

Research Paper

Do Sustainability Practices Create Value? Evidence from Green Banking, Islamic Social Reporting, and Profitability in Indonesian Islamic Banks

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ABSTRACT

Despite the increasing adoption of sustainable finance practices, the combined effects of green banking and Islamic Social Reporting (ISR) on firm value, particularly through financial performance, remain underexplored. This study aims to examine the effects of green banking and ISR on firm value in Indonesian Islamic banks, as well as the moderating role of profitability. Employing a quantitative explanatory design, the study utilizes secondary data obtained from annual reports and sustainability reports of 14 Islamic commercial banks in Indonesia during the period 2020–2024. Data were analyzed using panel data regression and Moderated Regression Analysis (MRA) with EViews. The findings reveal that green banking and ISR have positive and significant effects on firm value, indicating that environmental sustainability initiatives and Sharia-based social accountability enhance market valuation and stakeholder trust. Profitability is also found to positively influence firm value and significantly strengthens the effects of green banking and ISR on firm value. Furthermore, firm size and leverage contribute to explaining variations in firm value. These findings suggest that sustainability practices generate greater organizational value when supported by strong financial performance. The study contributes to the sustainable finance and Islamic banking literature by demonstrating the complementary roles of environmental responsibility, social accountability, and profitability in creating long-term firm value.

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Introduction

Rapid environmental degradation, climate change, and growing stakeholder expectations have transformed the role of financial institutions from mere intermediaries into strategic actors in sustainable development (Inegbedion, 2024). As governments, investors, and society increasingly demand environmentally responsible business practices, sustainability has become a critical determinant of corporate legitimacy and long-term competitiveness. In response to these pressures, the banking sector has adopted the concept of green banking, which integrates environmental considerations into operational activities, financing decisions, and risk management frameworks (Bhardwaj & Malhotra, 2013). Green banking extends beyond compliance-oriented initiatives by encouraging financial institutions to support environmentally sustainable projects, promote resource efficiency, and incorporate environmental risk assessments into lending practices (Guild, 2020). Consequently, green banking has evolved into an essential component of sustainable finance and a strategic mechanism through which banks can balance financial objectives with broader environmental and social responsibilities while simultaneously enhancing their long-term organizational value (Rosdiana et al., 2025).

The increasing adoption of sustainability principles is also evident in the Indonesian banking sector. As illustrated in Figure 1, the percentage of green banking disclosures reported by both conventional and Islamic banks increased consistently between 2020 and 2023. Conventional banks maintained higher disclosure levels throughout the period, rising from approximately 60% in 2020 to 72% in 2023. Islamic banks also demonstrated substantial progress, with disclosure levels increasing from around 42% to 55% during the same period. Particularly noteworthy is the acceleration observed after 2021, following the establishment of Bank Syariah Indonesia through the merger of three major Islamic banks, which strengthened institutional capacity and sustainability commitments. Although a disclosure gap between conventional and Islamic banks remains, the upward trend shown in Figure 1 indicates that Islamic banks are increasingly embracing green banking practices as part of their strategic agenda. This development suggests growing opportunities for Islamic banks to contribute more actively to Indonesia's sustainable finance ecosystem while enhancing their institutional competitiveness.

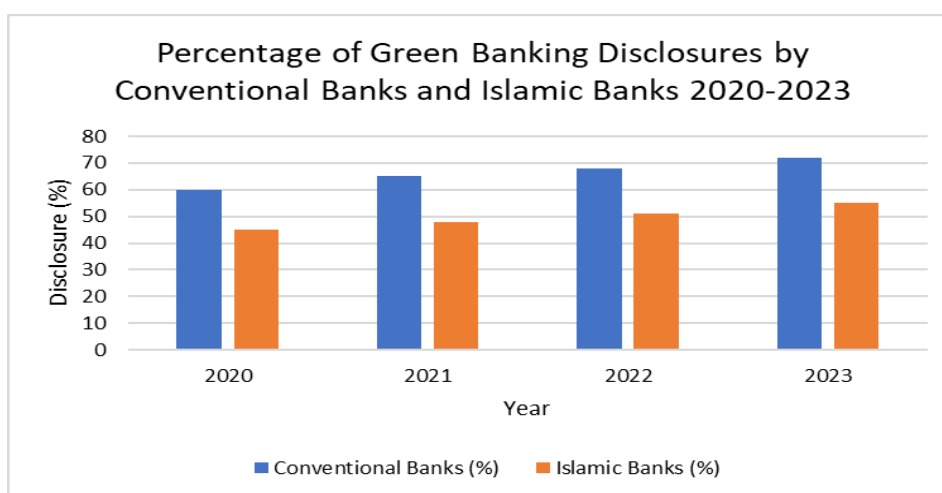


Figure 1. Green Banking Disclosures of Conventional and Islamic Banks (2020-2023)

Source: Annual Report of Conventional and Islamic Banks

Beyond environmental responsibility, sustainability in Islamic banking also encompasses a distinct social and ethical dimension rooted in Sharia principles. This dimension is commonly reflected through Islamic Social Reporting (ISR), a disclosure framework that integrates conventional corporate social responsibility with Islamic values such as justice, transparency, accountability, trustworthiness, and social welfare (Wijayanti & Setiawan, 2022). Unlike conventional sustainability disclosures that primarily focus on economic, environmental, and social impacts, ISR emphasizes accountability not only to stakeholders but also to Allah, thereby incorporating spiritual and ethical considerations into organizational reporting (Oktaviana et al., 2021). Through ISR, Islamic banks communicate their commitment to fulfilling broader social obligations, including equitable wealth distribution, community development, and ethical business conduct. Consequently, ISR functions as both a legitimacy mechanism and a strategic communication tool that strengthens stakeholder trust and demonstrates compliance with Islamic principles of sustainable development (Susbiyani et al., 2023). This unique characteristic positions ISR as an important indicator of sustainability performance within Islamic financial institutions.

