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### Determinants of Firm Value: A Study on Islamic Banking in Indonesia

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**Abstract:** This study attempts to measure the effect of Islamic corporate governance and Islamic social responsibility on firm value and to analyse the moderation role of profitability. Data from 12 Islamic commercial banks registered in Indonesia was taken from 2017 to 2021 and analysed using a panel data regression approach with the generalized least squares approach and model robustness testing using the robust least squares analysis method. Strong Islamic corporate governance highlights the benefits of ethical governance and increases the value of sharia-compliant banks. The long-term character of corporate social responsibility is demonstrated by the fact that some Islamic social responsibility activities do not necessarily have a positive influence on the firm value banking sector in Indonesia. High profitability strengthens Islamic corporate governance and has a beneficial impact on firm value, emphasising the interdependence between governance and financial performance. High profitability may reduce the beneficial impact of Islamic social responsibility on firm value, perhaps due to the perception of corporate social responsibility initiatives as being motivated by profit.

**Keywords:** Islamic Corporate Governance; Islamic Social Responsibility; Profitability; Firm Value

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### Introduction

Companies that perform well are evidence that they can raise their worth, which is an objective metric of value for the general population. This helps ensure the company's longevity. (Jan et al., 2021). Corporate value is not created by itself but through management efforts. To ensure that management fulfils its responsibilities, a good governance mechanism is needed (Pamungkas et al., 2022). Corporate governance is said to be good when the company's ability to protect related parties is demonstrated (Parajuli et

al., 2023). The idea of firm value is very similar to that in conventional banking when it comes to Islamic banking. The ability of a corporation to create profits and maximise shareholder wealth is still reflected in its corporate value. The degree of compliance with sharia principles has a significant impact on the value of businesses in Islamic banking. Islamic banks are required to conduct their business in line with Islamic law, which forbids paying *riba* (interest), investing in haram enterprises, and abiding by Islamic principles and morality in their dealings (Ullah et al., 2023).

The assessment of how Islamic banking practices, principles, and governance affect the value of Islamic banks as a whole is a practical issue or phenomenon connected to the value of Islamic banking firms. The compliance of Islamic banks with sharia-compliant practices is one of the primary practical challenges. Islamic law, which forbids interest (*riba*) and encourages moral and ethical financial behaviour, serves as the foundation for Islamic banking (Gadhoun et al., 2022). A crucial practical challenge is assessing how successfully Islamic banks follow these rules and the effect of such compliance on business value. Another relevant problem is the efficacy of corporate governance procedures in Islamic institutions. Islamic corporate governance involves making sure that banks follow the ethical and moral precepts of Sharia (Toumi & Hamrouni, 2023). A pertinent topic of research is assessing the effect of Islamic corporate governance on business value and contrasting it with traditional corporate governance practices. The expectation that Islamic banks participate in Islamic social responsibility projects that advance society while upholding Sharia standards is another problem. It is an important issue to consider how the Islamic social responsibility project affects the corporate value of Islamic banks (Arsad et al., 2021).

Good governance for companies is usually called good corporate governance; in Islam, this concept is called Islamic corporate governance (Choudhury & Alam, 2013; Al-Suhaibani & Naifar, 2014; Lewis, 2014; Rahmadini & Siswanto, 2019). The main stakeholder in an Islamic company is the shariah supervisory board, which is responsible for the management of the company's compliance with Islamic values. Without good governance, it will be difficult for Islamic banks to improve their position, expand their network, and show their effective performance (So et al., 2021). The better the implementation of good corporate governance, the greater the trust of investors (Fatma & Chouaibi, 2023). Transparency, accountability, responsibility, independence, and fairness are the fundamental tenets of sound corporate governance. Gaining the confidence of investors will enable businesses to attract more of them as potential investors.

Furthermore, the determining factor in increasing company value is social responsibility for companies, commonly referred to as corporate social responsibility (Kim et al., 2018), which in Islam is Islamic social responsibility. Islamic social responsibility is an effort to realise the interests of stakeholders and ensure sustainable company development in the long term, and it is a form of responsibility carried by companies in repairing social inequality and environmental damage caused by company business activities (Gunardi et al., 2022; Hanic & Smolo, 2023). The company is more environmentally responsible and hopes to build a positive corporate image in the environment.

