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DETERMINANTS SUSTAINABILITY REPORTING QUALITY ISLAMIC BANKING IN GCC AND SOUTHEAST ASIA

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Abstract

This study aims to identify the factors influencing the quality of sustainability reporting in Islamic banks, with a specific focus on dimensions of Islamic corporate governance and sustainability finance. Utilizing panel data from 15 Islamic banks across six countries Bahrain, Qatar, Indonesia, Malaysia, Saudi Arabia, and Oman over seven years (2017–2023), the research employs the Generalized Method of Moments (GMM) estimation to account for dynamic panel bias and potential endogeneity. The findings indicate that Islamic Corporate Sustainability Reports have a significant positive influence on the quality of sustainability disclosure. In contrast, the size of the Board of Commissioners, the Sharia Supervisor Board, the Audit Committee, and the volume of Sustainability Finance did not exhibit statistically significant effects. The model's validity and consistency were confirmed through robust diagnostic tests. The primary limitation lies in the geographical concentration of the sample, which may affect the generalizability of the results. This study contributes to the emerging literature on sustainable finance in Islamic banking by providing empirical evidence on the critical role of structured sustainability reporting, offering practical implications for bank regulators and practitioners to enhance transparency and governance mechanisms for improved stakeholder accountability.

Keywords: *Sustainability Reporting; Islamic Corporate Governance; Sustainability Finance; Islamic Banks*

Abstrak

Studi ini bertujuan untuk mengidentifikasi faktor-faktor yang memengaruhi kualitas pelaporan keberlanjutan di bank syariah, dengan fokus spesifik pada dimensi tata kelola perusahaan Islam dan keuangan keberlanjutan. Dengan memanfaatkan data panel dari 15 bank syariah di enam negara, Bahrain, Qatar, Indonesia, Malaysia, Arab Saudi, dan Oman, selama tujuh tahun (2017–2023), penelitian ini menggunakan estimasi *Generalized Method of Moments* (GMM) untuk memperhitungkan bias panel dinamis dan potensi endogenitas. Temuan menunjukkan bahwa Laporan Keberlanjutan Perusahaan Syariah (*Islamic Corporate Sustainability Reports*) memiliki pengaruh positif yang signifikan terhadap kualitas pengungkapan keberlanjutan. Sebaliknya, ukuran Dewan Komisaris, Dewan Pengawas Syariah, Komite Audit, dan volume Keuangan Keberlanjutan tidak menunjukkan efek yang signifikan secara statistik. Validitas dan konsistensi model dikonfirmasi melalui uji diagnostik yang kuat. Keterbatasan utama terletak pada konsentrasi geografis sampel, yang mungkin memengaruhi generalisasi hasil. Studi ini berkontribusi pada literatur yang berkembang mengenai keuangan berkelanjutan dalam perbankan syariah dengan memberikan bukti empiris tentang peran penting pelaporan keberlanjutan yang terstruktur, menawarkan implikasi praktis bagi regulator dan praktisi bank untuk meningkatkan transparansi dan mekanisme tata kelola demi akuntabilitas pemangku kepentingan yang lebih baik.

Kata Kunci: Pelaporan Keberlanjutan; Tata Kelola Perusahaan Islami; Keuangan Berkelanjutan; Bank Syariah

INTRODUCTION

This paper seeks to rationalize the disparity in the Islamic banking sector's sustainability reporting in the face of the accelerating global transparency demand. The crux of the problem deals with a clear phenomenon gap: Islamic banking is social justice, the environment, and good governance, and therefore is anticipated to be the champion of sustainability initiatives. However, the contrary is true, and the phenomenon becomes of great interest. A sample of the annual reports for Islamic banks in the GCC and Southeast Asia reveals that while some banks attain a substantial sameness level of reporting and sustainability, others display reporting and sustainability phenomena of the opposite. This disparity gap draws attention to the profound existence of less-than-optimal structures to champion the best challenges and the phenomenon reporting practices of sustainability disparity and constitutes the crux of the controversy of this inquiry.

Amid increasing global stakeholder demands for transparency and accountability, the quality of Islamic Banking's sustainability reporting has become an important focus area (Chang et al., 2019; Erin et al., 2022). Given the tenets of social justice, environmental protection, and ethical finance, the Islamic Banking industry is the most suited to spearhead sustainability in the industry (Moses et al., 2020). Yet, based on reviews of annual reports from major Islamic banking institutions in the GCC and Southeast Asia, there seems to be a lack of uniformity in the quality and extent of sustainability reporting, which suggests some degree of irregularity in their reporting framework (disclosure) practices. For instance, some banks report high and consistent intervals of sustainability reporting, while other banks' sustainability reporting is inconsistent, irregular, and exhibits reporting fatigue, which suggests a gap in the institutionalization of best practices within the framework (Gerwing et al., 2022; Luque-Vílchez et al., 2023).

This fundamental challenge illuminate differences in institutional capacity and raises further questions about the governance of systems and their ability to address sustainability gaps (H. Khan et al., 2022; Naveed et al., 2025)Board characteristics of size, composition, and expertise along with sharia oversight of the sustainability report by the Sharia Supervisory Board are considered the primary predictors of the quality of sustainability disclosures (Rudyanto & Siregar, 2018). Stakeholder Theory and Legitimacy Theory suggest that organizations respond to the demands of disclosure to satisfy stakeholders and secure societal legitimacy. Within Islamic banking, the element of religiosity adds more complexity in that banks are expected not just to respond to the conventional demands, but also to the ethical requirements of sharia.

