Fanur Islamic Law Review
Vol. 01 No. 01 2026 | p. 36-55
Url: https://fanur.dinamedia.org/index.php/fanur

OPEN ACCESS

Regulatory Governance and the Quality of Islamic Social Reporting: A Comparative Analysis of Islamic Banking Practices in Asia

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Received: January 25, 2026	*Revised: March 17, 2026*	*Accepted: June 01, 2026*

Abstract:

This study examines the extent to which government regulation shapes the implementation of Islamic Social Reporting (ISR) within Islamic banking institutions across five jurisdictions: Indonesia, Malaysia, Kuwait, the United Arab Emirates, and Bahrain. As a Sharia-grounded framework for sustainability disclosure, ISR encompasses six principal dimensions, accountability toward fund providers, obligations to employees, contributions to society, environmental stewardship, ethical product and service standards, and adherence to Sharia principles. Employing a qualitative content analysis methodology, the study systematically reviews annual and sustainability reports issued by Islamic banks spanning the period 2014 to 2023. The evidence reveals that regulatory instruments—including Indonesia's POJK No. 51/2017, Malaysia's Islamic Financial Services Act (IFSA) 2013 and its accompanying Environmental, Social, and Governance (ESG) guidelines, Kuwait's Central Bank sustainability directives, the Securities and Commodities Authority (SCA) disclosure framework in the United Arab Emirates, and the Central Bank of Bahrain's reporting standards—have collectively advanced ISR practices in both procedural adherence and substantive content. Nevertheless, a recurrent tendency toward administrative, checkbox-style reporting persists, with most disclosures failing to authentically embody the values embedded in maqāṣid al-sharīʿa. In response, this study advocates for a new generation of regulatory frameworks that move beyond formal mandates to actively promote the quality, depth, and meaningful integration of Islamic ethical principles into institutional sustainability practices.

Keywords: Government regulation; Islamic banking; Islamic Social Reporting (ISR); maqāṣid al-sharīʿa; sustainability disclosure.

Introduction

Islamic banking, once a modest experiment in faith-based financial intermediation, has grown into a central pillar of equitable economic development, channeling resources through microfinance mechanisms and social fund distribution to underserved communities. This trajectory aligns organically with the overarching objectives of maqāṣid al-sharīʿa, which prioritize human welfare, social equilibrium, and long-term environmental sustainability. Simultaneously, the concept of Corporate Social Responsibility (CSR)—which emerged in nineteenth-century America as a corrective response to corporate malfeasance—has undergone a profound conceptual evolution into what is now commonly understood as the Triple Bottom Line framework, integrating profit, people, and planet as co-equal pillars of institutional value.

This paradigm has since been institutionalized globally through sustainability reporting (SR), and within Islamic financial discourse, it has given rise to the distinctive practice of Islamic Social Reporting (ISR)—a form of institutional accountability that articulates a bank's commitment to social justice and environmental responsibility within a Sharia-compliant normative framework. A case in point is Bank Rakyat Indonesia (BRI), which in 2020 directed 63.9 per cent of its financing portfolio toward environmentally and socially sustainable sectors.[1] Yet, even as such commitments grow, the adverse environmental consequences of commercial banking operations—including ecosystem degradation and biodiversity loss—continue to necessitate robust governmental intervention to prevent irreversible harm.[2]

An expanding body of scholarly literature has sought to identify the determinants of corporate sustainability performance. Research consistently demonstrates that sustainability disclosure is positively correlated with institutional scale and financial leverage, while external pressure—particularly from diverse stakeholder constituencies—emerges as a dominant explanatory variable.[3] These constituencies encompass regulatory bodies, shareholders, consumers, and organized civil society. Foreign ownership structures have further been identified as a significant moderating influence on the quality and scope of sustainability reporting.[4]

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1 Zabihollah Rezaee, "Business Sustainability Research: A Theoretical and Integrated Perspective," *Journal of Accounting Literature 36* (2016): 48–64.

2 Seong Mi Bae, Md Abdul Kaium Masud, and Jong Dae Kim, "A Cross-Country Investigation of Corporate Governance and Corporate Sustainability Disclosure: A Signaling Theory Perspective," *Sustainability (Switzerland) 10*, no. 8 (2018).

3 Christine Mallin, Hisham Farag, and Kean Ow-Yong, "Corporate Social Responsibility and Financial Performance in Islamic Banks," *Journal of Economic Behavior and Organization 103* (2014): S21–S38.

4 Anugamini Priya Srivastava and Sonal Shree, "Examining the Effect of Employee Green Involvement on Perception of Corporate Social Responsibility: Moderating Role of Green Training," *Management of Environmental Quality: An International Journal 30*, no. 1 (2019): 197–210.

