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ENHANCING ISLAMIC SOCIAL REPORTING: THE INTERPLAY OF PROFITABILITY AND SHARIA SUPERVISORY BOARDS EFFECTIVENESS

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Abstract

This study aims to explore the interrelationship between profitability and the effectiveness of Sharia Supervisory Board (SSB) size in enhancing Islamic Social Reporting (ISR). The research focuses on companies listed on the Sharia Stock Index. Employing Path Analysis and the Robust Sobel Test for data analysis, the study reveals that the size of the Sharia Supervisory Board significantly impacts both ISR and profitability. Additionally, profitability plays a crucial role in influencing ISR, with the size of the SSB indirectly affecting ISR through its mediation of profitability. The findings offer valuable insights for managers of Sharia-compliant firms, highlighting key variables that influence corporate social responsibility (CSR) initiatives within these organizations. Consequently, Sharia companies can better determine the critical components for reporting. The study points out the importance for company management to devise strategies that not only focus on enhancing profitability but also ensure that such profitability is leveraged to support CSR activities. This approach fosters a synergistic relationship between financial performance and social responsibility, promoting sustainable business practices aligned with Sharia principles.

***Keywords**: Corporate Social Responsibility; Sharia Supervisory Board; Profitability; Islamic Social Reporting*

Abstrak

Penelitian ini bertujuan untuk menganalisis hubungan antara profitabilitas dan efektivitas ukuran Dewan Pengawas Syariah (DPS) dalam meningkatkan Pelaporan Sosial Islam (PSI). Penelitian ini berfokus pada perusahaan yang terdaftar di Indeks Saham Syariah. Metode analisis data yang digunakan adalah Analisis Jalur dan Uji Sobel yang Kuat. Hasil penelitian menunjukkan bahwa ukuran Dewan Pengawas Syariah berpengaruh signifikan terhadap PSI dan profitabilitas. Selain itu, profitabilitas memiliki peran penting dalam mempengaruhi PSI, dengan ukuran DPS secara tidak langsung memengaruhi PSI melalui mediasi profitabilitas. Temuan ini memberikan wawasan yang berharga bagi manajer perusahaan syariah, dengan menyoroti variabel-variabel kunci yang mempengaruhi tanggung jawab sosial perusahaan (CSR) dalam organisasi tersebut. Oleh karena itu, perusahaan syariah dapat lebih mudah menentukan komponen penting untuk pelaporan. Penelitian ini menekankan pentingnya bagi manajemen perusahaan untuk merancang strategi yang tidak hanya berfokus pada peningkatan profitabilitas, tetapi juga memastikan bahwa profitabilitas tersebut dapat dimanfaatkan untuk mendukung kegiatan CSR. Pendekatan ini menciptakan hubungan sinergis antara kinerja keuangan dan tanggung jawab sosial, yang mendorong praktik bisnis berkelanjutan yang sejalan dengan prinsip-prinsip syariah.

Kata kunci: Tanggung Jawab Sosial Perusahaan; Dewan Pengawas Syariah; Profitabilitas; Pelaporan Sosial Islam

INTRODUCTION

The concept of social responsibility has become an increasingly crucial focus over time, as it lies at the core of business ethics. Social responsibility transcends the traditional notion of a company's sole responsibility toward financial performance, highlighting the broader role organizations must play in society. Islamic Social Reporting (ISR) serves as a benchmark for the implementation of Sharia-compliant social responsibility, comprising a compilation of standardized responsibility items defined by Sharia principles. This social disclosure index for Islamic entities covers a wide range of aspects, including transactions free from elements of usury, speculation, and *gharar*, as well as the disclosure of zakat, Sharia compliance status, and other social responsibilities such as *sadaqah, waqf, qordul hasan*, and worship activities within the corporate environment (Alam et al., 2020; Chuah et al., 2020; Kanji & Agrawal, 2020; Khan et al., 2020; Uyar et al., 2020). Annual reports indicate that Sharia-compliant enterprises bear not only financial but also social and environmental obligations. Previous studies have shown that the size of the Sharia Supervisory Board significantly influences Corporate Social Responsibility (CSR) practices within these entities (Chapra, 2008; Hassan & Mollah, 2019; Iqbal & Mirakhor, 2011).

