

Corporate Governance Implementation on Corporate Value in Indonesia and Malaysia Sharia Banks

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Abstract

Islamic banking has experienced rapid growth in Southeast Asia. Islamic Social Reporting (ISR) integrates Islamic values to demonstrate banks' compliance with religious standards. This study analyzes ISR disclosure's mediating role between corporate governance mechanisms and firm value in Islamic banking. Using panel data from 2014-2020 from 12 Indonesian and 15 Malaysian Islamic banks (168 company-year observations), we employ ordinary regression analysis to analyze how board size, board independence, Sharia supervisory board size, audit committee size, and audit committee meeting frequency affect corporate value through ISR disclosure. Board size and independence significantly affect firm value, with ISR as partial mediator, showing these mechanisms enhance value through stakeholder trust. The Sharia supervisory board size impacts both ISR disclosure and firm value, with ISR partially mediating, indicating effective oversight enhances value through direct supervision and ethical reporting. The audit committee size and meeting frequency increase ISR disclosure, with ISR fully mediating their relationship with firm value, suggesting audit committees influence value through improved social reporting rather than direct market effects. These results show governance mechanisms operate differently requiring tailored strategies to optimize social responsibility and financial performance.

Keywords: *ISR; Corporate Governance; Social Disclosure; Sharia Bank.*

Introduction

Millions of Indonesians' lives have changed drastically because of the 1998 financial crisis. Conventional banks are forced to be liquidated, frozen, or even merged because banking procedures violate prudential principles (Anshori, 2018). As a

result of the 1998 financial crisis, people were driven to consider alternative funding systems. Sharia banking serves as an appropriate option according to the Quran and Hadith. The founding of Sharia Banking in Indonesia began in 1988. Even after Indonesia's first Sharia bank was established

28 years ago, negative stereotypes about it seem to have remained (Apriliani Astuti et al., 2019). This occurred because the government had been applying a conventional banking system since independence in 1945. Common Sharia banks in Indonesia do not align with Islamic principles; they merely present conventional banking in a Sharia compliant manner.

Citizens in Indonesia and Malaysia are predominantly Muslim and seek financial alternatives that align with their environmental values and religions. Nonetheless, the growing popularity of Islamic banking can reduce risk and increase the efficiency of Malaysian banks (Ibrahim, 2020). The factors that determine whether Sharia banks adhere to Islamic religious principles include the disclosure of Islamic social reporting (ISR) within the Sharia Banking System. This serves as an extension of corporate responsibility disclosure, incorporating Islamic values (Othman & Thani, 2010). Khan (2010) asserted that Islamic banks should establish regulations in line with Shari'ah to lower the costs associated with financial intermediation.

Through ISR disclosures, businesses can showcase their commitment to social responsibility and enhance their relationships with stakeholders (Fuente et al., 2017). There are conceptual similarities between CSR and ISR which emphasize corporate accountability, stakeholder welfare, and sustainable business practices. Thus this research utilizes CSR theory as the foundational framework for examining ISR disclosure. ISR can be viewed as CSR contextualized within Islamic ethical principles, making CSR theoretical foundations applicable to ISR analysis. Corporate Social Responsibility (CSR) disclosure is linked to various elements of a company's corporate governance, such as the number of board members (Tawfeeq et al., 2019), independent boards (Fernández-

Gago et al., 2018; Sánchez-Ballesta & García-Meca, 2007), Sharia committees (Noordin & Kassim, 2019), audit committees (Allegrini & Greco, 2013), and audit committee meetings (Greco, 2011). Managers and commissioners within companies have full authority over social reporting disclosure, which is influenced by their motives, business considerations, and board quality (Jo & Harjoto, 2011; Luo et al., 2012). Board independence and diversity significantly affect the quality of social reporting, particularly for minority shareholders. The number of board members is crucial for determining the effectiveness of a company's board of commissioners in terms of social reporting disclosure (Aminu Isa & Muhammad, 2014; Frias-Aceituno et al., 2013; Rodriguez-Melo & Mansouri, 2012). The complexity of management and its commitment to ensuring the comprehensive and transparent disclosure of financial and social matters require a board that is both diverse and experienced to effectively fulfill the company's supervisory role (Sánchez et al., 2011). A well-constituted supervisory board with diverse members can ensure the board's independence, leading to high-quality ISR disclosures.

