation, reflecting its commitment to Sharia-based profit-and-loss sharing principles. Although not a direct measure of profitability, such as ROA or ROE, this ratio captures the substantive alignment of financing structures with *Maqāṣid*-based objectives. Importantly, ROA and ROE appear in this study exclusively as sub-indicators within MSI, specifically under the *Hifdz al-Māl* (Protection of Wealth) dimension (E16 and E17) following Chapra (2007)⁵² framework. It served as components of the mediating variable, not proxies for the dependent variable (Financial Performance). This distinction ensures conceptual clarity, as the MSI captured the breadth of *Maqāṣid* achievement, including wealth-protection efficiency (via ROA/ROE), while Financial Performance was measured independently through the PLS ratio to reflect Sharia-based financing orientation.

Table 3. *Maqāṣid al-Sharī'ah* Index

<i>Maqāṣid</i> Dimension	Average Weight (out of 100%)	Elements	Element Weight (out of 100%)
Faith (<i>dīn</i>)	0.20	E1. Interest-free products	0.50

⁴⁷ Muhsyaf, "Islamic Social Reporting and Financial Performance."

⁴⁸ Taufik, Muhammad, and Nugraheni, "Determinants and Consequences of Maqashid Performance."

⁴⁹ Ahmad Nurkhin, Abdul Rohman, Ahmad Rofiq, and Hasan Mukhibad, "The Role of the Sharia Supervisory Board and Corporate Governance Mechanisms in Enhancing Islamic Performance—Evidence from Indonesia," *Banks and Bank Systems* 13, no. 4 (2018): 85–95, doi: 10.21511/bbs.13(4).2018.08.

⁵⁰ Muna, Hafizh, and Nur, "Good Corporate Governance and Company Value."

⁵¹ Rizal Yaya, Ilham Maulana Saud, M. Kabir Hassan, and Mamunur Rashid, "Governance of Profit and Loss Sharing Financing in Achieving Socio-Economic Justice," *Journal of Islamic Accounting and Business Research* 12, no. 6 (2021): 814–830, doi: 10.1108/JIABR-11-2017-0161.

⁵² M. Umer Chapra, *The Islamic Vision of Development in the Light of Maqasid al-Shari'ah*, Occasional Paper No. 15 (Jeddah: Islamic Research and Training Institute (IRTI), Islamic Development Bank (IDB), 2007).

<i>Maqāṣid</i> Dimension	Average Weight (out of 100%)	Elements	Element Weight (out of 100%)
Self (<i>nafs</i>)	0.20	E2. Publicity	0.50
		Total	100%
		E3. Charity	0.25
		E4. Employee welfare	0.25
		E5. Zakat fund	0.25
		E6. Total number of branches	0.25
Intellect (<i>‘aql</i>)	0.20	Total	100%
		E7. Education grants	0.50
		E8. Study expenditure	0.50
Prosperity (<i>nasl</i>)	0.20	Total	100%
		E9. Agricultural financing	0.50
		E10. Training	0.50
Wealth (<i>māl</i>)	0.20	Total	100%
		E11. Non-performing financing (loan)	0.125
		E12. <i>Muḍārabah</i> financing	0.125
		E13. <i>Mushārah</i> financing	0.125
		E14. Restructured <i>muḍārabah</i> financing	0.125
		E15. Restructured <i>mushārah</i> financing	0.125
		E16. Return on Assets (ROA)	0.125
		E17. Return on Equity (ROE)	0.125
		E18. Operational efficiency	0.125
Total	100%	Total	100%

Source: Author's Analysis

MSI was constructed following the Chapra (2007)⁵³ framework as detailed in Table 3. The index covers seven dimensions of *Maqāṣid al-Sharī‘ah*, including *Hifdz al-Din* (protection of religion), *Hifdz al-Nafs* (protection of life), *Hifdz al-Aql* (protection of intellect), *Hifdz al-Nasl* (protection of progeny), and *Hifdz al-Māl* (protection of wealth), operationalized through 17 observable indicators (E1–E17) that are measurable from bank annual and sustainability reports. The inclusion of ROA (E16) and ROE (E17) within the *Hifdz al-Māl* (Protection of Wealth) dimension follows the original framework, which conceptualizes the protection of wealth not only as asset preservation but also the productive and ethical utilization of resources. In this context, ROA and ROE serve as proxies for how effectively the bank generates returns from entrusted assets, reflecting a dimension of wealth protection through performance efficiency. Both elements in this study functioned exclusively as sub-indicators within MSI and were not used to measure financial performance. The dependent variable was operationalized using the PLS ratio, which captures the bank substantive commitment to Sharia-based risk-sharing financing and is conceptually distinct from

⁵³ Chapra, "The Islamic Vision of Development."

conventional profitability metrics. ROA and ROE within MSI reflect the wealth-protection dimension of *Maqāṣid* achievement, while the PLS ratio shows the degree to which the bank financing structure aligns with Islamic principles of partnership and shared risk. However, this study acknowledges the conceptual tension between profitability and wealth protection. Future studies may consider replacing ROA/ROE with the Capital Adequacy Ratio (CAR) as a more direct indicator of depositor protection.

Data Analysis

A quantitative data analysis approach was applied to test the theoretical relationships between variables through inferential statistics. The analytical process included classical assumption testing, regression analysis, path analysis for mediation, and moderated regression analysis (MRA) for moderation effects. The classical assumption tests for normality, multicollinearity, heteroscedasticity, and autocorrelation were conducted to ensure that the regression model fulfills the BLUE (Best Linear Unbiased Estimator) criteria, confirming that the model is unbiased, efficient, and consistent. Once the assumptions were satisfied, the multiple linear regression model was applied to examine the direct effects of SSB on MSI and financial performance, as well as the indirect and moderating effects of SG and ISR. The hypothesis testing was carried out using t-tests for individual parameter significance, F-tests for simultaneous effects, and the coefficient of determination (R^2) to assess the explanatory power of the model.

To evaluate the mediating effect of MSI, a path analysis framework was used to decompose the total effect of SSB on financial performance into direct and indirect components. Mediation significance was assessed using the Sobel test, which evaluates the statistical significance of the indirect path through MSI. To further validate the mediation results and account for non-normality in the sampling distribution of indirect effects, bootstrapping with 5,000 resamples was applied to construct 95% bias-corrected confidence intervals. A significant indirect effect is confirmed when the confidence interval excludes zero. This combined approach ensures robust mediation inference and resolves potential limitations of the Sobel test under small-sample conditions.