The growing relevance of green banking and ISR is reinforced by the rapid expansion of the global Islamic finance industry. Islamic finance has experienced substantial growth over the past decade, driven by increasing demand for ethical and socially responsible financial services (Kazak et al., 2023). Indonesia has emerged as one of the most important markets in this development, supported by favorable regulatory frameworks, a large Muslim population, and strong government commitment to sustainable finance initiatives (Rouf et al., 2024). Islamic banking assets, financing portfolios, and market penetration have continued to expand, reflecting increasing public confidence in Sharia-compliant financial institutions (Grassa et al., 2018). Furthermore, contemporary developments in Islamic finance increasingly emphasize the integration of Environmental, Social, and Governance (ESG) principles with Maqashid al-Shariah objectives, creating a strong conceptual foundation for sustainability-oriented banking practices. This strategic position makes Indonesia a particularly relevant setting for investigating how sustainability initiatives influence organizational outcomes in Islamic banking.

Conceptually, Islamic banks possess a comparative advantage in implementing sustainability-oriented practices because the principles underlying green banking and ISR closely align with Maqashid al-Shariah, which promotes the preservation of wealth, society, and the environment (Al Adawiyah et al., 2025). Nevertheless, the practical implementation of these initiatives remains uneven. As presented in Figure 2, conventional banks consistently exhibit higher levels of implementation across most sustainability dimensions, particularly in green lending and sustainability reporting. However, Islamic banks have demonstrated remarkable progress, especially in ISR implementation, which increased from approximately 50% in 2020 to 70% in 2023. The upward trajectory observed in Figure 2 suggests that sustainability practices are becoming increasingly embedded within the strategic priorities of Islamic banks. This trend indicates considerable potential for Islamic banks to leverage the integration of green banking and ISR not only as mechanisms for regulatory compliance but also as strategic resources capable of strengthening financial performance, stakeholder trust, and long-term organizational value.

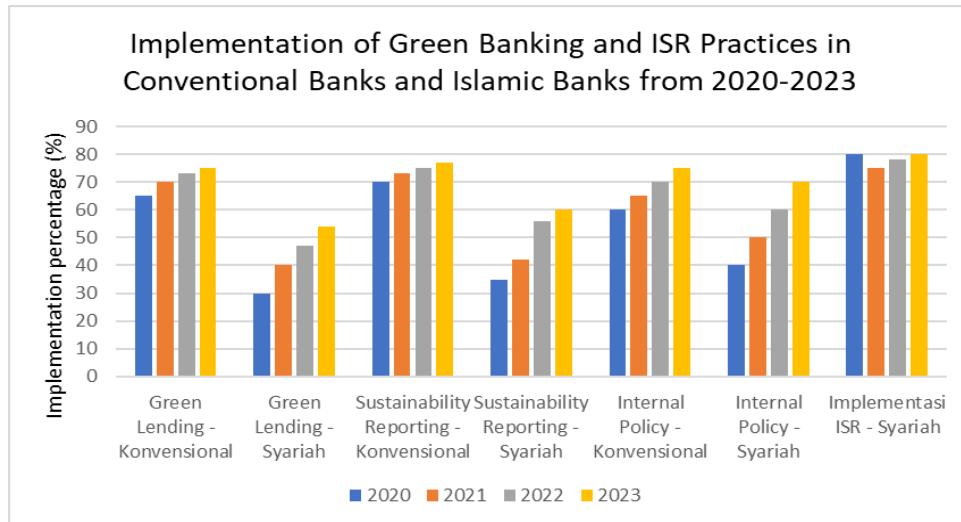


Figure 2. Implementation of Green Banking and ISR Practices in Conventional and Islamic banks 2020-2023

Source: Indonesian Stocks Exchange (2024)

Existing literature has extensively examined sustainability practices within banking and Islamic finance from several perspectives. The first stream focuses on the development and measurement of green banking and sustainability disclosure indices, including studies by Bose et al. (2018), Mukhibad et al. (2024), and Aisah et al. (2024). The second stream investigates the determinants and implementation of Islamic social reporting and Sharia-based accountability practices (Quttainah & BenSaid, 2025; Susbiyani et al., 2023; Wijayanti & Setiawan, 2022). A third stream explores the relationship between sustainability initiatives and organizational outcomes, including financial performance and firm value (Iqbal, 2025; Murwaningsari & Rachmawati, 2023; Prayoga & Siswantoro, 2025). Collectively, these studies provide important evidence regarding the growing role of sustainability in financial institutions. However, the literature remains fragmented because environmental initiatives and Islamic social responsibility are often examined separately, while their combined influence on market-based outcomes in Islamic banking remains relatively underexplored.