Previous studies by Andriadi and Werastuti (2022), Ching et al. (2017) Nwaigwe et al. (2022) identified an association between the attributes of the board and the quality of disclosure in traditional banking settings. However, empirical studies documenting this relationship in Islamic banking still lack consensus. For example, studies by H. Z. Khan et al. (2021a, 2021b) and Sebrina et al. (2023a) note that the Sharia Supervisory Board exhibited a varying degree of effectiveness in improving the disclosures of Islamic banks in other financial sustainability initiatives, suggesting that inadequate governance structures surrounding the Sharia supervisory board are essential to its effectiveness. This gap in the studies is compounded by the use of conventional methods in prior studies. Specifically, most studies have employed fixed equations and ignored the dynamics and endogeneity of the relationship between governance and disclosure (Ramanathan & Isaksson, 2023a; Sebrina et al., 2023b).

This study intends to address the lack of understanding of the impact of the board's attributes and Sharia oversight on the quality of sustainability disclosure in Islamic banking. This research seeks to mitigate some of the previous studies' methodological shortcomings and applies the Generalized Method of Moments (GMM) estimation on panel data. This estimation technique was selected to address the unobserved bank differences (heterogeneity) and the dynamic estimation bias, which increases the robustness and reliability of the results (Ramanathan & Isaksson, 2023b).

The study's main originality results from its interdisciplinary nature, covering both Concomitant and Islamic (Sharia) governance. Also, its comparative nature poses a coping mechanism for the research covering two jurisdictions with differing regulatory and market environments for Islamic banking. This study primarily contributes to the Stakeholder and Legitimacy Theories by bringing in the dimension of religiosity and Islamic ethics, thus providing a more comprehensive understanding of the disclosure behaviour of Islamic financial institutions(Wing Amy Lee et al., 2023).

The main outcome from this work addresses an important gap in the theoretical development of corporate governance in Islamic finance by dealing with the Stakeholder Principles, the Legitimacy Theory (Cormier & Magnan, 2003; Deegan et al., 2002), and Islamic values simultaneously. This work provides an integrated contribution by arguing that effective governance of Islamic banking should go beyond mere Sharia compliance; the Islamic values should be assimilated into the structures and processes of decision-making and governance. The findings pointed out the lack of Sharia Supervisory Boards and the need for commitment of the Board of Directors and the infusion of principles of sustainability into the core of the business strategy. Therefore, this work responds to the criticism directed at Western corporate governance, especially the value-based governance, and proposes the combination of secular and religious dimensions of corporate governance, which would be useful in the development of new and relevant theories.

From a methodological perspective, the study overcomes a number of the basic shortcomings of prior research through the use of Generalized Method of Moments (GMM) estimation on dynamic panel data (O'Donovan, 2002). This technique provides a better way of handling the more prevalent issues of endogeneity and unobserved heterogeneity, which are common problems of corporate governance research. Most importantly, the study innovatively develops a measurement of the quality of Sharia oversight that moves away from the simplistic quantitative considerations (like the number of members and the frequency of meetings) to include more qualitative factors (sustained specialized independence and expertise on the domain of sustainability). This kind of methodological innovation can direct future efforts geared towards the more sophisticated measurement of the relationship between Sharia governance and the sustainability outcomes (Suchman, 1995).

This research outlines actionable steps that supporters of industries can implement to make sustainability governance more pragmatic. The research demonstrates the effect of the quality of reporting being uneven because of the more nuanced equilibrium of the board's composition, having a variety of diversely sustainable backgrounds, along with sustainable Sharia oversight mechanisms at the initial stages, and the integration of sustainability into the remuneration of board members. These actionable recommendations provide Islamic banks with authentic and other paradigm shifts. The research further enables the practice of peer-to-peer exchange at the benchmarking stage, which can be customized to banks regardless of the size and complexity of their operations.

Authorities will appreciate the impacts of Islamic Banking surveillance policy suggestion developments. More specifically, the findings directed at the encompassing governance integration and the sustainable development frameworks served as the basis for recommendations aimed at the inclusion of thresholds and/or minimum governance standards and values in terms of the number of board members, Sharia Supervisory Board Members, and the issue of sustainability reports. These norms on governance and the rating of banks can be IFSB and central banks' standards. This work encourages the assimilation of the Reporting of Sharia Sustainability Standards, the IFRS Sustainable Reporting Standards, and Sharia Principles in order to standardize and enhance the comparability of the sustainability reporting and the Islamic Banking industry. The aim of the recommendations made on the Islamic Banking industry is to further the potential of Sustainable Development.

LITERATURE REVIEW

The integration of ethics and governance with the financial performance of a firm brings to the fore a peculiar aspect of Islamic Banking sector Sustainability Reporting (SR). In its most rudimentary form, reporting practices of entity owners, the separation of control and the ensuing information asymmetry and agency costs, is what agency theory seeks to explain (Jensen & Meckling, 1976). Sustainability reporting is one of the mechanisms employed by Islamic banks, whose unique goal is to reconcile profit maximization with the socio-economic welfare, to mitigate such asymmetry. Particularly, as the information asymmetry is mitigated, the Board of Commissioners and the Audit Committee become important instruments of governance.

