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Analysis of Corporate Governance Factors in Moderating the Relationship Between Islamic Accounting and Social Responsibility

Hardining Estu Murdinar[1], Larasati Widoningtyas [2] , Binti Nur Asiyah[3], Agus Eko Sujianto[4], Amalia Nuril Hidayati[5], Ahmad Sodiq[6] , Mirza Avicenna Asyifyan[7]

[1,2,3,4,5,6]Universitas Islam Negeri Sayyid Ali Rahmatullah Tulungagung
[7]Akademi Komunitas Nurul Jadid Jember, Indonesia
*Corresponding author: hardiningestu@gmail.com

Abstract

The increasing demand for transparency and accountability has encouraged Sharia-based companies to implement accounting practices that emphasize not only financial performance but also social responsibility. However, the implementation of Islamic accounting has not always been accompanied by optimal quality of social responsibility disclosure. Variations in the level of Islamic Social Reporting (ISR) disclosure indicate that other factors influence this relationship, one of which is corporate governance. This study aims to analyze the effect of Islamic accounting on social responsibility and examine the role of corporate governance as a moderating variable in this relationship. The study adopts a quantitative approach using a survey method as the primary data collection technique from respondents who meet the research sample criteria. Data were analyzed using moderated regression analysis (MRA) to examine both the direct effect of Islamic accounting on social responsibility and the moderating effect of corporate governance on this relationship. This study is expected to provide empirical evidence regarding the importance of corporate governance in strengthening the implementation of Islamic accounting to enhance the quality of corporate social responsibility. The findings are also expected to enrich the literature on Islamic accounting while providing insights for companies and regulators in strengthening governance practices that promote transparency, accountability, and sustainability in Sharia-based enterprises.

Keywords: Islamic Accounting; Corporate Governance; Social Responsibility; Islamic Social Reporting; Moderation.

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INTRODUCTION

Islamic accounting has evolved as a financial reporting system that not only aims to provide economic information but also integrates ethical values and Sharia principles into business activities. Unlike conventional accounting, which primarily emphasizes shareholders' interests, Islamic accounting places accountability to Allah SWT, society, and the environment as integral objectives of corporate operations. From this perspective, companies are expected not only to generate profits but also to ensure that all operational activities and financial reporting reflect the values of justice, transparency, and public welfare (maslahah). Therefore, Islamic accounting is regarded as an instrument capable of linking economic, social, and spiritual dimensions within modern business practices.

The implementation of these principles is reflected through Islamic Social Reporting (ISR), a social reporting framework developed based on Sharia principles. Unlike the conventional concept of Corporate Social Responsibility (CSR), ISR encompasses not only corporate responsibilities related to economic, social, and environmental aspects but also religious dimensions, including compliance with Sharia principles, zakat management, equitable wealth distribution, and commitment to the values of justice and sustainability. Consequently, ISR has become an important indicator for assessing the extent to which companies comprehensively implement Islamic accounting in their business practices (Sofyani et al., 2012).

Nevertheless, the implementation of Sharia-based social responsibility in Indonesia continues to exhibit considerable variation. While some companies provide comprehensive ISR disclosures, others disclose only limited aspects of Islamic social responsibility. These variations indicate that the implementation of Islamic accounting does not necessarily lead to the same quality of social responsibility across firms. In other words, the relationship between Islamic accounting and social responsibility is influenced not only by the adoption of Islamic accounting standards but also by internal factors that support the effectiveness of their implementation.

One of the factors considered to play a significant role is corporate governance. Corporate governance refers to a system designed to ensure that companies are managed in a transparent, accountable, responsible, independent, and equitable manner. From an Islamic perspective, corporate governance functions not only as a monitoring mechanism for managerial activities but also as an instrument to ensure that corporate policies and operations remain aligned with Sharia principles. Effective governance mechanisms, including the board of commissioners, audit committee, and Sharia supervisory board, are

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believed to enhance the quality of Islamic accounting implementation while encouraging more comprehensive social responsibility disclosure (Mais & Lufian, 2018).

Although the relationship between Islamic accounting and social responsibility has received considerable scholarly attention, most previous studies have focused primarily on the direct effect between these two variables. Studies examining corporate governance as a moderating variable remain relatively limited. In fact, differences in the quality of corporate governance across firms may result in varying levels of social responsibility disclosure despite similar levels of Islamic accounting implementation. This situation highlights an important research gap that requires further investigation to achieve a more comprehensive understanding of the mechanism linking Islamic accounting and social responsibility.

Furthermore, previous studies have predominantly treated corporate governance as an independent variable that directly influences social responsibility. Such an approach has not adequately explained whether corporate governance also functions as a factor that strengthens or weakens the influence of Islamic accounting implementation on corporate social responsibility. Therefore, examining the moderating role of corporate governance is essential to provide a deeper understanding of the effectiveness of Islamic accounting implementation in enhancing the quality of corporate social responsibility.