The board composition was divided into two segments. First, the internal board holds the authority to make managerial decisions. Second, a non-executive board can function as an independent board representing the company's stakeholders. To protect the interests of minority shareholders, it is crucial to have an independent board in place; thus, the presence of such boards influences the quality of the information provided by the corporation (Fuente et al., 2017). By prioritizing common interests, an independent board of directors serves as a reliable means of mitigating agency disputes between agents and principals (Patelli &

Prencipe, 2007). It also offers a transparent approach to ensuring that the company addresses both shareholder and stakeholder interests (R. M. Haniffa & Cooke, 2005). An independent board oversees companies' awareness of social reporting disclosures to ensure the implementation of standard policies and social actions (Frias-Aceituno et al., 2013). The existence of an independent board enhances the comprehensiveness of a company's social reporting disclosure, a trend that extends to the banking sector (Barako & Brown, 2008; Rupley et al., 2011). However, the presence of independent boards does not guarantee social disclosure quality (Michelon & Parbonetti, 2012). Therefore, independent boards should deepen their understanding of the importance of sharing social information to enhance shareholder knowledge and effectively monitor the company (Buniamin et al., 2011).

The Sharia Supervisory Board in an Islamic bank is responsible for overseeing all operational activities to ensure compliance with Sharia principles while upholding the integrity of social reporting. With the authority and social influence to monitor Sharia banks' adherence to these principles, the board instills confidence among stakeholders that adequate social disclosure is being implemented (Mallin et al., 2017). However, the board's impact on social disclosure is contingent on its characteristics and size within the company, enabling efficient supervision.

Another significant factor that encourages businesses to disclose ISR is the presence of an audit committee dedicated to discussing social disclosure (Allegrini & Greco, 2013; Greco, 2011; Madi et al., 2014). Following the bankruptcies of Enron and WorldCom, audit committees were tasked with overseeing corporate social responsibility and the disclosure of obligations (Kolk & Pinkse, 2010). Today,

their role is to ensure that firms prioritize long-term objectives, emphasizing the social, economic, and environmental impacts on stakeholders. The audit committee is charged with maintaining the organization's integrity and transparency; therefore, having an audit committee with well-defined attributes can enhance the disclosure of non-financial reporting, including social reporting (Bédard et al., 2008). However, it is essential that audit committee members are qualified, sufficiently numerous, and come from diverse backgrounds (Bédard et al., 2004).

The characteristics of a firm's board, such as its size and the independence of its members, along with the Sharia supervisory and audit committees—specifically their composition and meeting frequency—not only influence the company's ISR disclosure but also have a direct or indirect impact on the company's value (Allegrini & Greco, 2013; Fuente et al., 2017; Rupley et al., 2011). Corporate governance traits, Sharia boards, and audit boards indirectly affect firm value through ISR disclosure. The disclosure of social responsibilities not only impacts the company's social environment but can also enhance firm value by boosting public trust (Sambasivan & Fei, 2008). Companies that engage in social reporting disclosure demonstrate environmental concerns and often achieve better financial performance, aiding their survival in a competitive market (Hariati & Rihatiningtyas, 2015; Maryanti & Fithri, 2017). Firms with robust social disclosure tend to receive positive public perceptions, which in turn enhances their performance (Qiu et al., 2016).

We conduct this research to address significant methodological and empirical gaps in the literature on Islamic banking governance. Prior studies examining the relationship between corporate governance mechanisms and firm value have

predominantly employed cross-sectional designs, which provide only a snapshot view and cannot account for temporal dynamics, unobserved firm-specific heterogeneity, or the evolution of governance practices over time. Furthermore, inconsistencies persist in the findings regarding the influence of board characteristics, Sharia boards, and audit committees on ISR disclosure and firm value. This study addresses these limitations by utilizing panel data regression methodology, analyzing 168 firm-year observations from 27 Sharia banks over a seven-year period (2014-2020). This longitudinal approach enables us to control for time-invariant firm characteristics and capture the dynamic relationships between governance mechanisms and firm outcomes. Specifically, we investigate how board characteristics (size and member independence), Sharia supervisory board composition, and audit committee attributes (size and meeting frequency) affect ISR disclosure and firm value in the Indonesian and Malaysian Islamic banking sectors.