Both endogenous factors (organizational size, leverage, ownership architecture) and exogenous forces (stakeholder expectations, institutional isomorphism) have been shown to shape sustainability disclosure behavior. Within Islamic banking specifically, governmental intervention has emerged as a decisive catalyst for ISR adoption. Indonesia's OJK Regulation No. 51 of 2017 stands as a paradigmatic example, establishing a binding mandate for sustainability reporting across Islamic financial institutions.[5]

While prior scholarship has examined regulatory pressure in relation to CSR disclosure—predominantly in manufacturing contexts—the specific nexus between public regulation and ISR performance within Islamic banking remains comparatively underdeveloped. Yet this nexus carries considerable normative weight: regulation possesses the institutional capacity to reinforce transparency, institutionalize sustainable practices, and operationalize corporate social responsibility through a calibrated system of incentives and sanctions.[6]

In Asia, government regulation constitutes a strategic mechanism for shaping ISR practices, operating through mandatory disclosure requirements, Sharia-compliant reporting standards, and supervisory oversight that generates institutional pressure driving banks toward greater accountability.[7] Unlike prior studies that predominantly focus on internal governance variables such as profitability ratios or board composition, this article directly interrogates the regulatory dimension of ISR adoption, contributing original insights to the literature on Sharia-grounded sustainability and the governance architecture that enables it.[8]

The study examines how regulatory regimes influence ISR implementation in Islamic banks and evaluates whether current disclosures encompass the full spectrum of requisite substantive content—spanning not merely regulatory compliance, but also the depth and authenticity of reporting across dimensions such as employee welfare, community engagement, environmental stewardship, ethical product standards, and

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5 Seoki Lee et al., "Do a Company's Sincere Intentions with CSR Initiatives Matter to Employees?: A Comparison of Customer-Related and Employee-Related CSR Initiatives," *Journal of Global Responsibility 9*, no. 4 (2018): 355–71.

6 Isabel Gallego-Álvarez and Eduardo Ortas, "Corporate Environmental Sustainability Reporting in the Context of National Cultures: A Quantile Regression Approach," *International Business Review 26*, no. 2 (2017): 337–53.

7 Siti Nur Ngaini and Mahfud Sholihin, "Mauquf'alaih as a Waqf Accountability Center (Prophetic Social Approach)," *Journal of Islamic Accounting and Finance Research 5*, no. 2 (November 2023): 273–98.

8 Dominik Dienes, Remmer Sassen, and Jasmin Fischer, "What Are the Drivers of Sustainability Reporting? A Systematic Review," *Sustainability Accounting, Management and Policy Journal 7*, no. 2 (2016): 154–89.

Sharia supervisory integrity.[9] Ultimately, the study is animated by the question of whether ISR in Islamic banking functions as a genuine instrument of transparency and moral accountability, or merely as a formalistic compliance exercise.[10]

A qualitative content analysis was applied to annual and sustainability reports published by Islamic banking institutions between 2014 and 2023. Beyond assessing the existence of relevant disclosures, the study undertakes a comparative evaluation of regulatory impact on ISR substance across jurisdictions, with the aim of identifying best practices and systemic reporting gaps within the Asian context.[11]

The selection of Indonesia, Malaysia, Bahrain, the United Arab Emirates, and Kuwait is grounded in their strategic positioning within global Islamic finance and in the significant heterogeneity of their regulatory architectures, institutional cultures, and levels of ISR maturation. Indonesia and Malaysia, representing Southeast Asia, have developed comparatively robust ISR regulatory frameworks in which Sharia values are beginning to be explicitly embedded. The Gulf Cooperation Council countries—Bahrain, the UAE, and Kuwait—function as internationally recognized hubs of Islamic finance, adopting standards such as those developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), while exhibiting divergent ISR implementation dynamics conditioned by economic structure, corporate governance norms, and national policy priorities. This diversity generates a richly comparative analytical environment for evaluating the effectiveness of ISR implementation and for identifying the structural conditions that either facilitate or constrain meaningful, Sharia-aligned social reporting across geographically and economically distinct contexts.

Theoretically, this study draws on R. Edward Freeman's Stakeholder Theory, which posits that sustainable organizational success requires the generation of value for all relevant parties—shareholders, creditors, customers, suppliers, government, civil society, and market analysts—rather than the exclusive pursuit of shareholder returns.[12] The theory distinguishes between primary stakeholders—those with direct and vital relationships to the organization, such as shareholders, employees, customers, and suppliers—and secondary stakeholders—those indirectly affected by organizational decisions, including local communities, regulatory authorities, and the media. Effective

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[9] Xiaobei Beryl Huang and Luke Watson, "Corporate Social Responsibility Research in Accounting," *Journal of Accounting Literature 34* (2015): 1–16.