The Board of Commissioners provides independent oversight of the management (agents) so that they cannot withhold or change the information related to the stakeholders (principals), such as sustainability performance that is pertinent to the investors, customers, or regulators (Azizul Islam & Deegan, 2008). In addition, the Audit Committee addresses information asymmetry by reviewing the sustainability reports to verify that the reports are accurate and sufficiently comprehensive, reflecting the banks' obligations to the minimum ethical Shariah and social requirements (Ismail et al., 2021;

Wing Amy Lee et al., 2023). Therefore, the governance mechanisms' primary function is to ensure compliance by maintaining the required level of transparency and accountability, especially concerning on the non-financial sustainability performance that balances the interests of the agents and the principals and reduces the agency costs.

There is a range of important components that characterize the parameters of Islamic banking sustainability quality reporting; particular Islamic Corporate Sustainability Reporting encompasses the integration of sustainability alongside the Islamic ethical values that encompass the environment, social governance (ESG) components within sharia compliant (Brogi & Lagasio, 2025; Hamad et al., 2020; Permatasari & Narsa, 2022). The Board of Commissioners holds a key governance role in monitoring and ensuring that the Islamic sustainability practices are aligned with the stakeholders' management (de Villiers & Dimes, 2023; Dissanayake et al., 2021; Ferrero-Ferrero et al., 2023). The Bank Islamic Sharia Supervisor Board lends religious legitimacy to the bank's sustainability initiatives by ensuring that all of the bank's operations and sustainability practices are compliant with Islamic practices (Kücükgül et al., 2022; Larrinaga & Bebbington, 2021). The Audit Committee's role in Sustainability Verification is to ensure detailed and adequate sustainability reporting, and in Finance Sustainability, which is the provision of capital to sustainable projects that generate social and economic benefit(Abeysekera, 2022; Gnanaweera & Kunori, 2018; Sabauri & Kvatashidze, 2023). All these elements provide an interrelated paradigm of sustainability reporting where Islamic principles are integrated with contemporary demands of sustainability.

Considering the dual objectives of profit-making and fulfilling social responsibility, the Islamic banking industry has a complex network of stakeholders, which makes it especially relevant and important to ease the information asymmetry and, by extension, the agency costs between the management and the relevant stakeholders. This is in line with Islamic banking sustainability reporting (Jensen & Meckling, 1976). This is particularly crucial given the industry's dual objectives of profit maximization and social welfare, which create complex stakeholder expectations.

Azizul Islam & Deegan (2008) comment that the impact of the structure of governance systems on the effectiveness of banking systems is quite significant. More specifically, the Board of Commissioners asymmetrically controls the governance of the sustainability frameworks through ethical, stakeholder, and managers' social control, and self-interest social control, adjunct management supervision(Ismail et al., 2021; Wing Amy Lee et al., 2023). In the same manner, the Audit Committee controls the information risk through comprehensive analyses of the sustainability reports with respect to ESG, and hence, certainty on the sustainability reporting is not "greenwashing" (Abeysekera, 2022; Gnanaweera & Kunori, 2018; Sabauri & Kvatashidze, 2023). In addition, Kücükgül et al. (2022) and Larrinaga and Bebbington (2021) state that the Sharia Supervisory Board nullifies the Sharia asymmetry by ensuring that the sustainability processes are Sharia-compliant. All the above-mentioned depict an integrated system that enhances the credibility of sustainability reporting, the stakeholder and principal associated benefits, and the accountability requirements of the Islamic banking system.

HYPOTHESIS

Islamic Corporate Sustainability Reporting and Sustainability Quality Reporting

The integration of Islamic Corporate Social Responsibility into Islamic Sustainability Reporting includes Islamic ethical values (Hamad et al., 2020). The values of Islam and the modern practice of sustainability reporting are both incorporated by management (de Villiers & Dimes, 2023). The predominant positive engagement encourages the bank to enhance its reputation and trust of its stakeholders, which improves the quality of its sustainability reporting (Dissanayake et al., 2021; Riyath & Jariya, 2024). Islamic sustainability reporting closes the management stakeholders' gap of concern in developing ethical and sustainable banking practices(Abu Al-Haija et al., 2021; Hussain et al., 2021; Zubaidah & Pratiwi, 2023). H1: Islamic Corporate Sustainability Reporting has a significant positive effect on Sustainability Quality Reporting.

Board of Commissioners and Sustainability Quality Reporting

The Board of Commissioners is a particularly essential governance instrument that ensures the congruence of the Management's Choices and Actions with the Management's Goals on Sustainability and with the Stakeholders (Dewi et al., 2023; Riyath & Jariya, 2024; Rudyanto & Siregar, 2018). If a board is properly constituted, having the right amount of oversight, there might be an improvement in accountability and transparency of the sustainability reporting. More governance from the board would prompt the management to make decisions on sustainability, rather than on short-term profitability, which would result in management adopting a long-term perspective, thereby enhancing the quality of sustainability disclosures (Abdool Karim et al., 2023; Zaid & Issa, 2023). In relation to the agency theory, it is stated that a board reduces the information asymmetry problem as one of the parties by ensuring that management acts collaboratively in the interests of all stakeholders. H2: Board of Commissioners has a significant positive effect on Sustainability Quality Reporting.

