

Examining the Effect of Islamic Corporate Social Responsibility on Profitability: Return on Assets as a Mediator

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ABSTRACT

Islamic Corporate Social Responsibility (ICSR) has become a critical strategy for companies to enhance sustainability and stakeholder trust, yet its impact on financial performance remains debated. This study examines the empirical impact of Islamic Corporate Social Responsibility (ICSR) on profitability, utilizing Islamic Corporate Governance (ICG) and Return on Assets (ROA) within a mediating framework. A descriptive-associative design with a quantitative approach was employed, covering all companies listed on the Jakarta Islamic Index (JII). A purposive sample of eight companies consistently listed between 2013 and 2023 was selected. Data analysis was conducted using path analysis through Structural Equation Modeling (SEM) with SmartPLS software. The findings reveal that while ICSR significantly influences ICG, it does not exert a direct impact on ROA. Furthermore, although ROA is a critical factor for ICG, its role as a mediator in the relationship between ICSR and ICG was not supported by the data. These results suggest that ICSR serves primarily to strengthen governance mechanisms rather than directly driving immediate financial profitability.

Keywords: Financial Performance, Islamic Corporate Governance, Islamic Corporate Social Responsibility, Profitability.

INTRODUCTION

The topic of Good Corporate Governance (GCG) has garnered increasing attention over the past decade due to the rising incidence of corporate crises and failures. Events such as the Exxon Valdez disaster and the Ford Pinto scandal illustrate instances in which companies prioritized profit over human safety (Guimarães-Costa et al., 2025). Major corporate failures, including Enron and WorldCom, have raised serious concerns regarding governance accountability (Çakalı, 2022; Madegowda, 2025). In Indonesia, weak corporate governance has also led to significant economic consequences, particularly in the banking sector, triggering the 1997–1999 monetary crisis that resulted in the liquidation of 71 banks and an additional 18 banks in 2001, as well as defaults in the insurance industry, including Bakrie Life, Jiwasraya, and AJB Bumiputera 1912, causing losses amounting to billions of rupiah.

Weak governance has been identified as a key factor underlying these failures, especially in the aftermath of the 1997 economic crisis, prompting stakeholders to emphasize the importance of implementing GCG as part of economic recovery efforts. Since then, various initiatives have been undertaken to strengthen governance across sectors (Lee et al., 2023; Orazalin et al., 2024). In recent years, demand for businesses that are not only financially profitable but also socially responsible and compliant with Sharia principles has increased, leading to the evolution of GCG into Islamic Corporate Governance (ICG), which is grounded in Islamic principles and moral values and

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emphasizes transparency, accountability, responsibility, independence, and fairness (Solihati et al., 2023; Yahya et al., 2023; Syafira et al., 2025).

The development of ICG and Islamic Corporate Social Responsibility (ICSR) has been further driven by strengthened regulations and Sharia governance guidelines (Romadhonia & Kurniawati, 2022; Fevrianti & Fithria, 2023; Jati & Irsyad, 2024). Countries, including Indonesia, have tightened regulations for Sharia-based governance, with the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) issuing directives to ensure that companies listed in Sharia indices, such as the Jakarta Islamic Index (JII), comply with governance standards, including stricter requirements for the appointment and functions of the Sharia Supervisory Board (*Dewan Pengawas Syariah/DPS*). Moreover, Sharia-based companies are adopting technologies such as blockchain and smart contracts to enhance transparency, prevent *riba*, *gharar*, and *maisir*, and facilitate Sharia compliance reporting (Norrahman, 2025). Shareholders and Sharia-conscious consumers increasingly demand transparency in corporate decision-making, particularly in finance and investment, enhancing investor confidence.

ICSR has become increasingly significant, with Sharia-based companies implementing intensive social programs, including environmental protection, economic empowerment, and poverty alleviation, in line with the principle of *maslahah*. Modern ICSR also includes sustainability initiatives such as renewable energy investments, use of recycled materials, and carbon emission reduction, reflecting the Islamic principle of environmental responsibility and balance (*tawazun*). Many companies view ICSR not merely as a cost but as a strategic investment to enhance corporate image, attract socially conscious consumers, and support long-term profitability (Lin, 2024; Ardiansyah & Alnoor, 2024).