The accountability and stewardship theories applied in this study highlight the Sharia Supervisory Board's critical role in ensuring a company's CSR performance (Hernandez, 2008; Mulgan, 2002). As argued by Dodd (1932), Hassanein and Tharwat (2024) and Trianaputri et al. (2017), the accountability inherent in managing Sharia-compliant businesses extends beyond financial concerns to include moral and ethical decision-making responsibilities. Furthermore, this research integrates Sharia Enterprise Theory (SET), which posits that accountability extends not only to the company's stakeholders but also to a broader group of stakeholders, encompassing both human beings and the environment, with God (Allah SWT) as the ultimate accountability holder (Meldona et al., 2020; Triyuwono, 2012). This concept underscores the integral relationship between Allah, humans, and nature, emphasizing vertical accountability to Allah, followed by horizontal accountability to society and the environment (Jamaluddin, 2021; Pratiwi et al., 2024).

Given the pivotal role of the Sharia Supervisory Board in ensuring adherence to Sharia principles, this study focuses on companies listed on the Sharia Stock Index. The relevance of studying ISR in this context is heightened by the fact that the Sharia Stock Index serves as a guiding tool for investors interested in Sharia-compliant investments. Moreover, as the number of Sharia-compliant businesses continues to grow in Indonesia, it is essential to understand the relationship between the efficacy of the Sharia Supervisory Board and profitability to improve both the social and financial performance of these enterprises (Triyuwono, 2012). Mulgan (2002) explains that the effectiveness of the Sharia Supervisory Board in overseeing Sharia business activities hinges on its accountability in ensuring that company operations align with Sharia principles and serve the societal good. Wijayanti and Setiawan (2023) supports the idea that profitability influences both financial performance and corporate social responsibility in the Sharia context.

This study is particularly relevant considering Indonesia's status as the country with the largest Muslim population globally (Central Intelligence Agency, 2022). Despite this, the Sharia financial industry lags behind its conventional counterparts, and the expression of Islamic corporate social responsibility remains relatively underdeveloped within this sector (Jayani, 2019). Studies by Fang et al. (2023), Hossain et al. (2022), Madah Marzuki et al. (2023), Ozdemir et al. (2023) and Ramazanova et al. (2022) indicate that the size of the Sharia Supervisory Board influences Islamic corporate social responsibility through profitability. However, a research gap remains, as Fachrurrozie et al. (2021) report contradictory findings, suggesting that the size of the Sharia Supervisory Board does not affect Islamic corporate social responsibility through profitability. This disparity highlights a critical phenomenon: some companies may exhibit high profitability yet demonstrate limited commitment to CSR initiatives, indicating that profitability does not always correlate with increased social responsibility.

Given these divergent findings and the existing research gap, further exploration of profitability's role as a mediator in this relationship is necessary. This research aims to fill that gap, offering insights into how Sharia-compliant businesses can enhance their CSR initiatives by effectively managing their Sharia Supervisory Board and leveraging profitability. The novelty of this study lies in examining profitability as an intervening variable, as it directly impacts the allocation of resources toward Islamic CSR disclosure. This research will provide guidance on how Sharia companies can increase the effectiveness of their CSR efforts through optimal management of their Sharia Supervisory Board and strategic profitability initiatives.

The contribution of this research lies in providing valuable input for Sharia companies, enabling managers to identify key variables that influence Islamic CSR disclosure. This will, in turn, facilitate more effective decision-making regarding CSR disclosure. Moreover, the study will discuss the impact of profitability on the effectiveness of the Sharia Supervisory Board and its implications for Integrated Social Responsibility, offering practical recommendations for best practices in managing CSR within Sharia-compliant companies.

LITERATURE REVIEW

The research applies the Sharia Enterprise Theory (SET), a concept that merges the principles of economics and business management with Islamic values to guide companies and organizations in line with Sharia (Islamic law) teachings (Meldona et al., 2020; Triyuwono, 2012). SET is essential to describe how companies can achieve financial profits while positively contributing to society, the environment, and other stakeholders, in accordance with Sharia principles. The core principles of SET, Honesty and Transparency, Justice, Social Responsibility, Environmental Responsibility, Sustainability, and Prohibition of Haram Elements, serve as the foundation for Sharia-compliant management practices (Jamaluddin, 2021; Pratiwi et al., 2024). This theory aims to guide companies towards generating halal profits while ensuring sustainability in both social and environmental dimensions, creating value that is not only financially beneficial but also contributes to human welfare and the preservation of nature. In this context, companies are expected to function as agents of positive social change rather than purely economic entities (Chen, 2023; Leena Haniffah et al., 2023; Peng et al., 2023; Sarhan & Gerged, 2023;

Wu et al., 2023). Insights into the relationship between the size of the Sharia Supervisory Board (DPS), profitability, and Islamic Social Responsibility (ISR) in Islamic banking institutions are crucial to understanding this dynamic, and SET plays a pivotal role in shaping these relationships (Kusmiati & Ungkari, 2021; Widyastuti et al., 2022).