Companies that carry out good corporate social responsibility practices are expected to be well assessed by stakeholders so that they can provide a good image to the community and stakeholders (Bai et al., 2023; Enughulu & Dabor, 2019; Mukhtaruddin et al., 2018). A

company will incur a number of expenses that will eventually become a burden and reduce the company's income. As a result, the company's profit will decrease, all of which will happen when the company carries out corporate social responsibility. But if a company does corporate social responsibility, then it will get good company value. The impact of loyalty is getting higher (Narsa, 2017).

Research related to increasing corporate value through corporate governance and corporate social responsibility is still a widespread debate. Some researchers, such as Negi and Jain (2022), found that corporate governance has a positive effect on the value of financial services companies in India. Similar findings from Wahyuni and Rahayu (2019) with different objects show that Islamic corporate governance can increase the value of Islamic commercial banks. However, research conducted by Ferriswara et al. (2022) on companies included in the Jakarta Islamic Index found that corporate factors did not affect company value.

Another debate is related to the determinants of firm value, such as research results (Jihadi et al., 2021) showing that Islamic corporate social responsibility has a positive effect on company value in the Indonesia sharia stock index. But research by Schiessl et al. (2022) found differently: companies with a high corporate social responsibility index experience a decrease in company value. Similar results were also found by Harun et al. (2020), who found that corporate social responsibility disclosure shows a negative effect on firm value, especially in Islamic banks in good corporate governance countries. Furthermore, Agustina (2020) found that disclosure of Islamic social responsibility has no effect on company value on the Jakarta Islamic index.

Based on the contradictions of the research findings previously described, we will fill the gap by broadening the research's focus in order to present several new ideas, such as including profitability as a moderating variable, and research will be done on Islamic commercial banks in Indonesia for the 2017–2021 period. Profitability can be used as a moderator to assist investors and the company's management in more prudently allocating resources. If profits are high, businesses may focus more on the financial aspects of their corporate social responsibility strategy. On the other hand, if profit margins are low, they may be more likely to employ Islamic corporate governance and corporate social responsibility as long-term strategies that can increase the company's worth. To support this newness, the data analysis method will be based on the panel data regression analysis approach with the generalized least squares approach and perform model robustness tests using the data analysis method using robust least squares. Based on this, it is hoped that it will fulfil our research objectives, namely to empirically test the effect of Islamic corporate governance and Islamic social responsibility on firm value with a moderating effect on profitability in Islamic commercial banks in Indonesia for the 2017–2021 period.

## **Literature Review**

### ***Grand Theory***

In this research, we used several grand theories that support the relationship between variables, including agency theory, stewardship theory, resource-based view theory, compliance and legitimacy theory, sustainability theory, and stakeholder theory. Agency theory is concerned with how owners (principals) and managers (agents) interact within

organizations. It highlights the significance of incentive and monitoring systems for addressing agency issues and identifies a conflict of interest between the two (Jensen & Meckling, 1976). According to stewardship theory, managers in organisations manage and act as custodians of corporate assets and have interests that are similar to those of the owner. It emphasises the role managers play in defending the company's long-term interests (Walton & McKersie, 1965). Resource-Based View Theory underlines the significance of a company's distinctive resources and internal capabilities in developing a competitive advantage. It focuses on the utilisation of these resources by businesses to achieve long-term success (Wernerfelt, 1984). Compliance and legitimacy theory discusses how businesses attempt to conform to relevant laws and standards (compliance) and build a credible reputation (legitimacy) in order to maintain the viability of their operations. Sustainability theory underlines how crucial it is to incorporate social, economic, and environmental considerations into business decision-making. It examines how businesses can run sustainably over the long term by reducing adverse effects (Islam, 2017). Stakeholder theory emphasises the idea that businesses have commitments to a variety of parties who affect or have an influence over their operations, in addition to just shareholders. This underlines how crucial it is to take many stakeholders' interests into account when making decisions (Freeman, 1984).