Recent studies indicate that companies consistently implementing ICG and ICSR achieve higher long-term profitability. Bensaïd (2025) found that Sharia insurance companies with strong governance demonstrate better financial performance due to greater policyholder trust. Okoro (2025) reported that robust ICSR practices improve profitability by enhancing corporate reputation in Nigeria's food and beverage industry. Saddique and Haq (2025) showed that the combination of ICG and ICSR enhances financial performance in the Middle Eastern oil and gas sector by reducing reputational risk and increasing public trust. Uduji and Okolo-Obasi (2024) demonstrated that manufacturing firms in Pakistan achieve higher profitability through ICG and ICSR, as Sharia governance improves transparency and risk management, while CSR strengthens consumer loyalty. Similarly, Yoshida (2025) found that governance and CSR practices in the agricultural sector improve profitability by reducing social conflicts and strengthening community relationships, which are essential for business sustainability.

This study aims to empirically examine the effect of Islamic Corporate Social Responsibility (ICSR) on profitability, specifically Return on Assets (ROA) as a mediating variable. This evidence suggests that the combined implementation of ICG and ICSR enhances corporate reputation, builds stakeholder trust and loyalty, reduces operational risks, and supports long-term profitability. Compliance with Sharia principles encourages careful risk management and greater transparency, increasing investor appeal. Authentic ICSR practices further strengthen consumer loyalty, fostering stable profitability growth, particularly in the Islamic banking, finance, and property sectors. The integration of ICG and ICSR is thus not only an ethical obligation but also an effective business strategy for achieving sustainable financial performance in Sharia-based companies.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Islamic Corporate Social Responsibility on Islamic Corporate Governance

Islamic Corporate Social Responsibility (ICSR) represents corporate social responsibility practices based on Sharia principles, emphasizing a balance between economic, social, and environmental interests (Nastiti & Nuha, 2025). ICSR activities include community empowerment, social assistance, environmental protection, and adherence to Islamic values, including *maslahah* and *tawazun*. Previous studies by Iryania

et al. (2019) and Indriastuti and Chariri (2022) have demonstrated that the implementation of ICSR contributes to the strengthening of Islamic Corporate Governance (ICG) because Sharia-based CSR encourages companies to enhance transparency, accountability, and compliance with Sharia principles in business decision-making. Consequently, companies not only focus on financial profitability but also consider social welfare and ethical responsibility, thereby embedding a more holistic approach to corporate management that aligns with Islamic ethical imperatives.

Moreover, ICSR helps foster an ethical culture and good corporate governance by institutionalizing values that transcend mere regulatory compliance. Commitment to Sharia-based CSR programs encourages companies to establish stricter monitoring procedures, strengthen the role of the Sharia Supervisory Board (*Dewan Pengawas Syariah/DPS*), and integrate Islamic values into organizational decision-making mechanisms. Previous research by Prativi et al. (2021) and Ardana and Nurmalia (2025) has indicated that Sharia-based CSR can improve corporate reputation, strengthen stakeholder trust, and support more effective implementation of ICG. These improvements arise because ICSR signals a genuine commitment to ethical conduct, which enhances the legitimacy of governance bodies and fosters a corporate environment where accountability is both expected and reinforced.

In this sense, ICSR functions not only as a social responsibility initiative but also as a strategic tool for reinforcing governance structures in Sharia-compliant companies, extending its influence beyond philanthropy into the core of corporate strategy. By aligning social initiatives with governance objectives, companies can create synergies that enhance both their ethical standing and operational oversight. The integration of ICSR into governance frameworks ensures that decision-making processes consistently reflect Sharia principles, thereby reducing agency conflicts and promoting long-term sustainability (Zain et al., 2024; Lesmana, 2024). Ultimately, the strategic deployment of ICSR transforms it from a peripheral activity into a central pillar supporting robust Islamic corporate governance.