Despite the growing body of literature, several important gaps remain. First, prior studies predominantly focus on either green banking disclosure or Islamic social reporting independently, with limited attention to their simultaneous effects within a unified analytical framework. Second, most studies emphasize disclosure quality, sustainability reporting, or financial performance outcomes, while empirical evidence regarding their impact on firm value in Islamic banking remains scarce. Third, the mechanisms through which sustainability practices generate value creation have not been adequately examined, particularly regarding the role of profitability as an enabling factor. As a result, it remains unclear whether sustainability initiatives contribute directly to firm value or whether their effectiveness depends on the bank's financial capacity. Addressing these gaps, this study introduces a comprehensive framework that integrates green banking performance and Islamic Social Reporting as complementary sustainability dimensions and examines profitability as a mediating mechanism linking sustainability practices to firm value in Indonesian Islamic banks.

Based on the foregoing discussion, this study aims to examine the effects of green banking performance and Islamic Social Reporting on firm value in Indonesian Islamic banks, while investigating the mediating role of profitability and controlling for leverage and firm size. The study is unique in three respects. First, it integrates environmental sustainability and Sharia-based social responsibility within a single analytical model. Second, it shifts the focus from disclosure-oriented assessments toward value-creation outcomes represented by firm value. Third, it explains the transmission mechanism through which sustainability initiatives influence firm value by incorporating profitability as a mediating variable. The findings are expected to contribute theoretically to the growing literature on sustainable finance and Islamic banking by clarifying the relationship between sustainability practices and organizational value creation. Practically, the results may provide insights for Islamic bank managers, regulators, and policymakers seeking to strengthen sustainability strategies while enhancing long-term competitiveness and stakeholder confidence.

Method

This study employs a quantitative explanatory research design to investigate the relationship between green banking performance, Islamic Social Reporting (ISR), and firm value in Indonesian Islamic banks. An explanatory approach is appropriate because the study seeks to test causal relationships among sustainability-related variables and evaluate the role of profitability in strengthening the effects of green banking and ISR on firm value. Drawing upon stakeholder theory, legitimacy theory, and Sharia Enterprise Theory, the study examines whether sustainability-oriented practices contribute to value creation within Islamic financial institutions. To capture both cross-sectional and time-series variations, panel data regression is utilized, allowing for more robust estimation of relationships across banks and over multiple observation periods. Furthermore, Moderated Regression Analysis (MRA) is employed to assess whether profitability strengthens the influence of green banking and ISR on firm value while controlling for firm-specific characteristics.

The population consists of all Islamic commercial banks operating in Indonesia and listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. Sample selection was conducted using purposive sampling based on three criteria: (1) the bank was listed on the IDX throughout the observation period; (2) the bank consistently published annual reports and sustainability reports; and (3) the reports provided complete information required for measuring all research variables. Based on these criteria, 14 Islamic commercial banks were selected as the research sample. Secondary data were collected from annual reports, sustainability reports, and financial statements obtained from the official websites of the respective banks and the Indonesia Stock Exchange. The observation period yielded a balanced panel dataset suitable for examining the effects of sustainability practices on firm value in the Indonesian Islamic banking sector.

Firm value serves as the dependent variable and is measured using Tobin's Q, which captures market perceptions of a firm's future growth prospects and overall performance by comparing the market value of the company with the replacement value of its assets. Following [Constantinescu and Lungu \(2021\)](#), Tobin's Q is calculated as $(\text{Market Value of Equity} + \text{Total Liabilities}) / \text{Total Assets}$. The primary independent variables are green

banking performance and Islamic Social Reporting (ISR). Green banking performance is measured using the Green Banking Disclosure Index developed by Bose et al. (2018), consisting of 16 disclosure indicators covering environmental policies, green financing, resource efficiency, and sustainability initiatives. Each disclosed item is assigned a score of one, while undisclosed items receive a score of zero, and the index is calculated as the proportion of disclosed items to the total indicators. Islamic Social Reporting is measured using the ISR disclosure framework proposed by Susbiyani et al. (2023), which comprises 43 disclosure items reflecting Sharia compliance, social responsibility, community involvement, employee welfare, environmental stewardship, and corporate governance. Similar to the green banking index, the ISR score is calculated as the ratio of disclosed items to the total disclosure checklist. To examine the role of financial performance, profitability is incorporated as a moderating variable and proxied by Return on Assets (ROA), calculated as Net Income / Total Assets (Aydoğmuş et al., 2022). ROA reflects managerial effectiveness in generating earnings from the bank's asset base and indicates the institution's financial capacity to support sustainability initiatives. In addition, two control variables are included to account for firm-specific characteristics that may influence firm value. Leverage is measured using the Debt-to-Equity Ratio (DER), calculated as Total Liabilities / Total Equity (Mia, 2025), while firm size is measured using the natural logarithm of total assets, $SIZE = \ln(\text{Total Assets})$ (Sharmeen & Yeaman, 2020). These control variables are incorporated to isolate the effects of sustainability-related practices by accounting for differences in capital structure and organizational scale across Islamic banks.