The size of the Sharia Supervisory Board holds significant importance as it directly impacts the governance structure and operational compliance of Islamic banks (Jan et al., 2023; Uyar et al., 2023; Zou et al., 2023). A larger DPS may enhance oversight, ensuring adherence to Sharia principles, which is critical for maintaining stakeholder and customer trust (Kolkailah, 2023; Moisello et al., 2024). Existing studies demonstrate that a larger DPS positively influences the extent of ISR disclosures, as a larger board can provide broader guidance and oversight (Dahlifah & Sunarsih, 2020; Zamakhsyari & Winarni, 2022). This governance structure improves transparency and accountability in Islamic financial institutions, reflecting the core tenets of SET (Fachrurrozie et al., 2021).

Profitability represents a company's ability to generate profits from its operations and is often a key indicator of its value. Higher profitability tends to enhance the company's market value, which is often reflected in a rising share price (Tandelilin, 2017). However, the profitability of Islamic companies is often influenced by their adherence to Sharia principles and the restrictions on the range of activities in which they can engage (Choi et al., 2023; Mukhibad et al., 2023; Nareswari et al., 2023; Simões-Coelho et al., 2023; Wu et al., 2023). Nonetheless, adherence to Sharia regulations has been shown to lead to improved financial performance over time due to increased customer loyalty and an expanding client base (Arno et al., 2024; Romadhonia & Kurniawati, 2022). The relationship between profitability and the size of the Sharia Supervisory Board is similarly significant. A well-structured DPS can enhance financial performance, as its assurance of Sharia compliance can improve the company's reputation and increase market share (Gazani, 2024; Romadhonia & Kurniawati, 2022).

Islamic Social Reporting (ISR) refers to a framework for reporting the social performance of companies grounded in Sharia principles. It encompasses corporate responsibility towards society and the environment while adhering to Islamic teachings (Aljughaiman et al., 2023; Effendi, 2023; Lopatta et al., 2023; Pourhossein et al., 2023; Riaz et al., 2023). Including ISR within the SET framework emphasizes the ethical commitment of Islamic banks to their stakeholders. It is not merely a legal requirement but a reflection of the banks' dedication to social responsibility, as mandated by Islam. The size of the Sharia Supervisory Board plays a critical role in promoting ISR, ensuring that banks engage in socially responsible practices that reflect their Sharia compliance (Fachrurrozie et al., 2021; Zamakhsyari & Winarni, 2022). This integration of profitability, governance, and social responsibility is crucial for the sustainable growth of Islamic financial institutions, reinforcing their commitment to ethical practices while achieving financial success (Arno et al., 2024; Prakoso, 2022; Romadhonia & Kurniawati, 2022).

Although existing studies suggest a relationship between the size of the Sharia Supervisory Board, profitability, and ISR disclosures (Fang et al., 2023; Hossain et al., 2022; Madah Marzuki et al., 2023; Ozdemir et al., 2023; Ramazanova et al., 2022), there remains a significant research gap in fully understanding the mediating role of profitability in this relationship. While previous studies have established that a larger DPS enhances ISR disclosures, there is limited exploration of how profitability may mediate the influence of DPS size on ISR. Furthermore, some studies suggest that profitability does not always correlate with higher CSR engagement, pointing to an underexplored aspect in the literature (Fachrurrozie et al., 2021). Thus, the novelty of this research lies in examining the mediating role of profitability, providing insights into how Sharia-compliant businesses can optimize their social responsibility initiatives by leveraging their DPS structure and profitability. This study intends to bridge the research gap by offering a more nuanced understanding of the dynamics between governance, profitability, and ISR in Sharia-compliant businesses.