Based on the foregoing discussion, this study aims to analyze the effect of Islamic accounting on social responsibility and to examine the moderating role of corporate governance in this relationship. This study is expected to contribute to the development of the Islamic accounting literature by proposing that the effectiveness of Islamic accounting in enhancing corporate social responsibility is determined not only by the implementation of Sharia principles themselves but also by the quality of corporate governance that supports their implementation. From a practical perspective, the findings are expected to provide valuable insights for companies, regulators, and other stakeholders in strengthening corporate governance practices so that the implementation of Islamic accounting can generate greater benefits for both businesses and society.

THEORETICAL REVIEW

Studies on the relationship between Islamic accounting and social responsibility have evolved alongside the growing attention toward the implementation of Sharia principles in modern business practices. Most research utilizes Islamic Social Reporting (ISR) as an indicator to measure the extent to which companies implement Islamic accounting values in their social activities. ISR is viewed as an extension of Corporate Social Responsibility (CSR) because it does not only accommodate economic, social, and environmental aspects, but also incorporates the dimension of compliance with Sharia principles.

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Research conducted by Sofyani et al. (2012) demonstrates that ISR is a more representative instrument than conventional CSR in measuring the social responsibility of Sharia-based companies. The study emphasizes that social disclosure based on Sharia principles is capable of reflecting corporate accountability more comprehensively, both to shareholders and to society. These findings strengthen the argument that the implementation of Islamic accounting is closely linked to the quality of social responsibility disclosure.

Furthermore, Sutapa and Hanafi (2019) found that ISR disclosure has a positive effect on corporate performance. Broader social disclosure increases investor confidence, strengthens corporate legitimacy, and promotes business sustainability. These results indicate that the implementation of Islamic accounting not only provides benefits in terms of compliance with Sharia principles, but also generates economic value for the company. Thus, social responsibility becomes an inseparable part of the company's sustainability strategy.

Nevertheless, several studies indicate that the level of ISR disclosure still varies among companies. Murtadlo (2019) found that Sharia companies in Indonesia have not fully and consistently disclosed all ISR indicators. This discrepancy indicates that the implementation of Islamic accounting does not always result in the same level of social responsibility. This variation suggests the presence of other factors that influence the effectiveness of the relationship between Islamic accounting and social responsibility.

In this context, corporate governance has become one of the most widely studied factors. Mais and Lufian (2018) showed that Sharia governance mechanisms, particularly the presence of a Sharia supervisory board, contribute to improving the quality of corporate social responsibility disclosure. Effective governance enables companies to apply the principles of transparency, accountability, and Sharia compliance more consistently, thereby encouraging broader social disclosure. Other studies also indicate that corporate governance characteristics, such as the size of the board of commissioners, commissioner independence, the effectiveness of the audit committee, and the quality of the Sharia supervisory board, are related to the quality of corporate reporting. An effective oversight mechanism can reduce agency conflicts, enhance information transparency, and strengthen stakeholder trust. However, most of these studies still position corporate governance as an independent variable that directly affects social responsibility.

On the other hand, research on the role of corporate governance as a moderating variable remains relatively limited. Vis-à-vis conceptual framework, corporate governance has the potential to strengthen the relationship between the implementation of Islamic accounting and social responsibility. Companies with good governance are expected to be

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able to translate Islamic accounting principles into social reporting practices more effectively compared to companies with lower governance quality. Conversely, weak governance mechanisms may result in the implementation of Islamic accounting not being followed by an increase in the quality of social responsibility disclosure.

In addition, most prior research has focused more on the direct influence of Islamic accounting on corporate performance or the influence of corporate governance on social disclosure separately. Research that integrates these three variables—namely Islamic accounting, corporate governance, and social responsibility—into a single conceptual model is still relatively scarce. This limitation suggests that the mechanism of how corporate governance influences the relationship between Islamic accounting and social responsibility is not yet fully understood.

Based on this review, this study attempts to fill the research gap by positioning corporate governance as a moderating variable in the relationship between Islamic accounting and social responsibility. This approach is expected to provide a more comprehensive understanding of the effectiveness of Islamic accounting implementation in improving the quality of corporate social responsibility. Accordingly, this study not only expands the theoretical development regarding Islamic accounting and corporate governance, but also provides an empirical contribution to the literature on social responsibility practices in Sharia-based companies.

METHOD

Research Design

This study employs an explanatory research design using a survey method as the primary data collection technique. The population consists of companies listed in the Indonesian Sharia Stock Index (ISSI) during the 2021–2025 period. The sample was selected using a purposive sampling technique based on predetermined criteria.

Moderated Regression Analysis (MRA) was employed to examine the role of Sharia Governance as a moderating variable in the relationship between Sharia Accounting and Corporate Social Responsibility (CSR). Statistical analysis was conducted using SmartPLS with moderation effects.