Results

This section presents the empirical findings of the study concerning the relationships among green banking performance, Islamic Social Reporting (ISR), profitability, and firm value in Indonesian Islamic banks. The analysis begins with descriptive statistics to provide an overview of the characteristics and distribution of the research variables. Subsequently, model selection tests are conducted to determine the most appropriate panel regression model. The section then reports the results of panel data regression and moderated regression analyses to examine the direct effects of green banking and ISR on firm value, as well as the moderating role of profitability. Together, these analyses provide a comprehensive understanding of how sustainability-oriented practices contribute to value creation in the Islamic banking sector.

Descriptive Statistics

Table 1 presents the descriptive statistics of the variables used in this study, including firm value (Tobin's Q), Green Banking (GB), Islamic Social Reporting (ISR), profitability (ROA), firm size (FS), and leverage (LV). As shown in Table 1, the average Tobin's Q value is 0.5777, with a minimum value of 0.0900 and a maximum value of 2.1500, indicating substantial variation in market valuation among Islamic banks during the observation period. The relatively high standard deviation (0.5662) further suggests considerable differences in how the market assesses the future growth prospects and performance of individual banks. Green Banking disclosure records a mean value of 0.5651, implying that, on average, Islamic banks disclosed approximately 56.5% of the green banking indicators.

Similarly, the average ISR disclosure score is 0.5712, indicating that slightly more than half of the ISR disclosure items were reported. The relatively low standard deviations of GB (0.1849) and ISR (0.0971) suggest that sustainability disclosure practices among Islamic banks are moderately consistent, although differences in implementation remain evident.

Regarding financial characteristics, Table 1 shows that profitability, measured by ROA, has an average value of 0.0358, with values ranging from 0.0002 to 0.8038. The large dispersion reflected in the standard deviation (0.1034) indicates notable differences in banks' ability to generate profits from their assets. Firm size exhibits substantial variation, with total assets ranging from 8.6049 to 243.9586 and an average value of 30.6607, reflecting the coexistence of relatively small and large Islamic banks within the sample. Likewise, leverage demonstrates considerable heterogeneity, as evidenced by its mean value of 3.9435 and standard deviation of 5.4526, suggesting that banks adopt different financing structures and risk profiles. Overall, the descriptive statistics indicate sufficient variability across the study variables, providing a robust basis for subsequent panel data analysis. Furthermore, the presence of variation in sustainability disclosures, profitability, and firm value supports the relevance of examining how green banking and ISR practices contribute to value creation in Indonesian Islamic banks.

Table 1. Descriptive Statistics

	Tobin's Q	GB	ISR	ROA	FS	Leverage
Mean	0.577679	0.565050	0.571201	0.035837	30.660730	3.943500
Median	0.240000	0.619000	0.592300	0.011350	21.122450	2.838000
Maximum	2.150000	0.809500	0.744190	0.803800	243.9586	45.78700
Minimum	0.090000	0.095200	0.302330	0.000200	8.604900	0.000000
Std. Dev.	0.566201	0.184865	0.097077	0.103417	35.934520	5.452609
Skewness	1.200334	-0.598049	-0.805974	5.256501	4.533173	5.229952
Kurtosis	3.173026	2.271420	3.143050	33.29031	24.78061	36.32248
Jarque-Bera	27.03469	9.153568	12.22127	4797.456	2597.438	5692.386
Probability	0.000001	0.010288	0.002219	0.000000	0.000000	0.000000
Sum	64.70000	63.28560	63.97449	4.01370	3434.002	441.6720
Sum Sq. Dev.	35.58480	3.793441	1.046055	1.187146	143333.2	3300.134
Observations	70	70	70	70	70	70

Note: GB = Green Banking; ISR = Islamic Social Reporting; ROA = Return on Asset; FS = Firm Size

Model Selection Test

Before estimating the regression model, a model selection procedure was conducted to determine the most appropriate panel data estimation technique. As reported in Table 2, both the Chow test and Hausman test consistently indicate that the Fixed Effects Model (FEM) is the preferred specification for both sub-structural equations. In the first equation, which examines the determinants of profitability, the Chow test produces a probability value of 0.0000, while the Hausman test yields a probability value of 0.0072. Similarly, in the second equation, which investigates the determinants of firm value, both tests generate probability values below the 0.05 significance threshold. These results lead to the rejection of the null hypotheses underlying the pooled ordinary least squares and random effects

models, confirming that the fixed effects approach provides a more appropriate representation of the data structure.

The selection of the Fixed Effects Model has important implications for this study. It suggests that individual Islamic banks possess unique characteristics that systematically influence profitability and firm value and cannot be adequately captured by a common intercept model. Such characteristics may include differences in governance quality, managerial capabilities, organizational culture, Sharia compliance practices, customer trust, and strategic commitment to sustainability initiatives. By controlling for these unobserved bank-specific effects, the FEM provides more reliable estimates of the relationships between green banking, Islamic Social Reporting, profitability, and firm value. This finding is particularly relevant in the context of Indonesian Islamic banking, where institutions differ considerably in terms of size, market share, sustainability maturity, and operational experience. Consequently, the adoption of the fixed effects specification strengthens the robustness of the empirical analysis and increases confidence that the estimated relationships reflect the actual influence of sustainability practices rather than unobserved institutional differences across banks.