### ***Islamic Corporate Governance, Islamic Social Responsibility, Profitability and Firm Value***

A system known as Islamic corporate governance governs how businesses that function in conformity with Islamic Sharia principles manage and oversee themselves (Pahlevi, 2023). Islamic corporate governance wants to make sure that businesses conduct their business in accordance with Islamic ethical and legal norms. A sharia supervisory board must be established, financial information must be disclosed in accordance with sharia law, and governance procedures must be open and honest (Haron et al., 2022). Corporate social responsibility in the context of adherence to Islamic Sharia principles is the subject of the notion of Islamic social responsibility. Similar to the idea of corporate social responsibility in traditional businesses, Islamic social responsibility pushes sharia-compliant businesses to make beneficial contributions to their communities and environment (Ascarya & Masrifah, 2023). This involves using Islamic business ethics, supporting charitable causes, donating zakat, protecting the environment, and engaging in ethical business practices in line with Islamic principles (Khansa & Violita, 2021).

The ability of a corporation to make money off its business operations is referred to as profitability. It is a crucial gauge of a business's financial performance (Kanoujiya et al., 2023). High profitability is typically viewed favourably, but in the context of Islamic banking, it must be balanced with ethical corporate conduct and adherence to sharia standards. The term "profitability" describes a company's capacity to make money from its commercial endeavours (Bolívar et al., 2023). It is a crucial sign of a company's financial health. In the context of Islamic banking, high profitability is typically seen as a good, but it must be balanced with ethical corporate conduct and adherence to sharia norms. A corporation's market value is determined by its firm value. It displays the overall wealth, assets, and potential future profits of a corporation (Elbardan et al., 2023). Corporate value in the context of Islamic banking also takes into account the organisation's adherence to sharia principles and reputation within the sharia-compliant community.

### *Hypotheses Development*

The concept of agency theory explains the dynamics between shareholders, who act as owners of the company, and managers, who act as agents who are responsible for managing the company on behalf of the shareholders (Jensen & Meckling, 1976). This notion emphasises the existence of a conflict of interest between owners and managers that has the potential to affect the performance of a company. The introduction of effective corporate governance practices has the potential to reduce agency conflicts by aligning managerial actions with the interests of shareholders and the long-term goals of the organisation (Kavadis & Thomsen, 2023). Shareholders (shariah-compliant investors) are principals with a stake in the business when it comes to sharia banking. To operate the business in accordance with sharia principles and to accomplish its financial and social objectives, they engage management (agents). Conflicts of interest may arise when management fails to increase shareholder profits or adhere to sharia principles. Agency theory aids in comprehending how these conflicts can be resolved or minimized by appropriate corporate social responsibility disclosures and excellent Islamic corporate governance.

Stewardship theory places significant emphasis on the good perception of managers as accountable administrators who demonstrate integrity in their interactions with shareholders and organisations (Walton & McKersie, 1965). Within this particular framework, individuals occupying managerial positions and the overall management of the company are seen as trustees. Their primary responsibility is the scrupulous administration of the company, adhering to Islamic values, with the aim of generating sustainable value for both shareholders and society at large.

The establishment of Islamic corporate governance assists organisations in ensuring compliance with Islamic Sharia principles in all operational aspects and commercial options (Istrefi, 2020). The adherence to Islamic ideals shown by the company is evident in this adherence. The use of transparent integrated governance practices increases the level of accountability of management and the supervisory board towards shareholders and other relevant stakeholders (Mukhibad et al., 2021). This facilitates increased transparency in the organisation's operational and financial reporting. The application of Islamic corporate governance has been found to have a variety of positive effects, including compliance with sharia principles, effective sharia risk management, and better access to finance (Mansour & Bhatti, 2018). These factors collectively contribute to increasing the long-term value of the company.

#### **H1. Islamic corporate governance has an effect on firm value.**

The theoretical framework of resource advantage emphasises the importance of different resources and capabilities possessed by organisations to build competitive advantage (Wernerfelt, 1984). The successful implementation of corporate social responsibility initiatives has the potential to grow a good reputation and foster strong relationships with various stakeholders, such as consumers, employees, and local communities. A favourable reputation and constructive interactions can serve as distinctive organisational assets that enhance competitive advantage and firm value. Compliance and Legitimacy Theory

underscores the importance of company compliance with societal norms and values (Islam, 2017), which include sharia principles. The application of Islamic social responsibility enables companies to increase their legitimacy among various societal actors by demonstrating their commitment to social responsibility and adherence to Islamic principles.