Variable	Variable Type	Indicators
Sharia Accounting	Independent (X)	Disclosure of Sharia financial statements in accordance with Sharia PSAK

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		Compliance with PSAK 101, 102, 105, 106, 107, and 108
		Zakat disclosure
		Benevolent fund (Qard Hasan/charity fund) disclosure
		Disclosure of non-halal transactions
Corporate Social Responsibility (CSR)	Dependent (Y)	Investment and finance theme
		Products and services
		Employees
		Community
		Environment
Sharia Governance Factors	Moderating (M)	Number of Sharia Supervisory Board (SSB) members
		Frequency of SSB meetings
		Competency of SSB members
		Size of the Board of Commissioners
		Proportion of Independent Commissioners
		Sharia Audit Committee

RESULTS AND DISCUSSION

A. Outer Model

1. Validity Test

Validitas Convergent				
	M	**X**	**Y**	**M x X**
M1.1	0.975			
M1.2	0.957			

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Validitas Convergent				
	M	**X**	**Y**	**M x X**
M1.3	0.955			
M1.4	0.952			
M1.5	0.960			
M1.6	0.957			
X1		0.955		
X2		0.948		
X3		0.950		
X4		0.950		
X5		0.951		
Y1			0.958	
Y2			0.973	
Y3			0.933	
Y4			0.934	
Y5			0.952	
M x X				1.000

Convergent validity based on loading factors indicates that each item across the independent, moderating, and dependent variables has a loading factor value greater than 0.70. This implies that the assumption of convergent validity based on loading factor values has been satisfied

Average variance extracted (AVE)	
M	0.922
X	0.906
Y	0.917

Convergent validity testing requires the Average Variance Extracted (AVE) value to be greater than 0.50. The convergent validity test results based on the AVE values in the table above show that each variable has a value greater than 0.50 (>0.50). This implies that the assumption of convergent validity based on AVE values has been satisfied.

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Validitas Discriminant				
	M	**X**	**Y**	**M x X**
M				
X	0.253			
Y	0.263	0.264		
M x X	0.275	0.042	0.047	

Discriminant validity testing requires the HTMT value to be less than 0.90. The test results in the table above show that each variable has a value below 0.90 (<0.90). This implies that the assumption for discriminant validity testing has been satisfied

2. Reliability Test

	Cronbach's alpha	**Compo-site relia-bility (rho_a)**
M	0.961	0.961
X	0.977	0.977
Y	0.969	0.969

Cronbach's Alpha and Composite Reliability values must be >0.70 as the assessment criteria. The test results in the table above indicate that every variable has a value >0.70. This means that the reliability test based on Cronbach's Alpha and Composite Reliability values is fulfilled.

B. Inner Model

1. R Square

This test is conducted to measure the strength of the independent variable in explaining the dependent variable. The evaluation criteria specify that a value of 0.25 indicates a weak model, 0.50 indicates a moderate model, and 0.75 indicates a strong model. Based on the testing, the R-Square results for this study are as follows:

	R-square	**R-square adjusted**
Y	0.506	0.502

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The R-Square value is 0.506, which indicates that the model used is classified as a moderate mode

2. *Goodness of FIT*

This test is conducted to assess the model's goodness of fit in explaining the observed data. The criteria for the Goodness of Fit test specify that the SRMR value must be less than 0.10.

	Satu-rated model	Esti-mated model
SRMR	0.030	0.030
d_ULS	0.268	0.270
d_G	0.403	0.403
Chi-square	221.205	221.010
NFI	0.917	0.917

The test results in the estimated model column show a value of 0.030, which is less than 0.10. This implies that the model used is a good fit and is capable of explaining the observed data.

3. F Square Test

This aims to measure the extent to which the independent variable contributes to the dependent variable after being included in the model.

	M	X	Y	M x X
M			0.368	
X			0.709	
Y				
M x X			0.673	

The table above shows that the value between the moderating variable (the Role of Sharia Governance) and the dependent variable (Corporate Social Responsibility) is 0.368. The value between the independent variable and the dependent variable is 0.709. This indicates that the ability of each moderating and independent variable to influence the dependent variable is relatively large or strong.

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Meanwhile, the interaction between the independent variable and the moderating variable has an effect size of 0.673 on the dependent variable. Therefore, it can be interpreted that the interaction between the independent variable and the moderating variable on the dependent variable has a strong effect size.

