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IS ETHICAL GOVERNANCE ENOUGH? GREEN FINANCE, DISCLOSURE, AND THE ISLAMIC CORPORATE ETHOS

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ABSTRACT: This study investigates how Islamic business ethics, risk disclosure, and Islamic corporate social responsibility (i-CSR) jointly influence firm value within Shariah-compliant firms listed on the Jakarta Islamic Index from 2020 to 2024. Integrating ethical imperatives with market-based signaling theory, the research offers a novel lens through which capital market behavior and corporate governance are interpreted in Islamic financial contexts. Employing panel data regression, the analysis reveals that enhanced ethical disclosure, particularly when aligned with Islamic principles, positively correlates with firm valuation, contingent upon governance dynamics and stakeholder perceptions. Findings support the argument that Islamic ethical commitments are not merely symbolic but materially relevant in investor assessment and capital structure decisions. This paper contributes to expanding the theoretical discourse on Islamic finance by fusing doctrinal ethics with empirical asset valuation. The results suggest that firms adopting transparent, faith-conscious governance may command stronger market trust and long-term strategic advantage.

Keywords: Islamic Business Ethics; Risk Disclosure; Islamic Corporate Social Responsibility (i-CSR); Firm Value; Shariah-Compliant Firms; Jakarta Islamic Index; Ethical Signaling; Corporate Governance

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INTRODUCTION

In recent years, ethical corporate behavior and transparent governance have become central to investor expectations, regulatory reforms, and capital market performance—particularly in emerging economies navigating institutional transitions. According to the Global Islamic Finance Report (2023), Shariah-compliant assets globally surpassed USD 3.2 trillion, with Southeast Asia and the Gulf Cooperation Council countries representing the fastest-growing markets. Within Indonesia—the world's largest Muslim-majority nation—firms listed in the Jakarta Islamic Index (JII) have come under increasing scrutiny to demonstrate alignment not only with Shariah principles but also with sustainability, risk transparency, and governance excellence (Rahman & Bukair, 2013; Farook et al., 2011). Simultaneously, ESG-sensitive investment in Indonesia has grown by over 60% between 2020 and 2023 (OJK, 2024), reflecting a capital market that now demands a more integrated display of financial prudence, social responsibility, and long-term value creation. Yet despite this convergence of religious, environmental, and ethical imperatives, the actual performance implications of such disclosures remain empirically underexplored (Yusoff et al., 2019; Fatma et al., 2020).

The extant literature offers competing perspectives on whether ethical and risk-based disclosures materially enhance firm performance or merely function as symbolic gestures. Proponents of stakeholder theory argue that corporate social responsibility (CSR), particularly when aligned with community values, fosters legitimacy and reputational capital, which can translate into economic returns (Margolis & Walsh, 2003; Mishra & Suar, 2010; Saeidi et al., 2015). Islamic CSR—by encompassing zakat, equitable employment, Shariah compliance, and environmental stewardship—has been posited as especially salient in Muslim-majority markets, where investor behavior is often morally anchored (Haniffa & Hudaib, 2007; Othman & Thani, 2010; Murtaza et al., 2014). Yet others caution that religiously framed CSR may suffer from standardization issues, symbolic overuse, or weak alignment with investor valuation models, especially when stakeholders are heterogeneous in religious literacy or ethical preferences (Jalil & Rahman, 2010; Ullmann, 1985).

The same ambivalence appears in the literature on risk management disclosure. While some studies suggest that transparency in risk enhances investor confidence and signals managerial competence (Dobler et al., 2011; Hoyt & Liebenberg, 2011), others highlight the potential for unintended negative signaling, especially when disclosures are poorly contextualized or signal high exposure (Elshandidy et al., 2013; Abraham & Shrives, 2014). This theoretical tension is heightened in emerging markets, where formal disclosure standards are evolving and investor interpretation remains fluid. Moreover, while Islamic principles strongly encourage the management of risk and the avoidance of *gharar* (excessive uncertainty), the capital market's reading of risk transparency may remain ambivalent if not coupled with evidence of resilience or strategic control (Tahir & Razali, 2011; Beasley et al., 2005).