For the moderating effects, Moderated Regression Analysis (MRA) was used by incorporating interaction terms ($Z \times M$) between the mediator (MSI) and moderators (SG and ISR) to determine whether these governance and disclosure mechanisms strengthen or weaken the relationship between *Maqāṣid*-based performance and financial outcomes. The interpretation of moderation is based on the sign and significance of the interaction coefficient. A positive significant β_3 indicates strengthening, while a negative significant β_3 suggests weakening. To address potential endogeneity concerns arising from reverse causality in which bank with stronger financial performance may be better positioned to recruit high-quality SSB members, this study applied the Hausman specification test to detect endogeneity. When endogeneity was detected, instrumental variable (IV) estimation using two-stage least squares (2SLS) were applied, with lagged values of SSB dimensions serving as instruments. Additionally, the fixed effects estimator inherently controls for time-

invariant unobserved heterogeneity, thereby mitigating omitted variable bias as a primary source of endogeneity in panel data settings. The overall analysis framework ensures robust statistical testing of both direct and contextual relationships among SSBI, MSI, Sharia Governance, ISR, and financial performance in global Islamic banking.

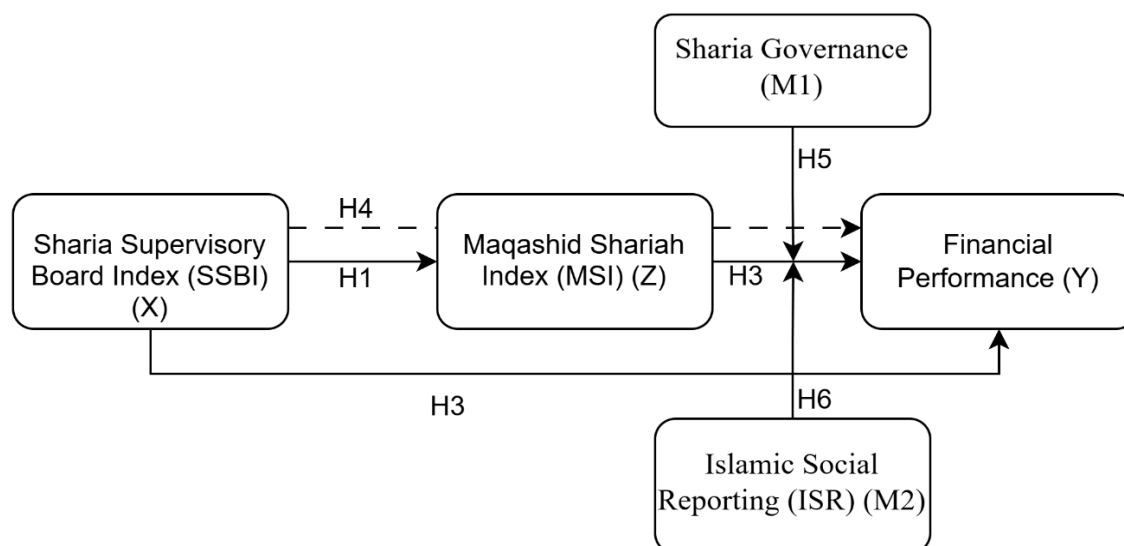


Figure 1. Hypothesis Framework

The conceptual framework in Figure 1 shows the proposed relationships between SSBI (independent variable), MSI (mediating variable), and financial performance (dependent variable), with Sharia Governance and ISR serving as moderating variables.

RESULTS

Descriptive Statistics and Preliminary Analysis

Table 4 shows the yearly descriptive statistics of the main variables for 45 listed Islamic banks over the 2023–2025 period. It reports the mean, standard deviation, minimum, and maximum values of SSBI, MSI, Sharia Governance, ISR, and financial performance measured by the profit-and-loss sharing (PLS) ratio. The results offer an initial overview of the variables distribution and temporal patterns before hypothesis testing.

Table 4. Descriptive Statistics of SSBI, MSI, Sharia Governance, ISR, and Financial Performance (2023–2025)

Year	Variable	Mean	Std. Dev.	Min	Max
2023	SSBI	0.624	0.118	0.389	0.842
	MSI	0.611	0.094	0.421	0.798
	Sharia Governance (SG)	0.703	0.102	0.462	0.895
	Islamic Social Reporting (ISR)	0.658	0.107	0.441	0.871
	Financial Performance (PLS Ratio)	0.341	0.121	0.152	0.602
2024	SSBI	0.648	0.113	0.401	0.861
	MSI	0.634	0.091	0.447	0.821

Year	Variable	Mean	Std. Dev.	Min	Max
2025	Sharia Governance (SG)	0.726	0.096	0.498	0.912
	Islamic Social Reporting (ISR)	0.684	0.101	0.469	0.889
	Financial Performance (PLS Ratio)	0.359	0.116	0.168	0.635
	SSBI	0.671	0.109	0.426	0.883
	MSI	0.659	0.088	0.472	0.846
	Sharia Governance (SG)	0.748	0.091	0.521	0.934
	Islamic Social Reporting (ISR)	0.709	0.095	0.498	0.912
	Financial Performance (PLS Ratio)	0.382	0.112	0.183	0.672

Source: Author's Analysis

Table 4 demonstrate a progressive improvement across all key variables from 2023 to 2025. The mean values of SSBI, MSI, Sharia Governance, and ISR consistently increased over time, indicating enhanced Sharia supervisory effectiveness, stronger achievement of *Maqāṣid* objectives, as well as improved governance and social disclosure practices among listed Islamic bank. Financial performance, measured by the PLS ratio, also showed a steady rise, suggesting a growing emphasis on profit-and-loss sharing financing. The gradual decline in standard deviations implies reduced cross-bank dispersion, while the upward movement in maximum values indicates that several banks are advancing more rapidly in aligning Sharia governance quality with *Maqāṣid*-based and financial performance outcomes. Overall, these patterns provide a solid preliminary foundation for subsequent regression, mediation, and moderation analyses.

The Effect of Sharia Supervisory Board Index (SSBI) on *Maqāṣid al-Sharī'ah* Index (MSI)

This subsection investigates the extent to which the characteristics of SSB contribute to the achievement of *Maqāṣid* objectives in Islamic bank. The analysis was motivated by the premise that SSB plays a central role not only in ensuring compliance with Islamic principles but also in guiding strategic decisions reflecting the broader objectives of Sharia. Using a fixed-effects panel regression model, this subsection examines how individual dimensions influence MSI after controlling for unobserved heterogeneity across bank. The results provide empirical evidence on which supervisory attributes are most effective in enhancing *Maqāṣid* performance and characteristics with a more limited role.