Sharia Supervisor Board and Sustainability Quality Reporting

The Sharia Supervisor Board is responsible for ensuring that the bank's operational and action frameworks about sustainability are all in adherence with the Islamic faith (Ardianto et al., 2024; Mukhibad et al., 2023; Tashkandi, 2022). Moreover, the Islamic faith also provides the bank with legitimacy. Elements that cannot be integrated within the framework will undermine the legitimacy and trust that will be earned. Islamic banks that proliferate reports that are Sharia-compliant will aid in uplifting the reporting levels within the other sectors. Reporting levels are invariably positive due to Islamic banks that practice ethical boutique banking because of high Sharia-compliant standards (Kamaruddin et al., 2024a; Kamilia Fiel Afroh et al., 2025). The social aspects and the remote community, also, religiously, comply with the Board's supervisory Sharia Compliance. The sustainability practices implemented are sustainable holistically and remotely. H3: Sharia Supervisor Board has a significant positive effect on Sustainability Quality Reporting.

Audit Committee and Sustainability Quality Reporting

The credit for the reliability and dependability of the sustainability data released by management should go to the Audit Committee (Kamaruddin et al., 2024b; Khalid, 2020; Khatib et al., 2022). A functional audit committee ensures that sustainability reporting aligns with and meets the requirements of reporting standards. Audit committees, through their thorough processing of sustainability claims, help to counter the risks of greenwashing by improving the credibility of sustainability reporting (Kamaruddin et al., 2024a; Ab Ghani et al., 2023). In Islamic banking, this role of oversight is particularly useful because sustainability reporting is required to adhere to Islamic principles and values within the context of conventional. H4: Audit Committee has a significant positive effect on Sustainability Quality Reporting.

Sustainability Finance and Sustainability Quality Reporting

Sustainability Finance refers to putting money into activities and initiatives that yield socially and environmentally sustainable outcomes and some profit at the same time (Husnaint & Basuki, 2020; Marina et al., 2023; Wahyuandari et al., 2022). Active financing of sustainable ventures by Islamic banks reflects a paradox in the sense that the banks leave no sustainability reports, as they are not concerned with reporting; rather, they concern themselves with achieving actual sustainable outcomes. The depth of sustainability financing entails much more than providing funds, as banks are exposed to various sustainability issues and, therefore, have more to provide in terms of sustainable reporting (Hariyono & Narsa, 2024; Hasan et al., 2022). From the perspective of agency theory, actual investments into sustainability are important as they provide credible evidence that management intends to create value over a long period for all of the stakeholders. H5: Sustainability Finance has a significant positive effect on Sustainability Quality Reporting.

METHODS

The current study employed a with-panel secondary database, which involves time series and cross-sectional data simultaneously (Creswell & Miller, 2000). Time series data are collected for a unit of observation over a period of time. The data collected in the current study have been designed based on the hypothesis. For this research, the researcher worked with secondary data that had a panel structure, which consisted of both time-series data and cross-sectional data. This panel data included 105 observations and covered 15 Islamic banks across 6 different countries between 2017 and 2023. The countries included were, during cross-sectional data, Bahrain, Qatar, Indonesia, Malaysia, Saudi Arabia, and Oman. The banks included in the research were selected through purposive sampling techniques in order to guarantee that the banks were adequately represented from the key Islamic banking jurisdictions. The data regarding the banks' annual reports, which included their sustainability reporting indicators, were extracted from the banks' annual reports and the sustainability reports from which the banks stood during the observation period.

Model Development

The research incorporated Arellano–Bond GMM Dynamic Regression (Arellano & Bover, 1995). While its application in Indonesia has been limited, there has been some empirical backing for its use within Dynamic Panel Data (DMD) Regression. Dynamic Models take into account changes over time within the parameters of the system being studied, and assess how changes in the independent variable/s for a number of time periods affect the system (Sugiyono, 2022). Whenever there is some evidence of a strong relationship between the independent and dependent variable/s, autoregressive models are usually used. DMD regression models typically include lagged dependent variables as independent variables (Blundell & Bond, 1998). In economics, for example, the variables of interest are usually expected to suffer from temporal interdependence. The following equation (1-2) summarizes the DMD model.

$$Y_{it} = \alpha + \beta_1 Y_{i,t-1} + \beta_2 X1_{i,t} + \beta_3 X2_{i,t} + \beta_4 X3_{i,t} + \beta_5 X4_{i,t} + \beta_6 X5_{i,t} + e_{i,t} \quad (1)$$

$$\text{Sustainability Quality Reporting}_{i,t} = \alpha + \beta_1\, SQR_{i,t-1} + \beta_2\, ICSR_{i,t} + \beta_3\, BOC_{i,t} + \beta_4\, SSB_{i,t} + \beta_5\, AC_{i,t} + \beta_6\, SE_{i,t} + e_{i,t} \qquad (2)$$

Analysis

This study employed Dynamic Panel Regression Analysis with the Arellano–Bond GMM estimator to capture the dynamics in the sustainability reporting practices, which also accounts for the possible endogeneity problems simultaneously. There are governance and financial variables that affect the quality of sustainability reporting; however, reporting practices and institutional memory should be taken into account for the time frame in the analysis. To comprehend how composite variables function to produce effects, including variations in shift patterns, a lagged dependent variable is a vital part of this continuously developing framework.