H1: Islamic corporate social responsibility has a positive effect on Islamic corporate governance.

The Effect of Islamic Corporate Social Responsibility on Return on Assets

The influence of ICSR on corporate profitability, often measured by Return on Assets (ROA), has been extensively studied, with findings consistently pointing to its indirect and long-term nature. Research by Annisa et al. (2024) and Masykuroh et al. (2025) indicates that the implementation of ICSR does not always have a direct effect on ROA because Sharia-based CSR programs tend to produce long-term benefits, such as enhanced reputation and stakeholder trust, which may not immediately translate into financial performance. Additionally, the costs associated with ICSR activities, including zakat, charitable contributions, and environmental programs, can reduce net income in the short term, limiting its direct impact on ROA (Salamah & Abbas, 2025). This suggests that while ICSR enhances social and reputational value, its financial impact may take time to manifest, indicating that ICSR may function more as a strategic investment in long-term sustainability rather than as a short-term profit-generating mechanism.

Nevertheless, ICSR can indirectly support financial performance through the accumulation of intangible assets that gradually enhance market positioning. Companies that consistently implement Sharia-based CSR initiatives are more likely to attract consumers and investors who value ethical and socially responsible business practices, thereby building a loyal customer base and a favorable investment climate. Over time, stakeholder trust and loyalty resulting from these initiatives may positively influence profitability by reducing customer acquisition costs and enhancing brand differentiation. Prior studies by Lubis and Siregar (2025) in Sharia-based sectors indicate that although ICSR's effect on ROA may be limited in the short term, companies actively engaging in Sharia-compliant social programs tend to achieve greater financial stability and potential

long-term profitability through sustained stakeholder relationships and enhanced corporate image.

The temporal disconnect between ICSR expenditure and financial returns further reinforces the argument that ICSR should be evaluated through a strategic rather than a transactional lens. Companies that treat ICSR as a core component of their business strategy, rather than a discretionary expense, are better positioned to reap long-term benefits, including improved operational efficiency and risk mitigation. The trust cultivated through genuine ICSR engagement can serve as a buffer during economic downturns, preserving firm value when financial metrics alone might falter (Sisdianto et al., 2023; Lubis & Siregar, 2025). Therefore, while ROA may not immediately reflect the benefits of ICSR, its contribution to building a resilient and ethically grounded enterprise underscores its critical role in sustainable financial performance.

H2: Islamic corporate social responsibility has a positive effect on return on assets.

The Effect of Return on Assets on Islamic Corporate Governance

Corporate profitability, measured by ROA, plays a crucial role in supporting the implementation of ICG by providing the financial capacity necessary for robust governance mechanisms. Companies with higher ROA possess greater resources to strengthen governance practices, including internal oversight, Sharia compliance, and transparent reporting mechanisms (Alam et al., 2022; Abdul Rahim et al., 2024). Strong profitability enables firms to finance monitoring activities, enhance the quality of the DPS, and ensure adherence to Sharia principles throughout business operations. Hence, ROA facilitates the development of effective and sustainable governance by supplying the material foundation upon which comprehensive oversight structures can be built (Sulbahri, 2022; Tashkandi, 2023). Moreover, financially strong companies are more capable of investing in governance innovation and digital monitoring systems that improve accountability, while this financial flexibility also allows firms to respond more effectively to regulatory changes and evolving stakeholder expectations without compromising their governance commitments.

Furthermore, higher ROA enhances stakeholder confidence in the company, creating a virtuous dynamic between financial performance and governance legitimacy. Profitable companies are better positioned to demonstrate a commitment to transparency and accountability, thereby strengthening ICG quality by signaling competence and reliability to both market participants and regulatory bodies. Previous research by Irawan (2024), Lisa et al. (2025), and Agustina et al. (2025) indicates that financially robust companies are more capable of reducing operational and reputational risks, which, in turn, supports the optimal implementation of Sharia-based governance. The capacity to manage risk effectively reassures stakeholders that the company is managed prudently, reinforcing the credibility of its governance framework and attracting further investment that can be channeled into additional governance improvements.