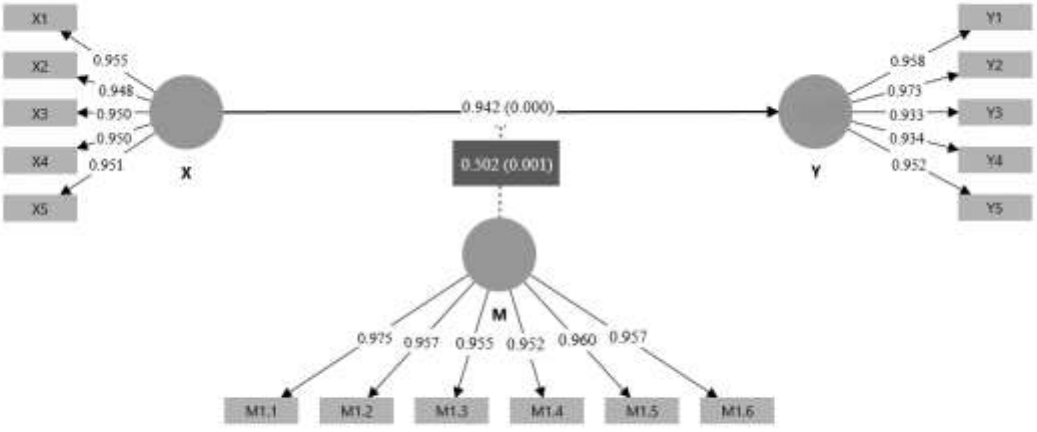
4. Path Coefficients

It is used to test the magnitude of the effect and the direction of the relationship between research variables. The testing criteria are as follows: if the P-value is < 0.05, it indicates a significant effect; if the P-value is > 0.05, it indicates that there is no significant effect.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
M -> Y	0.952	0.968	0.138	3.741	0.000
M x X -> Y	0.502	0.920	0.081	5.012	0.001
X -> Y	0.942	0.931	0.129	7.303	0.000

The results of the path coefficients test through the direct effect show that:

a. The moderating variable (the Role of Sharia Governance) has an effect on the dependent variable (Corporate Social Responsibility). This is evidenced by the obtained P-value of 0.000, which is < 0.05. This means that there is a significant effect of the Role of Sharia Governance on Corporate Social Responsibility;
b. The interaction between the independent variable and the moderating variable on the dependent variable shows a P-value of 0.001, which is < 0.05. Therefore, it can be interpreted that the Role of Sharia Governance as a moderating variable is able to strengthen the relationship between Sharia Accounting and Corporate Social Responsibility;
c. The independent variable on the dependent variable has a P-value of 0.000, which is clearly < 0.05. This means that Sharia Accounting and Corporate Social Responsibility have a significant relationship."



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RESULTS

Structural Model Assessment

The structural model demonstrates satisfactory explanatory power. The coefficient of determination (R^2) for Corporate Social Responsibility (CSR) is 0.506, indicating that Islamic Accounting and Corporate Governance jointly explain approximately 50.6% of the variance in CSR disclosure among Indonesian Sharia-compliant companies. This level of explanatory power is categorized as moderate, suggesting that the proposed model captures a substantial proportion of CSR behavior while acknowledging the influence of other organizational and environmental determinants.

Model fitness further confirms the adequacy of the structural model. The Standardized Root Mean Square Residual (SRMR) equals 0.030, substantially below the recommended threshold of 0.08, while the Normed Fit Index (NFI) reaches 0.917, indicating an acceptable level of overall model fit. These findings demonstrate that the hypothesized relationships adequately represent the observed data and provide a reliable basis for hypothesis testing.

Effect of Islamic Accounting on Corporate Social Responsibility

The empirical results reveal that Islamic Accounting exerts a positive and statistically significant influence on Corporate Social Responsibility, with a standardized path coefficient of $\beta = 0.942$, $t = 7.303$, and $p < 0.001$.This finding indicates that improvements in the implementation of Islamic Accounting practices—including compliance with PSAK Syariah, disclosure of zakat, benevolent funds (qard hasan), and non-halal transactions—substantially enhance the quality of Islamic Social Reporting (ISR).

The magnitude of the coefficient suggests that Islamic Accounting is not merely an accounting framework for financial reporting; rather, it functions as an institutional mechanism that strengthens corporate accountability toward multiple stakeholders. Companies demonstrating higher compliance with Sharia accounting principles tend to disclose broader social, ethical, and environmental information, thereby improving organizational legitimacy and public trust.

These findings are particularly relevant within the Indonesian context, where regulators have intensified governance reforms and sustainability disclosure requirements during the 2021–2025 period. Consequently, Islamic Accounting has increasingly evolved from a compliance-oriented reporting system into a strategic governance instrument supporting sustainable corporate value creation.

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Moderating Effect of Corporate Governance

The interaction between Islamic Accounting and Corporate Governance is found to be positive and statistically significant (β = 0.502, t = 5.012, p = 0.001), confirming that Corporate Governance significantly moderates the relationship between Islamic Accounting and Corporate Social Responsibility.Furthermore, the interaction effect exhibits a relatively large effect size (f^2 = 0.673), indicating that governance quality substantially strengthens the influence of Islamic Accounting on CSR disclosure.

These results imply that companies implementing high-quality governance mechanisms—including effective Sharia Supervisory Boards, independent commissioners, competent audit committees, and active board oversight—are considerably more capable of translating Islamic Accounting principles into meaningful social responsibility practices.Conversely, organizations characterized by weak governance structures may formally comply with Islamic accounting standards while failing to transform such compliance into comprehensive stakeholder-oriented disclosure.Therefore, Corporate Governance should not merely be viewed as an independent governance mechanism but rather as a strategic capability that enhances the effectiveness of Islamic Accounting implementation.