Sustainability theory emphasises the importance of companies engaging in sustainable practices over long periods of time, taking into account their impact on society, the environment, and the economy (Elkington, 1998). Islamic social responsibility implementation with particular emphasis on social and environmental sustainability has the potential to generate lasting value for the organisation while increasing the reputation and trust of its stakeholders (Hanic & Smolo, 2023). Adoption of implementation, which emphasises sharia principles, has the potential to become a separate asset that differentiates the company from its competitors (Ali et al., 2023). This advantage has the potential to increase the company's attractiveness to stakeholders and consumers who prioritise compliance with sharia principles. The spread of Islamic social responsibility has an impact on the value of the company.

## **H2. Islamic social responsibility has an effect on firm value.**

Corporations incorporate Islamic corporate governance concepts into their business operations and management. These principles include compliance with Islamic Sharia rules, ensuring transparency and accountability, and safeguarding the interests of shareholders (Jan et al., 2021). Implementing healthy Islamic corporate governance practices can significantly improve a company's position as a company dedicated to upholding Sharia values and demonstrating social responsibility (Khan & Zahid, 2020). This phenomenon has the potential to increase corporate value because it is increasingly attractive to stakeholders who priorities sharia values.

The level of profitability shown by a company serves as an indicator of operational efficiency and overall financial performance (Sudiyatno et al., 2020). There is a positive correlation between firm profitability and firm value. The addition of company value is facilitated by the existence of high profitability because it increases the attractiveness of investors and other stakeholders (Alghifari et al., 2022). The effect of Islamic corporate governance on firm value can be influenced by profitability. Islamic corporate governance deployment can increase the value of the company when operating at high levels of profitability. This is because profitability serves as an additional incentive for investors and stakeholders, making the company more attractive to them. In cases where profitability is limited, the potential impact of implementing Islamic corporate governance on business value may be reduced, as the benefits offered by Islamic corporate governance may be overshadowed by substandard financial performance. The importance of taking into account the interests of many stakeholders, including shareholders, is emphasized by the stakeholder theory. The favourable moderation effect can be interpreted in this context as an illustration of how a company's profitability helps not only its shareholders but also other stakeholders.

## **H3. Profitability moderates the effect of Islamic corporate governance on firm value.**

Implementing effective Islamic social responsibility practices has the potential to strengthen a company's position as a socially responsible entity dedicated to upholding sharia principles. This phenomenon has the potential to increase corporate value because it is seen as more attractive to stakeholders who prioritise social and ethical considerations that are in line with Islamic sharia principles in the business realm. The level of profitability of a corporation shows its potential to create profits through its operational activities (Suteja et al., 2023). Assessment of a company's effectiveness in meeting its financial objectives is facilitated by the availability of information to stakeholders, including shareholders, investors, and creditors (Linawati et al., 2022).

Profitability can function as a moderator variable that affects the relationship between Islamic social responsibility and firm value. In this particular scenario, the level of profitability has the potential to influence the magnitude of the impact of Islamic social responsibility on business value. The use of strong Islamic social responsibility practices can increase a company's value when profitability levels are high because it adds to the company's attractiveness to investors and stakeholders. In cases where profitability levels are low, the potential effect of implementing Islamic social responsibility on firm value may be limited due to the shadowing effect of inadequate financial performance, thereby reducing the perceived benefits of Islamic social responsibility.

#### **H4. Profitability moderates the effect of Islamic social responsibility on firm value.**

### **Methods**

The population in this study is comprised of 13 Islamic commercial banks in Indonesia that are registered with the Financial Services Authority (OJK) for the 2017–2021 period. We exclude Islamic commercial banks that do not have complete financial reports regarding the variables studied. So our sample is 12 Islamic commercial banks, with a total of 60 observations. Independent variables, dependent variables, and moderating variables are the three types of variables used in this study. Islamic corporate governance and Islamic social responsibility are independent variables; firm value is a dependent variable; and profitability is a moderating factor. A complete list of variable definitions is presented in Table 1.