HYPOTHESIS

The Relationship Between the Size of the Sharia Supervisory Board and Profitability

SET theory posits that the Sharia Supervisory Board (SSB) functions as a guardian of Sharia compliance, ensuring that companies, while maximizing profits, also address social and ethical responsibilities in accordance with Sharia principles (Hassan & Mollah, 2019). The size of the SSB is critical in determining the efficiency of supervision over Sharia operations, which can significantly impact the profitability of the company (Kolkailah, 2023; Moisello et al., 2024). A larger SSB, equipped with diverse expertise and experience, is likely to be more effective in maintaining Sharia compliance, building public trust, and ultimately enhancing financial performance and profitability (Kolkailah, 2023; Moisello et al., 2024). Previous research (Helfaya et al., 2023; Syed Alwi & Mohd Hanifah, 2024; Zhang et al., 2024) highlights the importance of an effective SSB, suggesting that a larger board size can enhance a

company's social responsibility (CSR) initiatives. High CSR performance, in turn, strengthens the company's image, fosters customer loyalty, and positively influences profitability. Therefore, it is crucial for Islamic companies to assess the size and composition of their SSB to ensure optimal decision-making, which could subsequently improve financial outcomes.
H1: The sharia supervisory board influences profitability.

The Relationship Between the Size of the Sharia Supervisory Board and Islamic Social Reporting

In SET theory, the Sharia Supervisory Board plays a pivotal role in ensuring compliance with Sharia law, including overseeing corporate social responsibility (CSR) and Islamic Social Reporting (ISR). An effective SSB ensures that CSR and ISR are carried out according to Sharia principles (Hassan & Mollah, 2019; Triyuwono, 2012). A larger SSB enables better supervision and guidance to management on CSR and ISR policies, ensuring that these reports align with Sharia principles and addressing potential ethical concerns (Bekele et al., 2024; Umar, 2024). Research (Bekele et al., 2024; Huang et al., 2024; Jamali et al., 2024; Umar, 2024) has shown that the size of the SSB influences the quality and depth of ISR. Larger boards tend to improve the monitoring and evaluation of the company's social performance, reflecting a strategic focus on improving ISR. Emphasizing effective oversight and transparent social reporting can generate long-term benefits for companies.
H2: The size of the Sharia Supervisory Board influences Islamic Social Reporting.

The Relationship Between Profitability and Islamic Social Reporting

SET theory also suggests that more profitable Islamic companies are more likely to invest in social initiatives and provide comprehensive ISR disclosures (Kusmiati & Ungkari, 2021; Widyastuti et al., 2022). Profitability provides the necessary resources to support social responsibility initiatives in line with Sharia, which, in turn, enhances the company's reputation and public trust—key factors for long-term financial sustainability (Jamaluddin, 2021; Pratiwi et al., 2024). Therefore, there exists a positive relationship between profitability and ISR, as profitable firms are better equipped to implement Sharia principles across their management practices (Leena Haniffah et al., 2023). Research (Nguyen-Viet et al., 2024; Qian et al., 2024; Rahman et al., 2024; Umar et al., 2024; Warshawski, 2024) supports the notion that profitability drives enhanced ISR, with profitable firms more likely to produce high-quality and holistic social responsibility reports.
H3: Profitability influences Islamic Social Reporting.

The Relationship Between the Size of the Sharia Supervisory Board and Islamic Social Reporting Through Profitability

Profitability mediates the relationship between Sharia Supervisory Board size and ISR. As the size of the Sharia Supervisory Board increases, it positively impacts profitability, providing companies with more resources to invest in social activities and quality reporting (Kusmiati & Ungkari, 2021; Widyastuti et al., 2022). Larger SSBs, with their increased capacity for oversight, can encourage compliance with Sharia principles, reduce risk, and foster better financial performance (Helfaya et al., 2023; Syed Alwi & Mohd Hanifah, 2024; Zhang et al., 2024). Islamic companies seeking to enhance their ISR performance should focus on improving the size and effectiveness of their SSBs. This approach can increase profitability and reinforce their commitment to social responsibility (Aljughaiman et al., 2023; Effendi, 2023; Lopatta et al., 2023; Pourhossein et al., 2023; Riaz et al., 2023). Furthermore, research (He et al., 2024; Legendre et al., 2024; Wang et al., 2024; Xu et al., 2024; Zhu & Wang, 2024) shows that the relationship between the SSB size and ISR is mediated by profitability, with larger boards contributing to more effective governance and oversight. The increased profitability of companies allows them to allocate more resources toward social activities, resulting in higher-quality and more comprehensive ISR disclosures.

