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## Article

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Cogent Economics & Finance

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*Suggested Citation:* Mai, Muhamad Umar; Sudradjat; Sembiring, Etti Ernita (2023) : Board characteristics, state ownership, and corporate social responsibility: Evidence from Indonesian Islamic banks, Cogent Economics & Finance, ISSN 2332-2039, Taylor & Francis, Abingdon, Vol. 11, Iss. 2, pp. 1-19,  
<https://doi.org/10.1080/23322039.2023.2266323>

This Version is available at:

<https://hdl.handle.net/10419/304226>

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**To cite this article:** Muhamad Umar Mai, Sudradjat & Etti Ernita Sembiring (2023) Board characteristics, state ownership, and corporate social responsibility: Evidence from Indonesian Islamic banks, Cogent Economics & Finance, 11:2, 2266323, DOI: [10.1080/23322039.2023.2266323](https://doi.org/10.1080/23322039.2023.2266323)

**To link to this article:** <https://doi.org/10.1080/23322039.2023.2266323>



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Published online: 12 Oct 2023.



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Received: 04 June 2023  
Accepted: 29 September 2023

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Reviewing editor:  
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## FINANCIAL ECONOMICS | REVIEW ARTICLE

# Board characteristics, state ownership, and corporate social responsibility: Evidence from Indonesian Islamic banks

Muhamad Umar Mai<sup>1\*</sup>, Sudradjat<sup>1</sup> and Etti Ernita Sembiring<sup>1</sup>

**Abstract:** This study examines the effect of the characteristics of the board of directors (BOD), the characteristics of the sharia supervisory board (SSB), and state ownership on CSR disclosure (CSRSD) of Islamic commercial banks (ICBs) in Indonesia for the 2008–2021 period. The estimation results for the Generalized Least Squares model show that the presence of women in the BOD and SSB as well as the frequency of the two boards' meetings play an important role in increasing CSRSD. In addition, the interaction variables between age and tenure of the chairman of the SSB and state ownership have a positive effect on CSRSD. This study contributes to the development of the corporate governance and Islamic corporate governance literature. In addition, it provides insight for practitioners regarding the main factors that influence the CSRSD of ICBs in Indonesia.

**Subjects:** Economics; Finance; Business, Management and Accounting

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## PUBLIC INTEREST STATEMENT

Implementing and disclosing higher Corporate Social Responsibility (CSR) is one of their compliance with sharia rules. Furthermore, to supervise and control Islamic banks' compliance with sharia rules, the Sharia supervisory board (SSB) has been presented as an important organ in their corporate governance. This study examines the role of board of directors (BOD) characteristics, SSB characteristics, and state ownership in improving the CSR performance of Islamic commercial banks (ICBs) in Indonesia. Data were analyzed using the Generalized least squares model. Furthermore, the results show that certain characteristics of BOD and SSB as well as state ownership play an important role in enhancing the CSR performance of ICBs in Indonesia. This study contributes to the development of the corporate governance and Islamic corporate governance literature. In addition, it adds to practitioners' understanding of the role of BOD characteristics, SSB characteristics, and state ownership in improving ICB's CSR performance in Indonesia.

**Keywords:** board characteristics; state ownership; Indonesian Islamic bank's CSR disclosure performance

## 1. Introduction

Currently, pressure on companies to carry out and disclose Corporate social responsibility (CSR) comes from various parties, including the state through the government in power, investors, non-governmental organizations, and consumers or customers. In the context of social responsibility, Islamic banks are under greater pressure to conduct and disclose higher CSR than conventional banks. Because, CSR in the context of Islam is to represent the concept of brotherhood from one to another (Al-Haija et al., 2021). The purpose of Islamic banks is to equalize welfare for the community and other stakeholders, one of which is realized through social responsibility in accordance with sharia rules (Zafar & Sulaiman, 2020). Thus, disclosure and reporting of information, including CSR, relevant to sharia rules to all stakeholders is mandatory for Islamic banks (Khan et al., 2019). Recently, Zafar et al. (2022) showed that CSR is able to improve the financial performance of Islamic banks in Pakistan. While, Ali et al. (2022) reported that stakeholder pressure, including sharia advisory boards, showed a significant positive impact on the CSR disclosure of Islamic banks in Pakistan. Furthermore, Lui et al. (2021) proved that Islamic banks significantly disclose higher levels of CSR than conventional banks in Malaysia.