Table 2. Model Selection Test

Equality	Test	(Prob)	Selected model
Sub Structural 1	Chow	0,0000	FEM
	Hausman	0,0072	FEM
Sub Structural 2	Chow	0,0000	FEM
	Hausman	0,0000	FEM

Panel Data Regression

The simultaneous significance test was conducted to evaluate whether the independent and control variables jointly influence the dependent variables in each structural model. As reported in Table 3, the first sub-structural equation, which examines the determinants of profitability, produces a Prob. (F-statistic) value of 0.000000, while the second sub-structural equation, which examines the determinants of firm value, yields a Prob. (F-statistic) value of 0.000158. Both values are substantially below the 0.05 significance level, indicating that the regression models are statistically significant as a whole. These findings demonstrate that the combination of green banking, Islamic Social Reporting, profitability, firm size, and leverage provides meaningful explanatory power for understanding variations in firm value among Indonesian Islamic banks.

Table 3. Simultaneous Significance Test

Equality	Prob (F-statistic)
Sub Structural 1	0.000000
Sub Structural 2	0.000158

More importantly, the results suggest that sustainability-related practices should not be viewed as isolated organizational initiatives but rather as components of an integrated

strategic framework that collectively contributes to organizational performance and value creation. Therefore, the regression models employed in this study are appropriate for examining the relationships among the variables and provide a reliable basis for hypothesis testing.

The coefficient of determination assesses the extent to which the independent variables explain variations in the dependent variable. As presented in Table 4, the adjusted R² value for the first sub-structural model is 0.6334, indicating that approximately 63.34% of the variation in profitability can be explained by the variables included in the model, while the remaining 36.66% is attributable to factors outside the study. Meanwhile, the second sub-structural model records an adjusted R² value of 0.2869, suggesting that 28.69% of the variation in firm value is explained by green banking, Islamic Social Reporting, profitability, firm size, and leverage. Although this explanatory power may appear moderate, it is relatively common in studies of firm value because market valuation is influenced by numerous external factors, including macroeconomic conditions, investor sentiment, regulatory changes, and industry dynamics. Consequently, the results indicate that sustainability-related practices and financial performance constitute important determinants of firm value, even though other factors beyond the scope of this study also play a substantial role in shaping market perceptions.

Table 4. Determination Coefficient Test

Equality	Adjusted R-squared
Sub Structural 1	0.633427
Sub Structural 2	0.286914

The results of the panel data regression analysis are presented in Table 5. The estimated regression model is expressed as follows:

$$\text{Firm Value} = 0.930248 + 0.608231(\text{GB}) + 0.350252(\text{ISR}) + 0.825250(\text{ROA}) + 0.000280(\text{FS}) + 0.004474(\text{LV}) + \varepsilon \dots\dots\dots (1)$$

The regression coefficients indicate that all explanatory variables included in the model positively influence firm value. Green Banking (GB) records a coefficient of 0.608231 with a probability value of 0.0073, demonstrating a positive and statistically significant relationship with firm value. This finding suggests that Islamic banks with higher levels of environmental commitment and sustainability disclosure tend to achieve higher market valuations. Similarly, Islamic Social Reporting (ISR) exhibits a positive coefficient of 0.350252 and a significance level of 0.0242, indicating that broader disclosure of Sharia-based social responsibility activities contributes positively to firm value. These results imply that investors and stakeholders increasingly recognize sustainability disclosures as indicators of responsible management, long-term resilience, and institutional credibility.

The findings also reveal that profitability, measured by ROA, has a positive and significant effect on firm value, with a coefficient of 0.825250 and a probability value of 0.0107. This result confirms that financially successful Islamic banks are more likely to receive favourable market assessments, reflecting investors' confidence in their future growth prospects. Furthermore, the control variables, firm size and leverage, are both

positively associated with firm value. Although their coefficients are relatively small, their statistical significance suggests that organizational scale and financing structure remain relevant considerations in determining market valuation. Collectively, the regression results provide strong empirical evidence that both sustainability-oriented practices and financial performance contribute to value creation in Islamic banking. The findings support the argument that environmental responsibility, social accountability, and profitability are complementary rather than competing objectives within sustainable Islamic finance.

Table 5. Panel Data Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Description
C	0.930248	0.422876	2.199811	0.0301	significant
(GB)	0.608231	0.222155	2.737871	0.0073	significant
(ISR)	0.350252	0.200859	1.743766	0.0242	significant
(ROA)	0.825250	3.152580	0.899082	0.0107	significant
(FS)	0.000280	0.000743	0.376716	0.0271	significant
(LV)	0.004474	0.004527	0.988240	0.0325	significant

To examine whether profitability strengthens the influence of sustainability practices on firm value, a Moderated Regression Analysis (MRA) was performed. The estimated moderation model is expressed as follows:

$$\text{Firm Value} = 0.930248 + 0.608231(\text{GB}) + 0.350252(\text{ISR}) + 0.925250(\text{ROA}) + 4.544380(\text{GB} \times \text{ROA}) + 13.810270(\text{ISR} \times \text{ROA}) + 0.000280(\text{FS}) + 0.004474(\text{LV}) + \varepsilon \dots\dots\dots (2)$$