H4: The size of the Sharia Supervisory Board influences Islamic Social Reporting through profitability.

METHOD

Research design

This study employs a descriptive, associative, quantitative, and informal methodological approach. Descriptive research uses sample data collected as it is, with data collection techniques aimed at explaining or illustrating the object under study. The objectives of this research are to measure the relationship between profitability variables and the effectiveness of the Sharia Supervisory Board, as well as the impact of its effectiveness on Islamic Social Reporting (ISR).

Population and Sample

The population in this research consists of all companies listed on the Sharia Stock Index in 2024. According to IDX, there are 614 companies listed on the Indonesian Sharia Stock Index (IDX, 2024). Several key factors were considered when selecting companies from this index as research subjects. First, these businesses demonstrate a clear commitment to Sharia principles, facilitating the analysis of the relationship between social responsibility and corporate governance in a consistent and standardized environment. Second, companies included in this index provide more comprehensive and relevant data, as their reports and information regarding their ISR practices are more transparent. By focusing on this industry, the research aims to offer more in-depth and targeted insights into how the size of the Sharia Supervisory Board influences ISR through profitability in Islamic businesses. According to ESG Intelligence, 507 companies have disclosed their ISR (ESG Intelligence, 2024). After excluding outlier data from the available sources, the sample for this study consisted of 99 companies.

Operational Definition of Variables

Table 1 presents the operational definitions of the variables in the research. The first variable, The Size of the Sharia Supervisory Board (X), is measured by the total number of board members, with data sourced from company financial reports (Nomran et al., 2018). The second variable, Profitability (Z), is assessed using the Return on Assets (ROA) formula, where profitability is calculated as net profit divided by total assets, also sourced from company financial reports (Tandelilin, 2017). The third variable, Islamic Social Reporting (Y), is measured by the disclosure score, calculated as the number of reported items divided by the maximum possible score, with data from company financial reports (Othman & Thani, 2010).

Table 1. Operational Definition of Variables

Variable	Formula	Data Source
The size of the sharia supervisory board (X) (Nomran et al., 2018).	$\boldsymbol{Size\ of\ DPS = \sum Sharia\ Supervisory\ Board}$	company financial report
Profitability (Z) (Tandelilin, 2017)	$Return\ on\ Asset = \frac{Net\ Profit}{Total\ assets}$	company financial report
Islamic Social Reporting (Y) (Othman & Thani, 2010).	$ISR = \frac{Number\ of\ disclosure\ scores\ that\ are\ met}{Maximum\ total\ diclosure\ score}$	company financial report

Source: Author Analysis (2024)

Data analysis method

The path analysis method is used to examine the relationship patterns between variables. This model aims to determine the direct or indirect influence of a set of independent variables on the dependent variable (Du et al., 2021; Ghozali, 2021). Following the path analysis test, the researcher must then conduct the Sobel Test. The Sobel Test is a statistical method used to assess the significance of a mediation effect within the context of regression analysis (Abu-Bader & Jones, 2021; Preacher & Hayes, 2004; Sobel, 1982).

RESULT AND DISCUSSION

RESULT

The Indonesian Sharia Stock Index (ISSI) is a composite index that tracks the performance of Sharia-compliant stocks listed on the IDX. It serves as an indicator of the performance of the Sharia stock market on the IDX. The constituents of the ISSI are all Sharia stocks included in the Sharia Securities List (DES), which is published by the OJK, and are listed on both the main and development boards of the IDX. The selection of ISSI constituents is reviewed and updated twice a year, in May and November, in line with the DES review schedule. As a result, certain Sharia stocks may enter or leave the ISSI during each selection period. The ISSI calculation method follows the same approach as other IDX stock indices, using a weighted average of market capitalization, with December 2007 as the base year for calculations.

Descriptive Statistics

After analyzing the research data, the next step involves processing the descriptive statistical data for the research variables. Table 2 shows the descriptive statistical analysis for the research variables. The size of the Sharia Supervisory Board (X) tends to be small, with the majority of organizations having boards consisting of 1 to 2 members. Profitability (Z) averages around 30%, exhibiting moderate variation, which suggests the presence of companies with both low and high profitability within the dataset. The Islamic Social Report (Y) shows a wide range, with many organizations presenting positive social reports, while others report negative ones. The high variation indicates inconsistencies in the level of social report disclosure among the companies analyzed.