[10] Zhaofang Chu, Linlin Wang, and Fujun Lai, "Customer Pressure and Green Innovations at Third Party Logistics Providers in China: The Moderation Effect of Organizational Culture," *International Journal of Logistics Management 30*, no. 1 (2019): 57–75.

[11] Mohsin Shabir et al., "Impact of Corporate Social Responsibility on Bank Performance in Emerging Markets," *International Journal of Emerging Markets*, 2024, https://doi.org/10.1108/IJOEM-02-2023-0208

[12] R. Edward Freeman, "The Stakeholder Approach Revisited," *Zeitschrift Für Wirtschafts-Und Unternehmensethik 5*, no. 3 (2004): 228–41.

governance requires that organizations negotiate these interests with strategic prudence to generate outcomes beneficial to all parties.

While stakeholder theory provides valuable normative guidance, its practical application is complicated by the inherently conflicting nature of stakeholder interests—a tension most acute when shareholder profit maximization comes at the expense of employee welfare or environmental integrity.[13] Frameworks developed by Freeman and by Mitchell, Agle, and Wood—the latter evaluating stakeholders along axes of power, legitimacy, and urgency—offer systematic instruments for stakeholder identification and engagement. Applied to ISR, stakeholder theory furnishes a compelling rationale for substantive, transparent sustainability disclosure: not merely as an act of regulatory compliance, but as a deliberate expression of genuine accountability toward the full constellation of institutional stakeholders. Internalization of this framework can deepen relational trust, strengthen institutional reputation, and anchor long-term sustainability.[14]

This study specifically foregrounds the regulatory dimension of stakeholder pressure. Regulations and incentive structures are here defined as the body of laws, standards, and guidelines—whether coercive or facilitative in character—issued by national governments, international regulatory bodies, or affiliated organizations, that motivate institutions to adopt ISR practices. Within Muslim-majority societies, such external institutional pressures serve a dual function: ensuring procedural compliance while simultaneously aligning corporate conduct with the broader normative expectations embedded in Islamic ethics and public religious life.[15]

Islamic Banking and the Framework of ISR

Government pressure—operationalized through legislation, regulation, and regulatory oversight—constitutes the most consequential external force compelling organizations to integrate environmental and social considerations into their strategic conduct. A state, understood as a politically organized sovereign entity with legitimate authority over a defined territory and population, functions as the principal institutional stakeholder with the capacity and mandate to direct corporate behavior through binding regulatory

[13] Mohsin Shabir et al., "Impact of Corporate Social Responsibility on Bank Performance in Emerging Markets."

[14] Mustofa et al., "Strengthening Zakat Regulation through the Siyāsah Māliyah Approach: A Constitutional and Legal Analysis of Indonesia and Malaysia," *Juris: Jurnal Ilmiah Syariah 24*, no. 1 (2025): 111–26.

[15] Thomas Pogge and Mitu Sengupta, "The Sustainable Development Goals: A Plan for Building a Better World?," *Journal of Global Ethics 11*, no. 1 (2015): 56–64.

frameworks.[16] Such frameworks governing sustainability disclosure have been consistently shown to enhance the transparency and accountability of corporate communications.[17]

In Indonesia, CSR disclosure in the banking sector operates under a layered regulatory architecture: OJK Regulation No. 51/POJK.03/2017 on Sustainable Finance and OJK Circular Letter No. 16/SEOJK.04/2021 on the Form and Content of Sustainability Reports. These instruments require all banking institutions—whether operating on conventional or Sharia-compliant principles—to formulate a Sustainable Finance Action Plan (Rencana Aksi Keuangan Berkelanjutan, RAKB) and submit periodic sustainability reports covering economic, social, and environmental performance dimensions. The express aim is to institutionalize the principles of sustainable development within Indonesian banking, embedding transparency and accountability as operational norms rather than aspirational ideals.

For Islamic banks specifically, CSR is not merely a regulatory obligation; it is a moral imperative grounded in Sharia values of justice (ʻadl), balance (tawazun), and social solidarity. CSR activities in this context are characteristically expressed through the distribution of zakat, infaq, and sadaqah, as well as through community empowerment programs consonant with Islamic ethical commitments. Reporting in this domain may adopt the ISR framework, which systematically incorporates spiritual values into the sustainability discourse. Through OJK oversight and the reputational incentives attached to transparent reporting, Islamic banks are encouraged to transcend administrative compliance and fulfil a substantive social mandate in a manner both meaningful and enduring.[18]

From a stakeholder theory perspective, the identification of relevant stakeholders requires attention not only to their interests—understood as their stake in shaping policy direction—but also to their institutional power to influence or enforce that policy.[19] Government pressure on ISR thus functions as a corporate communication mechanism for ensuring that disclosures are aligned with Islamic ethical principles. In Indonesia, the

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16 Yousif Abdelbagi Abdalla and A.K. Siti-Nabiha, "Pressures for Sustainability Practices in an Oil and Gas Company: Evidence from Sudan," *Qualitative Research in Accounting and Management 12*, no. 3 (2015): 256–86.