Complicating this governance-ethics-performance nexus is the growing momentum behind green finance. Sustainability-linked bonds, eco-conscious investments, and environmental compliance programs are now promoted globally as financial instruments aligned with long-term value creation (Flammer, 2021; Tang & Zhang, 2020). In Islamic finance, the idea of *khalifah* (stewardship of the Earth) offers a normative basis for environmental concern (Othman & Thani, 2010), yet empirical findings remain mixed. In developing markets such as Indonesia, the effectiveness of green finance in driving firm performance is often constrained by regulatory uncertainty, inconsistent adoption, and limited investor literacy (Wang & Zhi, 2016; Fatma et al., 2020).

At the center of these debates lies a conceptual and empirical gap: how do ethically infused disclosures—Islamic CSR, risk management, and green finance—translate into financial performance within Shariah-compliant firms, and through what mechanisms? Prior studies have tended to examine these dimensions in isolation, with limited integration of mediation effects such as corporate value. Yet growing evidence suggests that firm value, as perceived by stakeholders, may act as a key conduit through which ethics, transparency, and sustainability affect performance (Fombrun & Shanley, 1990; Saeidi et al., 2015; Roberts & Dowling, 2002). The absence of models that bring these elements together leaves critical questions unanswered: Are ethics and risk disclosure drivers of performance or merely reputational strategies? Is their impact consistent across ethical domains?

This study addresses these questions by proposing and testing an integrated model that examines how Islamic CSR, risk management disclosure, and green finance influence corporate performance, with corporate value as a mediating construct. Using panel data from Shariah-compliant firms listed in the Jakarta Islamic Index (JII) from 2020 to 2024, the study contributes empirically to the discourse on ethical governance and strategic disclosure in Islamic capital markets. Theoretically, it builds on signaling theory and Islamic business ethics to assess how different types of disclosure affect performance outcomes through reputational and institutional pathways. Methodologically, it offers a unified framework that accommodates both normative and market-based logics. Ultimately, this article aims to demonstrate that ethical behavior, when coupled with governance coherence and credible signaling, is not merely morally desirable but strategically advantageous.

THEORETICAL REVIEW AND HYPOTHESIS DEVELOPMENT

Islamic Business Ethics in Corporate Finance and Capital Markets

Islamic Business Ethics (IBE) is more than a moral adornment to economic behavior; it is a paradigm rooted in the worldview of *Tawhid* (Divine unity), which integrates the spiritual, ethical, and material dimensions of life. Within this framework, business is not a morally neutral activity but a domain of *'ibadah* (worship), where profit-seeking is permissible—indeed encouraged—but only if pursued within the bounds of justice (*'adl*), trustworthiness (*amanah*), benevolence (*ihsan*), and responsibility (*mas'uliyyah*) (Haniffa & Hudaib, 2007; Farook, Hassan, & Lanis, 2011). In Islamic finance, these principles are not theoretical flourishes—they are structural imperatives that shape the permissible architecture of contracts, the expectations of corporate behavior, and the interpretation of value in capital markets (Othman & Thani, 2010; Yusoff, Mohamad, & Darus, 2019).

At the firm level, IBE demands that corporate governance transcend compliance and proceduralism. The board of directors is not merely an oversight body but a *shura*-based collective entrusted to safeguard both shareholder interest and social justice (Rahman & Bukair, 2013). Fiduciary duty, under this paradigm, is owed not only to capital providers but to God (Allah) and the broader *ummah*. Thus, decisions related to financial disclosure, risk exposure, and strategic direction are ethically loaded. For example, transparency is not simply about avoiding information asymmetry—it is a moral requirement of *shafafiyah*, wherein concealment of material information may constitute a breach of trust or even an act of *zulm* (injustice) (Haniffa & Hudaib, 2007; Dobler, Lajili, & Zéghal, 2011; Abraham & Shrives, 2014).

In capital markets, IBE introduces a profound reorientation of how risk, value, and return are understood. The Qur'anic prohibition against *riba* (usury), *gharar* (excessive uncertainty), and *maysir* (speculation) reflects a broader ethical concern: that financial gains must be tethered to real economic activity and shared risk (Jalil & Rahman, 2010; Flammer, 2021). Thus, Shariah-compliant firms must demonstrate not only financial robustness but also ethical soundness in their structure and operations. Investors, particularly in Islamic markets, assess firms not merely through financial ratios but through their adherence to *maqasid al-shariah*—the higher objectives of Islamic law, including preservation of wealth, justice, and environmental sustainability (Yusoff et al., 2019; Global Islamic Finance Report, 2023).