Table 2. Statistics Descriptive Result

Information	Minimum	Maximum	Mean	Std. Deviation
The size of the sharia supervisory board (X)	1	3	2	0.52363
Profitability (Z)	0.02	0.66	0.3058	0.13828
Islamic Social Reporting (Y)	-19.77	0, 17.07	1.2389	2.40276

Source: Data processed (2024)

Path Analysis

Based on the data processing conducted, the results can be used to test the hypotheses in this research. Hypothesis testing was performed by analyzing the T-statistic values and P-values. The research hypothesis is considered accepted if the P-value is less than 0.05. Figure 1 shows the results of the hypothesis testing obtained through the inner model in this study. Then, the results of testing the direct influence of the relationship between variables can be seen in the following Table 3 and Table 4.

Based on Table 3, the direct influence between the variables shows significant results with a p-value of less than 0.05, and the direction of the coefficient indicates a positive relationship. According to the Sobel Test (Table 4), a significance value of 0.000 is obtained, which is smaller than 0.05. This indicates that there is an indirect influence of the size of the Sharia Supervisory Board (X) on ISR (Y) through Profitability (Z) as an intervening variable.

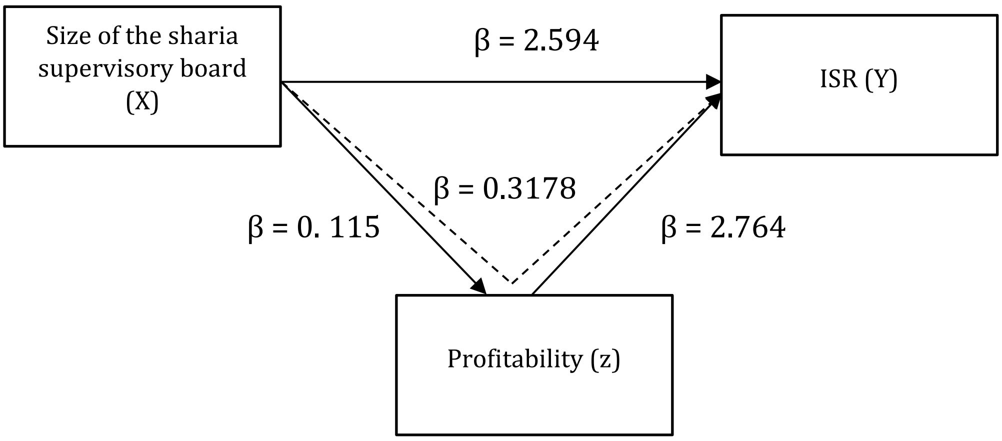

Figure 1. Path Analysis Estimation Results
Source: Data processed (2024)

Table 3. Influence Between Variables

Variable	Path Coefficients	P-value	Standard Error	Result
Direct Effect				
Size of the sharia supervisory board – Profitability	0.115	0.000	0.023	Significant
Size of the sharia supervisory board – ISR	2.594	0.000	0.397	Significant
Profitability – ISR	2.764	0.000	0.747	Significant
Indirect Effect				
Size of the sharia supervisory board – ISR through Profitability	0.3178	0.002		Significant

Source: Data processed (2024)

Table 4. Sobel Test

Test	Test Statistic	Standard Error	*P-value*	Result
Sobel test	2.97428456	0.1068694	0.00293673	Significant
Aroian test	2.93657753	0.10824165	0.00331856	Significant
Goodman test	3.01348244	0.10547929	0.00258268	Significant

Source: Data processed (2024)

DISCUSSION

The Influence of the Size of the Sharia Supervisory Board on Profitability

The results of hypothesis testing show that the size of the Sharia Supervisory Board has a positive effect on profitability. This suggests that an increase in the size of the Sharia Supervisory Board is associated with higher profitability. The concept of Social Exchange Theory (SET) explains that the Sharia Supervisory Board plays a central role in ensuring the company operates in accordance with Sharia principles. The Sharia Supervisory Board is tasked with overseeing that all business and financial activities of the company are compliant with Sharia law (Hassan & Mollah, 2019). This responsibility extends beyond operational activities and business transactions to include strategic decisions regarding corporate social responsibility (CSR) and social reporting (ISR). According to SET, a larger and more diverse Sharia Supervisory Board brings a broader range of expertise and experiences, which enhances the board's capacity to ensure compliance with Sharia principles in all corporate activities. As the size of the Sharia Supervisory Board increases, its ability to provide strategic advice on profitable business decisions also strengthens (Kolkailah, 2023; Moisello et al., 2024).