Research Method

Sharia banking, governed by Islamic principles and laws, is experiencing rapid growth, particularly in Southeast Asia (Ghozali et al., 2019). Sharia banking is obligated to uphold good corporate governance, which includes aspects such as board size, independent boards, Sharia committees, and audit committees, as well as to engage in social disclosures. Board size is a key factor in determining the effectiveness of a company's governance. Research indicates that a larger board size positively correlates with social reporting disclosure, corporate investment, and transparent reporting. This is attributed to the diverse skills and varied backgrounds of board members, which enhance the company's oversight system, making it more comprehensive and transparent (Frias-

Aceituno et al., 2013; Fuente et al., 2017; Osemeke, 2011).

By contrast, agency theory posits that larger boards may result in conflicts of interest and coordination challenges, thereby reducing board performance efficiency (Jensen, 1999). In addition, large boards can impose a significant incentive burden on illegal riders (McConnell & Servaes, 1990). A company's board is divided into an internal board and an external board, often called an independent board, which oversees the company and represents shareholders to ensure transparency (Dienes & Velte, 2016). When an independent board effectively carries out its supervisory duties, the corporation tends to disclose its social responsibility. A comparison of independent boards on two-tier and one-tier boards concluded that independent boards have a more substantial influence on social disclosure than one-tier boards. This influence stems from an independent board's persistence in advocating the transparency of social reporting disclosures to management (Haji, 2013; Jizi et al., 2014a; Kaymak & Bektas, 2017). ISR performance is more likely to be understood and addressed if the board comprises a diverse range of individuals. Although a large board can lead to agency problems, the presence of an independent board within a company can mitigate this conflict and enhance social reporting disclosure transparency (Hafsi & Turgut, 2013).

The Sharia Committee ensures that company activities adhere to Islamic religious principles, whereas the Sharia Board supervises the company's social reporting to align it with social ethics (Hassan & Haridan, 2019; Hussain et al., 2016, 2022). social reporting disclosure is vital for stakeholders in sharia-based companies, as it balances financial benefits with socioeconomic justice. A Sharia committee with competent members can

significantly enhance social reporting disclosure. This improvement stems from a heightened focus on SOCIAL REPORTING transparency, thereby expanding the scope of SOCIAL REPORTING to improve the socioeconomic quality of the surrounding environment. Contrary to this view, it has been argued that the Sharia committee's role is limited to ensuring justice in Sharia institutional products, with corporate social disclosure managed by other boards representing shareholders (Shafii et al., 2013). A corporate governance model was developed where the Sharia committee influences both a company's products and its social disclosures. Thus, the Sharia Committee is crucial for improving social and financial outcomes.

Research has shown that the establishment of audit committees in financial institutions had a notably positive effect both before and after the UK financial crisis (Agyemang-Mintah & Schadewitz, 2018). The primary aim of an audit committee is to enhance a company's external supervision, which leads to clear financial reporting and robust internal controls (Karim et al., 2024). Social disclosure can encompass a wider array of elements since the audit committee operates without restrictions from any specific group. The extent of corporate social disclosure is affected by the size of audit committees and the frequency of their meetings. According to agency theory, the more parties involved in a company, the higher the likelihood of conflicts of interest. A substantial number of audit committee members suggest that they can leverage their expertise, experience, diversity, and capability to monitor the company more proficiently (An, 2023; Oussii & Boulila Taktak, 2018). It has been observed that social reporting disclosure significantly rises when the audit committee's oversight becomes more efficient and effective. Additionally, the

number of audit committees has a positive and significant impact on corporate financial and social disclosure (Pasko et al., 2024; Sihombing & Nurhaliza, 2025).