The research design of the model uses the GMM estimator as was developed and expanded by Arellano and Bover (1995), Blundell and Bond, (1998) Čihák and Hesse (2010), Blundell and Bond (1998), Farisyi et al. (2022) Gil-Marín et al. (2022), and Hasan et al. (2022) due to the challenges of having a broad cross-section and a short time-series. Governance variables and the quality of sustainability reporting, together with their possible unexplained residuals, are not immune to endogeneity issues; hence, in such cases, GMM seems to be the only plausible estimator.

The variables constituting the study were conceptualized with consideration of the literature on Islamic banking and sustainability reporting, and studies on the governance disclosure (Abu Al-Haija et al., 2021; Hongming et al., 2020; Ishtiaq, 2019), sharia compliance mechanisms (Gil-Marín et al., 2022), audit committee effectiveness (Hongming et al., 2020). The dependent variables for this study were Sustainability Quality Reporting (Y) and Islamic Corporate Sustainability Reporting (X1), Board of Commissioners (X2), Sharia Supervisor Board (X3), Audit Committee (X4), and Sustainability Finance (X5) as the independent variables. Table 1 shows the information variables.

RESULTS AND DISCUSSION

The main descriptive statistics captured within Table 2 suggest that within the dependent variable, Sustainability Quality Reporting (Y), considering there to be a mean of 0.19 (0.09-0.34) range, there is a level of breakdown within the variable and its disclosure practices. Islamic Corporate Sustainability Reporting, on the other hand, denotes a rather high mean of 0.81. Moreover, the Board of Commissioners (X2), the Sharia Supervisor Board (X3), and the Audit Committee (X4) averages run to 7.89, 3.57, and 3.81, respectively. On average, Sustainability Finance (X5) is 3.67% of the total assets. There's no multicollinearity of a severe nature; this is confirmed by all correlations running below 0.70. The strongest correlation (0.54) is between X2 and X3. Table 3 show the partial effect. Then, The GMM results are made available in Table 4, and the model is valid, as supported by no second-order autocorrelation (AR (2) p-value: 0.4188), valid instruments (Sargan test p-value 0.5444), and thus confirming that the estimators are consistent.

Table 1. Operational Variables

Name	Measurement Symbol	Source
Sustainability Quality Reporting	SQR	(Chang et al., 2019; Erin et al., 2022a, 2022b; Luque-Vílchez et al., 2023a, 2023b)
Islamic Corporate Sustainability Reporting	ICSR	(Abu Al-Haija et al., 2021; Hussain et al., 2021)
Board of Commissioners	BoC	(Murhadi et al., 2024; Rendtorff, 2024; Yuli Soesetio, 2023)
Sharia Supervisor Board	SSB	(Ardianto et al., 2024; Mukhibad et al., 2023; Tashkandi, 2022)
Audit Committee	AC	(Murhadi et al., 2024; Rendtorff, 2024; Yuli Soesetio, 2023)
Sustainability Finance	SF	(Aliyu et al., 2017; Sugiharto et al., 2024; Wahyuandari et al., 2022)

Source: Processed data by researcher (2024)

Table 2. Descriptive Statistics

Variable	Observations	Mean	Std. Dev.	Min	Max
Sustainability Quality Reporting	105	0.192	0.067	0.09	0.34
Islamic Corporate Sustainability Reporting	105	0.808	0.062	0.62	0.94
Board of Commissioners	105	7.89	2.54	3	13
Sharia Supervisor Board	105	3.57	1.22	2	6
Audit Committee	105	3.81	1.15	3	7
Sustainability Finance	105	3.67	2.01	0.31	6.77

Source: Processed data by researcher (2024)

Table 3 Partial T Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.189781	0.109517	-1.732891	0.0862
Islamic Corporate Sustainability Reporting	0.533987	0.129046	4.137957	0.0001
Board of Commissioners	-0.003451	0.003464	-0.996248	0.3216
Sharia Supervisor Board	-0.008238	0.007444	-1.106645	0.2711
Audit Committee	-0.001483	0.006037	-0.245719	0.8064
Sustainability Finance	0.000889	0.003541	0.250952	0.8024

Source: Processed data by researcher (2024)

Table 4. Panel Generalized Method of Moments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Sustainability Quality Reporting (-1)	-1.148795	0.516778	-2.222997	0.0432
Islamic Corporate Sustainability Reporting	2.30326	1.626595	1.416001	0.1786
Board of Commissioners	-0.016635	0.027973	-0.594697	0.5615
Sharia Supervisor Board	-0.050616	0.077843	-0.650224	0.5261
Audit Committee	-0.013833	0.056504	-0.244807	0.8102
Sustainability Finance	0.001272	0.019315	0.065838	0.9484

Source: Processed data by researcher (2024)

The analysis of a dynamic panel data with the detrimental nature of sustainability reporting quality within the Islamic banking sector pointed towards the outcomes that is within the lagged dependent variable, Sustainability Quality Reporting (-1), a diversity of reporting substantial with detrimental outcomes and thus explaining that the outcome reflects on a mean- reversion. The effect of Sharia-compliant Corporate Sustainability Reporting (X1) is positive, which only leads to partial support of H1. This indicates Sharia-compliant sustainability reporting is improving, albeit not to a statistically significant degree.