17 Hukmiah Husein et al., "Zakat and Empowerment of the Bajo Tribe Fishing Community in Bone, South Sulawesi: Collaboration between BAZNAS and the Ministry of Religion," *El-Usrah 7*, no. 2 (2024): 462–79.

18 Mehdi Taghian, Clare D'Souza, and Michael J. Polonsky, "A Stakeholder Approach to Corporate Social Responsibility, Reputation and Business Performance," *Social Responsibility Journal 11*, no. 2 (2015): 340–63.

19 Muhammad Maksum, "The Relationship Model of Sharia and Financial Authorities," *Ahkam: Jurnal Ilmu Syariah 20*, no. 1 (2020): 115–36.

trajectory of banking sector accountability has shown marked improvement in social awareness, even as meaningful gaps in reporting practice remain.[20]

Government-induced pressure on ISR encompasses both regulatory enforcement mechanisms and monitoring systems designed to ensure substantive compliance with Sharia-aligned sustainability reporting norms. Regulatory frameworks may require companies to disclose the deployment of zakat and infaq for community welfare purposes, and may offer incentives to institutions demonstrating authentic adherence to Sharia-grounded reporting standards. This institutional pressure simultaneously advances regulatory compliance and convergence with international sustainability frameworks, enhancing the credibility and public legitimacy of ISR disclosures. Compliance, in turn, can strengthen corporate reputation, foster public trust, and advance a model of sustainable development authentically aligned with Islamic values.[21]

Stakeholder theory holds that organizations must be responsive to the needs of all relevant parties, including government authorities charged with safeguarding public welfare. One instrument for discharging this responsibility is the issuance of enforceable regulations—such as mandatory sustainability reporting requirements—that, together with sanctions for non-compliance, compel corporations to adopt and publicly disclose their CSR activities.[22]

The Regulatory Architecture across Five Muslim-Majority Jurisdictions

Within the global movement toward responsible corporate governance, the regulatory frameworks governing ISR have evolved markedly across national jurisdictions in response to intensifying demands for transparency, accountability, and sustainability. Each country examined in this study has adopted a distinctive regulatory approach—ranging from voluntary normative frameworks to binding legal mandates—reflecting the variation in policy orientation and the maturity of each nation's financial governance system. Table 1 below offers a comparative overview of the principal ISR regulatory instruments across the five jurisdictions under study.

20 Arif Hussain et al., "Determinants of Islamic Social Reporting in Islamic Banks of Pakistan," *International Journal of Law and Management 63*, no. 1 (2021): 1–15.

21 Raden Arfan Rifqiawan et al., "Deconstruction of Basic Accounting Principles through the Values of Sufism in the Syarah Ḥikam by Sheikh Aḥmad Zarrūq," *Journal of Islamic Accounting and Finance Research 6*, no. 2 (2024): 321–53.

22 Marc Orlitzky, Frank L. Schmidt, and Sara L. Rynes, Corporate Social and Financial Performance: A Meta-Analysis (Organization Studies, vol. 24, 2003).

Table 1. Regulatory Instruments Governing ISR in Selected Asian Jurisdictions

Country	Regulatory Instrument	Principal Provisions
Indonesia	POJK No. 51/2017	Mandatory preparation of RAKB; annual sustainability reporting; CSR integration; incentive and sanction mechanisms
Malaysia	IFSA 2013 & Bursa Malaysia ESG Guidelines	Sharia governance standards; public ESG disclosure obligations for listed companies
UAE	SCA ESG Guidelines (2020)	Voluntary ESG disclosure framework; no formal ISR mandate
Bahrain	CBB Rulebook, Vol. 2	Sharia and social disclosure requirements for Islamic banking institutions
Kuwait	CMA Governance Rules	General social and environmental disclosure under corporate governance framework; ISR unspecified

Government regulation of CSR and ISR varies considerably in structure, scope, and enforceability across the Asian jurisdictions examined. In Indonesia, POJK No. 51/POJK.03/2017 constitutes a comprehensive binding mandate requiring all financial institutions—including Islamic banks—to formulate a RAKB and report annually on their economic, social, and environmental performance. The regulation emphasizes substantive as well as procedural compliance and incorporates a structured system of incentives and penalties to ensure meaningful adherence.[23]