The frequency of audit committee meetings is another factor that significantly and positively influences a firm's social reporting disclosure (Appuhami & Tashakor, 2017). The impact of these meetings on the quality of social reporting disclosures remains a topic of debate. However, more frequent meetings lead to increased knowledge of relevant financial and auditing issues. It is argued that the more often an audit committee convenes, the easier it becomes for business management to address internal problems (Musallam, 2018). Researchers have determined that the frequency of audit committee meetings considerably affects corporate social disclosure, concluding that it has a significant impact.

Research suggests that factors such as firm size, an independent board, a Sharia committee, the size of the audit committee, and the frequency of audit committee meetings significantly influence social reporting disclosures. As corporate social disclosure improves, firm value tends to increase. In Malaysia, Thailand, Singapore, and Hong Kong, many companies have shifted their focus from environmental performance to social performance, as the latter has a more substantial impact on good corporate governance and consequently enhances the company's value to its stakeholders (Jamaludin & Razali, 2024; Lu & Castka, 2009; Mitra & Gaur, 2020; Vongpatchim & Chainirun, 2025). It has been argued that a company must prioritize both social and environmental performance to boost other company variables. Environmental performance reflects a company's efficiency and effectiveness, which can bolster its reputation, demonstrate its strength, and increase its profitability.

Enhancements in environmental management have been shown to elevate a company's value, as they signify the implementation of innovations that reduce production costs and create new competitive value. The argument presented above leads to numerous hypotheses for this study:

H1: Islamic Social Reporting mediates the relationship between board size and firm value.

H2: Islamic Social Reporting mediates the relationship between board independence and firm value.

H3: Islamic Social Reporting mediates the relationship between Syariah committee size and firm value.

H4: Islamic Social Reporting mediates the relationship between audit committee size and firm value.

H5: Islamic Social Reporting mediates the relationship between audit committee meeting frequency and firm value.

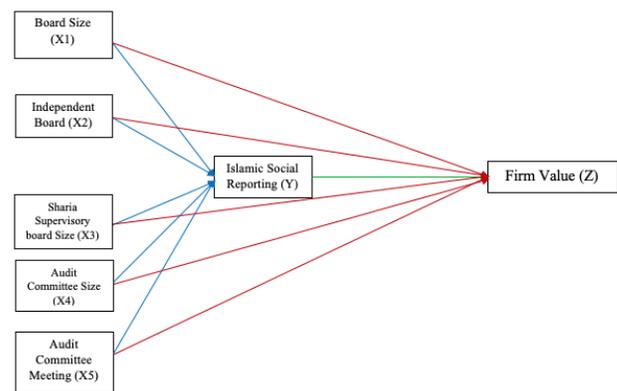
This study employs a quantitative approach, utilizing secondary financial data from 12 Indonesian and 15 Malaysian Sharia banks from 2014 to 2020, yielding a balanced panel dataset of 168 firm-year observations (27 banks \times 7 years). This pre-pandemic period was chosen to isolate the data from COVID-19 related volatility.

The data analysis was conducted using STATA, a statistical software package renowned for its robust capabilities in panel data analysis. Panel data regression techniques were employed to account for both cross-sectional variation across banks and longitudinal variation over time. Specifically, this study uses ordinary regression analysis to estimate the relationship between governance

mechanisms, ISR disclosure, and company value. This approach allows us to analyze the average impact of governance variables on ISR and company value in a sample of Indonesian and Malaysian Islamic banks. To ensure the validity of our estimates, we use robust standard errors to account for potential heteroscedasticity in the error terms.

Diagnostic tests were conducted to assess the validity of regression assumptions. The Breusch-Pagan test for heteroskedasticity yielded a chi-square statistic of 66.44 ($p < 0.001$), indicating the presence of heteroskedasticity in the error terms. This finding confirms the necessity of employing robust standard errors in our regression analysis to ensure valid statistical inference.

Figure 3.1 Research Model



$$Y: \alpha + \beta X1 + \beta X2 + \beta X3 + \beta X4 + \beta X5 + e$$

$$Z: \alpha + \beta X1 + \beta X2 + \beta X3 + \beta X4 + \beta X5 + \beta Y + e$$

Baron & Kenny (1986) established that comprehensive analysis of variable relationships requires examining their interconnected effects to fully understand each variable's influence within the causal framework. The impact of board size (BSIZE), independent board (INDBOARD), sharia supervisory board (SSBSIZE), audit committee size (ACSIZE), and audit committee meeting (ACMEET) on Islamic

social reporting (ISR) was examined using panel data regression.