In other words, profitability not only reflects financial health but also serves as an essential factor in reinforcing corporate governance through multiple reinforcing channels. Sustained profitability signals managerial effectiveness, which further legitimizes governance structures in the eyes of investors and regulators, thereby reducing the cost of capital and facilitating access to resources needed for continuous governance enhancement. Consequently, strong financial performance and sound governance create a reinforcing cycle that promotes long-term organizational stability, wherein effective ICG attracts investors and customers, boosting profitability, which in turn funds further governance strengthening (Alam et al., 2022; Agustina et al., 2025). This reciprocal relationship underscores the strategic importance of profitability not merely as an end in itself but as a critical enabler of enduring Sharia-compliant governance practices.

H3: Return on assets has a positive effect on Islamic corporate governance.

Return on Assets as a Mediating

Return on Assets (ROA) can also be conceptualized as a mediating variable that explains the indirect relationship between Islamic Corporate Social Responsibility (ICSR) and Islamic Corporate Governance (ICG). This mediating perspective is based on the assumption that effective implementation of ICSR contributes to improvements in a company's financial performance, which subsequently facilitates the strengthening of Sharia-compliant governance structures (Zuraidah et al., 2024; Rosmiati et al., 2025). In this context, ICSR is not merely regarded as a social or ethical obligation but also as a strategic initiative capable of generating economic benefits. Theoretically, companies that consistently implement Sharia-based CSR practices are expected to enhance corporate reputation, build stakeholder trust, and improve overall market credibility, which may lead to higher profitability reflected in increased ROA. Greater profitability then provides additional financial resources that can be allocated to support governance mechanisms, such as improving internal control systems, strengthening supervisory functions, and ensuring compliance with Sharia principles (Subando et al., 2025).

However, several studies by Marnilin (2023) and Atarwaman (2025) indicate that ROA's mediating effect is often not significant. This occurs because the influence of ICSR on ICG tends to be direct, through increased company commitment to Sharia principles, accountability, and social responsibility. In other words, although profitability can enhance a firm's capacity to implement governance, the improvement of ICG quality is more directly influenced by ICSR itself rather than financial performance. These findings highlight that ICSR functions as a strategic factor in strengthening governance, independent of the company's financial results.

H4: Return on assets mediates the effect of Islamic corporate social responsibility on Islamic corporate governance.