Malaysia, by contrast, enforces Sharia governance principles through the broader architecture of the Islamic Financial Services Act (IFSA) 2013 and requires listed entities to disclose ESG data in accordance with Bursa Malaysia's sustainability reporting guidelines. While these instruments support the underlying principles of Islamic reporting, they do not constitute an explicit ISR mandate. In the UAE, ESG disclosure remains voluntary under the Securities and Commodities Authority's 2020 guidelines. Bahrain requires Islamic banks to fulfill Sharia and social disclosure obligations under Volume 2 of the Central Bank's Rulebook, while Kuwait mandates general CSR and environmental disclosures through the Capital Markets Authority's corporate governance rules, albeit without formal specification of ISR as a distinct disclosure category.[24]

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[23] Qodariah Barkah et al., "Legal Transformation of Indonesian Sharia Banks Towards Digital Banking in the Era of Industrial Revolution 4.0," *Al-'Adalah 21*, no. 2 (2024): 347–70.

[24] Ataina Hudayati and Achmad Tohirin, "A Maqasid and Shariah Enterprises Theory-Based Performance Measurement for Zakat Institution," *International Journal of Zakat 4*, no. 2 (2019): 101–10.

The Implementation of Islamic Social Reporting across Asian Jurisdictions

The practice of Islamic Social Reporting (ISR) has gained considerable scholarly and regulatory attention across Asia, as Islamic banking institutions are increasingly called upon to integrate Sharia-based accountability into their reporting practices—moving beyond conventional financial disclosure toward a more holistic articulation of their social, ethical, and environmental commitments. ISR places transparency at its normative center, emphasizing not only financial prudence but also social justice, ethical responsibility, the transparent distribution of zakat, and substantive contributions to the welfare of the ummah. The level of ISR adoption, however, varies markedly across jurisdictions, conditioned by regulatory frameworks, the developmental maturity of the Islamic finance sector, and the degree of institutional pressure exerted by stakeholders.[25] Table 2 presents a comparative overview of ISR implementation outcomes across the countries studied.

Table 2. Comparative Analysis of ISR Implementation in Islamic Banking across Asia and the Middle East (2014–2023)

Country	Banks (n)	Highest Avg. Score	Top-Performing Institution	Notable Improvement Period	General Assessment	Key Regulatory Instrument(s)
Indonesia	8	29.82	Bank Syariah Indonesia (BSI)	2017–2020	Marked improvement following mandatory ISR regulation	POJK No. 51/2017 & SEOJK No. 16/2021 (mandatory)
Malaysia	8	27.00	Hong Leong Islamic Bank	2016–2023	Strong governance framework; ISR not mandatory	IFSA 2013 & BNM Sustainability Guidelines (voluntary)
Kuwait	4	14.25	Kuwait Finance House	None significant	Stagnant scores; ESG recently applied voluntarily	ESG Guidelines 2022 (CBK & CMA); no formal ISR regulation

[25] Syafril Wicaksono et al., "Maqashid Sharia Progressive: Anatomical and Transformational of Halal Institutions in UIN KHAS Jember," *El-Mashlahah 13*, no. 2 (December 31, 2023): 107–32.

UAE	4	18.50	Dubai Islamic Bank	Stable, no surge	ESG roadmap present; no formal ISR regulation	Sustainable Finance Roadmap (FSRA & DFSA); ISR not mandatory
Bahrain	4	30.75	GFH Financial Group	High and stable since 2014	Consistently high despite absence of formal ISR mandate	AAOIFI & IFSB standards; no national ISR regulation yet

A cross-jurisdictional analysis of ISR implementation reveals stark divergences in institutional performance. Indonesia and Bahrain stand out for their consistently elevated and—in Indonesia's case—progressively improving ISR scores, a pattern strongly suggestive of enabling regulatory environments. In Indonesia, the promulgation of POJK No. 51 of 2017—requiring all financial institutions to prepare sustainability reports—has been closely correlated with measurable gains in ISR practice.[26] Conversely, ISR performance in Kuwait and the UAE remains comparatively low and inert, signaling that social reporting within the Islamic finance framework has yet to be institutionalized as a core disclosure obligation in these jurisdictions. Malaysia occupies an intermediate position, marked by aggregate stability but considerable interbank variation. These findings underscore the decisive role of regulatory architecture in fostering structured, substantive, and institutionally embedded ISR practices.[27]

Temporal analysis of ISR trends between 2014 and 2023 reveals pronounced differences across institutions and countries. In Indonesia, institutions such as Bank Muamalat and Bank Syariah Indonesia (BSI) exhibit a consistent upward trajectory, with ISR scores typically in the 27–31 range. This progression is closely associated with the binding mandate introduced by POJK No. 51/2017. Malaysia presents a more heterogeneous landscape: while institutions such as Maybank and Hong Leong Islamic Bank demonstrate strong ISR performance, the broader trend across the sector remains moderate and uneven—a pattern attributable to the partial and inconsistent internalization of the IFSA 2013 framework, which supports Islamic finance governance broadly but does not specifically mandate ISR disclosure. In Kuwait and the UAE, persistently low scores reflect the limited regulatory emphasis placed on Islamic social

[26] Andi Zulfikar, "Disclosure of ISR and GRI Index on Sharia Banking in Indonesia," *Nisbah: Jurnal Perbankan Syariah 4*, no. 1 (2018): 64.