Table 1. Variable Definition

Variable	Definition	Formula	Source
Firm Value	The concept of firm value refers to the amount of money potential buyers are willing to offer in the event of a sale of the company. The success of the owner is directly proportional to the value of the company.	Economic Value Added (EVA) = NOPAT – Capital Charge	(Azizul Islam, 2017; Chen, Jin, & Qin, 2023)
Islamic Corporate Governance	Islamic Corporate Governance refers to the corporate governance system that includes laws and ethical principles aimed at improving company performance as a manifestation of corporate responsibility, guided by the principles and values derived from the Qur'an.	$ICG = \sum \frac{Xi}{n}$	(Khanifah, Hardiningsih, Darmaryantiko, Iryantik, & Udin, 2020; Srairi, 2015)
Islamic Social Responsibility	The term "Islamic Social Responsibility" (ISR) refers to the moral and charitable actions that organisations and companies engaged in Islamic finance and commerce do in keeping with Islamic values and principles. It includes a variety of projects and activities meant to uphold Islamic beliefs while achieving societal and financial well-being.	$ISR = \sum \frac{Xij}{Nj}$	(Halimah & Rahmawati, 2019; Santoso, Ningsih, & Paramitha, 2018)
Profitability	The profitability ratio is a metric used to evaluate a company's capacity to generate profits over a certain period of time.	Return on Assets (ROA) $= \frac{Net\ Income}{Total\ Assets}$	(Gutiérrez-Ponce & Wibowo, 2023; Nirwana & Wedari, 2023)



The present study employs a verification approach to examine the hypothesis, which aims to assess the impact of Islamic corporate governance and Islamic social responsibility on firm value while also considering the moderating effect of profitability. The research data use panel data, which is a composite of both time series and cross-sectional data. Based on the provided information, the resulting model is a panel data regression equation.

$$\text{Firm Value} = \beta_1 + \beta_2 \text{Islamic Corporate Governance}_{it} + \beta_3 \text{Islamic Social Responsibility}_{it} + \beta_4 \text{Profitability}_{it} + \beta_5 \text{Islamic Corporate Governance}_{it} * \text{Profitability}_{it} + \beta_6 \text{Islamic Social Responsibility}_{it} * \text{Profitability}_{it} + u_{it}$$

The common effect model, fixed effect model, and random effect model are the models that will be specifically examined in this paper's examination of various panel data regression analysis approaches. To further identify the ideal model, the Chow Test, Hausman Test, and Lagrange Multiplier Test were carried out. The chosen model's traditional presumptions are next evaluated. The multicollinearity test and the heteroscedasticity test, two well-known assumption tests, are used in the study. Due to the sample size exceeding 40 samples, the normality and autocorrelation tests were not performed (Ghasemi & Zahediasl, 2012). The GLS (generalized least squares) model was used to overcome concerns with autocorrelation (Gujarati & Porter, 2008).

## Findings

In this research, we try to analyses the conditions related to Islamic corporate governance, Islamic social responsibility, firm value, and profitability in Islamic commercial banks, which consist of PT. Bank Tabungan Pensiunan Nasional Syariah, PT. Bank Mega Syariah, PT. Bank Victoria Syariah, PT. Bank Muamalat Indonesia, PT. Bank Panin Dubai Syariah, PT. Bank Jabar Banten Syariah, PT. Bank KB Bukopin Syariah, PT. Bank Aladin Syariah, PT. Bank BCA Syariah, PT. Bank Aceh Syariah, PT. BPD Riau Kepri Syariah, PT. Bank NTB Syariah. Based on table 2, it can be seen that Islamic corporate governance has an average value of 0.809788, the lowest value is -0.460317, the highest value is 0.936508, and a standard deviation of 0.066993. The variable Islamic social responsibility has an average value of 0.740698, the lowest value is 0.558140, and the highest value is 0.883721, with a standard deviation of 0.078815. The firm value variable has an average value of 409,521,604,294, the lowest value is 11,848,090, and the highest value is 6,925,340,029,006, with a standard deviation of 1,063,276,759,611. For the profitability variable proxied by Return on Assets, it has an average of 0.026507, the lowest value is 0.097777, and the highest value is 0.363372 with a standard deviation of 0.062857.

Table 2. Descriptive Statistics

	Firm Value	Islamic Corporate Governance	Islamic Social Responsibility	Profitability
Mean	409521604294	0.809788	0.740698	0.026507
Median	41100187703	0.809524	0.767442	0.008194
Maximum	6925340029006	0.936508	0.883721	0.363372
Minimum	11848090	0.460317	0.558140	0.097777
Std. Dev.	1063276759611	0.066993	0.078815	0.062857

Observations	60	60	60	60
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Table 3 presents the correlation matrices for the variables in the estimation model. The correlation between explanatory variables and firm value provides an initial view of their univariate relationship. The correlation coefficient between the explanatory variables and our average firm value is weak. This can be seen from the values of each correlation, namely Islamic corporate governance of 0.0934, Islamic Social Responsibility of -0.1248, and profitability of 0.1540.