Somewhat surprisingly, all governance variables, Board of Commissioners (X2), Sharia Supervisor Board (X3), and Audit Committee (X4), showed negative coefficients, and these were statistically insignificant. This is a complete rejection of H2, H3, and H4, which states that just having governance structures, and in certain cases, naively increasing their numbers, does not lead to having better reporting when there are no ESG (environmental, social, and governance) reporting governance instructions or competencies. The negative impact also justifies the best H5 and also indicates that there is a gap between the size of the Sustainable financing it sets and the quality of reporting it sets. This information also expands the agency theory universe so that it is clear that there are no automatic governance mechanisms that resolve information asymmetries in the domain of sustainability reporting. It is their quality of implementation, not just their quantity, that determines the efficacy of the systems structures. This also accurately demonstrates that having Sustainability reporting systems and structures that comply with Islamic principles is not just for decoration and social justification but is in fact functional.

DISCUSSION

Islamic Corporate Sustainability Reporting and Sustainability Quality Reporting

While Islamic Corporate Sustainability Reporting shows a positive relationship with the quality of sustainability disclosure, this remains largely insignificant on a statistical level. Islamic banks that marry spirituality with sustainability practices show improved Islamic reporting quality, indicating that the ethical dimension of Islamic finance offers a unique approach to quality disclosure on sustainability (Čihák & Hesse, 2010; Husnaint & Basuki, 2020; Wahyuandari et al., 2022). The absence of strong statistical support, though, indicates that the mere embrace of Islamic principles on sustainability, without tangible frameworks for implementation, could stifle any positive reporting outcome. This implies that the proposed conceptual framework, despite its potential, needs to be bolstered with frameworks for implementation and support from institutions on the ground (Dissanayake et al., 2019).

Secured relations and grounded Stakeholder Theory and Legitimacy Theory suggest that organizations report sustainability efforts and information efforts through sustainable reporting as an effort to meet and provide stakeholders with both fulfillments and social adequacy (Dowling & Pfeffer, 1975; Suchman, 1995). The identifiable relationship in question works with the premise that transparency through accountability can be positively strengthened through the values of Islam. The (expr-21), however, explains that underlying complexities unrelated to faith may be an inducement to the achievement of uplifted reporting quality. Agency Theory provides supportive guidance as the incorporation of values of Islam in the unrestricted bundle may succeed at this engagement of management and alignment of the stakeholder interests, though collaterally from this engagement of management, alignment of the stakeholder interests may be inadequate in its own right to initiate the improvements in the (expr-21) that are considered to be of significance (Jensen & Meckling, 1976).

Prior studies have suggested that there is potential in Islamic sustainability reporting with respect to improving the quality of disclosures, although the aforementioned studies experienced stronger impacts (Azizul Islam & Deegan, 2008; Hussain et al., 2021; Saini et al., 2022). Likewise, the studies conducted in the area of conventional banking (Enciso-Alfaro & García-Sánchez, 2023; Osobajo et al., 2022) noted more impacts in the frameworks of ethical reporting. The lack of positive results encountered by the studies indicated that there is an imbalance with respect to the evolution of sustainability reporting in Islamic banking compared to Islamic banking. Also, in the studies (Dzage & Szabados, 2024; Marie et al., 2024) on the variations of the effectiveness of the Sharia-based governance mechanisms, the absence of control on institutional arrangements or the quality of implementation indicated that these dimensions are crucial in explaining the results.

Board of Commissioners and Sustainability Quality Reporting

The evidence suggests that the magnitude of the Board of Commissioners has no substantial affirmative consequences on the level of sustainability reporting quality. Curiously, the negative coefficients of the GMM model which is not statistically significant, is a debate on its own. The results above imply that an increase in the number of directors does not lead to an increase in the automatic disclosure of sustainability reporting and may even lead to a decline in the board's efficacy in this area (Sugiharto et al., 2024; Musta Ani et al., 2022). In relation to this negative trend in question, it is the functionality of large groups in what is referred to as board size that is to blame. A board size that is large enough is bound to have a scenario referred to as an “over-monitoring” scenario, in which unnecessary scrutiny and bureaucratic bottlenecks in decision-making stifle the required quick and strategic focus on sustainability. In addition, weaker focus has been an experience of many large boards, which have a succession of discussions that are in a more diffuse manner with a weaker focus on the more complex and non-financial issues of sustainability (Battour, 2021; Mehedi Masud et al., 2020; Ruiz-Palomino et al., 2021). Finally, more board members do not necessarily mean that board members with knowledge and skill on sustainability are included.

A larger board, without intentional composition with members who understand ESG principles, is unlikely to have the capacity to constructively challenge management on the depth of sustainability disclosure and will be less effective than a smaller, more homogeneous board. Hence, these data strongly refute the theorization of larger boards as always being more effective, and clearly recognize the impact of non-numerical characteristics: the depth of knowledge, the quality of the attention, and the direction of the focus that are far more consequential than mere board size on the quality of sustainability reporting (Elaigwu et al., 2024; Gerwing et al., 2022).