This study operationalizes five independent variables: (1) board size, (2) proportion of independent directors, (3) Sharia supervisory board composition, (4) audit committee structure, and (5) audit committee meeting frequency. *Within two-tier board governance systems, board size constitutes the total membership count of the supervisory board - the legally empowered entity exercising corporate oversight authority* (Rahmawati et al., 2017). The independent board plays a crucial role in company oversight because it can conduct oversight objectively (Farook et al., 2011). The independent board variable is calculated using the proportion of a company's independent board of directors (Jizi et al., 2014b). While structurally similar to conventional boards of directors, the Sharia supervisory committee assumes distinct governance responsibilities focused specifically on ensuring organizational compliance with Islamic principles. This specialized body serves dual functions: (1) providing religious guidance to executive management and (2) continuously monitoring banking operations for Sharia adherence (Murphy & Smolarski, 2020).

The Audit Committee has a separate task of assisting the Board of Commissioners in fulfilling its responsibilities in providing overall oversight. For example, the Audit Committee has the authority to carry out and authorize investigations into matters within the scope of its responsibilities (Kelton & Yang, 2008). The audit committee's effectiveness is measured through two key dimensions: (1) structural composition, quantified by the number of appointed members, and (2) operational rigor, reflected in meeting frequency. These governance mechanisms collectively serve to monitor managerial conduct, mitigating potential

agency conflicts by ensuring alignment between executive actions and stakeholder interests (Sehrawat et al., 2020). Research indicates a positive relationship between audit committee meeting frequency and oversight effectiveness, with more regular convenings enabling enhanced monitoring activities that serve as a fraud deterrent mechanism (Siam et al., 2014). The audit committee's activity level is operationally defined as the total count of convened meetings recorded annually.

Islamic Social reporting (ISR) is an extension of corporate social reporting pertaining to a company's responsibilities to improve the economy of the broader society, as well as the company's spiritual role (R. Haniffa, 2002). The (R. Haniffa, 2002) is used to measure the ISR index in this study. This model builds Islamic reporting on five pillars: finance and investments, products, employees, society, and the environment. Firm value is a measure of how big the company is. Empirical evidence suggests this measure serves as a reliable predictor of the firm's future performance trajectory (Brigham & Phillip R. Daves, 2007). Firm value is measured using the book value of assets ratio. This measure was chosen for its methodological appropriateness given the research sample. As a number of the sampled Indonesian Shariah banks are state-owned and have not conducted an IPO, data on market value is non-existent. The book value of assets ratio, therefore, serves as a necessary and effective substitute. Furthermore, this ratio is a strong indicator of a bank's leverage and financial health, as it shows the proportion of assets financed by shareholder equity rather than debt. This aligns with the fundamental objective of assessing the value generated from the banks' underlying asset base, making it a convincing metric for this comparative study. Book value can be determined using the ("Annex 5," 2009) formula, which

divides common equity shareholders by preference stock.

Results and Discussion

4.1 Descriptive Statistics

Table 4.1 presents the descriptive statistics for all variables used in the study, comprising 168 firm-year observations from Indonesian and Malaysian Islamic banks. The data reveals a substantial variation in the dependent variable, Firm Value (FIRMVALUE), which has a mean of 1.45 and a wide range from 0.00046 to 9.205, as evidenced by a high standard deviation of 2.56. Similarly, the mediator variable, the Islamic Social Reporting (ISR) disclosure index, shows a moderate mean level of 0.661 on a scale from 0 to 1, with scores ranging from 0.349 to 0.884. This indicates varying degrees of social reporting transparency across the sampled banks.