Table 3. Correlation Matrix

Variable	1	2	3	4
1. Firm Value	1.0000			
2. Islamic Corporate Governance	0.0934	1.0000		
3. Islamic Social Responsibility	-0.1248	-0.0198	1.0000	
4. Profitability	0.1540	-0.1832	0.0538	1.0000

The results of panel data testing are shown in Table 4. The model specification test is carried out first to determine which model is feasible to use. The results of the chow test showed that the fixed effect model with generalized least squares was the chosen model. Based on the Hausman test, it can be seen that the random effect model was selected, but the adjusted R<sup>2</sup> value showed a negative number of -0.003170 and the F-test results were not significant (F = 0.962715; p > 0.01), so we decided to use the fixed effect model with generalized least squares as the model. The traditional assumption test is then run on the chosen model. The multicollinearity test and the heteroscedasticity test (Glejser test) are two well-known assumption tests that are used in this work. The multicollinearity test findings reveal that there is no multicollinearity because the correlation between the explanatory variables is less than 0.8 (Table 3). According to the Glejser test, the regression model does not exhibit any signs of heteroscedasticity, as can be seen from the significant values of each independent variable to the residual absolute value of greater than 0.05.

Table 4. Data Panel Results

	Outcome Variable: EVA		
	Common Effect Model	Fixed Effect Model	Random Effect Model
Constant	12.62018*** (0.816259)	11.55510*** (0.704352)	12.0656300*** (1.4203880)
ICG	23.7872*** (6.926290)	16.50797*** (5.317781)	15.9998300* (8.5398070)
ISR	-5.750878 (4.680303)	-3.932837* (2.180616)	-1.5233410 (7.1100940)
ROA	0.950902** (0.361395)	0.419815 (0.400987)	0.7879470 (0.7213750)
ICG*ROA	10.94678*** (3.532224)	9.544281*** (2.892730)	10.1830400* (5.4779320)
ISR*ROA	-2.519803 (2.142205)	-3.279119** (1.573779)	-1.8907390 (3.1358290)
R <sup>2</sup>	0.326779	0.843065	0.081845
Adjusted R <sup>2</sup>	0.264444	0.78467	-0.003170
F - Test	5.242292***	14.43739***	0.962715
Chow - Test For FEM		14.344815***	

Outcome Variable: EVA			
	Common Effect Model	Fixed Effect Model	Random Effect Model
Hausman - Test For REM			1.55834
Multicollinearity Test		No	
Heteroscedasticity Test		No	

Please note that the symbols \*\*\*, \*\*, and \* denote the respective significance levels of 1%, 5%, and 10%. The figures provided represent the coefficient values of the variables, while the values enclosed in parentheses represent the standard error values.

According to Table 4's results from the fixed effect model with the generalized least squares, all variables, including Islamic corporate governance, Islamic social responsibility, profitability, the interaction between Islamic corporate governance and profitability, as well as the interaction between Islamic social responsibility and profitability, have an impact on firm value (F-test = 5.242292;  $p < 0.01$ ), which indicates the feasibility of the model for this study. The adjusted  $R^2$  value shows a value of 0.78467, which means the model has good predictions and is included in the high category.

In Hypothesis 1 (H1), we hypothesize that Islamic corporate governance has an effect on firm value, and our results support this. The results reveal a positive effect of Islamic corporate governance on firm value (EVA) ( $\beta = 16.5079$ ; SE = 5.317781;  $p < 0.01$ ). Islamic corporate governance encourages companies to apply a higher level of transparency in financial and operational reporting (Mukhibad et al., 2021). This helps create trust among investors and stakeholders, as they have better visibility into the performance of the company. A higher level of transparency can attract investors and provide a positive signal about management integrity, which in turn can increase EVA. Islamic corporate governance emphasizes the importance of considering the interests of various stakeholders, including employees, society, and the environment (Jan et al., 2021). By paying attention to the interests of all parties involved, companies can build better relationships with customers and communities, which in turn can contribute to business growth and a sustainable increase in corporate value (So et al., 2021). This research is in line with Wahyuni & Rahayu's (2019) showing that Islamic corporate governance can increase company value and is similar to research from Dwiarti et al. (2022) and Ogundajo et al. (2023) showing that corporate governance is a determining factor in increasing firm value. These findings also support the concepts of agency theory and stewardship theory. Islamic corporate governance has the potential to reduce agency conflicts, and individuals who occupy managerial positions and the entire management of the company are seen as trustees who align managerial actions with the interests of shareholders and the long-term goals of the organization.