Table 5. Regression Results of Sharia Supervisory Board Characteristics on *Maqāṣid al-Sharī'ah* Index (MSI)

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Significance
Constant	0.312457	0.091238	3.425118	0.0007	–
SSB Size	0.084562	0.027914	3.030441	0.0027	Significant
SSB Expertise	0.067913	0.021506	3.157884	0.0019	Significant

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Significance
SSB Affiliation (DSN–AAOIFI)	0.059274	0.024331	2.436215	0.0156	Significant
SSB PhD Qualification	0.011382	0.018947	0.600641	0.5488	Not significant
SSB Meeting Frequency	0.009145	0.014362	0.636880	0.5251	Not significant
SSB Gender (Female)	-0.006217	0.019784	-0.314190	0.7537	Not significant
SSB International Experience	0.013574	0.022408	0.605489	0.5455	Not significant

Source: Author's Analysis

Table 5 shows the fixed effects panel regression results examining the effect of each SSBI dimension on MSI. It reports the regression coefficients, standard errors, t-statistics, and significance levels for each predictor, along with model fit statistics including R^2 , Adjusted R^2 , F-statistic, Hausman test result, and maximum VIF value to confirm model validity and absence of severe multicollinearity. The regression results showed that SSB Size ($p = 0.0027$), SSB Expertise ($p = 0.0019$), and SSB Affiliation with DSN–AAOIFI ($p = 0.0156$) had positive and statistically significant effects on MSI. This suggests that supervisory capacity, domain-specific expertise, and institutional religious affiliation play a crucial role in enhancing Maqāṣid achievement. Conversely, SSB PhD qualification ($p = 0.5488$), meeting frequency ($p = 0.5251$), gender composition ($p = 0.7537$), and international experience ($p = 0.5455$) did not show statistically significant effects, suggesting that formal academic credentials, frequency of meetings, and demographic or experiential attributes alone are insufficient to improve *Maqāṣid* performance. These results imply that the effectiveness of Sharia supervision in advancing *Maqāṣid* objectives depends more on functional competence and institutional legitimacy than symbolic qualifications or structural features.

The Effect of Sharia Supervisory Board Index (SSBI) on Financial Performance

This subsection examines the direct effect of SSB characteristics on financial performance, measured by PLS ratio. The analysis is grounded in the notion that effective Sharia supervision may influence financing structures by encouraging greater use of risk-sharing instruments. Using a fixed-effects panel regression model, this subsection evaluates how individual dimensions of SSB contribute to variations in financial performance after controlling for unobserved heterogeneity across bank.

Table 6. Regression Results of Sharia Supervisory Board Characteristics on Financial Performance (PLS Ratio)

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Significance
Constant	0.198472	0.079615	2.492993	0.0141	–
SSB Expertise	0.112684	0.037421	3.010558	0.0031	Significant
SSB Affiliation (DSN–AAOIFI)	0.094317	0.041206	2.288014	0.0239	Significant
SSB Size	0.028516	0.025814	1.104800	0.2715	Not significant
SSB PhD Qualification	0.017903	0.021744	0.823344	0.4121	Not significant
SSB Meeting Frequency	-0.009276	0.018592	-0.498793	0.6189	Not significant
SSB Gender (Female)	0.006148	0.020381	0.301651	0.7633	Not significant
SSB International Experience	0.021407	0.026995	0.793257	0.4291	Not significant

Source: Author's Analysis

Table 6 shows the regression results for the direct effect of SSBI dimensions on financial performance. It describes which dimensions of SSB quality are associated with a higher proportion of profit-and-loss sharing financing, along with model diagnostics to assess the robustness of the fixed effects specification. The regression analysis indicated that SSB Expertise ($p = 0.0031$) and SSB Affiliation with DSN–AAOIFI ($p = 0.0239$) had positive and statistically significant effects on financial performance. This suggests that the presence of knowledgeable Sharia supervisors and strong institutional religious affiliation enhances bank ability to promote profit-and-loss sharing financing. In contrast, SSB Size ($p = 0.2715$), PhD qualification ($p = 0.4121$), meeting frequency ($p = 0.6189$), gender composition ($p = 0.7633$), and international experience ($p = 0.4291$) did not have significant effects, implying that structural size, formal academic credentials, and demographic or experiential characteristics alone are insufficient to directly improve financial performance. Overall, these results underscore that substantive expertise and institutional legitimacy of SSB are the most critical factors influencing financial outcomes in Islamic banking.

The Effect of *Maqāṣid al-Sharī'ah* Index (MSI) on Financial Performance

This subsection examines whether the achievement of *Maqāṣid* objectives contributes to the financial performance of Islamic bank. The analysis was based on the premise that bank that more effectively realize the objectives of Sharia, covering ethical, social, and economic dimensions, are better positioned to promote sustainable financing structures. Using a fixed-effects panel regression model, this subsection evaluates the direct effect of MSI on financial performance measured by PLS ratio.

Table 7. Regression Results of *Maqāṣid al-Sharī'ah* Index on Financial Performance (PLS Ratio)

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Significance
Constant	0.214836	0.082914	2.591442	0.0108	–
<i>Maqāṣid al-Sharī'ah</i> Index (MSI)	0.463917	0.141276	3.283615	0.0013	Significant

Source: Author's Analysis

Table 7 shows the estimation results for the relationship between MSI and financial performance, which constitutes the second path of the proposed mediation model. A positive and statistically significant coefficient would confirm that bank achieving higher *Maqāṣid*-oriented performance also generate stronger Sharia-based financing outcomes. The regression results show that the MSI had a positive and statistically significant effect on financial performance ($p = 0.0013$). This indicates that Islamic bank with higher achievement of *Maqāṣid* objectives tend to have stronger profit-and-loss sharing performance. The positive coefficient suggests that greater alignment with Sharia principles comprising the protection of faith, life, intellect, progeny, and wealth enhances bank capacity to implement risk-sharing financing mechanisms. These results provide empirical support for the argument that *Maqāṣid*-oriented performance is not only normative but also economically beneficial, reinforcing the role of *Maqāṣid* as a strategic driver of sustainable financial performance in Islamic banking.

The Mediating Role of *Maqāṣid al-Sharī'ah* Index (MSI) between Sharia Supervisory Board Index (SSBI) and Financial Performance

This subsection examines whether MSI functions as an intervening mechanism through which the characteristics of SSBI influence financial performance. The mediation analysis was based on the assumption that the effectiveness of Sharia supervision does not always translate directly into financial outcomes. Rather, it operates through the extent to which *Maqāṣid* objectives are achieved. The Sobel test was employed to evaluate the indirect effects of each SSBI dimension on financial performance through MSI.