[27] Zawawi Zawawi et al., "Waqf and Sustainable Development Law: Models of Waqf Institutions in the Kingdom of Saudi Arabia and Indonesia," *Ijtihad: Jurnal Wacana Hukum Islam dan Kemanusiaan 23*, no. 1 (July 10, 2023): 93–114.

reporting. Bahrain, however, presents a striking contrast: institutions such as GFH Financial Group and Bahrain Islamic Bank have maintained high and stable ISR performance throughout the decade, suggesting that robust internal governance and an entrenched Sharia compliance culture can, to a meaningful degree, compensate for the absence of formal ISR-specific regulation.[28]

Score consistency across institutions serves as an important indicator of ISR's maturity and institutionalization. Banks such as Bank Islam Malaysia Bhd and GFH Financial Group BSC—which sustain high and stable scores over time—demonstrate strong internal governance, regulatory fidelity, and authentic commitment to Islamic values. Conversely, institutions exhibiting score volatility may confront structural challenges including inconsistent leadership, underdeveloped reporting infrastructure, insufficient regulatory pressure, or the absence of formalized internal policies. Crucially, score instability frequently signals that ISR is being treated as a compliance exercise rather than as a strategic and ethical organizational commitment.[29]

An in-depth assessment of ISR implementation across these jurisdictions confirms the central role of government regulation in determining both the quality and consistency of social reporting practices. Indonesia shows the most discernible regulatory impact, with POJK No. 51 of 2017 generating a clear and measurable improvement in disclosure standards. Malaysia's IFSA 2013 provides a supportive governance architecture but lacks the direct ISR mandate necessary to produce uniformly high performance. Bahrain's strong results—achieved in the absence of comprehensive national ISR regulation—demonstrate that institutional commitment and Sharia governance culture can partially compensate for regulatory gaps. Kuwait and the UAE continue to lag in both the consistency and substance of ISR reporting, reflecting a weak regulatory momentum in this domain.[30]

Cross-country analysis confirms that successful ISR implementation is highly dependent on the quality of corporate governance and adequate regulatory support. Islamic banks operating in jurisdictions with sound governance structures and mandatory sustainability-oriented ISR regulations consistently produce reporting of higher quality and greater substantive depth. In Indonesia, for instance, mandatory social and sustainability reporting is undergirded by Law No. 40 of 2007 on Limited Liability

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[28] Muhammad Syafii Antonio, Sugiyarti Fatma Laela, and Thuba Jazil, "Abu Zahrah's Maqasid Sharia Model as a Performance Measurement System," *Jurnal Akuntansi Multiparadigma 11*, no. 3 (2020): 519–41.

[29] Ririn Irmadariyani et al., "Empirical Investigation of the Role of Sharia's Corporate Social Responsibility on the Relationship between Firm Size and Profitability," *International Journal of Scientific and Technology Research 8*, no. 7 (2019): 18–22.

[30] Kishore Kumar and Ajai Prakash, "Developing a Framework for Assessing Sustainable Banking Performance of the Indian Banking Sector," *Social Responsibility Journal 15*, no. 5 (2019): 689–709.

Companies (Article 74) and reinforced by OJK Regulation No. 51/POJK.03/2017. Together, these instruments encourage Islamic financial institutions to actively disclose their social and environmental activities within an Islamic ethical framework—encompassing zakat distribution, philanthropic programming, inclusive financing, and environmental conservation initiatives. This integration of formal regulatory mandates with substantive Islamic values creates an important institutional foundation for internalizing the principles of maqāṣid al-sharīʿa into the daily business conduct of Indonesian Islamic banking institutions, which are increasingly evolving toward a genuinely ethical and sustainable model of finance.[31]

By contrast, in jurisdictions lacking formal ISR reporting obligations, the quality of social disclosure tends to be low, inconsistent, and fundamentally voluntary in character.[32] Although financial institutions in such contexts may adhere to international standards such as those of the AAOIFI and the Islamic Financial Services Board (IFSB), the absence of regulatory oversight mechanisms or binding national regulation prevents ISR from becoming an integral component of institutional strategy. The resulting disclosures are consequently general in nature, failing to give authentic expression to Islamic values in any substantive depth. This state of affairs underscores the indispensability of a structured and binding regulatory framework in elevating both the effectiveness and quality of ISR practice. That said, the success of ISR implementation is not reducible to formal regulatory compliance alone; it also demands the consistent application of meaningful indicators that concretely reflect the foundational principles of Islamic ethics—fairness, transparency, social welfare, and accountability to society. Aspirational ISR reporting should thus transcend administrative compliance to embody the genuine internalization of Islamic values across all institutional activities of Islamic financial institutions.