In fact, Islamic bank managers face dual governance. On the one hand, Islamic bank managers must be subject to shareholding rules and sharia rules. On the other hand, they are controlled by a board of directors who seek to ensure that the owner's wealth is maximized (Baklouti, 2020). In addition, to oversee and control Islamic banks' compliance with sharia rules, an additional board composed of Islamic jurists with sufficient knowledge of contemporary finance has emerged in Islamic bank governance known as the Sharia supervisory board (SSB). SSB is the most important strategic body in Islamic banks which is often referred to as Islamic corporate governance (Buallay, 2019; Ridwan & Mayapada, 2020). Thus, what distinguishes Islamic banks from conventional banks is that the governance structure of Islamic banks has characteristics that are in accordance with sharia rules that are expressly supervised, evaluated, and controlled by SSB (Bukair & Rahman, 2015; Mollah et al., 2016).

The growing importance of CSR for businesses and sharia rules requiring Islamic banks to undertake more social responsibility have prompted several studies examining the determinants of Islamic bank CSR. In this regard, Hussain et al. (2021) found that size, profitability, age, and board size are the main determinants of Islamic bank CSR in Pakistan. Bukhari et al. (2020) show that pressure from SSBs and competitors is a major determinant of CSR of Islamic banks in Pakistan. Ifada et al. (2019) prove that Islamic organizational culture plays an important role in increasing CSR by Islamic rural banks in Indonesia's Central Java province. Furthermore, the uniqueness of SSB as a body that ensures Islamic banks' compliance with sharia rules encourages (Ridwan & Mayapada, 2020) to examine the impact of corporate governance and SSB's characteristics on CSR Islamic commercial banks (ICBs) in Indonesia. They reported that CSR of ICBs in Indonesia is negatively influenced by board of directors (BOD) size, and positively influenced by BOD meetings. Meanwhile, SSB size, educational background of SSB, and reputable of SSB have no impact on the CSR of ICBs in Indonesia. Nugraheni and Nur Khasanah (2019) found that SSB size has a positive impact, while SSB qualifications have no impact on CSR from ICBs in Indonesia. These mixed results may be due to differences in samples, periods, and specifications of the models developed. Therefore, studies on the influence of BOD and SSB characteristics on CSR are important to be developed, especially for ICBs in Indonesia.

This study examines the influence of Board of Directors (BOD) characteristics, SSB characteristics, and state ownership on the CSR disclosure (CSR disclosure) performance of ICBs in Indonesia. The study considered Female SSB, SSB Chairman age, SSB Chairman tenure, and the interaction between SSB Chairman age and SSB Chairman tenure as CSR determinants of ICBs that had not been

examined by previous researchers. Besides, state ownership is also considered a determinant of Islamic bank CSR, which, to the best of the authors' knowledge, has never been examined, especially in the context of Indonesia. Thus, this study provides a more comprehensive explanation of the determinants of CSRD by Islamic banks, especially for the context of ICBs in Indonesia. This study contributes significantly to the development of corporate governance and Islamic corporate governance literature. In addition, increasing understanding and insight for practitioners, including the government as regulators, investors, non-governmental organizations, and Islamic bank management.

The rest of the paper is structured as follows. Part 2 describes literature review as an important foundation for developing hypotheses. Part 3 is a side-by-side methodology. Section 3 describes the results and their discussion. Section 4 presents conclusions and implications.

## **2. Theoretical framework and hypotheses development**

### **2.1. Theoretical framework**

The literature provides several theories explaining corporate social responsibility (CSR), including agency, stakeholder, legitimacy, and resource dependency theories. We focus on agency and resource dependency theory because both theories in addition to examining CSR they also explain the characteristics of the board and ownership structure in relation to company performance, including CSR performance.

Agency theory argues that the supervisory and controlling role of the board over managers is attached to certain characteristics related to the independence and effectiveness of the board, such as the size, diversity, and activity of the board (Daily et al., 2003). Agency theory views that boards with small sizes are better than boards with large sizes, because boards with large sizes face many communication and coordination problems which can reduce the quality of board decision-making (Beiner et al., 2006). According to agency theory, board diversity increases the independence and effectiveness of board decision-making (Carter et al., 2003), while board activity shown by high meeting frequency is a sign of poor performance (Jensen, 1993). Furthermore, certain ownership structures, such as state ownership which often acts as controlling shareholders, are one of the forces that can control the actions of managers to be in line with the interests of the principal (Spong & Sullivan, 2007).