Regarding the corporate governance variables, the data demonstrates diverse

governance structures. The boards of directors have a mean size (BSIZE) of approximately 8 members (7.69), containing an average of 3 to 4 independent members (INDBOARD = 3.47). The Sharia supervisory boards (SSBSIZE) are slightly smaller, with a mean size of about 5 members (4.58). A notable point of attention is the statistic for Audit Committee Size (ACSIZE), where the reported mean of 0.351 is inconsistent with a minimum value of 2, suggesting a potential need for data verification. Finally, the frequency of Audit Committee Meetings (ACMEET) averages nearly 11 sessions per year but varies significantly across banks, with a range from 4 to 31 meetings.

Overall, the descriptive statistics confirm that there is adequate variability in the data for all key constructs, which is a fundamental prerequisite for conducting a robust regression analysis to test the hypothesized relationships.

Table 4.1 Descriptive Statistics of Variables

Variables	Obs	Mean	Minimum	Maximum	Std. Deviation
FIRMVALUE	168	1,45	0,00046	9,205	2,56
ISR	168	0,661	0,349	0,8837211	0,16198
BSIZE	168	7,69	3	14	2,194
INDBOARD	168	3,47	2	9	1,5704
SSBSIZE	168	4,577	2	9	1,9591
ACSIZE	168	4,3	2	8	0,4788
ACMEET	168	10,87	4	31	5,8639

The value of sig for the direct effect of Board Size (BSIZE), Independent Committee (INDBOARD), Audit Committee Meeting (ACMEET) and Audit Committee Meeting (ACMEET) on Islamic

Tables 4.3 and 4.2 reveal empirically that the regression coefficient value of demonstrating a positive and statistically significant effect of board size on ISR. In

Social reporting (ISR) is less than 0.05, as shown in Table 4.2. In contrast, Sharia Supervisory Board Size (SSBSIZE) has no effect on Islamic Social Reporting disclosure (ISR).

Board Size (BSIZE) on ISR is 0.000 or 0.00% and that is less than 0,05, addition, a substantial direct positive association ($0.00 < 0.05$) was found between

board size and firm value. The findings of the path analysis shown in Table 4.2 and Figure 4.1 indicate that ISR has a positive and statistically significant influence on firm value. Consequently, increasing ISR experimentally will increase firm value. The findings of the path analysis shown in Table 4.2 and Figure 4.1 indicate that board size may have both direct and indirect impacts on firm value through ISR. Board size has a smaller direct effect than its indirect effect ($0.0216698 < 0.0938$). This demonstrates that ISR partially mediates the relationship between board size and firm value, supporting Hypothesis 1 (H1). According to Tables 4.3 and 4.2, the regression coefficient value of INDBOARD

on ISR is 0.03 that is less than 0,05, showing that INDBOARD has a statistically significant and positive influence on ISR. Additionally, a considerable favorable direct effect of INDBOARD on firm value was identified ($0.03 < 0.05$). The path analysis results in Tables 4.3 and 4.2 demonstrate that INDBOARD can directly affect firm value and indirectly affect firm value through ISR, eventhough the indirect effect value of INDBOARD being higher (0.1370) than the direct effect value of INDBOARD (-0.03171), it is still proving that ISR partially mediates INDBOARD to firm value, thus accepting Hypothesis 2 (H2).

Table 4.2 Hypothesis test

Model	Standardized Coefficients	t	Sig.	Model	Standardized Coefficients	t	Sig
BFSIZE	0,0216698	3,83	0	BFSIZE	-1,83	-2,1	0,04
INDBOARD	-0,0317157	-3	0,003	INDBOARD	-4,51	-2,8	0,01
SSBFSIZE	0,029032	3,94	0	SSBFSIZE	7,91	6,98	0
ACFSIZE	0,1163799	4,37	0	ACFSIZE	7,24	0,17	0,86
ACMEET	,0068779	3,53	0,001	ACMEET	-5,11	-1,7	0,09
				ISR	4,32	3,73	0