As presented in [Table 6](#), profitability continues to exert a positive and significant direct effect on firm value, with a coefficient of 0.925250 and a probability value of 0.0370. More importantly, the interaction term between Green Banking and Profitability (GB×ROA) records a positive coefficient of 4.544380 and is statistically significant at the 5% level. This finding indicates that the positive influence of green banking on firm value becomes stronger when Islamic banks achieve higher levels of profitability. In other words, environmental initiatives generate greater market value when they are supported by strong financial performance. This result suggests that profitability enhances the credibility and effectiveness of sustainability initiatives, enabling banks to transform environmental commitments into tangible economic benefits.

A similar pattern is observed for the interaction between Islamic Social Reporting and Profitability (ISR×ROA). The interaction term produces a positive coefficient of 13.810270 and is statistically significant, indicating that profitability strengthens the relationship between ISR and firm value. This finding implies that social responsibility disclosures are more highly valued by investors when they are accompanied by strong financial performance. Profitable banks possess greater resources to implement social programs consistently and communicate them effectively to stakeholders, thereby enhancing the perceived authenticity and impact of their sustainability commitments. The relatively larger coefficient of the ISR interaction term further suggests that profitability may play a particularly important role in amplifying the value-creating effects of Sharia-based social responsibility initiatives. Consequently, profitability functions not merely as a financial

outcome but as a strategic mechanism that reinforces the effectiveness of sustainability practices in generating firm value.

Overall, the empirical results provide consistent evidence that sustainability-oriented practices contribute positively to value creation in Indonesian Islamic banks. Green Banking and Islamic Social Reporting both demonstrate significant positive effects on firm value, indicating that environmental responsibility and Sharia-based social accountability are recognized by the market as important sources of organizational legitimacy and competitive advantage. Profitability also exerts a direct positive influence on firm value and, more importantly, strengthens the effects of both Green Banking and ISR through significant interaction effects. These findings suggest that sustainability initiatives create greater organizational value when supported by strong financial performance, highlighting the complementary relationship between economic success and sustainability commitments. In addition, firm size and leverage contribute to explaining variations in firm value, reflecting the importance of organizational capacity and financial structure in shaping market perceptions. Collectively, the results support the view that sustainable business practices and financial performance jointly serve as strategic drivers of long-term value creation in Islamic banking.

Table 6. Moderated Regression Analysis (MRA) Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.930248	0.422876	2.199811	0.0301
(GB)	0.608231	0.222155	2.737871	0.0073
(ISR)	0.350252	0.200859	1.743766	0.0242
(ROA)	0.925250	3.252580	0.899082	0.0370
(GB*ROA)	4.544380	9.777022	1.487608	0.0140
(ISR*ROA)	13.810270	9.353319	1.476510	0.0143
(FS)	0.000280	0.000743	0.376716	0.0271
(LV)	0.004474	0.004527	0.988240	0.0325

Coefficient Determination (R²) Test

The results of the coefficient of determination test are presented in Table 7, which evaluates the overall explanatory power and goodness-of-fit of the moderated regression model. The model produces an R-squared value of 0.8273, indicating that approximately 82.73% of the variation in firm value can be explained by the independent variables included in the model, namely Green Banking, Islamic Social Reporting, profitability, the interaction terms between profitability and the sustainability variables, as well as the control variables of firm size and leverage. Furthermore, the Adjusted R-squared value of 0.8031 remains very high, suggesting that even after accounting for the number of predictors included in the model, approximately 80.31% of the variation in firm value is still explained by the model. The relatively small difference between R-squared and Adjusted R-squared indicates that the explanatory variables contribute meaningfully to the model and do not create substantial overfitting. These findings demonstrate that sustainability-related practices and financial performance jointly possess strong explanatory power in understanding firm value within the Indonesian Islamic banking sector.

Additional model fit statistics further support the robustness of the regression model. As shown in Table 7, the F-statistic of 5.1478 with a corresponding Prob(F-statistic) value of 0.000113 confirms that the model is statistically significant as a whole, indicating that the explanatory variables collectively influence firm value. The Durbin–Watson statistic of 2.2526 is close to the benchmark value of two, suggesting that the model does not suffer from serious autocorrelation problems. Moreover, the relatively moderate standard error of regression (0.5117) indicates that the estimated values are reasonably close to the observed values. Taken together, these statistics suggest that the regression model provides a reliable representation of the relationships among green banking, Islamic Social Reporting, profitability, and firm value. Consequently, the findings derived from the model can be interpreted with a high degree of confidence and provide strong empirical support for the proposed relationships examined in this study.