DISCUSSION

Implementation of Sharia Accounting and the Disclosure Level of Social Responsibility Based on Islamic Social Reporting (ISR) in Sharia-Based Entities in Indonesia

The implementation of Sharia accounting within Sharia-based entities in Indonesia has shown significant growth over the past two decades. This system does not merely govern the recording of financial transactions; it heavily emphasizes compliance with Sharia principles derived from Islamic values. This practice reflects the integration of economic and spiritual dimensions within organizational management. Such an approach demands broader transparency and accountability compared to conventional accounting. This context serves as an essential foundation for understanding how social reporting develops within a Sharia framework.

Sharia accounting possesses unique characteristics that distinguish it from conventional systems. The principles of justice, the prohibition of riba (usury), and the equitable distribution of wealth serve as the core foundations in preparing financial statements. This implies a reporting structure that focuses not only on profitability but also on social impact and economic blessings (barakah). This approach expands the meaning of

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accountability into something more holistic. Consequently, this concept strengthens a company's legitimacy in the eyes of the Muslim community.

Social responsibility disclosure based on Islamic Social Reporting (ISR) is an integral part of Sharia accounting implementation. ISR provides a more comprehensive measurement framework compared to conventional CSR. ISR indicators encompass religious aspects such as zakat (almsgiving), social justice, and Sharia compliance. This model offers a broader overview of corporate activities. Research by Sofyani, Ihyaul Ulum, Daniel Syam, and Sri Wahjuni (2012) demonstrates that ISR serves as an effective measurement tool to assess the social performance of Sharia banks.

The level of ISR disclosure in Indonesia varies considerably across entities. Large companies tend to have better disclosure levels than smaller ones, with resource constraints being a primary cause for this discrepancy. Furthermore, stakeholder pressure also influences the level of social transparency. This condition indicates that the implementation of ISR is not yet fully uniform. Nevertheless, ISR practices in Sharia banking have shown increasing consistency over time. Annual reports have begun to incorporate social aspects more systematically. Information regarding zakat, social activities, and sustainability is increasingly disclosed, highlighting an institutional awareness of the importance of social responsibility. Mubarak, Pramono, and Bayinah (2019) found that Sharia banks have begun integrating ISR into their stakeholder communication strategies.

Reporting standards are crucial in determining the quality of ISR disclosure. The absence of standardized guidelines leads to variations in how social information is presented; some companies provide detailed disclosures, while others remain generic. This situation underscores the need for stronger regulation. Harmonizing ISR standards is an urgent necessity for the advancement of Sharia accounting. The role of regulators in encouraging ISR implementation must be strengthened, and financial authorities bear the responsibility of establishing clear reporting guidelines.

Sharia Governance Factors

Sharia governance (Islamic corporate governance) plays a vital role in strengthening the relationship between Sharia accounting and social responsibility. Sharia governance provides the institutional framework for managing Sharia-compliant companies. This system integrates the principles of transparency, accountability, and fairness. Proper implementation enhances stakeholder trust, which in turn improves company performance. Mais and Lufian (2018) demonstrate that Sharia governance significantly influences ISR disclosure.An effective oversight structure ensures compliance with Sharia principles, with the Sharia Supervisory Board (SSB/DPS) acting as the primary actor in this process. Their

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oversight functions include evaluating financial statements and social activities to improve corporate reporting quality. The role of the SSB is absolutely crucial in ensuring compliance with Sharia principles. The presence of this board enhances the credibility of financial reports and strengthens corporate legitimacy. Effective oversight leads to higher-quality ISR, making this function a core differentiator from conventional systems.

The vital role of the Sharia Supervisory Board is legally ratified in Law No. 40 of 2007 concerning Limited Liability Companies, which mandates the establishment of an SSB for companies conducting business activities based on Sharia principles. This is further reinforced by Law No. 21 of 2008 concerning Sharia Banking, which obligates Sharia Banks and Sharia Business Units (UUS) to have an SSB. The board is tasked with providing advice and recommendations to the Board of Directors, as well as supervising bank activities in accordance with the fatwas issued by the National Sharia Board (DSN).

Based on the decree of the MUI leadership regarding the organizational structure of DSN-MUI No. Kep-98/MUI/III/2001, the functions of the SSB are as follows:

a) Acting as an advisor and recommender to the board of directors and heads of Sharia branch offices regarding matters related to Sharia aspects.
b) Serving as a mediator between the bank and the DSN in submitting proposals and recommendations for banking product and service developments that require DSN review and fatwas.
c) Acting as representatives of the DSN assigned to Sharia banks.

Ownership structure also influences the level of social transparency. Companies with institutional ownership tend to experience stricter monitoring, which enhances the quality of ISR reporting. Institutional investors demand higher transparency, pushing companies to become more accountable.