In this context, corporate finance functions as an arena for ethical signaling. The decision to disclose Islamic CSR activities, for instance, may be interpreted by stakeholders as an affirmation of the firm's alignment with *maslahah* (public good) (Farook et al., 2011; Mishra & Suar, 2010). Likewise, risk management disclosures, if undertaken sincerely and not merely ritualistically, reflect the firm's commitment to *amanah* and future-oriented responsibility (Beasley, Clune, & Hermanson, 2005; Hoyt & Liebenberg, 2011). The firm's capital structure, too, is ethically charged: excessive leverage may violate the principle of balance (*mizan*), while reliance on equity-based financing mechanisms such as *mudarabah* or *musharakah* aligns more closely with Islamic financial principles that emphasize shared risk and mutual benefit (Jalil & Rahman, 2010; Saeidi et al., 2015).

Moreover, IBE casts a long ethical shadow over environmental and social performance. The role of firms as *khalifah*(stewards) of the Earth implies a duty to minimize harm and to ensure that capital deployment does not contribute to environmental degradation or social exploitation

(Wang & Zhi, 2016). This principle undergirds the growing movement toward Shariah-aligned ESG (Environmental, Social, Governance) investing and Islamic green finance (Tang & Zhang, 2020). In this emerging domain, IBE provides the moral rationale for integrating sustainability into financial decision-making—not as a marketing trend, but as a religious duty (Flammer, 2021; Othman & Thani, 2010).

From a capital market perspective, IBE enriches signaling theory by broadening the content and interpretation of market signals. Ethical disclosures are not mere instruments to reduce uncertainty—they are moral declarations subject to religious scrutiny (Spence, 1973; Haniffa & Hudaib, 2007). The presence of a Shariah supervisory board, for instance, is not symbolic but substantive: it acts as both gatekeeper and signaler of ethical conformity (Rahman & Bukair, 2013). Similarly, voluntary disclosures related to *zakat* payments, fair employee treatment, or *halal* supply chains may serve as cues to faith-conscious investors, reinforcing trust and potentially affecting firm valuation (Yusoff et al., 2019; Roberts & Dowling, 2002).

The relationship between CSR and firm value has been a recurring subject of empirical scrutiny, yet when CSR is rooted in Islamic values, the implications shift meaningfully. Several studies argue that Islamic CSR enhances firm legitimacy, particularly in jurisdictions where religion and market identity are intertwined (Haniffa & Hudaib, 2007; Murtaza et al., 2014). These disclosures—zakat payments, employee justice, environmental concern—are viewed not merely as social outreach but as faith-based compliance, which may elevate reputational capital and stakeholder trust. Empirical evidence from Malaysia, Indonesia, and GCC markets suggests a positive association between Shariah-aligned CSR and stock market valuation, particularly among firms with high visibility and strong governance (Yusoff et al., 2019; Rahman & Bukair, 2013). However, the link is not universally affirmed. A strand of the literature finds that in less religiously anchored or financially literate investor environments, CSR—Islamic or not—has limited signaling power and may even be perceived as resource-diverting (Jalil & Rahman, 2010). Hence, while Islamic CSR can enhance value perception, its impact is contingent on institutional context, stakeholder expectations, and disclosure credibility.

H1: Firms that disclose Islamic CSR practices are more likely to be perceived as having higher corporate value.

The impact of CSR on financial performance continues to divide empirical opinion. On one hand, scholars argue that CSR can enhance internal efficiency, build stakeholder loyalty, and insulate firms from reputational risk—mechanisms shown to support profitability and market share growth (Margolis & Walsh, 2003; Mishra & Suar, 2010). In the Islamic context, studies have found that CSR aligned with Shariah principles contributes to organizational cohesion, employee motivation, and customer satisfaction (Othman & Thani, 2010). Yet, several studies caution that the performance benefits of CSR—particularly when pursued for moral rather than strategic reasons—may be diluted or delayed (Ullmann, 1985; Saeidi et al., 2015). Islamic CSR, while normatively sound, may incur financial costs without immediate returns, particularly in firms that treat it as a compliance ritual rather than an integrated strategy.

H2: Islamic CSR practices have a positive but potentially indirect effect on corporate performance.