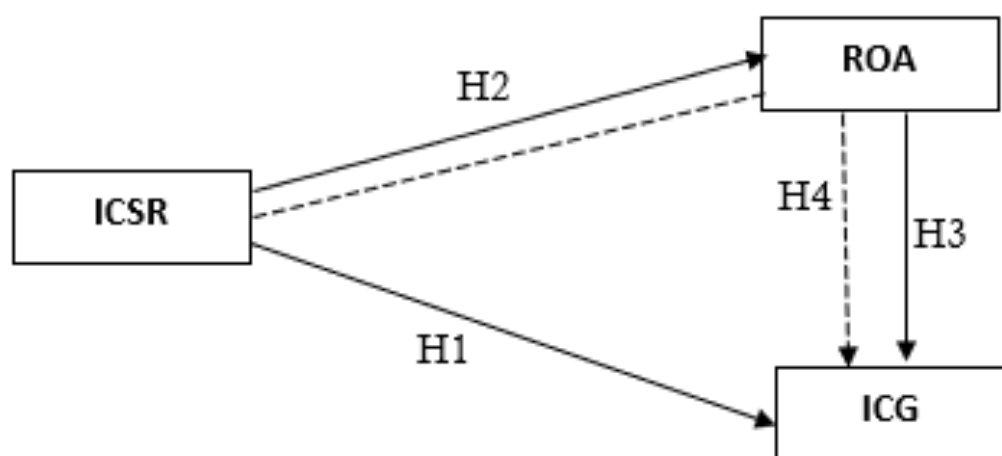


Figure 1. Research Framework

Figure 1 illustrates the relationships between ICSR, ROA, and ICG. In this model, ICSR serves as the independent variable, representing the implementation of Sharia-based corporate social responsibility practices. ROA functions as a mediating variable, reflecting the company's financial performance, while ICG is the dependent variable, indicating the quality of corporate governance in Islamic companies. The model proposes that ICSR directly influences ICG (H1) and also affects ROA (H2). Additionally, ROA is hypothesized to impact ICG (H3), suggesting that financial performance may mediate the relationship between ICSR and ICG (H4). The model seeks to examine both the direct effect of ICSR on ICG and the indirect effect through ROA, highlighting the role of financial performance as a potential mediator in enhancing Sharia-compliant governance practices.

RESEARCH METHODS

This study employs a descriptive–associative research design using a quantitative approach. The descriptive design aims to provide a systematic depiction of the characteristics of the variables under investigation, while the associative approach seeks to examine the relationships and causal influences among variables within the proposed research model. By adopting a quantitative approach, this study emphasizes the analysis of numerical data and statistical hypothesis testing to generate objective and measurable conclusions.

The data collection technique applied in this research is documentation. The study utilizes secondary data in the form of annual financial statements of companies listed in the Jakarta Islamic Index (JII). The population of this study comprises all companies included in the Jakarta Islamic Index during the 2013–2023 period. From this population, the sample was determined using a purposive sampling technique, in which sample units were selected based on predetermined criteria aligned with the research objectives. The sample includes eight companies consistently listed on the JII over an 11-year period (2013–2023). This technique ensures that the selected companies meet specific requirements, particularly the availability and completeness of financial data throughout the observation period.

The data analysis technique employed in this study is path analysis conducted through Structural Equation Modeling-Partial Least Squares (SEM-PLS). The analysis consists of two main stages: the evaluation of the measurement model (outer model) and the evaluation of the structural model (inner model). The outer model evaluation assesses the quality of the measurement instruments by examining convergent validity, discriminant validity, and composite reliability. Meanwhile, the inner model evaluation analyzes the relationships among latent variables by assessing the R-square values of the dependent constructs, the Q-square predictive relevance to determine the model's predictive capability, and the path coefficients for hypothesis testing. The data analysis was carried out using the SmartPLS application, which is specifically designed for SEM-PLS analysis. The use of SmartPLS enables a comprehensive assessment of the research model, both in terms of construct validity and reliability, as well as the strength and significance of the structural relationships among variables.

RESULTS

This section presents the results of data analysis and hypothesis testing. It aims to provide a clear understanding of the relationships among the studied factors and how they influence organizational outcomes. The discussion begins with the evaluation of the structural model, followed by the interpretation of direct and indirect effects, as well as the explanatory power of the model.