Resource dependency theory argues that boards serve as a liaison between companies and their external resources and help reduce uncertainty through transparent and extensive CSR information useful for building sustainable companies (Kiel & Nicholson, 2003). Therefore, a board with a large size is better than a board with a small size (Ali et al., 2022; Matuszak et al., 2019). Resource dependency theory shares agency theory with board diversity, because governance structures with board diversity are resources that can increase value for companies (Pfeffer & Salancik, 1978). Resource dependency theory considers that meetings are a tool for the board to assist management in making better decisions that benefit the company and shareholders. Meetings are also the responsibility of the board of directors to safeguard the interests of shareholders (Nurulyasmin et al., 2017). Thus, this theory assumes that more frequent board meetings are associated with higher company performance.

### **2.2. Hypothesis development**

#### **2.2.1. Board size and CSRD performance**

Agency theory assumes that small boards are better than large boards because large boards face many communication and coordination problems that can reduce company performance (Jensen & Meckling, 1976). Several smaller empirical studies provide support for this view of the theory, such as Bouaziz (2014) in Canada, and Uwuigbe et al. (2011) in Nigeria. In contrast, resource dependency theory argues that large boards are better than small boards, because large boards

bring more expertise, are better able to advise, and help companies acquire necessary external resources. A large number of studies prove that a larger board of directors is associated with higher CSRD performance, both in banks and non-bank companies. In the context of non-financial companies, for example Aboud and Yang (2022) in China, Mohammadi et al. (2021) in Iran, and Zaid et al. (2019) in Palestine. In the context of banks, for example Al Maeeni et al. (2022) in conventional and sharia banks of the United Arab Emirates; Ali et al. (2022) in Pakistani conventional banks; and Matuszak et al. (2019) in Polish conventional banks.

The results of the literature review provide different and even contradictory arguments and empirical evidence regarding the relationship between the size of the board of directors and company performance. In fact, only reputable Islamic banks in Indonesia are able to bring more highly competent members to their board of directors. In this context, resource dependency theory views that the board serves as a liaison between the company and its external resources, helping to reduce uncertainty through transparent and extensive CSR information to build sustainable companies (Kiel & Nicholson, 2003). Therefore, ICBs in Indonesia with a larger board size are expected to better assist bank management in improving their performance, including CSR performance.

#### **H1. Board size increases the CSRD performance of ICBs in Indonesia.**

##### ***2.2.2. Female director and CSRD performance***

Agency and resource dependency theory share the same view of gender diversity on the board in relation to company performance. Agency theory argues that greater representation of women on boards of directors increases the independence and effectiveness of board decision-making (Carter et al., 2003). Resource dependence theory considers that governance structures with board diversity, including gender diversity, are resources that can increase value for companies (Pfeffer & Salancik, 1978).

Several empirical studies support the views of these two theories by reporting a significant positive relationship between female directors and CSR performance, in both non-financial companies and banks. In the context of non-financial companies, for example (Elmaghrabi, 2021) in the United Kingdom (Harjoto & Rossi, 2019), in Italy, and (Issa & Fang, 2019) in the Arabian Gulf region. In the context of conventional banks, for example (Rouf & Hossan, 2021), in Bangladesh (Matuszak et al., 2019), in Poland, and (Orazalin, 2019) in Kazakhstan. Studies of the relationship between female directors and CSR performance of Islamic banks are still limited. In this regard (Umar, 2023), reported that Islamic banks in Bangladesh with a larger proportion of female directors conduct and disclose higher levels of CSR, in the form of philanthropic provision for the education sector.

The theoretical literature explains that gender diversity on the board improves company performance, including CSR performance. The majority of empirical studies report that more presence of a female board improves CSR performance. Furthermore, considering that the main objective of Islamic banks is to equalize welfare for stakeholders and the wider community, one of which is realized through social responsibility in accordance with sharia rules (Zafar & Sulaiman, 2020). Thus, it is expected that greater representation of women on ICBs Indonesia's board of directors provides stronger advice, direction, assistance, and pressure to bank management to improve CSR performance.