For Hypothesis 2 (H2), we hypothesize that Islamic social responsibility has an effect on firm value, and our results support this. The results reveal the negative effect of Islamic social responsibility on firm value (EVA) ( $\beta = -3.932837$ ; SE = 2.180616;  $p < 0.1$ ). This research is in line with Schiessl et al. (2022) which reveal that a high corporate social responsibility index has an impact on decreasing company value as measured by EVA. Companies that follow sharia-based financing principles may have to avoid conventional financial instruments or certain ways of financing that can provide higher returns or are more efficient. This can affect the company's ability to maximize economic value. Islamic social responsibility practices involving donations to society or humanitarian programs can

cause additional costs for companies. If this contribution does not add appreciable value to the brand image or long-term benefits, it could have a negative impact on EVA.

For the moderating effects (H2 and H3), the interaction shows a significant effect on firm value. The results report a positive moderation of profitability on the influence of Islamic corporate governance on firm value ( $\beta = 9.544281$ ; SE = 2.892730;  $p < 0.01$ ), as well as a negative moderating relationship of profitability on the effect of Islamic corporate governance on firm value (EVA) ( $\beta = -3.279119$ ; SE = 1.573779;  $p < 0.05$ ). Companies that have strong Islamic Corporate Governance and also achieve high levels of profitability indicate that they use resources efficiently and effectively to achieve their business goals. This can increase the added value of the company. High profitability reflects good business performance and can increase investor and stakeholder confidence in the company. In combination with good Islamic corporate governance, this can result in increased corporate trust and credibility, which has a positive impact on corporate value. Good profitability can give a company the ability to invest in new projects, product development, or innovation. With the support of good Islamic corporate governance, companies can manage these investments carefully and increase corporate value. Positive moderation shows that a firm's value is increased when it combines strong Islamic corporate governance practices with high profitability. This is consistent with the Resource-Based View Theory's (Wernerfelt, 1984) contention that fusing priceless assets and skills can produce a long-lasting competitive advantage and, as a result, raise firm value.

Implementing an Islamic social responsibility programme requires additional costs for the company. If the company's profitability is low, these additional costs can suppress profits and have a negative impact on company value. If a company faces limited resources to achieve a high level of profitability, then implementing Islamic social responsibility can burden the company financially and cause a decline in company value. Companies must choose to allocate resources between Islamic social responsibility programmes and other business initiatives. If the benefits resulting from Islamic social responsibility programmes are not commensurate with the costs and potential benefits, then company profitability can be a negative moderator of the relationship between Islamic social responsibility and company value. According to descriptive statistics, Islamic banks in this sector often have low levels of profitability. This is caused by intense competition, high operational costs, macroeconomic factors, and the COVID-19 pandemic. In this situation, a bank's ability to have a meaningful impact on business value through Islamic socially responsible investments may be hampered by low profitability. This conclusion is consistent with agency theory. According to agency theory, there may be a conflict of interest between managers and owners (principals). Managers may prefer financial considerations over social duties associated with Islamic social responsibility if they have a personal interest in maximising current profitability for the sake of bonuses or other personal incentives.

### ***Robustness Check***

We conducted a robustness check to ensure the reliability of our statistical conclusions drawn from Table 5. The robustness check was to re-examine the effect of Islamic corporate governance and Islamic social responsibility on firm value with a moderating effect on profitability using a data analysis method using robust least squares. Robustness check results based on table 5 show a positive effect of Islamic corporate governance on firm value (EVA) ( $\beta = 26.33284$ ; SE = 1.135444;  $p < 0.01$ ), but a negative effect of Islamic