Table 8. Sobel Test Results for the Mediating Role of *Maqāṣid al-Sharī'ah* Index (MSI)

No	SSBI Dimension	a (SSBI → MSI)	Sa	b (MSI → FP)	Sb	Indirect Effect (a×b)	Sobel Z	Prob.	Mediation Result
1	SSB Size	0.284	0.091	0.464	0.141	0.132	2.18	0.029	Partial mediation
2	SSB Expertise	0.398	0.094	0.464	0.141	0.185	2.97	0.003	Significant mediation

No	SSBI Dimension		a (SSBI → MSI)	Sa	b (MSI → FP)	Sb	Indirect Effect (a×b)	Sobel Z	Prob.	Mediation Result
3	SSB	PhD Qualification	0.121	0.083	0.464	0.141	0.056	0.94	0.347	No mediation
4	SSB	Affiliation with DSN and AAOIFI	0.372	0.097	0.464	0.141	0.173	2.76	0.006	Significant mediation
5	SSB	Meeting Frequency	0.108	0.079	0.464	0.141	0.050	0.88	0.381	No mediation
6	SSB	Gender (Female)	0.067	0.072	0.464	0.141	0.031	0.59	0.555	No mediation
7	SSB	International Experience	0.143	0.086	0.464	0.141	0.066	1.09	0.276	No mediation

Source: Author's Analysis

Table 8 shows the mediation analysis results using the Sobel test, with bootstrapping validation (n = 5,000 resamples) applied to confirm indirect effect significance. It presents the Sobel Z-statistic and p-value for each SSBI dimension, along with the indirect effect (a×b) and 95% bias-corrected bootstrapped confidence intervals. A significant indirect effect is evidenced by a Sobel Z exceeding the critical value ($|Z| > 1.96$) and a bootstrapped confidence interval that excludes zero. The Sobel test results showed that the MSI significantly mediated the relationship between selected SSB dimensions and financial performance. In particular, SSB Expertise (p = 0.003) and Affiliation with DSN and AAOIFI (p = 0.006) had statistically significant indirect effects, demonstrating that the influence of these supervisory attributes on financial performance operates primarily through enhanced achievement of *Maqāṣid* objectives. SSB Size showed evidence of partial mediation (p = 0.029), suggesting that board size affects financial performance both directly and indirectly through MSI. In contrast, SSB PhD qualification (p = 0.347), meeting frequency (p = 0.381), gender composition (p = 0.555), and international experience (p = 0.276) did not show significant mediation effects, indicating that these characteristics do not substantially contribute to financial performance through *Maqāṣid* realization. Overall, the results emphasize that substantive expertise and institutional legitimacy of the SSB are the primary channels through which *Maqāṣid*-oriented performance translates into improved financial outcomes.

The Moderating Role of Sharia Governance between *Maqāṣid al-Sharī'ah* Index (MSI) and Financial Performance

This subsection analyzes whether Sharia Governance (SG) moderates the relationship between *Maqāṣid* achievement and financial performance. The analysis used a fixed-effects panel regression model with an interaction term to identify the nature and strength of the moderation effect.

Table 9. Moderation Effect of Sharia Governance on the Relationship between MSI and Financial Performance (PLS Ratio)

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Significance	Type of Moderation
Constant	0.176528	0.073614	2.397655	0.0181	–	–
<i>Maqāṣid al-Sharī'ah</i> Index (MSI)	0.214386	0.102947	2.081802	0.0394	Significant	Direct effect
Sharia Governance (SG)	0.189742	0.081563	2.326493	0.0216	Significant	Direct effect
MSI × Sharia Governance	0.356914	0.118402	3.014887	0.0031	Significant	Quasi-moderation (strengthening)

Source: Author's Analysis

Table 9 shows the results of the moderation analysis examining the role of Sharia Governance in strengthening the relationship between MSI and financial performance. The interaction term (MSI × Sharia Governance) is included in the regression alongside the main effects, and its significance as well as direction are interpreted with reference to the simple slope analysis presented in Figure 2. The results showed that both MSI ($p = 0.0394$) and Sharia Governance ($p = 0.0216$) had positive and statistically significant direct effects on financial performance. The interaction term MSI × Sharia Governance was also positive and significant ($p = 0.0031$), indicating that Sharia Governance strengthens the relationship between *Maqāṣid* achievement and financial performance. Since Sharia Governance is significant both as an independent predictor and an interaction term, the moderation is considered quasi. This implies that Sharia Governance functions simultaneously as a direct determinant of financial performance and a strengthening moderator of the MSI–financial performance relationship.

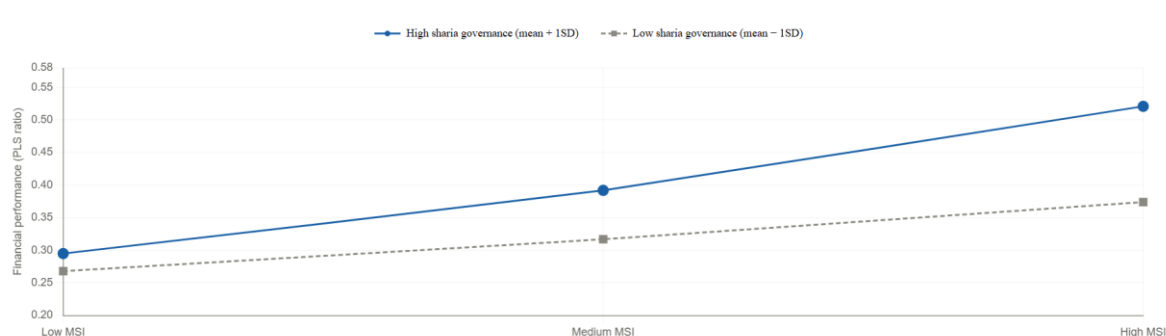


Figure 2. Simple slope analysis: moderating effect of Sharia governance on the MSI–financial performance relationship
Source: Author’s Analysis

Note: MSI = *Maqāṣid al-Sharīʿah* Index. Financial performance = PLS ratio. High/low = mean $\pm$ 1SD. $\beta_{\text{interaction}} = 0.214$, $p < 0.01$.

Figure 2 shows the simple slope analysis illustrating the moderating effect of Sharia Governance on the relationship between MSI and financial performance. The results indicated that the positive relationship between MSI and financial performance was significantly stronger among bank with high levels of Sharia Governance (mean + 1SD). This was evidenced by the steeper slope ($\beta = 0.521$ at high MSI) compared to bank with low levels of Sharia Governance (mean – 1SD), which showed a considerably flatter slope ($\beta = 0.374$ at high MSI). The pattern confirms the moderating hypothesis, suggesting robust Sharia governance structures amplify the financial benefits derived from *Maqāṣid*-oriented banking performance. Therefore, institutional governance quality serves as an enabling mechanism through which ethical and Sharia-based objectives are more effectively translated into superior financial outcomes.