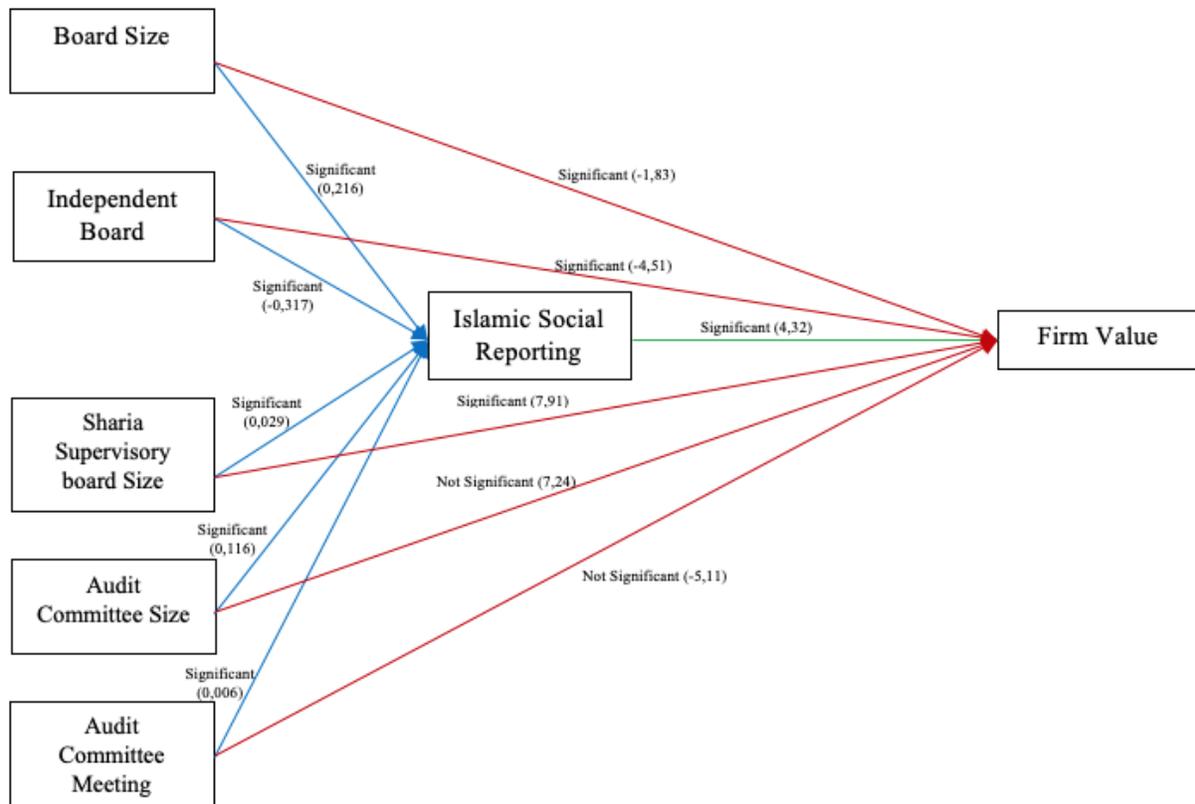
a. Dependent Variable: ISR

a. Dependent Variable: FIRMVALUE

Table 4.3 Direct and Indirect Effect

Variable Effects	Direct Effect	Indirect Effect, ISR as Mediating Variable	Conclusion
BFSIZE to NRP	0.0216698	$0.0216698 \times 4,32 = 0.0936$	$0.0216698 < 0.0936$ Partial Mediation
INDBOARD to FIRMVALUE	-0.0317157	$-0.0317157 \times 4,32 = -0.1370$	$-0.0317157 < -0.1370$ Partial Mediation
SSBFSIZE to FIRMVALUE	0.029032	$0.029032 \times 4,32 = 0.1254$	$0.029032 < 0.1254$ Partial Mediation
ACFSIZE to FIRMVALUE	0.1163799	$0.1163799 \times 4,32 = 0.5027$	$0.1163799 < 0.5027$ Full Mediation
ACMEET to FIRMVALUE	0.0068779	$0.0068779 \times 4,32 = 0.0297$	$0.0068779 < 0.0297$ Full Mediation

Figure 4.1 Path Analysis



According to Tables 4.3 and 4.2, the regression coefficient for SSBSIZE on ISR is 0.00 and that is smaller than 0.05, demonstrating that SSBSIZE has significant influence on ISR. Additionally, a statistically significant direct positive effect of SSBSIZE on firm value was identified (0.00). The findings of the path analysis shown in Tables 4.3 and 4.2 indicate that ISR has a positive and statistically significant influence on firm value; hence, increasing ISR experimentally will increase firm value. According to Table 4.3 and Figure 4.1, SSBSIZE have both direct and indirect impacts on firm value. While SSBSIZE's has an indirect impact to Firm Value (0.029032) the fact that Sharia Supervisory Board variable did also have significant impact to the Islamic Social Responsibilities Variable and significant indirect impact to Firm Value (0.1254),

suggest that ISR only have partial mediation effect on firm value. Thus, Hypothesis 3 (H3) is accepted based on statistical evidence.