The external environment also affects the relationship between Sharia accounting and ISR. Government regulations are a key driver for transparency, while public pressure increases corporate awareness. This indicates that external factors play a significant role; the combination of internal and external factors shapes the dynamics of ISR implementation. The maqashid Sharia (objectives of Sharia) approach provides an additional perspective for understanding this relationship. The objectives of Sharia serve as the foundation for corporate activities. Implementing ISR in alignment with maqashid yields a broader social impact, enhancing the company's sustainability value. This perspective strengthens the philosophical foundation of the study. Moderization analysis becomes essential to comprehending the relationship between variables. Governance variables and company characteristics can either strengthen or weaken the primary relationship. Statistical

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approaches such as moderated regression analysis (MRA) can be used to provide a deeper understanding, making the research model more comprehensive.

In conclusion, this discussion shows that Sharia governance and company characteristics play a significant role as moderating variables. The relationship between Sharia accounting and ISR is not simply linear; its complexity requires a profound analytical approach. These findings offer an important contribution to theoretical development, significantly enriching the literature on Sharia economics.

Analysis: The Role of Corporate Governance in Moderating the Relationship Between Sharia Accounting and Social Responsibility

The results of the study show that Sharia accounting has a positive and significant effect on corporate social responsibility. This finding is evidenced by a path coefficient value of 0.942 with a significance level of 0.000, indicating that better implementation of Sharia accounting corresponds to a higher level of corporate social responsibility. This positive relationship implies that the application of Sharia accounting principles does not merely function as a financial reporting system, but also acts as a mechanism that drives companies to carry out social responsibility more comprehensively.

Conceptually, Sharia accounting is built upon the principle of accountability, which possesses a broader dimension compared to conventional accounting. Accountability in a Sharia perspective is directed not only toward shareholders but also toward Allah SWT, society, and the environment. Therefore, companies applying Sharia accounting principles have a moral and normative drive to disclose their social activities more extensively through Islamic Social Reporting (ISR). Such disclosure reflects the company's commitment to conducting business activities aligned with the values of justice, transparency, and public welfare (maslahah).

The findings of this study support Legitimacy Theory, which explains that companies strive to obtain and maintain social legitimacy through activities that align with societal values and expectations. In the context of Sharia companies, legitimacy is gained not only through generating profit but also through compliance with Sharia principles and the execution of social responsibility. The application of Sharia accounting serves as a means for companies to demonstrate that their operational activities conform to Islamic values, thereby increasing stakeholder trust.

The research results also align with Stakeholder Theory. This theory asserts that companies have a responsibility to meet the informational needs of all stakeholders, including investors, regulators, employees, the public, and the environment. From a Sharia perspective, fulfilling these needs is achieved not only through financial information but also

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through the disclosure of social information that reflects Sharia compliance. Thus, the implementation of Sharia accounting becomes an instrument that strengthens corporate-stakeholder relationships by increasing transparency and accountability.

The empirical findings of this study reinforce the research by Haniffa (2002), which states that social reporting from an Islamic perspective is part of corporate accountability to society and to Allah SWT. Sharia-based social reporting does not merely fulfill administrative obligations; it manifests as a company's moral responsibility to create welfare. This study is also consistent with Othman, Thani, and Ghani (2009), who found that companies with higher implementation rates of Sharia principles tend to disclose ISR more extensively.

Additionally, these results support the study by Sutapa and Hanafi (2019), which shows that ISR implementation can enhance corporate legitimacy and strengthen investor trust. More comprehensive social disclosure signals that the company is not solely pursuing economic profit but also holds a firm commitment to sustainability and social responsibility. In the long run, this condition has the potential to boost corporate reputation while sharpening its competitive edge.

The exceptionally high correlation coefficient demonstrates that Sharia accounting plays a dominant role in explaining variations in corporate social responsibility within the research sample. This indicates that Sharia accounting indicators—such as compliance with Sharia Financial Accounting Standards (PSAK Syariah), disclosure of zakat, benevolence funds (qardhul hasan), and non-halal transactions—are essential elements in motivating companies to disclose social activities more comprehensively.

Practically, these findings imply that Sharia companies need to reinforce the quality of their Sharia accounting implementation as part of their strategy to enhance social responsibility. The consistent application of Sharia reporting standards not only improves the quality of financial information but also builds public confidence in the company's commitment to Sharia principles. For regulators, these results highlight the importance of encouraging compliance with PSAK Syariah and expanding social reporting standards to elevate the overall quality of corporate social responsibility implementation.

Islamic Accounting as a Strategic Driver of Islamic Social Responsibility

The findings provide strong empirical evidence supporting the proposition that Islamic Accounting serves as a strategic determinant of Corporate Social Responsibility within Indonesian Sharia-compliant companies.Unlike conventional accounting systems, Islamic Accounting embeds accountability within a multidimensional framework encompassing accountability to Allah (hablumminallah), society (hablumminannas), and the

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environment. This broader accountability orientation encourages firms to disclose information beyond mandatory financial reporting, thereby increasing transparency regarding social welfare, environmental stewardship, zakat management, employee welfare, and ethical business conduct.