Substantive ISR: A Multidimensional Framework of Accountability

The extent to which ISR reports capture substantively meaningful content varies markedly across jurisdictions. Conceptually, substantive ISR encompasses six core accountability dimensions: (1) responsibility toward fund providers, encompassing both shareholders and depositors; (2) responsibility toward employees; (3) social responsibility to the broader community; (4) responsibility for environmental preservation; (5) the

[31] Rita Wijayanti and Doddy Setiawan, "Social Reporting by Islamic Banks: The Role of Sharia Supervisory Board and the Effect on Firm Performance," *Sustainability (Switzerland) 14*, no. 17 (2022).

[32] Mohammad Ghozali et al., "The Law Concept of Sharia Banking Compliance on Murabaha Financing in Indonesia," *Samarah 8*, no. 3 (November 2024): 1391–1408.

provision of halal and ethically sound products and services; and (6) compliance with Sharia principles, including oversight by an independent Sharia Supervisory Board.[33]

In Indonesia, the formalization of ISR through POJK No. 51/2017 has substantially advanced reporting practice, yet many Islamic banks still fall short of comprehensive coverage across all six dimensions. Reporting frequently emphasizes administrative formality at the expense of substantive ethical disclosure. Malaysia, despite its well-established Sharia governance framework under IFSA 2013, demonstrates inconsistent reporting depth attributable to the absence of an explicit ISR mandate. Bahrain offers a compelling contrast: institutions there exhibit high consistency and depth across all ISR dimensions, reflecting institutional commitment and a sophisticated culture of Sharia awareness. Kuwait, by contrast, continues to demonstrate weak ISR performance in both form and substance, with many reports omitting core aspects of Islamic social responsibility.[34] These observations reinforce the conclusion that meaningful ISR depends not only on regulatory mandates but equally on internal governance maturity, a genuine Sharia supervisory culture, and an authentic institutional orientation toward Islamic ethical values.[35]

Table 3. Institutional ISR Score Trajectories and Substantive Implementation (2014–2023)

Country	Institution	ISR Score Range	Trend (2014–2023)	Substantive Implementation
Indonesia	Bank Syariah Indonesia (BSI)	27 → 31	Steady upward	Strong and deepening commitment to Islamic values
	BCA Syariah	21 → 30	Significant growth	
	Bank Muamalat	Constant at 27	Consistently high	
Malaysia	Bank Islam Malaysia Bhd	Constant at 14	No notable change	Formalistic; limited

[33] Faried Kurnia Rahman et al., "Maqashid al-Shari'ah-Based Performance Measurement for the Halal Industry," *Humanomics 33*, no. 3 (August 14, 2017): 357–70.

[34] Aam S. Rusydiana and Irman Firmansyah, "Efficiency versus Maqashid Sharia Index: An Application on Indonesian Islamic Bank," *Shirkah: Journal of Economics and Business 2*, no. 2 (2018).

[35] Syahiza Arsad et al., "Ownership Structure and Islamic Corporate Social Responsibility Disclosure: Empirical Evidence from the Shari'ah Compliant Companies in Malaysia," *International Journal of Innovation, Creativity and Change 11*, no. 12 (2020): 26–42.

				substantive progress
	Public Islamic Bank	Constant at 11	No change	
Kuwait	Kuwait Finance House	Constant at 3	No change	Low; significantly underdeveloped
	Boubyan Bank	9 → 17	Moderate increase	
UAE	Emirates Islamic Bank	Constant at 18	No change	Stable; limited integration of Islamic values
	Dubai Islamic Bank	20–21	No change	
Bahrain	GFH Financial Group BSC	Constant at 31	High but static	Strong compliance; minimal incremental progress
	Bahrain Islamic Bank	29–31	Consistently high	

The data presented in Table 3 confirm that Indonesia demonstrates the most substantive and progressive ISR implementation among the countries studied. This is reflected in the consistently improving ISR scores across its banking sector: BSI records a steady progression from 27 in 2014 to 31 in 2023, BCA Syariah improves from 21 to 30 over the same period, while Bank Muamalat maintains a consistently high score of 27 throughout. These trajectories signal not merely regulatory compliance but a deepening institutional integration of Islamic values—including transparency, social responsibility, and ethical commitment—into corporate reporting culture.