#### **H2. Female directors increases the CSRD performance of ICBs in Indonesia.**

### 2.2.3. Board meeting and CSRD performance

Agency and resource dependency theory show different and even conflicting views on the relationship between board meetings and company performance, including CSR performance. Agency theory views that high meeting frequency implies poor performance (Jensen, 1993), because the increased frequency of board meetings is followed by increased meeting information processing costs leading to decreased performance (Vafeas, 1999). In contrast, resource dependency theory considers that meetings are one of the instruments for boards to use their expertise to assist management in making better decisions that benefit the company and shareholders. The meeting also shows the responsibility of the board of directors to safeguard the interests of shareholders (Nurulyasmin et al., 2017).

Studies of the relationship between board meetings and CSRD performance report different empirical evidence. On the one hand (Nour et al., 2020), and (Nurulyasmin et al., 2017) proved that there is no significant relationship between board meetings and CSRD performance of non-financial companies in Jordan and Malaysia. On the other hand (Elmaghrabi, 2021), and (Chakraborty, 2019) showed that board meetings have a significant positive effect on the CSRD performance of non-financial companies in the United Kingdom and Dhaka Stock Exchange. Studies of the relationship between board meetings and CSRD performance of Islamic banks seem to be rare. Meanwhile, the existing literature provides different arguments and empirical evidence regarding the relationship between board meetings and CSR performance. Nonetheless, we expect that the more frequent meetings of ICBs Indonesia's board of directors demonstrate their higher competence, diligence, and responsibility in improving bank performance, including CSR performance. Therefore, the hypothesis developed is that:

**H3.** Board meetings increases the CSRD performance of ICBs in Indonesia.

### 2.2.4. SSB size and CSRD performance

The Sharia Supervisory Board (SSB) is responsible for monitoring, evaluating, and controlling the operations of Islamic banks to comply with sharia rules (Alman, 2012). In the context of Islamic banks, implementing and expressing higher CSR is one form of Islamic banks' compliance with sharia rules. Studies of the relationship between SSB measures and Islamic banks' CSR performance are limited and reported results are inconsistent. For example (Ridwan & Mayapada, 2020), found that SSB size is not related to the CSRD of Islamic banks in Indonesia for the 2011–2018 period. Meanwhile (Nugraheni & Nur Khasanah, 2019), reported that SSB size had a positive impact on the CSRD of Islamic banks in Indonesia for the 2011–2014 period (Bukhari et al., 2020). report that SSBs with larger sizes put stronger pressure on Pakistani Islamic banks to adopt broader Islamic corporate social responsibility.

The existing literature provides different explanations and empirical evidence on the relationship of SSB size with the CSR performance of Islamic banks. However, we expect that larger SSBs will put more pressure on ICBs management in Indonesia to better comply with sharia rules, including rules for implementing and disclosing higher levels of CSR. Therefore, the hypothesis developed is that:

**H4.** SSB size increases the CSRD performance of ICBs in Indonesia.

### 2.2.5. Female SSB and CSRD performance

Some Muslims do not agree with bringing women to leadership or management positions in an organization. In fact, not a few Islamic banks in the world, including in Indonesia, have placed female representatives in important positions of Islamic banks, one of which is as a member of SSB. In this context, existing academic literature supports the presence of women in corporate



governance, including agency theory (Carter et al., 2003) and resource dependency theory (Pfeffer & Salancik, 1978). In addition, several previous empirical studies reported that women's representation in Islamic bank governance plays an important role in improving bank performance (Jabari & Muhamad, 2022) concluded that greater female representation in BOD and SSB lowered the risk of Islamic bank bankruptcy in 26 countries (Jabari & Muhamad, 2020); prove that Islamic banks in Indonesia and Malaysia with more gender-diverse BOD and SSB show better financial performance (Abou-El-Sood, 2019); reported that the presence of women on the board of directors undermines the Non-performance financing (NPF) of Islamic banks in Gulf Cooperation Council countries.

The relationship between female SSBs and Islamic bank CSR has not been examined by previous researchers. However, given that it is the characteristics of women who tend to show higher social responsibility, in addition, they were able to improve some measures of Islamic bank performance. We hope that greater female representation in SSBs can put stronger pressure on ICBs management in Indonesia to perform and express higher CSR. Therefore, the hypothesis developed is that:

**H5.** Female SSB increases the CSRD performance of ICBs in Indonesia.

#### 2.2.6. SSB meeting and CSRD performance

Existing literature describes a contradictory description of the relationship between the number of board of directors meetings and company performance. Agency theory assumes that the number of board of directors meetings contributes to lowering company performance, because a large number of board meetings increases the cost of processing meeting information which worsens company performance (Vafeas, 1999). Resource dependency theory views that the frequent frequency of board meetings is one manifestation of the board's commitment to controlling management and is used as a measure of board activity, sincerity, and board effectiveness (Min & Chizema, 2018).