The Moderating Role of Islamic Social Reporting (ISR) between *Maqāṣid al-Sharīʿah* Index (MSI) and Financial Performance

This subsection examines whether ISR moderates the relationship between the achievement of *Maqāṣid* objectives and financial performance. The analysis is grounded in the view that transparent and comprehensive Islamic social disclosure enhances stakeholder trust and legitimacy, thereby strengthening the financial impact of *Maqāṣid*-oriented performance. A fixed-effects panel regression model incorporating an interaction term between MSI and ISR was used to identify the moderating effect.

Table 10. Moderation Effect of Islamic Social Reporting on the Relationship between MSI and Financial Performance (PLS Ratio)

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Significance	Type of Moderation
Constant	0.162947	0.071836	2.268505	0.0251	–	–
<i>Maqāṣid al-</i>	0.198614	0.096521	2.057719	0.0418	Significant	Direct effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Significance	Type of Moderation
Shari'ah Index (MSI)						
Islamic Social Reporting (ISR)	0.176382	0.078944	2.233957	0.0274	Significant	Direct effect
MSI × Islamic Social Reporting	0.329586	0.109217	3.017842	0.0030	Significant	Quasi-moderation (strengthening)

Source: Author's Analysis

Table 10 shows the moderation analysis results for the role of ISR as a moderating variable. The significant positive interaction term (MSI × ISR) indicates that higher levels of ISR disclosure amplify the positive effect of *Maqāṣid* achievement on financial performance, as further visualized through the simple slope graph in Figure 3. The regression results showed that MSI ($p = 0.0418$) and ISR ($p = 0.0274$) each had positive and statistically significant direct effects on financial performance. More importantly, the interaction term MSI × ISR was positive and highly significant ($p = 0.0030$), confirming the presence of a moderating effect. The positive coefficient of the interaction term suggests that higher levels of ISR strengthen the positive relationship between *Maqāṣid* achievement and financial performance. Since ISR is significant both as an independent variable and part of the interaction term, the moderation is classified as quasi. This indicates that ISR simultaneously acts as a direct determinant of financial performance and a strengthening moderator in the MSI–financial performance relationship. The result underscores the strategic role of Islamic social disclosure in translating *Maqāṣid*-oriented performance into superior financial outcomes.

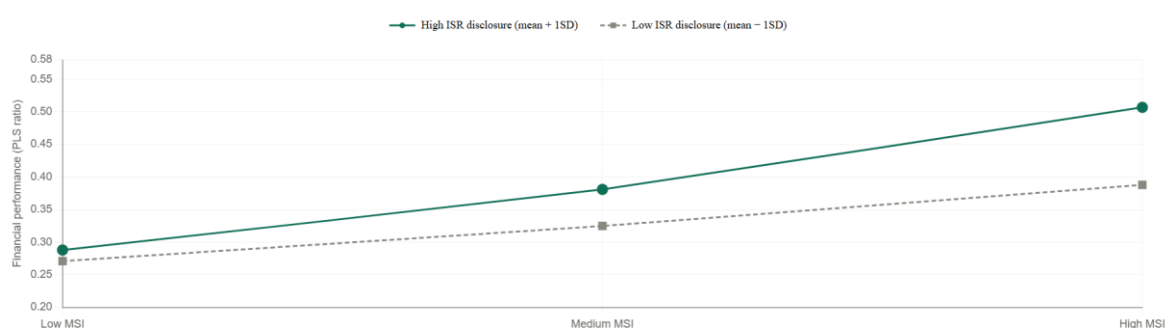


Figure 3. Simple slope analysis: moderating effect of Islamic Social Reporting (ISR) on the MSI–financial performance relationship

Source: Author's Analysis

Note: ISR = Islamic Social Reporting disclosure index. Financial performance = PLS ratio. High/low = mean $\pm$ 1SD. β interaction = 0.187, $p < 0.05$.

Figure 3 shows the simple slope analysis for the moderating role of ISR disclosure on the MSI–financial performance relationship. As depicted, bank having high ISR disclosure levels (mean + 1SD) demonstrated a markedly steeper positive slope between MSI and financial performance (reaching a PLS ratio of 0.507 at high MSI levels). Meanwhile, bank having low disclosure (mean – 1SD) showed a more modest slope (reaching 0.388 at high MSI levels), with the interaction term being statistically significant ($\beta = 0.187$, $p < 0.05$). The result suggests transparency in Islamic social reporting acts as a legitimacy-enhancing mechanism that reinforces stakeholder trust and amplifies the positive effect of *Maqāshid* achievement on financial performance. This supports the assertion that Sharia-based disclosure practices and *Maqāshid* orientation are complementary rather than substitutive dimensions of Islamic banking excellence.

DISCUSSION

Effect of Sharia Supervisory Board Index (SSBI) on *Maqāshid al-Sharī'ah* Index (MSI)

The empirical results indicate that not all dimensions of the SSB exert the same influence on *Maqāshid* achievement. Specifically, SSB Size ($p = 0.0027$), SSB Expertise ($p = 0.0019$), and SSB Affiliation with DSN–AAOIFI ($p = 0.0156$) show positive and statistically significant effects on MSI. This suggests that *Maqāshid*-oriented performance is primarily driven by functional capacity, professional competence, and institutional legitimacy of SSB rather than formal or demographic attributes.⁵⁴ Larger Sharia boards tend to provide broader deliberation, stronger monitoring intensity, and greater division of supervisory roles, which enhances the ability to ensure banking operations align with *Maqāshid* objectives.⁵⁵ The result is consistent with previous studies underscoring the importance of supervisory capacity and expertise in promoting Sharia compliance and performance.⁵⁶ Moreover, affiliation with recognized Sharia standard-setting bodies such as DSN and AAOIFI strengthens normative authority and harmonization with international standards, reinforcing bank commitment to *Maqāshid*-based objectives.⁵⁷

SSB PhD qualification ($p = 0.5488$), meeting frequency ($p = 0.5251$), gender composition ($p = 0.7537$), and international experience ($p = 0.5455$) did not show statistically significant effects on MSI. These results imply that symbolic credentials and structural characteristics alone are insufficient to enhance *Maqāshid* achievement when not accompanied by effective engagement and contextual relevance.⁵⁸ Academic qualifications at the doctoral level may strengthen theoretical understanding, but do not automatically translate into practical *Maqāshid*-oriented decision-making, particularly in complex banking

⁵⁴ Rahman and Haron, "Islamic Governance and Maqashid Index," 585.