Table 7. Coefficient of Determination (R^2) Test Results

Model Fit Statistics	Value	Additional Statistics	Value
R-squared	0.827300	Mean dependent var	0.57768
Adjusted R-squared	0.803145	S.D. dependent var	0.5662
S.E. of regression	0.511733	Akaike info criterion	1.55843
Sum squared resid.	27.49639	Schwarz criterion	1.72834
Log likelihood	-80.27224	Hannan-Quinn criter.	1.62737
F-statistic	5.147846	Durbin-Watson stat	2.25261
Prob(F-statistic)	0.000113		

Discussion

The findings demonstrate that green banking contributes positively to firm value, indicating that environmental sustainability has become an increasingly important consideration in the valuation of Islamic banking institutions. This result suggests that stakeholders no longer perceive environmental initiatives merely as compliance mechanisms but as strategic investments capable of generating long-term benefits. Through the implementation of green financing, environmental risk management, and sustainability-oriented operational practices, Islamic banks can strengthen their legitimacy and improve stakeholder confidence. This finding supports stakeholder theory, which posits that organizations create value when they effectively address the interests of multiple stakeholder groups, including regulators, investors, customers, and society (Achyani et al., 2025; Bukhari et al., 2020). It also aligns with legitimacy theory, which emphasizes that firms seek social acceptance by conforming to prevailing societal values and expectations (Ellahi et al., 2023; Hartanto et al., 2024; Rehman et al., 2020). As sustainability concerns become more prominent globally, environmental responsibility increasingly serves as a signal of organizational resilience and long-term viability. These findings are consistent with previous studies that reported a positive relationship between green banking practices and firm value (Bukhari et al., 2020; Choubey & Sharma, 2022; Guild, 2020; Hossain et al., 2020; Indriyani et al., 2019; Wang et al., 2021). In the Indonesian Islamic banking context, the results suggest that environmental sustainability is gradually evolving from a peripheral concern into a strategic driver of organizational competitiveness and value creation.

A similar pattern emerges in relation to Islamic Social Reporting (ISR), which is found to positively influence firm value. This finding indicates that stakeholders place considerable importance on transparency regarding Islamic banks' social, ethical, and religious responsibilities. Unlike conventional sustainability disclosures, ISR incorporates accountability not only to stakeholders but also to Islamic principles, thereby reflecting a broader conception of organizational responsibility. Through comprehensive ISR disclosure, Islamic banks communicate their commitment to social welfare, fairness, accountability, and Sharia compliance, all of which contribute to stronger stakeholder trust and institutional credibility. This finding is consistent with Sharia Enterprise Theory, which argues that organizational success should be assessed not solely through economic outcomes but also through social and spiritual accountability. Consequently, ISR functions as both a disclosure mechanism and a legitimacy-building instrument. The result is in line with previous studies showing that stronger ISR disclosure enhances reputation, stakeholder confidence, and organizational value (Benamraoui et al., 2023; Jafar & Zafar, 2025; Nik Abdul Majid et al., 2025; Rouf et al., 2024; Sharmeen & Yeaman, 2020). Within Indonesia's Islamic banking industry, where public trust and religious legitimacy remain crucial competitive assets, effective ISR implementation appears to strengthen market confidence and contribute to sustainable value creation.

The study further reveals that profitability exerts a positive effect on firm value, highlighting the continuing importance of financial performance in determining organizational valuation. Profitability reflects management's ability to utilize organizational resources efficiently and generate returns from assets under its control. As a result, profitable banks are generally perceived as more stable, efficient, and capable of sustaining future growth. This finding supports signalling theory, which suggests that strong financial performance sends a positive signal to investors regarding the quality of management and the organization's future prospects (Badawi et al., 2023). Higher profitability reduces uncertainty and enhances investor confidence, thereby contributing to higher market valuation. The finding is consistent with previous studies documenting a positive relationship between profitability and firm value within financial institutions (Aisah et al., 2024; Ahmad et al., 2018; Dorothy & Endri, 2024; Gangi et al., 2019; Prayoga & Siswantoro, 2025). In the context of Islamic banking, profitability remains a critical foundation that enables institutions to pursue sustainability objectives while maintaining financial viability and stakeholder confidence.

More importantly, the findings demonstrate that profitability strengthens the relationship between green banking and firm value. This result suggests that environmental sustainability initiatives are more effective in creating value when they are supported by strong financial performance. Although green banking may enhance organizational legitimacy and reputation, its implementation often requires substantial investment in technology, reporting systems, environmental risk assessment, and sustainable financing programs. Consequently, banks with stronger profitability are better positioned to transform environmental commitments into tangible economic benefits. From the perspective of signalling theory, the combination of sustainability commitment and strong profitability sends a more credible signal regarding organizational quality and future performance than either factor alone. Investors are likely to view sustainability initiatives more positively when they are supported by robust financial outcomes. These findings support previous studies emphasizing the importance of profitability in enhancing the

effectiveness of sustainability-oriented strategies (Al-Badran, 2022; Ajili & Bouri, 2018; Lee & Isa, 2023; Ratnasari et al., 2021). In the Indonesian Islamic banking sector, profitability appears to function as a catalyst that converts environmental responsibility into a meaningful source of competitive advantage and firm value.