Meanwhile (Ntim et al., 2017), argues that frequent board of directors meetings demonstrates the board's ability to supervise and control management to ensure that shareholder equity is in a safe condition.

A study regarding the relationship between SSB meetings and Islamic bank CSR was reported by (Ridwan & Mayapada, 2020). They prove that a more frequent meeting frequency can increase the CSR of ICBs in Indonesia. In addition (Nugraheni & Nur Khasanah, 2019), show that the frequency of SSB meetings increases the CSR performance of Islamic banks in Indonesia. As has been explained that the SSB is responsible for supervising, evaluating, and controlling the operations of Islamic banks so that they always comply with sharia rules (Alman, 2012). Thus, the more often the SSB holds meetings to supervise and control the operations of Islamic banks, it is hoped that it will further increase Islamic banks' compliance with sharia rules, including their compliance with obligations to increase CSRD. Therefore, the hypothesis developed is that:

**H6.** SSB meeting increases the CSRD performance of ICBs in Indonesia.

#### 2.2.7. SSB chairman age and CSRD performance

The age of the director has been highlighted by previous researchers as one factor that could be behind board decisions. The age of the president director will influence the board's policy in managing the business leading to experience and openness to new ideas (Hafsi & Turgut, 2013; Ouma & Webi, 2017). According to (Ferrero-Ferrero et al., 2012) age diversity of directors leads to more balanced decision making that can improve company performance. However (Kim & Lim, 2010), view that the older age of the president director (CEO) is associated with high risk aversion, loss of creativity and productivity, which in turn can reduce company performance.



In the context of the relationship between the age of the president director and CSR, the study of (Beji et al., 2021) shows that the age of the president director is significantly positively related to the CSR of non-financial companies in France. In contrast (Fahad & Rahman, 2020), study in India and (Khan et al., 2019) in Pakistan found a significant negative association between the age of the president director and CSR. The negative relationship between the age diversity of president directors and CSR was also reported by (Liu & Zeng, 2017) in China. In the context of the relationship between the age of SSB chairs and CSR, this seems to have never been explored by researchers before. Meanwhile, the results of a literature review on the relationship between the age of the president director and CSR show mixed explanations and empirical evidence. Therefore, the hypothesis developed is that:

**H7.** The age of the SSB chairman increases the CSR performance of ICBs in Indonesia.

#### *2.2.8. SSB chairman tenure and CSR performance*

The literature has provided an explanation of how the tenure of the president director affects the performance of the company (Adams et al., 2010; Anderson et al., 2004). However, the study of the relationship between the president director's tenure and CSR is still limited. In this regard (Datta & Rajagopalan, 1998), show that senior managers' perceptions of the internal and external environment influence the company's strategic decisions (Kruger, 2009) states that CEOs with longer tenures have more interest in achieving the company's long-term goals and show high social concern. Therefore, by gaining more organizational experience, the board will adopt a long-term strategy focused on sustainability and social responsibility (Fallah & Mojarad, 2019).

In the context of the relationship between the tenure of the president director (CEO) and CSR (Salehi et al., 2020), reported that the board chairman tenure has no effect on CSR on the Tehran Stock Exchange. However (Jouber, 2021), used a sample of 2,544 non-financial companies from 42 countries, they concluded that the tenure of the president director is one that predominantly appears to drive higher CSR. In addition (Fallah & Mojarad, 2019), prove that the board chairman tenure has a positive effect on the CSR of companies categorized as companies with heavy pollution in Iran. In the context of the relationship between the tenure of SSB chairman and CSR, this seems to have not been explored by previous researchers. Nevertheless, referring to the existing literature on the relationship between the tenure of the president director and CSR, we hope that ICBs in Indonesia with longer tenures of SSB chairman can encourage banks to perform and express higher CSR. Therefore, the hypothesis developed is that:

**H8.** SSB chairmen with longer tenures increases the CSR performance of ICBs in Indonesia.

#### *2.2.9. Interaction of age with tenure of chairman of SSB and CSR performance*

We attempted to create a variable interaction between the age and tenure of the SSB chairman. This variable is expected to bring together the positive characteristics present in older age and the longer tenure of the SSB chairman, thus forming a beneficial synergistic combination. The positive characteristics at the older age of the president director are: The quality of high-level management increases with age (Fischer & Pollock, 2004; Peni, 2014) which leads to experience and openness to new ideas (Hafsi & Turgut, 2013; Ouma & Webi, 2017), so that decision making is more balanced which in turn can improve company performance (Ferrero-Ferrero et al., 2012), including CSR performance. The positive characteristics present in the longer tenure of the president director are: President directors with longer tenures have more interest in achieving the company's long-term goals and show high social concern (Kruger, 2009), because by gaining more organizational experience the board will adopt long-term strategies focused on sustainability and social responsibility (Fallah & Mojarad, 2019).