An effective Sharia Supervisory Board not only ensures compliance with Sharia law but can also influence managerial decisions, thereby increasing profitability (Kolkailah, 2023; Moisello et al., 2024). Companies adhering to

Sharia principles mitigate the risks associated with non-compliance, which could negatively impact profitability. A larger Sharia Supervisory Board may encourage companies to focus on sustainability and long-term success, further promoting positive financial performance (Kolkailah, 2023; Moisello et al., 2024). For Sharia-compliant companies registered with the Indonesian Sharia Stock Index (ISSI), the Sharia Supervisory Board plays a crucial role in ensuring compliance with Sharia principles and guiding decisions that support long-term profitability. Research by Helfaya et al. (2023), Syed Alwi and Mohd Hanifah (2024), Wang et al. (2024); Wang et al. (2024) and Zhang et al. (2024) has also shown that the size of the Sharia Supervisory Board positively affects profitability.

The Influence of the Size of the Sharia Supervisory Board on ISR

The results from hypothesis testing indicate that the size of the Sharia Supervisory Board has a positive effect on ISR, meaning that larger Sharia Supervisory Boards are associated with higher levels of ISR. In SET, the Sharia Supervisory Board plays an essential role in ensuring that a company's operations are in accordance with Sharia principles. The Sharia Supervisory Board ensures that the company prioritizes not only profitability but also social sustainability and responsibility as prescribed by Islamic teachings (Hassan & Mollah, 2019; Triyuwono, 2012). The Sharia Supervisory Board functions as the custodian of Sharia integrity within the company. SET further posits that companies with larger Sharia Supervisory Boards are better equipped to provide comprehensive oversight on corporate social and sustainability reporting. With more members, the board can offer diverse expertise in Sharia compliance, enhancing the quality of reports reflecting the company's commitment to CSR and sustainability under Sharia principles (Bekele et al., 2024; Triyuwono, 2012; U. H. Umar, 2024).

A larger Sharia Supervisory Board can improve the effectiveness of monitoring social reporting processes based on Sharia principles, encouraging companies to be more transparent in disclosing their social and sustainability activities, thereby enhancing ISR quality (Bekele et al., 2024; U. H. Umar, 2024). ISSI-listed companies are required to meet the criteria set by the Indonesian Stock Exchange (BEI) and the Sharia Board, which ensures that these companies have a strong commitment to CSR and sustainability in alignment with Sharia principles. Consequently, these companies are not only focused on financial gain but also aim to contribute socially and environmentally, as reflected in their ISR reports. Previous research (Bekele et al., 2024; Huang et al., 2024; Jamali et al., 2024; Umar, 2024; Wu et al., 2024) shows that the size of the Sharia Supervisory Board has a positive effect on ISR.

The Influence of Profitability on ISR

Hypothesis testing indicates that profitability positively influences ISR, suggesting that higher profitability correlates with improved ISR levels. Companies with greater profitability have more financial resources to allocate toward social responsibility activities. According to SET, Sharia-compliant companies are more accountable than their conventional counterparts in terms of social responsibility, which is reflected in their open social reporting, such as ISR. ISSI-listed companies are required to engage in both operational and financial activities that comply with Sharia principles, including producing socially responsible reports that reflect their contributions to social, environmental, and economic aspects (Kusmiati & Ungkari, 2021; Widyastuti et al., 2022). Higher profitability provides companies with additional resources to invest in social programs, sustainability efforts, and improved transparency in reporting. This aligns with SET, which suggests that Sharia companies do not solely focus on financial profit but also on achieving social and sustainability goals in accordance with Sharia principles (Jamaluddin, 2021; Pratiwi et al., 2024).