social responsibility on firm value (EVA) ( $\beta = -7.368282$ ; SE = 0.791390;  $p < 0.01$ ). Furthermore, the results show a positive moderation of profitability on the influence of Islamic corporate governance on firm value ( $\beta = 14.90525$ ; SE = 0.715859;  $p < 0.01$ ), as well as a negative moderation of profitability on the influence of Islamic corporate social responsibility on firm value (EVA) ( $\beta = -3.423574$ ; SE = 0.380921;  $p < 0.01$ ). The robustness check results consistently show that Islamic corporate governance and Islamic social responsibility have an effect on firm value, and profitability is able to moderate this effect. This means that the model exhibits a good degree of resistance to external variations and disturbances and can be trusted to provide relevant and consistent results under various conditions. Thus, the research model in this study is valid and reliable to use.

Table 5. **Robustness Check**

	<b>Outcome Variable: EVA Robust Least Square</b>
Constant	12.47290*** (0.145608)
ICG	26.33284*** (1.135444)
ISR	-7.368282*** (0.791390)
ROA	1.078272*** (0.069709)
ICG*ROA	14.90525*** (0.715859)
ISR*ROA	-3.423574*** (0.380921)
R <sup>2</sup>	0,177214
Adjusted R <sup>2</sup>	0,10103
Rn – Squared Stat	784,8791***

Please note that the symbols \*\*\*, \*\*, and \* denote the respective significance levels of 1%, 5%, and 10%. The figures provided represent the coefficient values of the variables, while the values enclosed in parentheses represent the standard error values.

## Conclusion

This study examines the influence of Islamic corporate governance and Islamic social responsibility on firm value with a moderating effect on profitability using panel data regression analysis of the generalized least squares model in Islamic commercial banks in Indonesia for the 2017–2021 period. The results show that there is a positive effect of Islamic corporate governance and a negative effect of Islamic social responsibility on firm value, and profitability is able to moderate this effect, both positively on the effect of Islamic corporate governance on firm value and negatively on the effect of Islamic social responsibility on firm value.

The results of this study provide several implications that need to be considered, including: (1) Companies that implement strong Islamic corporate governance can improve their operational efficiency and transparency, which in turn contributes to increasing corporate value; (2) Companies must be more careful in implementing social responsibility practices that do not directly contribute to the profitability and value of the company. It is important

to ensure that corporate social responsibility activities are also in line with long-term business objectives and growth strategies; (3) The company has the potential to achieve sustainable corporate value in the long term. Increased profitability enables the company to strengthen its performance and competitive advantage, which can create added value for the company's stakeholders; (4) Companies need to find the right balance between implementing social responsibility and achieving financial benefits. The focus on good financial performance must not ignore corporate social responsibility, and vice versa, social responsibility activities must be directed to achieve positive results for the company and society.

This study emphasizes how important it is to incorporate Islamic principles—represented by Islamic social responsibility and Islamic corporate governance—into corporate governance procedures. This shows how ethical and socially conscious governance, especially in the context of Islamic finance, can influence company value. The findings of this research highlight the application of stewardship theory and agency theory in the context of Islamic finance. This may highlight the importance of conflicts of interest (according to agency theory) or alignment of management objectives with shareholder objectives (according to stewardship theory) in determining business performance. Profitability moderates the relationship between Islamic social responsibility/Islamic corporate governance and firm value.

Limitations of our research include the limited sample size; these findings are specific to the banking sector, so they cannot be applied to other sectors; the research period includes the COVID-19 period, so data such as profitability is very sensitive to the pandemic period; and external factors or variables are not considered in research, such as macroeconomic conditions, industry-specific factors, or market sentiment.

Follow-up research could involve sector and regional analysis to identify whether the relationship between Islamic corporate governance, Islamic social responsibility, profitability, and firm value varies across industry sectors or regions. This can help companies and other stakeholders understand different contexts that are relevant for strategic decision-making. Furthermore, research can focus on developing more sophisticated predictive models to estimate the impact of Islamic corporate governance, Islamic social responsibility, and profitability on firm value. Such a model can help companies plan their business strategy based on different scenarios and understand how certain decisions can affect the financial performance and value of the company. Follow-up research may also involve longitudinal studies that observe changes in the impact of Islamic corporate governance, Islamic social responsibility, profitability, and firm value over time. In addition, cross-country studies can compare Islamic corporate governance and Islamic social responsibility practises and their impacts on firm value in different countries and different legal contexts.

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