The results reinforce the argument that Islamic Accounting functions not only as a financial measurement system but also as a governance mechanism promoting organizational legitimacy. Companies adopting comprehensive Islamic Accounting practices appear more capable of responding to increasing stakeholder expectations regarding ethical and sustainable business conduct.These findings are consistent with the growing emphasis on Environmental, Social, and Governance (ESG) reporting in global capital markets, suggesting that Islamic Accounting provides an indigenous governance framework compatible with contemporary sustainability principles.

Corporate Governance Strengthens the Effectiveness of Islamic Accounting

An important contribution of this study lies in demonstrating that Corporate Governance significantly strengthens the positive impact of Islamic Accounting on CSR. This finding indicates that accounting standards alone are insufficient to produce high-quality social responsibility disclosure. Instead, governance quality determines whether Islamic accounting principles are effectively implemented throughout organizational decision-making processes.

In Indonesian Sharia-compliant companies, governance mechanisms—including the Sharia Supervisory Board, Board of Commissioners, and Audit Committee—play complementary roles in ensuring consistency between accounting practices and Islamic ethical principles.The results suggest that governance quality enhances monitoring effectiveness, reduces information asymmetry, minimizes managerial opportunism, and strengthens compliance with Sharia principles. Consequently, firms characterized by stronger governance structures exhibit higher levels of transparency and more comprehensive Islamic Social Reporting.

CONCLUSION

This study aims to analyze the effect of Sharia Accounting on Corporate Social Responsibility and to examine the role of Corporate Governance in moderating this relationship. The results show that Sharia Accounting has a positive and significant effect on Corporate Social Responsibility. This finding indicates that the implementation of Sharia accounting principles, reflected in compliance with Sharia reporting standards and the disclosure of information aligned with Islamic values, is able to improve the quality of

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corporate social responsibility implementation and disclosure through Islamic Social Reporting (ISR). Thus, Sharia Accounting does not only function as a financial reporting system but also serves as an accountability instrument that supports the creation of transparency, fairness, and sustainability in business activities.

This study also proves that Corporate Governance acts as a moderating variable that strengthens the relationship between Sharia Accounting and Corporate Social Responsibility. Effective governance mechanisms, including the role of the Sharia Supervisory Board, Board of Commissioners, and Audit Committee, are able to enhance the effectiveness of Sharia accounting principles implementation, thereby contributing to more comprehensive corporate social responsibility disclosure. This finding indicates that the successful implementation of Sharia Accounting is not only determined by compliance with accounting standards but also by the quality of governance that ensures the consistent application of Sharia values in corporate practices.

Theoretically, this study strengthens Legitimacy Theory, Stakeholder Theory, and Sharia Enterprise Theory by demonstrating that Sharia Accounting and Corporate Governance are complementary mechanisms in establishing corporate social accountability. From a practical perspective, the findings imply that companies need to strengthen the implementation of Sharia Accounting while improving governance effectiveness to enhance the quality of Islamic Social Reporting. For regulators, these findings provide a basis for continuing to encourage the strengthening of regulations and supervision of Sharia governance practices in order to improve transparency, accountability, and sustainability of Sharia-based companies in Indonesia.

Recommendations

Based on the empirical findings, several recommendations can be proposed for corporate practitioners, regulators, and future researchers.First, Sharia-compliant companies should strengthen the implementation of Islamic Accounting beyond mere compliance with Sharia Financial Accounting Standards (PSAK Syariah). Islamic accounting should be institutionalized as a strategic governance instrument that integrates financial accountability, ethical conduct, and sustainability objectives. Companies are encouraged to improve the quality of Islamic Social Reporting (ISR) by providing more comprehensive disclosures regarding zakat management, benevolent funds (qard hasan), Sharia compliance, environmental stewardship, employee welfare, and community development initiatives. Such disclosures are expected to enhance stakeholder confidence and reinforce corporate legitimacy.

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Second, the findings highlight the strategic importance of Corporate Governance in maximizing the effectiveness of Islamic Accounting. Therefore, companies should strengthen governance mechanisms by improving the competency, independence, and effectiveness of the Sharia Supervisory Board (SSB), Board of Commissioners, and Audit Committee. Continuous professional development programs should be provided for governance members to enhance their expertise in Islamic accounting, sustainability reporting, risk management, and environmental, social, and governance (ESG) practices. Effective governance will ensure that Islamic accounting principles are consistently translated into high-quality social responsibility disclosure.

Third, regulators—including the Financial Services Authority (OJK), National Sharia Council–Indonesian Ulema Council (DSN-MUI), and the Indonesian Institute of Accountants (IAI)—should further harmonize Islamic accounting standards with Islamic Social Reporting guidelines and corporate governance regulations. The development of standardized ISR reporting frameworks would improve disclosure comparability across Sharia-compliant companies while reducing reporting inconsistencies. Such harmonization is expected to strengthen transparency, accountability, and investor confidence within Indonesia's Islamic capital market.