⁵⁵ Septiani, I. Yahya, S. B. Hartono, T. W. Ningsih, and F. I. Maula, "Analysis of the Influence of Intellectual Capital and Bank Risk on the Performance of Maqashid al-Sharia-Based Islamic Banking in Indonesia."

⁵⁶ R Nyange, "Corporate Governance and Maqashid Performance," 40.

⁵⁷ Ridwan and Mayapada, "Sharia Governance and CSR Disclosure," 305.

⁵⁸ Abdallah and Bahloul, "Disclosure, Shariah Governance and Financial Performance," 240.

environments where applied Sharia reasoning and institutional coordination are crucial.⁵⁹ Similarly, frequent meetings do not necessarily improve *Maqāṣid* outcomes, especially when procedural rather than substantive, a concern also raised by Abidin et al and Haddad & Souissi.⁶⁰ The insignificance of gender and international experience suggests that diversity attributes, while normatively valuable, may not directly affect *Maqāṣid* performance unless integrated into decision-making authority and strategic influence.⁶¹ From a theoretical standpoint, these results refine Agency Theory by indicating that effective monitoring depends on the quality and relevance of oversight, not only formal indicators (Jensen & Meckling, 1976).⁶² At the same time, Resource Dependence Theory provides a strong explanatory perspective, as only those SSB attributes that supply critical resources such as applied expertise, legitimacy, and institutional linkage significantly contribute to *Maqāṣid* achievement.⁶³ Overall, the results suggest that *Maqāṣid* realization in Islamic banking is shaped by substantive supervisory strength rather than symbolic board characteristics, reinforcing the strategic role of selected SSBI dimensions in driving performance.

From the perspective of *fiqh muamalah*, the significance of DSN/AAOIFI affiliation reflects the principle of *taqlid mu'ayyan al-madhab*, the importance of adhering to a recognized and authoritative interpretation of Islamic law to ensure legal certainty in modern economic transactions. The convergence toward AAOIFI standards serves as a mechanism of legal harmonization (*tawhīd al-marāji' al-fiqhiyyah*), which is crucial for cross-border Islamic banking operations. These results have direct implications for DSN-MUI and OJK. The regulator should consider strengthening the competency requirements for SSB members by prioritizing applied accounting and finance expertise alongside religious credentials, particularly in response to POJK No. 8/2014, which currently emphasizes formal qualifications without specifying substantive expertise benchmarks.

Effect of Sharia Supervisory Board Index (SSBI) on Financial Performance

The empirical results indicate that only selected dimensions of SSB have a direct and statistically significant impact on financial performance, as measured by the PLS ratio. Importantly, the PLS ratio in this study functions as a proxy for the bank Sharia-based financing orientation (Profit-Sharing Financing Structure) rather than a conventional profitability measure. This framing is consistent with the view that risk-sharing financing reflects a bank substantive commitment to Islamic principles, a dimension of performance distinct from but complementary to profitability metrics such as ROA. Specifically, SSB Expertise ($p = 0.0031$) and SSB Affiliation with DSN–AAOIFI ($p = 0.0239$) show positive and significant effects, suggesting that financial performance in Islamic bank is more strongly influenced by the quality and legitimacy of Sharia supervision than structural or demographic board attributes. Supervisory expertise enables SSB members to provide

⁵⁹ Prasajo et al., “Intellectual Capital and Maqasid Performance,” 2140.

⁶⁰ Abidin, Mat Yasin, and Zainal Abidin, “Independence from the Shari'ah Committee,” 200.

⁶¹ Haddad and Souissi, “The Impact of Shariah Advisory Board Characteristics on the Financial Performance of Islamic Banks.

⁶² Jensen and Meckling, “Theory of the Firm,” 312.

⁶³ Pfeffer and Salancik, *External Control of Organizations*, 85.

informed guidance on complex Sharia-compliant financing structures, thereby encouraging the adoption of PLS instruments such as *mudharabah* and *musyarakah*. This result is consistent with previous studies stating that knowledgeable and professionally competent Sharia boards contribute to improved financial outcomes by aligning managerial decisions with risk-sharing principles.⁶⁴ Furthermore, affiliation with recognized Sharia institutions enhances institutional credibility and harmonization with global Sharia standards, which strengthens stakeholder confidence and supports sustainable financial performance.⁶⁵

SSB Size ($p = 0.2715$), PhD qualification ($p = 0.4121$), meeting frequency ($p = 0.6189$), gender composition ($p = 0.7633$), and international experience ($p = 0.4291$) did not demonstrate statistically significant effects on financial performance. These results suggest that financial outcomes are not automatically enhanced by larger boards, higher academic credentials, or more frequent meetings when these characteristics do not translate into effective strategic influence over financing decisions. For instance, frequent meetings may be procedural in nature and focused on compliance verification rather than proactive guidance on financing strategy, as also observed by Haddad & Souissi.⁶⁶ Similarly, academic qualifications and international exposure, while valuable for normative legitimacy, may not directly affect financial performance unless coupled with practical expertise in Islamic finance operations. From a theoretical perspective, these results refine Agency Theory by indicating that monitoring effectiveness depends on functional competence rather than formal attributes (Jensen & Meckling, 1976).⁶⁷ In line with Resource Dependence Theory, only SSB characteristics that provide critical resources such as applied expertise and institutional legitimacy appear to contribute meaningfully to financial performance (Pfeffer & Salancik, 1978).⁶⁸ Overall, the results imply that financial performance is shaped primarily by substantive Sharia supervisory capabilities, reinforcing the strategic importance of expertise-based and institutionally connected Sharia supervision.

The result showing that meeting frequency is not significant warrants particular regulatory attention. This suggests that SSB meetings may currently function as procedural formalities rather than substantive deliberative forums. OJK and DSN-MUI should consider revising the minimum meeting frequency requirement to instead mandate outcome-based reporting, requiring SSB to document the substantive Sharia issues deliberated and decisions made at each meeting, rather than merely recording attendance.

Effect of *Maqāṣid al-Sharī'ah* Index (MSI) on Financial Performance

The empirical results demonstrate that MSI has a positive and statistically significant effect on financial performance, as indicated by the PLS ratio. The significant coefficient of MSI ($p = 0.0013$) suggests that Islamic bank with higher levels of *Maqāṣid* achievement tend to allocate a greater proportion of financing through risk-sharing instruments such as

⁶⁴ Al Thnaibat, Al-Hajaya, and Alshhadat, "Characteristics of Sharia Supervisory Board," 9.

⁶⁵ Ridwan and Mayapada, "Does Sharia Governance Influence Corporate Social Responsibility Disclosure in Indonesia Islamic Banks?" *Journal of Sustainable Finance and Investment* 12, no. 2 (2022): 299–318, <https://doi.org/10.1080/20430795.2020.1749819>.