Tables 4.3 and 4.2 indicate that the ACSIZE regression coefficient on ISR is 0.00, or below that of 0.05 and having 0.1163799 coefficient, showing that ACSIZE has a positive and significant influence on ISR. Additionally, ISR variable is also have a significant and positive impact on firm value. Moreover, ACSIZE variable did not have a significant effect on firm value because it has significancies of 0,861 which is greater than 0,05. Additionally, after second regression path analysis test, the direct impact of acsize is 0,1163799 proving that is lower than its indirect impact which is on 0,5027. From the results of statistical analysis, it is proven that ISR can fully mediated ACSIZE effect on Firm

Value and by that accepting the fourth hypotheses (H4)

According to Tables 4.3 and 4.2, the regression coefficient of ACMEET on ISR is 0.00 0.01, indicating that ACSIZE has a positive and statistically significant effect on ISR, whereas ACMEET has no direct influence on firm value ($0.087 > 0.05$). The path analysis results reported in Tables 4.3 and 4.2 demonstrate that ACMEET can directly and indirectly influence firm value via ISR. The indirect effect of ACMEET is worth more than its direct effect (0.0297 to 0,00687). Due to the fact that ACMEET has no major direct effect on firm value, this demonstrates that ACMEET's effect on firm value is fully mediated by ISR, thus accepting Hypothesis 5 (H5).

Conclusion

This study set out to investigate the mediating role of Islamic Social Reporting (ISR) disclosure in the relationship between corporate governance mechanisms and firm value within the unique context of Islamic banking in Indonesia and Malaysia. The findings confirm that corporate governance is a pivotal determinant of both ethical disclosure and financial performance, yet they reveal a complex and nuanced picture of how different governance elements exert their influence.

The analysis demonstrates that the characteristics of the board of directors have a direct and powerful impact on firm value. Both board size (BSIZE) and board independence (INDBOARD) were found to significantly enhance company valuation, primarily by boosting stakeholder confidence through improved oversight and credibility. While a larger board also promotes more comprehensive ISR disclosure, this ethical pathway is not the primary channel through which it creates value. Conversely, the Sharia Supervisory Board (SSBSIZE) presented a positive

influence on both ISR and firm value. This suggests that merely increasing the size of this board will make better social reporting or performance.

In contrast, the audit committee's role was found to be more specialized. The size of the audit committee (ACSIZE) and the frequency of its meetings (ACMEET) were both positively and significantly associated with higher levels of ISR disclosure. This underscores their critical function as catalysts for ethical accountability and transparency, ensuring operations align with Islamic principles. However, neither factor had a significant direct impact on firm value. This key divergence indicates that the market differentiates between governance mechanisms that ensure ethical conduct and those that directly drive financial worth. Stakeholders value the oversight that leads to robust ISR disclosure, but they do not directly translate the size or meeting frequency of the audit committee into a higher market valuation.

In summary, this research concludes that the link between corporate governance and firm value in Islamic banking is not monolithic. Board characteristics act as direct drivers of financial value, while the audit committee functions as a crucial guardian of ethical disclosure. The hypothesized mediation effect of ISR is only partially supported, being clearly evident for the audit committee's activities but not for the board's primary value-creating functions. Ultimately, effective governance in Islamic banking requires a dual focus: robust boards to build market confidence and a diligent audit committee to uphold the social and ethical commitments that define the industry. For practitioners and regulators, these findings emphasize that optimizing governance requires a tailored approach for each committee, moving beyond simple structural metrics like size to ensure

qualitative effectiveness and a clear strategic role.

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