Fourth, institutional investors should incorporate Islamic governance quality into investment decision-making processes. Besides evaluating financial performance, investors should consider governance effectiveness, Sharia compliance, and the comprehensiveness of Islamic Social Reporting as important indicators of long-term corporate sustainability. This approach aligns with the increasing global emphasis on responsible investment and sustainable finance.

Finally, future studies should extend the present research in several directions. First, future research may employ longitudinal panel data covering a longer observation period to capture changes in governance quality and sustainability practices over time. Second, subsequent studies may incorporate additional moderating or mediating variables such as firm size, ownership structure, profitability, ESG performance, digital governance, board diversity, institutional ownership, or intellectual capital. Third, comparative cross-country studies involving Islamic financial institutions in Southeast Asia, the Gulf Cooperation Council (GCC), or other Muslim-majority economies would provide broader empirical evidence regarding the generalizability of the proposed model. Finally, mixed-method and qualitative approaches may complement quantitative findings by exploring how governance actors interpret and implement Islamic accounting principles in organizational decision-making, thereby enriching the theoretical development of Islamic Accounting and Corporate Governance.

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Limitations and suggestions for further study

This study provides empirical evidence regarding the moderating role of Corporate Governance in the relationship between Islamic Accounting and Corporate Social Responsibility (CSR) among companies listed in the Indonesian Sharia Stock Index (ISSI). Nevertheless, several limitations should be acknowledged.

First, this study focuses exclusively on Sharia-compliant companies listed in the Indonesian Sharia Stock Index (ISSI) during the 2021–2025 observation period. Consequently, the findings may not be generalizable to Islamic financial institutions, non-listed Sharia enterprises, small and medium-sized enterprises (SMEs), or organizations operating in other institutional and regulatory environments. Differences in governance structures, reporting practices, and stakeholder expectations across countries may produce different empirical relationships.

Second, the study employs a quantitative approach using Moderated Regression Analysis (MRA) with SmartPLS. Although this method effectively explains structural relationships among variables, it does not capture the organizational processes, managerial perceptions, or behavioral factors underlying the implementation of Islamic Accounting and Corporate Governance. Consequently, the findings explain statistical relationships rather than the institutional mechanisms through which governance strengthens Islamic Social Reporting practices.

Third, the explanatory power of the model ($R^2 = 0.506$) indicates that approximately half of the variation in Corporate Social Responsibility is explained by Islamic Accounting and Corporate Governance, while the remaining variance may be attributable to other organizational, financial, and institutional factors not incorporated into the research model. Variables such as profitability, firm size, ownership concentration, institutional ownership, board diversity, environmental performance, digital governance, intellectual capital, sustainability strategy, and ESG orientation may also influence the quality of Islamic Social Reporting.

Fourth, the measurement of Corporate Social Responsibility relies primarily on Islamic Social Reporting (ISR) indicators derived from annual corporate disclosures. Although ISR is widely recognized as an appropriate framework for assessing Sharia-based social responsibility, disclosure quality may not always reflect the actual implementation of corporate social activities. Companies with relatively comprehensive disclosures may not necessarily demonstrate superior social performance, while firms with substantive social initiatives may disclose them only to a limited extent.

Finally, this study is conducted within the Indonesian regulatory context, where Islamic accounting standards, Sharia governance mechanisms, and sustainability reporting

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requirements continue to evolve. Future regulatory developments may alter corporate reporting behavior and governance effectiveness, thereby influencing the relationships examined in this study.

Suggestions for Further Study

Future research should expand the present model by incorporating additional organizational and institutional variables that may influence Islamic Social Reporting. Potential explanatory variables include ESG performance, sustainability governance, digital transformation, intellectual capital, risk management quality, board diversity, institutional ownership, managerial ownership, firm life cycle, and organizational culture.

Future studies are also encouraged to employ longitudinal panel-data techniques covering longer observation periods to capture dynamic changes in governance quality and social responsibility disclosure. Such an approach would provide stronger causal inference than cross-sectional analysis.

Comparative cross-country research involving Islamic financial institutions and Sharia-compliant companies across Southeast Asia, the Gulf Cooperation Council (GCC), and other Muslim-majority economies would enhance the external validity of the proposed model and provide insights into the influence of different regulatory and governance environments.

In addition, future researchers may adopt mixed-method or qualitative approaches through interviews, case studies, or ethnographic investigations involving members of the Sharia Supervisory Board, audit committees, corporate executives, regulators, and investors. Such approaches would provide deeper insights into how Islamic Accounting principles are interpreted and implemented in organizational decision-making beyond what can be explained through quantitative analysis alone.

Finally, future studies may extend the present framework by integrating emerging theoretical perspectives such as Institutional Theory, Resource-Based View (RBV), Dynamic Capabilities Theory, and ESG governance frameworks. These perspectives may provide a more comprehensive explanation of how Islamic Accounting, Corporate Governance, and sustainability interact to enhance long-term organizational legitimacy and value creation.

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