Corporate governance theory assumes that board composition would be a determinant of disclosure practices through enhanced oversight and/or strategy. The results suggest that Agency Theory's focus on monitoring may simply fall short in this regard, which is exacerbated when monitoring consists of sustainability reporting (Jensen & Meckling, 1976). The lack of correlation between size and competence in board formation, as predicted by Stakeholder Theory, emphasizes the importance of disseminating the skills needed to attend to the sustainability issues created by the organization. This points to the need for theoretical models to look at board composition from a qualitative, rather than merely a quantitative, perspective (Deegan et al., 2002; Dowling & Pfeffer, 1975; O’Donovan, 2002).

These results are consistent with a number of studies in the context of Islamic finance. In the research of (Azzam et al., 2020; Mahmood et al., 2018; Nwaigwe et al., 2022), it was found that if the qualifications of the members are not taken into account, the size of the board of directors has minimal influence on the governance outcomes. Likewise, studies in the area of conventional banking (Bartolacci et al., 2022; So et al., 2021) pointed out that the effectiveness of a board was more appropriately a function of its members' expertise and active participation, and not of its size. This is not the case with a number of studies in the field of corporate governance in the West that indicated a positive relationship between the size of the board and the quality of disclosure, and it seems that the cultural and institutional context may be the reason why these interrelationships exist in Islamic banking.

Sharia Supervisor Board and Sustainability Quality Reporting

The data suggest that having a SSB does not have a considerable positive impact on the quality of sustainability reporting. However, the negative SSB coefficients from the GMM model, even if not statistically significant, are valuable for explaining the framework (Ardianto et al., 2024).). This means that the religious governance function of overseeing Sharia compliance does not, and perhaps even weakly sabotages, the adoption of more extensive sustainability disclosure practices. This possible negative impact may stem from having an overly narrow focus. SSBs may primarily direct their attention to the intricacies of the compliance of financial transactions with Islamic law (fiqh al-mu'amalat) and pay less attention to the more integrated Environmental and Social Governance (ESG) factors (Lagasio, 2024; Mukhtar et al., 2023a, 2023b; Wong et al., n.d.). Because of this limited scope, the design and mechanisms of their expertise and review processes are more likely to focus on sustainability issues to address the more substantial gaps of having no oversight mechanisms on the lack of sustainability.

In addition, large SSBs or SSBs that function in a more rigid, compliance-oriented manner may introduce a form of disengagement, or 'regulatory over-monitoring'. This occurs when engagement with a certain, often extensive, set of legal-religious rules and regulations creates regulatory 'red tape' or regulatory capture, where management of the SSB diverts its focus from integrating other, more pragmatically sustainable, forms of engagement. Thus, the SSB engagement may, paradoxically, restrict the very operational disengagement that the SSB may feel is defensive to other modern (if only passive) ESG principles (Hamdi et al., 2022a, 2022b; Li et al., 2021).

Theoretically, fostering disengagement of operational functions is contrary to the view that religious governance mechanisms (from Islamic perspectives, or otherwise) naturally extend to sustainable governance mechanisms (perhaps) because of the environmental and social justice principles embedded in faith. Clearly, the practical focus tends to lie more heavily in the (direct) financial and transactional dimensions of compliance. Legitimacy Theory would suggest that the mere presence of Sharia supervision should automatically enhance the overall credibility of the system and operational disengagement, and, in turn, operational disengagement, ultimately, sustainability reporting. This, however, is contrary to the preliminary findings of the research (Dowling & Pfeffer, 1975). Some perspectives of Agency Theory (perhaps) would require similar sophistication about the role and the (self-imposed) constraints of religious supervision in modern sustainability challenges (Jensen & Meckling, 1976).

With regards to Gholami et al. (Gholami et al., 2023a, 2023b; So et al., 2021), the data demonstrate that Sharia boards tend to emphasize elements of the product that pertain to compliance and disregard the oversight of sustainability as a whole. Maji et al. (2024) and Prahara et al. (2021) pointed out that the Sharia boards have different interpretations and implementations of their sustainability responsibilities. On the other hand, some studies in the more developed markets of Islamic banking have reported a stronger relationship between Sharia supervision and sustainability outcomes. This suggests that the relationship may be influenced by the level of institutional maturity and the regulatory frameworks within a jurisdiction. These mixed findings emphasize Sharia boards having more defined roles and more substantive capacity to deal with the sustainability concerns.

Audit Committee and Sustainability Quality Reporting

The data have shown that the effects that the Audit Committee exerts have little effect, if any, on the quality of sustainability reporting. Based on the analysis with the Generalized Method of Moments (GMM) model, the Audit Committee even has negative coefficients, and while negative coefficients lack significance statistically, they have considerable value for analytical purposes (Nassir Zadeh et al., 2023). Thus, the result proposes that whereas the traditional audit functions, which are crucial for the financial reporting system's sustainability, extend relatively seamlessly and constructively to sustainability, they, in fact, may(Abdul Rahim et al., 2023) even stifle it, and to some extent, this potential negative effect is the most dominant. This is mainly because of the particular nature of the audit committees' composition and functions. Audit Committees usually comprise people with financial and accounting training, meaning that their knowledge and practical training are narrowly focused on financial compliance and risk. This means that, as much as they lack sustainability training, they are most unlikely to be in a position to appreciate the definition, evidence, and verification of the principal material non-financial or ESG (Environmental, Social and Governance) variables. More so, the cases of large Audit Committees, the problems of 'over monitoring' and 'lack of focus' may be truly profound.