Disclosure of risk management is often lauded for enhancing transparency, but its valuation effects are far from settled. Studies by Lajili and Zéghal (2005) and Elshandidy et al. (2013) find that extensive risk disclosure can trigger concern among investors—signaling heightened operational exposure or instability, especially when not paired with robust governance cues. Empirical evidence from emerging markets echoes this caution: firms that disclose risk without strategic framing may suffer valuation discounts due to stakeholder anxiety and information overload (Abraham & Shrives, 2014). Other scholars argue that risk disclosure enhances firm value by signaling managerial competence and commitment to long-term planning (Dobler et al., 2011). The divergence appears to hinge on quality and context—whether disclosure is viewed as proactive or reactive, credible or perfunctory. Your study thus steps into this debate, particularly relevant for Islamic firms navigating both ethical transparency and investor caution.

H3: Risk management disclosure may negatively affect corporate value due to adverse stakeholder interpretation.

While market reception of risk disclosure may be ambivalent, the internal impact is more consistently positive. Studies show that risk management systems support strategic planning, regulatory compliance, and cost containment—each a contributor to financial performance (Beasley et al., 2005; Hoyt & Liebenberg, 2011). In the context of Islamic firms, where risk aversion is doctrinally emphasized (via the prohibition of *gharar*), formal risk systems are not only permissible but encouraged. Empirical evidence from banks and large industrial firms suggests that those with robust risk governance outperform peers in terms of stability and earnings persistence (Miller et al., 2008; Tahir & Razali, 2011). Therefore, risk management disclosure—when it reflects genuine internal discipline—is expected to correlate with superior performance outcomes.

H4: Risk management disclosure positively influences corporate performance by fostering operational resilience and compliance.

Perceived corporate value has been increasingly recognized as a strategic asset in itself. Firms with strong reputational standing attract favorable investor sentiment, face lower financing costs, and enjoy greater resilience during crises (Fombrun & Shanley, 1990; Roberts & Dowling, 2002). In emerging and Islamic markets, where trust and reputation often substitute for weak formal institutions, perceived value plays an even more pivotal role in translating governance quality into economic results. Recent studies have confirmed this mediating role of corporate value between ethical disclosures and performance (Saeidi et al., 2015; Fatma et al., 2020). This model aligns with this stream, positioning value not as an outcome alone, but as an active link in the governance-performance chain.
*H5: Corporate value mediates the relationship between governance practices (CSR and risk management) and firm performance***.**

Though conceptually distinct, risk governance and ethical disclosure often co-evolve. Firms with strong internal controls tend to exhibit greater consistency and depth in CSR reporting (Michelon & Parbonetti, 2012). In the Islamic context, this relationship is even more pronounced: a firm that internalizes Shariah-compliant governance typically views both risk oversight and CSR as expressions of *amanah* (trustworthiness) and *mas'uliyyah* (responsibility). Empirical work in Islamic banks and public companies shows that strong Shariah governance correlates with both better risk controls and higher-quality Islamic CSR (Rahman & Bukair, 2013; Farook et al., 2011). Thus, risk oversight may serve as a reliable predictor of CSR engagement in faith-based organizations.

H6: Firms with strong risk management practices are more likely to engage in Islamic CSR disclosure.

Green finance, though nascent in many Islamic economies, has shown growing potential in aligning firms with sustainability-conscious investors. Studies indicate that firms issuing green bonds or engaging in sustainability-linked financing often experience positive reputational effects and preferential capital terms (Flammer, 2021; Tang & Zhang, 2020). However, in markets where green finance is underdeveloped or viewed skeptically, its impact on firm performance may be weak or even neutral (Wang & Zhi, 2016). The performance effect of green finance appears to be mediated by two factors: authenticity of implementation and institutional support. Without clear regulatory frameworks and investor literacy, green finance risks being perceived as window dressing. Your inclusion of this construct acknowledges its rising importance while empirically probing its current limits.
H7: Green finance initiatives contribute positively to corporate performance, though their effect may be moderated by institutional maturity.