Malaysia, by contrast, exhibits relatively stable but stagnant ISR figures. Institutions such as Bank Islam Malaysia Bhd and OCBC Al-Amin remain fixed at a score of 14, while Public Islamic Bank holds at 11, suggesting that ISR practices in the Malaysian context tend to be formal and administratively driven rather than animated by substantive ethical or spiritual conviction. Kuwait and the UAE both record low to moderate ISR scores that have shown little movement over the decade, pointing to persistent underdevelopment in the depth and richness of Sharia-grounded reporting. Bahrain records consistently high ISR values—GFH Financial Group achieving a score of 31 and Bahrain Islamic Bank maintaining 29–31—yet without appreciable year-on-year improvement, implying strong initial compliance but limited ongoing advancement in substantive ISR quality.

The implementation of ISR across these jurisdictions rests on a diverse array of normative and regulatory foundations, spanning international standards such as AAOIFI and Sharia-informed IFRS adaptations, as well as national instruments issued by bodies such as Indonesia's OJK and DSN-MUI, and Malaysia's Bank Negara Malaysia. ISR is distinguished from conventional social reporting by its grounding in spiritual values and Sharia principles—including justice, transparency, and social welfare—and by its dual accountability structure: ISR reports are directed not only toward human stakeholders but also serve as an act of accountability before Allah, supporting the realization of maqāṣid al-sharīʿa through ethically grounded business practices oriented toward collective wellbeing.[36]

Regulation plays a pivotal strategic role in promoting sustainable business conduct, even if its effectiveness is shaped by the competing interests of various institutional actors. Within the ISR domain, even where regulations have been enacted, implementation remains challenging because most institutions perceive compliance primarily as an administrative obligation rather than a substantive commitment to the values of Islamic sustainability. This diagnostic points to the need for governments to adopt more holistic regulatory approaches—combining robust incentive structures with credible oversight mechanisms—to ensure that ISR reporting authentically reflects Sharia principles. Within the framework of stakeholder theory, government regulatory pressure plays an indispensable role in ensuring that corporate sustainability disclosure—including ISR—is genuinely value-driven rather than merely procedurally compliant.

Conclusion

The implementation of Islamic Social Reporting across Indonesia, Malaysia, Bahrain, the United Arab Emirates, and Kuwait exhibits significant variation in both regulatory coherence and substantive performance. Indonesia demonstrates the strongest trajectory of improvement, driven by the binding regulatory mandate of POJK No. 51/2017 and most visibly evidenced in institutions such as BSI. Malaysia benefits from a mature Sharia governance architecture but lacks consistent ISR performance owing to the absence of an explicit ISR reporting requirement. Bahrain's sustained high scores highlight the capacity of strong internal governance to compensate, at least partially, for regulatory gaps. Kuwait, by contrast, lags significantly, constrained by weak institutional commitment and limited regulatory enforcement. Across all jurisdictions, ISR reports frequently remain administrative in character, failing to comprehensively address the six core dimensions of Islamic social responsibility and underscoring the persistent need for deeper ethical and spiritual integration.

[36] Masrawan et al., "Legal Conflict in Zakat Management in the Prismatic Communities of Kapuas Regency, Central of Kalimantan," *Al-ʿAdalah 19*, no. 1 (2022): 179–94.

To enhance ISR effectiveness, Malaysia and Kuwait are encouraged to develop explicit ISR regulatory frameworks that foreground substantive outcomes across all six dimensions: fund provider responsibility, employee rights, community welfare, environmental stewardship, halal and ethical product assurance, and Sharia compliance. Regulators in all jurisdictions should move beyond administrative mandates to actively cultivate authentic, values-based reporting aligned with Islamic ethical principles—employing capacity-building initiatives, technical guidance, and appropriately structured incentive systems as complementary tools. At the theoretical level, integrating maqāṣid al-sharīʿa as the primary normative framework for ISR can transform social reporting from a procedural compliance exercise into a genuine instrument of Islamic accountability—one that advances social justice, environmental sustainability, and the welfare of the ummah in a manner consonant with the true objectives of Islamic economics.

To this end, two concrete measures are proposed for immediate regulatory action. First, competent authorities in each jurisdiction should develop a standardized national ISR Index grounded in the objectives of maqāṣid al-sharīʿa—comprising measurable indicators across the six ISR dimensions—to serve as a binding disclosure benchmark for Islamic banking institutions. Second, a cross-jurisdictional Sharia audit mechanism should be established under the coordination of international bodies such as AAOIFI and the IFSB, enabling systematic peer review and harmonization of ISR standards across Muslim-majority financial systems. These measures would transform ISR from a nationally fragmented compliance exercise into a coherent, internationally credible instrument of Islamic institutional accountability.

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