The variable relationship between age and response period of SSB chairmen and CSRD had never been examined before. Nevertheless, it is expected that these interaction variables have more power in encouraging ICBs in Indonesia to perform and express higher CSR. Thus, the hypothesis developed is that:

**H9.** The interaction between the age and tenure of the SSB chairman increases the CSRD performance of ICBs in Indonesia.

#### 2.2.10. State ownership

The importance of social care from companies encourages all countries in the world to make laws on CSR. The Government of Indonesia through Law Number 40 of 2007 concerning Limited Liability Companies which requires public companies to carry out social and environmental responsibility. Furthermore, Law Number 25 of 2007 concerning Capital Investment which requires public companies to maintain environmental sustainability, requires investors or investors to always pay attention to the environment and surrounding communities.

The role of the state or government as a maker of laws and regulations regarding CSR encourages researchers to examine the ownership of companies by the state in relation to CSRD. For example (Matuszak et al., 2019), using a sample of conventional commercial banks in Poland proved that the majority shareholder group of the country has a positive effect on CSRD (Alkayed & Omar, 2022). conclude that government ownership plays a positive role in increasing CSRD in Jordan (Dong et al., 2022) concluded that Chinese manufacturing companies with State-Owned Enterprise (SOE) status tend to devote their resources to activities related to corporate environmental responsibility. The relationship between state ownership and CSRD in Islamic banks seems to have rarely been examined by previous researchers. However, referring to existing empirical studies, the majority report that state ownership (government) is able to increase CSRD. Therefore, the hypothesis developed is that:

**H10.** State ownership increases the CSRD performance of ICBs in Indonesia.

### 3. Research method

This study employed a sample of 14 Islamic commercial banks (ICBs) in Indonesia during 2008–2021, forming unbalanced panel data with a total of 158 bank-year observations. The data was obtained from the ICBs annual report downloaded from the Indonesian Financial Services Authority (OJK) website.

#### 3.1. Dependent variable

The dependent variable in this study is the CSR disclosure index (CSRDI). Data and information were obtained from the annual reports of the selected ICBs. Eleven dimensions of the CSRD index were developed based on Governance Standard Number 7 issued by AAOIFI. The main dimensions of this index consist of four main aspects: social responsibility within the organization, social responsibility in relation to customers and clients, social responsibility in screening investments, and social responsibility in relation to the wider community. The quantity of CSRD was measured by referring to several other CSRD studies, including Harun et al. (2020), Platonova et al. (2016), and Haniffa and Hudaib (2007). Like other CSRD studies, this research also used an unweighted index and a dichotomous method, by giving 1 (one) for each CSR disclosed in the annual report and 0 (zero) if it is not disclosed. The score of each disclosure item for each CSR dimension was added up and then divided by the expected score, using the following formula.

$$CSRDI(i, t) = \frac{\sum_{k=0}^n Score(j)}{n}$$

In which:

CSRDI = corporate social responsibility disclosure index for ICBs  $i$  and for year  $t$ ;

$N$  = the number of items in the index; and

$j$  = each item in the index

### 3.2. Independent variables

The independent variables are the characteristics of the Board of Directors (BOD) and the Sharia Supervisory Board (SSB) as well as State Ownership. The BOD characteristics were measured by BOD Size, Female BOD, and BOD Meetings. Meanwhile, the SSB characteristics were measured by SSB Size, Female SSB, SSB Meetings, the age of the SSB chairman, the tenure of the SSB chairman, interaction between the age and tenure of the SSB chairman, and State Ownership proxied by legal entity status from ICBs, namely SOEs (BUMN) and Non-SOEs (Non-BUMN).

### 3.3. Control variable

This study considered bank-specific factors as a control variable. It consists of capital adequacy ratio; non-performance financing; bank size; bank profitability, and bank leverage. Table 1 presents the variables, icon, and how to measure each variable.