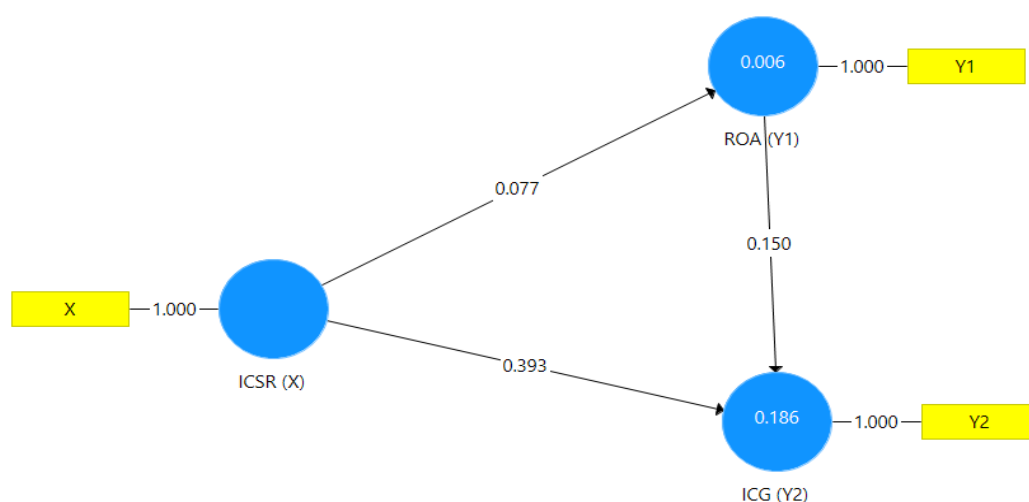


Figure 2. Standardized Coefficients of the Outer Model

Figure 2 presents the structural model results. The analysis shows that corporate social responsibility has a positive effect on financial performance (0.077) and an even stronger positive effect on corporate governance (0.393). Financial performance also positively influences corporate governance (0.150), suggesting that social responsibility indirectly supports better governance through improved financial outcomes. The model explains only a small portion of the variation in financial performance (0.6%), whereas it accounts for a larger share of the variation in corporate governance (18.6%).

Table 1. Factor Loading & Reliability Result

Variable	Factor Loading	Composite Reliability	Cronbach's Alpha	Indicator	Conclusion
ICSR (X)	1.000	1.000	1.000	≥ 0.60	Valid
ROA (Y1)	1.000	1.000	1.000	≥ 0.60	Valid
ICG (Y2)	1.000	1.000	1.000	≥ 0.60	Valid

Table 1 presents the results of the factor loading and reliability assessments for the measurement model. In this study, each construct is represented by a single indicator, which results in factor loading, Composite Reliability (CR), and Cronbach's Alpha (α) values of 1.000. While such perfect values are uncommon in models with multiple indicators, they are expected and acceptable in single-indicator constructs. This approach ensures that each construct is fully captured by its respective indicator, providing a clear and direct representation of the measured concept.

The results indicate that the selected indicators are effective in representing their underlying constructs, confirming that the measurement model is suitable for subsequent structural analysis. However, it should be noted that the use of single-item constructs inherently limits the application of conventional multi-item reliability and validity evaluations. Therefore, while the indicators demonstrate high internal consistency, the findings should be interpreted with caution, keeping in mind the limitations of single-indicator measurement.

Table 2. Convergent Validity

Variable	AVE Value	Indicator	Conclusion
ICSR (X)	1.000	≥ 0.50	Valid
ROA (Y1)	1.000	≥ 0.50	Valid
ICG (Y2)	1.000	≥ 0.50	Valid

Table 2 presents the results of the convergent validity assessment for the study variables. Convergent validity evaluates whether the indicators consistently reflect the same underlying construct. In this analysis, the Average Variance Extracted (AVE) for all

constructs of corporate social responsibility, financial performance, and corporate governance is reported as 1.000, which exceeds the commonly accepted threshold of 0.50.

Although such perfect AVE values are statistically unusual for constructs measured with multiple indicators, they are expected when each construct is represented by a single indicator. This suggests that each indicator fully captures the variance of its respective construct. It is important to note, however, that this configuration limits the ability to apply conventional multi-item validity assessments. Therefore, while the results indicate that the measurements are valid within the context of this study, interpretations should be made with caution, and the measurement model configuration should be clearly described to justify the use of single-indicator constructs.

Table 3. Cross Loading Result

Variable	ICG (Y2)	ICSR (X)	ROA (Y1)
ICSR (X)	0.404	1.000	0.077
ROA (Y1)	0.180	0.077	1.000
ICG (Y2)	1.000	0.404	0.180

Table 3 presents the cross-loading values for the study indicators. Each indicator shows the highest correlation with its respective variable X with ICSR, Y1 with ROA, and Y2 with ICG, while correlations with other constructs are smaller. This confirms that the indicators accurately measure their designated constructs, demonstrating discriminant validity.