A comparable moderating effect is observed in the relationship between Islamic Social Reporting and firm value. The results indicate that ISR contributes more strongly to firm value when Islamic banks achieve higher levels of profitability. This finding suggests that stakeholders evaluate social responsibility disclosures not only based on their existence but also on the financial capacity of organizations to implement such commitments consistently and effectively. Profitable banks possess greater flexibility to invest in social programs, community development initiatives, employee welfare, and other forms of Islamic social responsibility, thereby enhancing the credibility of their disclosures. This result is consistent with Sharia Enterprise Theory, which emphasizes the integration of economic, social, and spiritual dimensions of organizational accountability. The market may perceive socially responsible actions as more authentic when they are supported by sustainable financial performance. These findings align with previous research showing that financial performance enhances the effectiveness of social responsibility initiatives in generating organizational value (Fang, 2024; Mahmuda & Muktadir-Al-Mukit, 2023; Menne et al., 2024). Therefore, profitability serves not merely as an outcome variable but as an enabling condition that amplifies the value-creating effects of Islamic social accountability.

The role of organizational characteristics also deserves attention. Firm size is found to be positively associated with firm value, suggesting that larger Islamic banks generally enjoy greater market confidence than smaller institutions. Larger organizations typically possess more extensive resources, stronger managerial capabilities, and greater capacity to implement sustainability initiatives effectively. They are also more likely to attract regulatory attention and public scrutiny, encouraging higher standards of transparency and disclosure quality (Harun et al., 2020; Leena Hanifah et al., 2023; Shaikh, 2021). Similarly, leverage is positively associated with firm value, indicating that capital structure remains an important consideration in investor assessments. While excessive leverage may increase financial risk, an optimal financing structure can enhance operational flexibility and support strategic investments. Consistent with previous studies, both firm size and leverage continue to influence organizational valuation and performance (Al-Shaer et al., 2024; Dorothy & Endri, 2024; Yatim et al., 2025). These findings suggest that sustainability initiatives operate within broader organizational and financial contexts, where institutional capacity and financing decisions shape the effectiveness of sustainability strategies.

In a nutshell, the findings reveal that environmental sustainability, social responsibility, and financial performance should not be viewed as separate organizational objectives. Instead, they function as complementary dimensions that collectively contribute to value creation in Islamic banking. Green banking and ISR provide legitimacy, strengthen stakeholder trust, and enhance organizational reputation, while profitability supplies the financial capacity necessary to sustain and amplify these initiatives. The interaction between sustainability practices and financial performance demonstrates that sustainability becomes most valuable when it is integrated into the core business strategy rather than implemented as a symbolic or peripheral activity. This integrated perspective is particularly relevant for Islamic banking institutions, whose foundational principles already emphasize balance between economic efficiency, social justice, and ethical responsibility.

The findings of this study carry important implications for both theory and practice. Theoretically, the study advances the literature on sustainable finance and Islamic banking by demonstrating that environmental sustainability through green banking and social sustainability through Islamic Social Reporting jointly contribute to firm value creation, particularly when supported by strong profitability. By integrating stakeholder theory, legitimacy theory, signalling theory, and Sharia Enterprise Theory within a single framework, the study shows that sustainability practices generate value not only through enhanced reputation and stakeholder trust but also through improved market perceptions of long-term organizational resilience. Practically, the findings suggest that Islamic banks should embed green banking initiatives and Islamic social responsibility disclosures into their core business strategies rather than treating them merely as compliance requirements. Strengthening sustainability practices while maintaining sound financial performance can enhance competitiveness, attract socially conscious investors, and reinforce public trust. For regulators and policymakers, the results highlight the importance of encouraging more comprehensive sustainability reporting standards and sustainability-oriented banking policies that align Islamic finance principles with broader sustainable development objectives.

Conclusion

This study examines the effects of green banking and Islamic Social Reporting (ISR) on firm value in Indonesian Islamic banks, while also assessing the moderating role of profitability and controlling for firm size and leverage. The findings demonstrate that both green banking and ISR positively and significantly influence firm value, indicating that environmental sustainability initiatives and Sharia-based social accountability contribute to stronger market valuation and stakeholder confidence. Profitability is also found to have a significant positive effect on firm value and further strengthens the relationships between green banking and firm value as well as between ISR and firm value. These results suggest that sustainability-oriented practices generate greater organizational value when supported by strong financial performance. Overall, the study highlights that environmental responsibility, social accountability, and financial performance function as complementary dimensions of value creation in Islamic banking. The findings contribute to the sustainable finance and Islamic banking literature by providing empirical evidence that sustainability initiatives can serve not only as instruments of legitimacy and stakeholder engagement but also as strategic drivers of long-term organizational value.

Several limitations should be acknowledged. First, the study focuses exclusively on Islamic banks in Indonesia, which may limit the generalizability of the findings to other institutional and regulatory contexts. Second, the observation period is relatively limited and may not fully capture the long-term effects of sustainability initiatives on firm value. Third, the model primarily emphasizes sustainability disclosures and financial performance, while other potentially influential factors, such as corporate governance quality, risk management practices, ESG performance, and macroeconomic conditions, are not incorporated. Future studies are therefore encouraged to expand the geographical scope of analysis, include longer observation periods, and examine additional governance and sustainability-related variables. Comparative studies involving Islamic and conventional

banks across different countries may also provide deeper insights into how sustainability practices influence value creation under varying institutional environments.

Authors' Declaration

The authors made substantial contributions to the conception and design of this study. The authors take responsibility for the data analysis, interpretation, and discussion of the results. The authors have read and approved the final manuscript.

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