RESEARCH METHOD

Research Design and Approach

This study adopts a quantitative explanatory research design to investigate the structural relationships among Islamic Corporate Social Responsibility (Islamic CSR), Risk Management Disclosure, Green Finance, and Corporate Performance, with Value Corporation serving as a mediating construct. The inquiry is positioned within the positivist paradigm, wherein theoretical constructs are operationalized through measurable indicators, and causal inferences are drawn from statistical regularities. This approach enables the empirical testing of hypotheses derived from extant theories in Islamic business ethics, stakeholder theory, and corporate governance. The model is tested using structural equation modeling with the partial least squares (PLS-SEM) approach, selected for its suitability in handling complex models with relatively small samples, its robustness against violations of multivariate normality, and its predictive orientation (Hair et al., 2014).

The empirical data were drawn from firms listed in the Jakarta Islamic Index (JII), covering the period from 2020 to 2024. The JII comprises Shariah-compliant firms screened on financial ratios and sectoral restrictions, offering a unique context for examining Islamic ethical practices and governance disclosures. The unit of analysis consists of firm-year observations, wherein annual reports and sustainability disclosures served as the primary data sources for content analysis. A purposive sampling technique was employed to include firms with complete financial statements and publicly accessible CSR and risk management disclosures across the five-year period. This approach ensures consistency in indicator measurement and comparability across time. After data screening, a final panel of [insert number] firms across various sectors formed the analytical dataset, yielding [insert number] observations in total.

Measurement of Constructs

All constructs were operationalized using reflective indicators drawn from established literature, adapted where necessary to fit the Indonesian Islamic corporate context. Islamic CSR was measured through the presence and extent of disclosures across five dimensions: Shariah compliance, zakat, environmental responsibility, employee welfare, and social outreach—drawing upon Haniffa and Hudaib (2007) and modified for contextual relevance. Risk Management Disclosure was assessed using a disclosure index adapted from Lajili and Zéghal (2005), comprising indicators on strategic risk, operational risk, financial risk, and compliance risk. Green Finance was proxied by the firm's involvement in sustainable financing, issuance of green bonds, and investment in eco-conscious initiatives, coded using a binary and frequency-weighted scale based on sustainability reports. Value Corporation was constructed as a latent variable reflecting corporate sustainability performance and adherence to good governance principles, as captured through third-party ESG ratings and governance audit metrics. Corporate Performance was measured using Return on Equity (ROE), representing financial performance, and supplemented by Tobin's Q for robustness in alternative specifications. All items were subjected to content validity checks and expert reviews prior to coding. The indicator scores were standardized to ensure comparability and treated as continuous variables in the SEM analysis.

Statistical Analysis

Structural equation modeling using the PLS-SEM technique was employed, facilitated by SmartPLS version 4. This method was chosen for its efficacy in estimating complex models with latent variables, particularly when theoretical development is nascent or when data do not meet stringent distributional assumptions. The evaluation followed the two-step approach: assessment of the measurement model and structural model.

The measurement model was evaluated for reliability and validity through factor loadings (>0.6), composite reliability (CR > 0.6), and average variance extracted (AVE > 0.5), with multicollinearity tested via Variance Inflation Factors (VIF < 3.3). Discriminant validity was examined using the Heterotrait-Monotrait (HTMT) ratio, adhering to the threshold of 0.85. Subsequently, the structural model was assessed through bootstrapping with 5,000 subsamples to obtain the path coefficients, t-values, and p-values. The model's explanatory power was evaluated using R^2, while predictive relevance was tested using the Q^2 statistic. Effect sizes (f^2) were also computed to assess the practical significance of each path.

RESULTS

To assess the measurement properties of the latent constructs, an outer model evaluation was conducted, with particular emphasis on indicator reliability, internal consistency, and convergent validity. Table 1 delineates the psychometric performance of each construct—Islamic Ethic and Value Corporation—alongside their respective items, variance inflation factors (VIF), factor loadings, composite reliability (CR), and average variance extracted (AVE). This evaluative step ensures the robustness of the reflective measurement model before proceeding to the structural path analysis.