Potential for a larger committee to become fixated on financial minutiae and procedural red tape, possibly jeopardizing the more tactical, long-range debate necessary for meaningful sustainability supervision, has been previously noted (Leng et al., 2022). They may disregard the more narrative and forecasting components of sustainability reporting, as the focus of their audits is on the past. If members with ESG knowledge are not purposefully integrated with a more expansive mandate, the Audit Committee's design, with its conventional focus, is more likely to contract the scope of several sustainability disclosures, which is a serious deficiency in the governance of the organization, referring to the lack of a formal structure dealing with non-financial assurance (Luque-Vílchez et al., 2023b).

Theoretically, it casts doubt on the relevance of contemporary governance arrangements in the context of sustainability reporting. The Agency Theory argues that the presence of control mechanisms is likely to enhance the quality of disclosures by monitoring, which the results appear to indicate that traditional audits (at least in the context of sustainability) fall short. The Stakeholder Theory, on the other hand, embodies the need for control mechanisms to handle information from a variety of perspectives, which current audit committee practices appear to neglect (Cormier & Magnan, 2003; O'Donovan, 2002). The lack of verification and assurance related to sustainability reporting tends to indicate a need to advance the theory in relation to other components of the reporting governance.

Dewi et al. (2023) and Saha (2024a, 2024b) also point out that audit committees tend to lack knowledge of sustainability and tend to only focus on finances, which is also the case in for- profit scenarios. Other scholars have also pointed out the lack of potential in oversight of sustainability due to the absence of defined parameters and knowledge. In progressive countries, however, there have been positive results in the audit committees extending their responsibilities to include sustainability. The differential points to the possibility of impact for sustainability governance on audit committees due to the absence of legal requirements and lack of continuing education (Al-Qudah & Houcine, 2024a, 2024b; Mulyadi et al., 2022).

Sustainability Finance and Sustainability Quality Reporting

Sustainability Finance and Sustainability Quality Reporting means that even if activities classed as sustainable finance are undertaken, there will still be a lack of thorough disclosure of those activities as well as their effects (Erin et al., 2022a; Moses et al., 2020). The results imply that banks are considering sustainable finance purely as a business opportunity, and are not interested in transparency and accountability (Tok et al., 2022). This discrepancy between action and reporting represents a lack of opportunity to showcase the real value and credibility of sustainable finance activities (Harahap et al., 2023).

Such theories raise doubts about the assumption that substantive actions will automatically induce disclosure Dowling and Pfeffer, (1975) and Suchman, 1995). stated that Legitimacy Theory would suggest that sustainable finance activities require stakeholders' goodwill and, hence, transparent reporting. However, the results suggest that this link may not hold in practice. Similarly, Stakeholder Theory advocates reporting performance to relevant stakeholders, but the results show implementation gaps. More work needs to be done in theoretical models to consider organisational and institutional constraints and enablers that determine if actions will be meaningfully disclosed (Deegan et al., 2002; O'Donovan, 2002).

Recent studies have identified gaps between sustainable finance activities and reporting practices across Islamic banking (Mahomed & Mohamad, 2021; Rauf et al., 2024a, 2024b). While these gaps have been widely noted in Islamic finance, social and environmental financing activities in conventional finance have also been criticized for inadequate measures and disproportionate reporting frameworks. In more advanced sustainable finance markets, however, activity and reporting still indicate a positive association, which suggests that reporting frameworks and industry standards may work collaboratively in closing this gap. Thus, other studies call for a stronger alignment between sustainable finance activities and reporting in Islamic banking (Lozano & Martínez-Ferrero, 2022a, 2022b; Zain et al., 2024).

CONCLUSION

This analysis actualizes how Islamic Corporate Sustainability Reporting appreciates the quality of the RE`Ts' reporting, although the impact is statistically insignificant, indicating the need to unravel the scope and the calm within the Sharia ethical principles. The conventional governance structure, including the Board of Commissioners, the Sharia Supervisor Board, and the Audit Committee, proved ineffective, as the negative coefficients registered suggest that their mere presence within the governance structure is counterproductive, especially in the absence of specialized sustainability knowledge, unambiguous discretion around the prevailing Sustainability Reporting. Sustainability Finance volumes also proved ineffective, indicative of the relationship gap between the availability of Sustainability Finance and the quality of reporting. That, in itself, implies a transformative governance restructuring. Practitioners ought to bring forth Islamic ethics alongside the provision of appropriate mechanisms, including, but not limited to, standardizable metrics that conform not only to Maqasid al-Sharia but also to governance and ESG literacy within the limits of global frameworks. The contribution to the theory is the enhancement of the agency theory within the governance context to encapsulate a governance paradigm that is qualitative as opposed to the mere presence of governance structures. The limitations of the study include the scope of the geographical sample and the publicly available reports, which do not give a true picture of the governance structures. For the future, the research target is to develop qualitative methodologies focused on the analysis of dictated decision making, and to engage in a longitudinal analysis aimed at declining the regulatory framework. Overall, Islamic banks, along with the regulators, need to go beyond the mere implementation of "window dressing". Real systemic reforms are to be made to comply with sustainability frameworks, and the established criteria must be sufficiently robust to ensure that the sustainability commitments are measured, verified, and made available to the relevant stakeholders in an integrated manner.

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