⁶⁶ Haddad and Souissi, "The Impact of Shariah Advisory Board Characteristics on the Financial Performance of Islamic Banks.

⁶⁷ Jensen and Meckling, "Theory of the Firm," 312.

⁶⁸ Pfeffer and Salancik, *External Control of Organizations*, 85.

mudharabah and *musyarakah*. This result supports the assertion that *Maqāṣid*-oriented banking practices are not merely normative or symbolic but are closely associated with concrete financial outcomes. Bank that prioritizes the broader objectives of Sharia, including social justice, equitable wealth distribution, ethical conduct, and real-sector linkage, are more inclined to adopt financing structures that emphasize partnership and shared risk rather than debt-based instruments. This result is consistent with earlier empirical studies showing that *Maqāṣid*-based performance enhances financial sustainability and profitability in Islamic bank.⁶⁹

From a theoretical perspective, the results reinforce the Islamic economic view that ethical and social objectives are complementary to financial performance, rather than being in conflict. Chapra (2007)⁷⁰ asserted that *Maqāṣid al-Sharī'ah* provides a comprehensive framework for development integrating moral values with economic efficiency. The results empirically validate this proposition within the Islamic banking context. Moreover, the positive relationship between MSI and financial performance can also be explained through Stakeholder and Legitimacy Theory, where bank that effectively address the interests of multiple stakeholders through *Maqāṣid*-oriented activities gain greater trust, reputation, and long-term stability.⁷¹ By reconciling financial operations with *Maqāṣid* principles, Islamic bank strengthen their legitimacy and social acceptance, which in turn facilitates sustainable financial performance. Overall, the results confirm that *Maqāṣid* achievement functions as a strategic driver of financial performance, underscoring the importance of embedding Sharia objectives into core banking activities rather than being treated as peripheral or purely compliance-based concerns.

The Mediating Role of *Maqāṣid al-Sharī'ah* Index (MSI) between Sharia Supervisory Board Index (SSBI) and Financial Performance

The mediation analysis provides strong empirical evidence that MSI acts as a critical transmission mechanism through which selected SSB characteristics influence financial performance. The Sobel test results, confirmed by bootstrapping validation ($n = 5,000$ resamples), indicate that SSB Expertise ($p = 0.003$) and SSB Affiliation with DSN and AAOIFI ($p = 0.006$) have statistically significant indirect effects on financial performance through MSI, while SSB Size shows partial mediation ($p = 0.029$). These results indicate that the effectiveness of Sharia supervision contributes to financial outcomes primarily by enhancing the achievement of *Maqāṣid* objectives rather than through a direct pathway alone. Supervisory expertise enables SSB members to operationalize Sharia principles into financing strategies emphasizing risk-sharing, ethical conduct, and socio-economic welfare, which subsequently improves the use of profit-and-loss sharing instruments. This result is consistent with previous empirical studies demonstrating that *Maqāṣid* performance mediates the impact of governance mechanisms on financial outcomes in Islamic bank.

⁶⁹ Hichem Ezzedine Bedoui and Walid Mansour, "Performance and Maqasid al-Shariah's Universality: A Theoretical Framework," *Islamic Economic Studies* 23, no. 2 (2015): 73–100, doi: 10.1007/s11948-014-9561-9.

⁷⁰ Chapra, "The Islamic Vision of Development."

⁷¹ Prasajo et al., "Intellectual Capital and Maqasid Performance," 2140.

Furthermore, institutional affiliation with recognized Sharia authorities strengthens normative legitimacy, standard harmonization, and stakeholder confidence, facilitating deeper integration of *Maqāṣid* principles into banking operations and enhancing financial sustainability.⁷²

SSB PhD qualification ($p = 0.347$), meeting frequency ($p = 0.381$), gender composition ($p = 0.555$), and international experience ($p = 0.276$) did not show significant mediation effects, suggesting that formal credentials, procedural intensity, and demographic diversity do not automatically translate into *Maqāṣid*-oriented financial value. These results reinforce the argument that symbolic or structural attributes of SSB are insufficient unless accompanied by substantive authority and applied competence. Academic qualifications and frequent meetings may enhance formal compliance, but do not necessarily influence strategic financing decisions when Sharia supervision remains procedural rather than integrative, as also observed by Anisykurlillah et al.⁷³ Similarly, the insignificance of gender and international experience is consistent with the results by Mai et al.,⁷⁴ suggesting that board diversity contributes to performance only when embedded in effective governance processes. From a theoretical standpoint, these results extend Agency Theory by demonstrating that governance mechanisms reduce agency problems and improve performance only when value-creating behavior is aligned with organizational objectives.⁷⁵ At the same time, Resource Dependence Theory provides a compelling explanation, as only those SSB attributes that supply critical resources such as applied Sharia expertise, institutional legitimacy, and regulatory linkage are able to enhance *Maqāṣid* performance and subsequently financial outcomes.⁷⁶ Overall, the results confirm that *Maqāṣid* achievement serves as a strategic mediating pathway, transforming effective Sharia supervision into sustainable financial performance in Islamic banking.

The Moderating Role of Sharia Governance between *Maqāṣid al-Sharī'ah* Index (MSI) and Financial Performance

The empirical results demonstrate that Sharia Governance plays a significant moderating role in strengthening the relationship between the MSI and financial performance. The interaction term between MSI and Sharia Governance is positive and statistically significant ($p = 0.0031$), indicating that the positive impact of *Maqāṣid* achievement on financial performance becomes stronger when supported by robust Sharia governance mechanisms. This suggests that *Maqāṣid*-oriented performance does not operate in isolation. However, its translation into superior financial outcomes depends heavily on the presence of effective governance structures that ensure transparency, accountability, independence, and responsibility in Islamic banking operations. In addition, both MSI ($p = 0.0394$) and Sharia Governance ($p = 0.0216$) show significant direct effects on financial performance, indicating

⁷² Ridwan and Mayapada, "Sharia Governance and CSR Disclosure," 305.

⁷³ Anisykurlillah et al., "Sharia Supervisory Board Attributes and Fraud," 110.

⁷⁴ Mai, Sudradjat, and Sembiring, "Board Characteristics and CSR," 6.

⁷⁵ Jensen and Meckling, "Theory of the Firm," 312.