Table 4. Fornell-Larcker Criterion

Variable	ICG (Y2)	ICSR (X)	ROA (Y1)
ICG (Y2)	1.000		
ICSR (X)	0.404	1.000	
ROA (Y1)	0.180	0.077	1.000

Table 4 shows the results of the Fornell-Larcker criterion, which is used to test the discriminant validity of the constructs in the model. The diagonal values, which are all 1.000, represent the square root of the AVE for each variable, while the off-diagonal values indicate the correlations between variables. For example, the correlation between ICG and ICSR is 0.404, between ICG and ROA is 0.180, and between ICSR and ROA is 0.077. Discriminant validity is achieved because the diagonal values of each construct are higher than their correlations with other constructs, indicating that each variable, ICG, ICSR, and ROA, is more strongly associated with its own indicators than with other constructs. This confirms that the three variables are distinct from each other in the model.

Table 5. R Square

Variable	R Square
ICG (Y2)	0.186
ROA (Y1)	0.006

Table 5 presents the R² values, which reflect the proportion of variance in the dependent variables explained by the independent variables. The R² for ICG (Y2) is 0.186, indicating that 18.6% of its variability can be accounted for by the predictor variable(s), representing a moderate level of explanation. Meanwhile, the R² for ROA (Y1) is 0.006, meaning that only 0.6% of its variation is explained by the independent variable, showing a very low explanatory capacity. Thus, the model moderately explains ICG but provides minimal predictive power for ROA.

Table 6. Hypothesis Testing Result

Relationship	Original Sample (O)	Sample Mean (M)	Std. Dev.	t-statistics	p- values
ICSR (X) → ICG (Y2)	0.393	0.393	0.080	4.909	0.000
ICSR (X) → ROA (Y1)	0.077	0.067	0.100	0.765	0.222
ROA (Y1) → ICG (Y2)	0.150	0.160	0.065	2.296	0.011
ICSR (X) → ROA (Y1) → ICG (Y2)	0.012	0.010	0.017	0.676	0.250

Table 6 summarizes the results of the hypothesis testing for the relationships among the study variables. The analysis indicates that ICSR exerts a significant positive effect on ICG, as evidenced by a path coefficient of 0.393, a t-value of 4.909, and a p-value of 0.000. Conversely, the effect of ICSR on ROA is positive but not statistically significant, with a coefficient of 0.077, t-value of 0.765, and p-value of 0.222. The influence of ROA on ICG is significant and positive, with a coefficient of 0.150, t-value of 2.296, and p-value of 0.011. Meanwhile, the mediating effect of ROA on the relationship between ICSR and ICG is not significant, indicated by a coefficient of 0.012, t-value of 0.676, and p-value of 0.250. In conclusion, the findings suggest that while ICSR directly enhances ICG, ROA also positively impacts ICG, ROA does not serve as a significant mediator between ICSR and ICG.

DISCUSSION

The hypothesis testing results indicate that Islamic Corporate Social Responsibility (ICSR) has a positive and significant effect on Islamic Corporate Governance (ICG). The path coefficient of 0.393, t-value of 4.909, and p-value of 0.000 demonstrate that higher levels of ICSR implementation are associated with better practices of Islamic corporate governance. This finding confirms that the adoption of socially responsible activities based on Sharia principles encourages companies to enhance transparency, accountability, and compliance with Sharia values in their operations. In other words, ICSR not only functions as a means to fulfill social responsibilities but also strengthens the overall governance structure of the company. This is consistent with previous studies by Iryania et al. (2019), which indicate that Sharia-based CSR practices can improve corporate reputation, reinforce Sharia compliance, and integrate Islamic values into corporate management mechanisms.