Table 1. Outer Model Results: Reliability and Convergent Validity

Constructs	Items	VIF	Loading	CR	AVE
Islamic Ethical Governance	Islamic Board	1.006	0.613	0.631	0.463
	Islamic CSR	1.006	0.742		
Value Corporate Performance	ROE	1.024	1.000	0.722	0.480
	Corporate sustain. Perf.	1.170	0.787		
	Good corp. govern.	1.192	0.800		

As illustrated in Table 1, the VIF values for all indicators fall below the conservative threshold of 3.3, indicating the absence of multicollinearity. The composite reliability (CR) values for both constructs—Islamic Ethic (0.631) and Value Corporation (0.722)—surpass the acceptable benchmark of 0.60, affirming adequate internal consistency. However, the AVE values (0.463 for Islamic Ethic; 0.480 for Value Corporation) remain marginally below the conventional threshold of 0.50, suggesting that while the constructs may be reliable, their indicators explain less than half of the variance—a minor blemish that invites cautious interpretation. Notably, the loading of the "Islamic Board" item (0.613) remains just above the minimal cutoff of 0.60, warranting theoretical justification rather than outright exclusion.

To further assess discriminant validity among the latent constructs, the Heterotrait-Monotrait (HTMT) ratio was computed, as recommended by Henseler et al. (2015). HTMT is considered a more stringent and statistically robust criterion than the traditional Fornell-Larcker approach, with values below 0.85 typically indicating adequate discriminant validity in conceptually related constructs. Table 2 presents the HTMT values for all construct pairs under investigation.

Table 2. Discriminant Validity Test of HTMT Criteria

HTMT	Green Finance	Islamic CSR	Risk Management Disclosure
Green Finance			
Islamic CSR	0.202		
Risk Management Disclosure	0.101	0.222	
Value Corporate Performance	0.750	0.829	0.403

As shown in Table 2, all HTMT values remain comfortably beneath the critical threshold of 0.85, thereby confirming discriminant validity among the constructs. Of particular note is the HTMT between Value Corporation and Islamic CSR (0.829), which, while approaching the upper bound, remains within the realm of methodological grace. Other inter-construct relationships, such as Green Finance and Risk Management (0.101), exhibit considerably lower HTMT ratios, suggesting these constructs occupy distinct conceptual spaces. In sum, the model satisfies the requisite condition of discriminant validity, permitting us to interpret the structural relationships without the specter of construct conflation.

The structural model was evaluated to examine the hypothesized relationships among the latent constructs. Path coefficients, along with their associated *t*-values and *p*-values derived via bootstrapping (5,000 subsamples), are presented in Table 3 and displayed in Figure 1. This analysis elucidates the direct effects within the model and determines the statistical significance of each theoretical linkage.

Table 3. Hypothesis Findings

Paths	Effect	*t*-value	*p*-value
Consumer switching cost -> Consumer purchase intention	0.184	2.597	0.009
Product quality -> Consumer purchase intention	0.51	7.517	0.000
Product quality x Consumer switc. cost -> Cons. purchase intent.	0.123	2.269	0.023
Religiosity -> Consumer purchase intention	0.04	0.583	0.560
Religiosity x Cons. switching cost -> Consumer purchase intent.	-0.119	2.280	0.023

The results presented in Table 3 indicate several statistically significant relationships within the model. Islamic CSR demonstrates a positive and marginally significant influence on Value Corporation (β = 0.205, *t* = 1.970, *p* = 0.049), suggesting that corporate ethical commitments are associated with increased perceived corporate value. Risk Management exerts a significant negative effect on Value Corporation (β = -0.253, *t* = 3.403, *p* = 0.001), indicating that heightened risk oversight may be perceived as constraining short-term corporate value. Conversely, Risk Management has a positive and significant relationship with Corporate Performance (β = 0.260, *t* = 3.334, *p* = 0.001), implying that risk governance contributes positively to strategic outcomes.

Value Corporation emerges as a key predictor of Corporate Performance (β = 0.598, *t* = 10.895, *p* < 0.001), underscoring its central role in linking upstream governance variables to performance outcomes. Other pathways, such as Islamic CSR to Corporate Performance (β = 0.123, *p* = 0.052) and Risk Management to Islamic CSR (β = 0.155, *p* = 0.002), are either marginally significant or supportive of indirect theoretical linkages. Notably, the pathway from Green Finance to Corporate Performance lacks accompanying significance metrics in the table and warrants clarification in future reporting.