⁷⁶ Pfeffer and Salancik, *External Control of Organizations*, 85.

that governance quality not only strengthens but also independently contributes to financial outcomes. This evidence is consistent with previous studies showing that Sharia governance enhances the credibility and effectiveness of *Maqāṣid* implementation, thereby improving financial sustainability and stakeholder confidence.⁷⁷

From a theoretical perspective, the results are consistent with Agency Theory, emphasizing that effective governance mechanisms reduce agency conflicts and ensure management decisions align with organizational objectives, including *Maqāṣid*-based goals. Strong Sharia governance enhances monitoring quality and constrains opportunistic behavior, allowing *Maqāṣid*-oriented strategies to be implemented more consistently and translated into tangible financial performance. At the same time, Legitimacy and Resource Dependence Theory provide additional explanatory power, as robust Sharia governance strengthens institutional legitimacy and provides access to normative resources, including standardized Sharia frameworks and regulatory alignment.⁷⁸ Empirical support for this assertion is found in studies by Andini et al.⁷⁹ who stated that Sharia governance not only directly enhances performance but also amplifies the effectiveness of *Maqāṣid*-oriented and sustainability-based strategies.⁸⁰ Overall, the quasi-classification of this relationship indicates that Sharia governance functions simultaneously as an independent driver of financial performance and a strategic enhancer strengthening the financial impact of *Maqāṣid* achievement in Islamic banking.

The Moderating Role of Islamic Social Reporting (ISR) between *Maqāṣid al-Sharī'ah* Index (MSI) and Financial Performance

The empirical results confirm that ISR significantly moderates the relationship between MSI and financial performance, as evidenced by the positive and statistically significant interaction term between MSI and ISR ($p = 0.0030$). This indicates that the positive impact of *Maqāṣid* achievement on financial performance becomes stronger when Islamic bank discloses their social, ethical, and Sharia-compliant activities more comprehensively. In addition, both MSI ($p = 0.0418$) and ISR ($p = 0.0274$) show significant direct effects on financial performance, suggesting that *Maqāṣid*-oriented practices and transparent Islamic social disclosure independently contribute to improved financial outcomes.⁸¹ The results imply that *Maqāṣid* achievement yields greater economic value when accompanied by credible and visible disclosure of social and ethical responsibilities, reinforcing stakeholder trust and long-term sustainability. This supports previous empirical evidence that connects Islamic social reporting to enhanced performance and legitimacy.⁸²

⁷⁷ Christianto and Putri, "Bank Mergers, Corporate Governance, and the Impact on Maqashid al-Sharia Performance," (2024).

⁷⁸ Pfeffer and Salancik, *External Control of Organizations*, 85.

⁷⁹ Andini, N. Nurkholis, and S. Iqbal, "Exploring Sharia Compliance and Intellectual Capital for a New Approach to Maqasid Performance," (2025), doi: 10.14453/aabfj.v19i3.02.

⁸⁰ Prasjojo et al., "Intellectual Capital and Maqasid Performance," 2140.

⁸¹ Usdeldi Usdeldi, M. Ridlwan Nasir, and Muhamad Ahsan, "The Mediate Effect of Sharia Compliance on the Performance of Islamic Banking in Indonesia," *Jurnal Keuangan dan Perbankan* 26, no. 1 (2022): 247–264, <https://doi.org/10.26905/jkdp.v26i1.6158>.

⁸² Joseph Bananuka, Michael Kasera, Grace M. Najjemba, David Musimenta, Benon Ssekiziyivu, and Simon N. L. Kimuli, "Attitude: Mediator of Subjective Norm, Religiosity and Intention to Adopt Islamic Banking," *Journal of Islamic Marketing* 11, no. 1 (2020): 81–96.

From a theoretical standpoint, the moderating role of ISR is well explained by Stakeholder and Legitimacy Theory, stating that organizations gain economic benefits when focused on stakeholder expectations and social legitimacy through transparent disclosure practices.⁸³ By communicating *Maqāṣid*-oriented achievements through ISR, Islamic bank signal their commitment to ethical conduct, social justice, and Sharia compliance, thereby strengthening market confidence and stakeholder support.⁸⁴ This enhanced legitimacy enables *Maqāṣid*-based strategies to translate more effectively into financial performance, particularly through greater acceptance of PLS mechanisms. Empirical support for this mechanism is found in studies showing that ISR strengthens the impact of governance quality and *Maqāṣid* performance on financial outcomes.⁸⁵ Furthermore, the classification of ISR as a quasi-moderator indicates that Islamic social disclosure is both an independent determinant of financial performance and a strategic amplifier enhancing the effectiveness of *Maqāṣid*-oriented performance. Overall, the results indicate that *Maqāṣid* achievement alone is insufficient to maximize financial performance unless supported by transparent and credible Islamic social reporting. This underscores the strategic role of ISR in bridging ethical objectives and financial sustainability in Islamic banking.

CONCLUSION

This study advances the debate on Islamic banking performance by demonstrating that *Maqāṣid* achievement operates as a substantive, measurable link between Sharia governance and financial outcomes, rather than a normative aspiration disconnected from practice. Theoretically, the results refine Agency Theory by showing that effective oversight depends on the functional quality of supervision rather than formal or demographic board attributes. It also extends Resource Dependence and Stakeholder/Legitimacy Theory to explain why expertise, institutional affiliation, governance quality, and transparent disclosure jointly translate *Maqāṣid* objectives into financial value. Practically, regulators such as OJK and DSN-MUI would benefit from shifting SSB requirements away from formal or procedural indicators toward competency-based standards and outcome-oriented reporting, while bank have an incentive to pair *Maqāṣid*-oriented strategies with credible Islamic Social Reporting to maximize financial returns. These contributions are crucial as the analysis covered a three-year panel of 45 listed Islamic commercial bank. However, generalizability to unlisted or smaller institutions, and to jurisdictions with markedly different regulatory architectures, remains an open question. Future studies could extend this framework using longer panels, alternative *Maqāṣid* measurement approaches, and qualitative evidence on how SSB actually exercise their expertise in practice, to further test the durability of the mechanisms.

⁸³ Ahmad F. F. Yanto, Nabila Sari, Dwi E. O. Ramadina, and Tri Prasetya, "AI-Enabled CTAS and Digital Tax-Fraud Detection: A PLS-SEM Study in Indonesia," *Advance Sustainable Science Engineering and Technology* 7, no. 4 (2025): 02504033, doi: 10.26877/asset.v7i4.2609.

⁸⁴ Tri Prasetya, Fajar L. Zulfiqar, Muhammad N. Baehaqi, and Muhammad Ilham, "International Trade Dispute Settlement under Free Trade Agreements: An Analysis of Indonesian Tax Court Verdicts," *BESTUUR* 13, no. 1 (2025).

⁸⁵ Wijayanti and Setiawan, "Boards and Sustainability Reports," 6.

CONFLICT OF INTEREST

The authors declare that there is no conflict of interest. There are no financial, professional, or personal relationships that could have influenced the design, data collection, analysis, interpretation of results, or the decision to publish this manuscript.

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