Conversely, the effect of ICSR on profitability, measured by Return on Assets (ROA), is not significant, with a path coefficient of 0.077, t-value of 0.765, and p-value of 0.222. This suggests that although companies actively implement social responsibility programs, these efforts do not directly impact financial performance in the short term. This can be explained by the long-term nature of ICSR benefits, such as enhanced reputation and stakeholder trust, which are not always immediately reflected in financial indicators like ROA. In addition, the substantial costs associated with ICSR implementation may reduce net income and suppress ROA in the initial periods. According to Sisdianto et al. (2023) and Lubis and Siregar (2025), these results support previous research indicating that ICSR primarily affects non-financial aspects and corporate image, while its direct impact on profitability remains limited.

The findings also show that ROA has a positive and significant effect on ICG, with a path coefficient of 0.150, t-value of 2.296, and p-value of 0.011. This indicates that more profitable companies have greater resources to strengthen governance practices, including transparency, Sharia compliance, and reporting mechanisms. Profitable companies are better positioned to support governance structures such as the Sharia Supervisory Board and compliance monitoring systems, which in turn enhance the overall quality of ICG (Alam et al., 2022).

Moreover, this study examined the mediating role of ROA in the relationship between ICSR and ICG. The results indicate that the mediating effect of ROA is not significant, with a path coefficient of 0.012, t-value of 0.676, and p-value of 0.250. This suggests that while ICSR directly improves ICG, its effect does not operate through profitability. In other words, the enhancement of governance quality is primarily driven by the company's

commitment to Sharia principles and social responsibility practices rather than the financial outcomes resulting from ICSR implementation (Solihati et al., 2023). These findings emphasize that ICSR is a crucial factor in directly strengthening Islamic corporate governance, whereas its effect on profitability and the mediating role of ROA are limited. Therefore, companies should view ICSR not merely as a social obligation or a means to enhance financial performance but as a strategic instrument to reinforce Sharia-based governance and improve corporate reputation among stakeholders.

The significant direct effect of ICSR on ICG suggests that managers should prioritize ICSR as a strategic instrument for strengthening governance structures rather than viewing it merely as a philanthropic obligation. The non-significant direct effect of ICSR on ROA implies that management must communicate to shareholders that ICSR initiatives represent long-term strategic investments, not short-term profit drivers, thereby aligning stakeholder expectations accordingly. The absence of ROA's mediating role further indicates that governance improvements are driven primarily by ethical commitment to Sharia principles rather than financial outcomes, meaning even firms with modest profitability can achieve strong ICG through genuine ICSR engagement. For regulators, these findings support the continued strengthening of ICSR disclosure requirements. Theoretically, this study clarifies that ICSR influences governance directly through ethical commitment and transparency mechanisms, challenging assumptions that CSR enhances governance primarily through profitability-mediated channels and offering a more nuanced understanding of the ICSR-ICG nexus in Islamic finance contexts.

CONCLUSION

This study reveals that ICSR has a direct and positive effect on ICG. The findings indicate that implementing ICSR promotes transparency, accountability, and adherence to Sharia principles, thereby strengthening the corporate governance framework. Conversely, ICSR does not have a significant impact on profitability, suggesting that its benefits are primarily reflected in non-financial aspects, such as corporate reputation and stakeholder trust, rather than short-term financial performance. Financial performance (ROA), while positively influencing corporate governance, does not significantly mediate the relationship between corporate social responsibility and governance. This indicates that improvements in governance are primarily driven by the firm's commitment to Sharia principles and responsible business practices, rather than by financial outcomes.

The practical implication of this study is that companies should approach ICSR as a strategic instrument to enhance Sharia-based governance and stakeholder confidence, rather than merely fulfilling social obligations or seeking immediate financial gains. The limitations of this research include the exclusive use of ROA as a financial performance indicator and the focus on ICSR and ICG without considering other internal or external factors, such as organizational culture, innovation, or industry conditions, which may influence the relationships among the variables. For future research, it is recommended to incorporate additional variables that could act as mediators or moderators between ICSR and corporate governance, expand financial performance indicators, and examine different industrial or cultural contexts to gain a more comprehensive understanding of how ICSR affects governance and overall corporate performance.

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