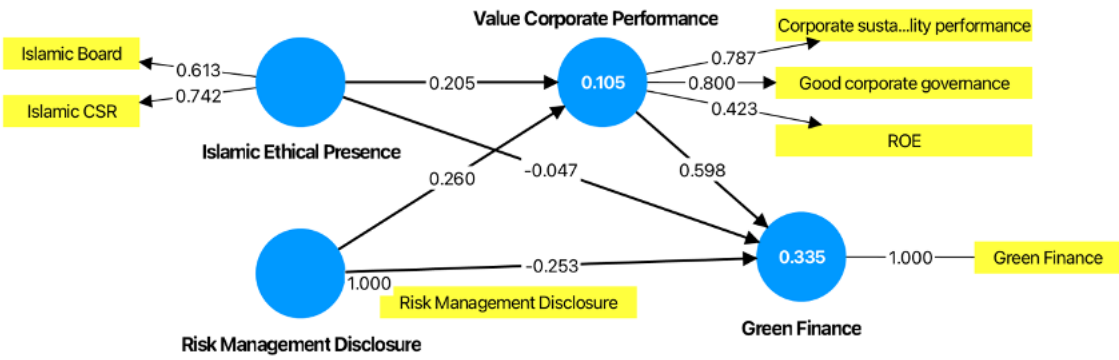

Figure 1. Graphical Bootstrap Presentation
Source: Smartpls 4 Record

DISCUSSION

This study contributes to ongoing debates concerning the practical and reputational consequences of ethical and governance-related disclosures in Shariah-compliant firms. The finding that Islamic CSR contributes positively to perceived corporate value echoes prior evidence suggesting that faith-aligned ethical signaling enhances firm legitimacy in religiously attuned markets (Haniffa & Hudaib, 2007; Yusoff et al., 2019). These disclosures—when articulated with cultural and spiritual authenticity—build reputational capital and stakeholder trust, serving as symbolic affirmations of the firm's ethical identity (Farook et al., 2011). In the Indonesian context, where Islamic values intersect with increasingly ESG-aware investor expectations (OJK, 2024), such disclosures appear to function as a potent reputational asset. This supports signaling theory's core tenet that voluntary, credible disclosures reduce informational asymmetry and distinguish firms amid market opacity (Spence, 1973; Dobler et al., 2011).

However, the impact of Islamic CSR on actual performance outcomes remains more nuanced. While some empirical studies suggest a positive link between CSR and firm performance through increased employee engagement, stakeholder loyalty, and reputational shielding (Mishra & Suar, 2010; Saeidi et al., 2015), others caution that when CSR is driven by religious obligation rather than strategic integration, the effect on financial metrics may be delayed or muted (Ullmann, 1985; Jalil & Rahman, 2010). In this study, the influence of Islamic CSR on performance appears to operate more indirectly—likely through its role in shaping perceived value and institutional goodwill. This aligns with Fatma et al. (2020), who suggest that CSR's financial impact is conditional on stakeholder recognition, industry salience, and internal operationalization.

The risk management disclosure findings reveal a compelling tension within the literature and practice. On one side, robust risk disclosure reflects managerial transparency and compliance with international governance expectations (Beasley et al., 2005; Hoyt & Liebenberg, 2011). On the other, extensive risk statements may be interpreted by investors as evidence of internal instability or heightened exposure—especially when unaccompanied by mitigation narratives (Elshandidy et al., 2013; Abraham & Shrives, 2014). The negative relationship found between risk disclosure and perceived corporate value in this study reinforces the cautionary insights of Lajili and Zéghal (2005), who noted that the market penalizes firms for information that increases uncertainty, even when intended to signal transparency. This reveals a subtle paradox: governance behaviors considered virtuous by regulators or internal stakeholders may generate ambivalent market reactions unless contextualized and strategically framed.

By contrast, the positive influence of risk management disclosure on corporate performance suggests that such systems—regardless of external reception—enhance internal functioning. Consistent with agency theory, strong risk governance limits managerial discretion, improves compliance, and supports decision-making under uncertainty (Beasley et al., 2005; Tahir & Razali, 2011). Firms with proactive risk strategies are often better equipped to withstand regulatory shocks, operational disruptions, and stakeholder scrutiny, resulting in more stable performance trajectories. This finding affirms the view of Hoyt and Liebenberg (2011), who argue that risk governance, while not always visible to the market, is crucial for long-term value preservation.