This is in line with SET, explaining that for those firms' reports operating per Sharia principles, they have to make sure their reports retain high levels of transparency and accountability. Higher profitability enhances a company's ability to disclose more comprehensive and transparent social reports, as it has greater resources to manage and report on such information. This results in higher-quality ISR reports that are more informative (Leena Haniffah et al., 2023). All ISSI-listed companies are bound to adopt Sharia principles in their operations and social reporting, distinguishing them from non-Sharia companies. These firms are more socially responsive compared to conventional companies, and higher profitability enables them to invest more in sustainability and social initiatives, improving ISR report quality. In this context, previous research (Nguyen-Viet et al., 2024; Qian et al., 2024; Rahman et al., 2024; Umar et al., 2024; Warshawski, 2024) supports the positive effect of profitability on ISR.

The Influence of Sharia Supervisory Board Size on ISR Through Profitability

Based on the results of hypothesis testing, it is evident that the size of the Sharia Supervisory Board positively influences ISR through profitability. This implies that a larger Sharia Supervisory Board contributes to a higher ISR value by enhancing profitability. According to SET, Sharia companies are expected to apply Sharia principles in both business operations and financial management. The Sharia Supervisory Board plays a crucial role in ensuring compliance with these principles. The Sharia Supervisory Board is tasked with overseeing that the company's activities do not solely focus on profitability but also on social responsibility and sustainability in accordance with Sharia principles (Widyastuti et al., 2022). A larger Sharia Supervisory Board, consisting of members with diverse backgrounds, enhances the board's ability to supervise and influence decisions, particularly those related to profitability management and its impact on Sharia-compliant social reporting (Kusmiati & Ungkari, 2021; Widyastuti et al., 2022).

Higher profitability enables companies to invest more in social and sustainability activities, which are reflected in their ISR reports. A larger and more effective Sharia Supervisory Board ensures that these reports are transparent, comprehensive, and aligned with Sharia standards (Helfaya et al., 2023). A larger and more effective Sharia Supervisory Board encourages companies to prepare more comprehensive and transparent ISR reports, ensuring that these reports reflect positive social activities and adhere to Sharia standards (Syed Alwi & Mohd Hanifah, 2024). With greater profitability, companies can allocate more resources to social programs, sustainability efforts, and ISR reporting, improving the quality of these reports (Helfaya et al., 2023; Zhang et al., 2024). ISSI-listed companies are responsible for adhering to Sharia principles in all aspects of their operations, including social reporting, which makes them more likely to disclose their social contributions through ISR. High profitability provides these companies with the resources needed to perform social and sustainability activities, which are reflected in the quality of their ISR reports (Aljughaiman et al., 2023; Effendi, 2023; Lopatta et al., 2023; Pourhossein et al., 2023; Riaz et al., 2023). The size of the Sharia Supervisory Board positively impacts ISR through its influence on profitability, ensuring that companies engage in socially and environmentally responsible practices. Research by Alfijri and Priyadi (2022), Lestari (2020), Maham et al. (2020), Muhammad (2020), and Romadhonia and Kurniawati (2022) also confirms that the size of the Sharia Supervisory Board positively affects ISR through profitability.

CONCLUSION

Based on the research findings, it is evident that the size of the Sharia Supervisory Board affects both profitability and ISR, with profitability also influencing ISR. The findings reveal a harmonious relationship between the size of the Sharia Supervisory Board and profitability, which positively impacts ISR. Companies with an appropriately sized Sharia Supervisory Board and high profitability are more active in reporting their social activities, thereby enhancing their reputation and image among stakeholders. This study highlights that one of the strategies to promote profitability and ISR is being implemented by Sharia-indexed companies, which consider the size of their Sharia Supervisory Board. Strengthening the size and effectiveness of the Sharia Supervisory Board will create long-term benefits from both financial and social perspectives.

The practical implication of this study is that companies need to focus on the size and composition of their Sharia Supervisory Board. Enhancing the board with members who have diverse skills and backgrounds can improve the effectiveness of supervision and aid in better CSR implementation. Company management must develop strategies that not only focus on increasing profitability but also on how this profitability can support CSR activities. This will create a synergy between financial performance and social responsibility. This research has limitations that may influence the results, as it focuses solely on one element influencing ISR—the Sharia Supervisory Board—and uses data from only one research period. Future studies could expand the variables influencing ISR and increase the number of observation periods to provide a more comprehensive and concrete understanding of the relationship.

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