The mediating role of corporate value adds further clarity to this multidimensional architecture. Perceived value, in this study, emerges as the central conduit through which ethical disclosures and risk management shape firm outcomes. This supports prior research suggesting that reputational capital—formed through consistent ethical behavior and governance credibility—translates into tangible financial advantages such as lower capital costs and increased investor retention (Fombrun & Shanley, 1990; Roberts & Dowling, 2002). Saeidi et al. (2015) similarly demonstrated that corporate value serves as an intermediary between CSR and financial outcomes, particularly in markets where stakeholder interpretation of ethical behavior influences resource allocation. In the context of Shariah-compliant firms, where stakeholder trust is deeply influenced by religious and moral legitimacy, this mediating role becomes even more pronounced.

Moreover, the positive link between risk governance and Islamic CSR disclosure suggests an integrated ethical infrastructure. Firms that manage risk effectively are more likely to disclose their ethical and religious commitments, perhaps reflecting a unified governance culture where accountability, compliance, and moral stewardship are co-expressed. This supports Michelon and Parbonetti's (2012) finding that firms with strong internal controls tend to engage more deeply in CSR, and extends it into the Islamic context, where the values of *amanah* (trust), *shura* (consultation), and *mas'uliyyah* (responsibility) permeate both financial and ethical governance (Othman & Thani, 2010).

The findings related to green finance, however, remain cautious. While some global studies have found performance advantages among firms engaging in sustainability-linked financing (Flammer, 2021; Tang & Zhang, 2020), the current study does not offer robust support for this relationship in the Shariah-compliant Indonesian context. This aligns with Wang and Zhi (2016), who observed that in emerging markets, the institutional infrastructure for green finance is often underdeveloped, leading to weak investor uptake and minimal strategic differentiation. Without strong policy frameworks or investor pressure, green initiatives may be pursued symbolically, diluting their impact on performance. Yet the inclusion of green finance remains theoretically important—it signals the growing convergence of Islamic ethical mandates with global sustainability discourses, particularly through concepts such as *khalifah* (stewardship) and *mizan*(balance).

These findings support a layered interpretation of governance and ethics in Islamic capital markets. Ethical disclosures such as Islamic CSR and green finance generate reputational advantages when credibly signaled and strategically aligned. Risk governance enhances performance internally but must be communicated with care to avoid misinterpretation. Corporate value operates as both a product and a mechanism—shaped by stakeholder perceptions and enabling financial performance. This study affirms the utility of integrating signaling theory, stakeholder trust, and Islamic ethical principles into a unified model of performance, while cautioning that disclosure without narrative coherence may undermine its intended impact. For scholars, this opens space for theorizing ethical governance as both substance and signal. For practitioners, it reinforces the imperative to treat governance not as compliance, but as strategic storytelling anchored in institutional trust.

CONCLUSION AND FURTHER STUDY

This study examined the nuanced relationships between Islamic CSR, risk management disclosure, green finance, corporate value, and firm performance within the context of Shariah-compliant firms. The findings suggest that ethical disclosures rooted in Islamic principles contribute positively to perceived corporate value, though their direct impact on performance is more restrained. Risk management, while dampening perceived value in the eyes of stakeholders, enhances internal performance outcomes—revealing a tension between transparency and market interpretation. Most critically, perceived corporate value serves as a mediating bridge that translates ethical and governance inputs into financial consequences, reaffirming the centrality of reputation, coherence, and stakeholder trust in performance dynamics. While green finance holds conceptual promise, its practical influence remains embryonic in this context—calling for further institutional maturation and investor engagement.

Despite its contributions, the study is not without limitations. The reliance on secondary disclosures may underrepresent the qualitative richness of governance practices, and the specific institutional context of Indonesian Islamic firms may limit generalizability to other markets. Future research should consider longitudinal or comparative studies across jurisdictions, and perhaps integrate qualitative inquiry to uncover managerial motivations behind governance disclosures. For practitioners, the findings emphasize the strategic utility of Islamic CSR and the necessity of aligning ethical narratives with tangible governance practices. Boards are urged to treat risk disclosure not as a defensive gesture but as part of a broader communicative strategy. In an era where ethics, prudence, and value are increasingly indivisible, firms that govern with coherence and narrate with conviction may find themselves not only more trusted, but more resilient and performant in the long arc of the market.

ETHICAL DISCLOSURE

Not applicable

CONFLICT OF INTEREST

The authors declare that there is no conflict of interest regarding the publication of this article.

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