### 3.4. Model analysis

This study employed the Generalized Least Squares (GLS) panel model to estimate the influence of BOD characteristics, SSB characteristics, and state ownership on the CSRD of ICBs in Indonesia. It is due to the fact that the selected Fixed Effect Model (FEM) suffered from heteroscedasticity and autocorrelation which are difficult to solve. Besides, the model seemed to be biased when it was estimated using the Generalized Method of Moments model. Therefore, we used the GLS model as suggested by (Bukair & Rahman, 2015; Haddad et al., 2021; Khatun & Ghosh, 2019). The developed GLS model is shown in equation (1) below:

$$\begin{aligned} \text{CSRD}_{it} = & \beta_0 + \beta_1 \text{BOD\_SIZE}_{it} + \beta_2 \text{FML\_BOD}_{it} + \beta_3 \text{BOD\_MEET}_{it} + \beta_4 \text{SSB\_SIZE}_{it} + \\ & \beta_5 \text{FML\_SSB}_{it} + \beta_6 \text{SSB\_MEET}_{it} + \beta_7 \text{SSBC\_AGE}_{it} + \beta_8 \text{SSBC\_TEN}_{it} + \\ & \beta_9 \text{AGE} * \text{TEN\_CSSB}_{it} + \beta_{10} \text{D\_SOEs}_{it} + \beta_{11} \text{CAR}_{it} + \beta_{12} \text{NPF}_{it} + \beta_{13} \text{SIZE}_{it} + \\ & \beta_{14} \text{PROF}_{it} + \beta_{15} \text{LEV}_{it} + \varepsilon_{it} \end{aligned}$$

in which  $i$  refers to the ICBs selected as the sample, and  $t$  refers to the year period.

## 4. Result

This section presents the descriptive statistics, multicollinearity test results, and estimation results of the GLS model along with the estimation results of the PLS and FEM models as a comparison.

### 4.1. Descriptive statistics

Descriptive statistics are presented in Table 2. From Table 2 it is known that the mean of CSRD is 0.579, the minimum CSRD value is 0.311, and the maximum is 0.786. These results indicate that the CSRD of ICBs in Indonesia is quite satisfactory but still needs to be improved since some values are still below 0.500. This condition is probably due to the lack of detailed guidelines in Indonesia regulating CSR activities that must be disclosed (Nugraheni & Nur Khasanah, 2019). The mean of BOD\_SIZE is 4,481 or between 4 and 5 members, the minimum value of BOD\_SIZE is two members, and the maximum is 12 members. The Regulation of Financial Services Authority (OJK) Number 55/POJK.03/2016 states that the board of directors of a public company must have at least three members. Therefore, a BOD with two members violates this regulation. The mean of FML\_BOD is 0.187 with a minimum value of 0.000 and a maximum value of 0.750. A value of 0.000 for FML\_BOD indicates that there is no representation of women on the bank's board of directors.

**Table 1. Variable, icon, and variable value measurement**

Variable	Icon	Variable value measurement
Board of directors size	BOD_SIZE	The total members of the board of directors.
Female board of directors	FML_BOD	The proportion of female directors to the total members of the board of directors.
Board of directors meetings	BOD_MEET	The frequency of board of directors' meetings in one year.
Sharia supervisory board size	SSB_SIZE	The total members of the Sharia Supervisory Board (SSB).
Female sharia supervisory board	FML_SSB	The proportion of female SSBs to the total members of SSB.
Sharia supervisory board meeting	SSB_MEET	The frequency of SSB meetings in one year.
Age of Sharia Supervisory Board chairman	SSBC_AGE	The logarithm of age of SSB chairman in years.
Tenure of Sharia Supervisory Board chairman	SSBC_TEN	The tenure of SSB chairman in years.
Interaction between the age and tenure of Sharia Supervisory Board chairman	AGE*TEN_SSBC	The logarithm of the multiplication of the age and tenure of the Supervisory Board chairman.
State ownership	D_SOEs	Score 1 (one) for ICBs with SOE (BUMN) legal entities and 0 (zero) for Non-SOE (Non-BUMN).
Capital adequacy ratio	CAR	The percentage of equity to total risk-weighted assets.
Non-performance financing	NPF	The percentage of non-performing financing to total financing.
Bank size	SIZE	The logarithm of the total assets of banks
Profitability	PROF	The ratio of profit after tax to total assets multiplied by 100%.
Bank leverage	LEV	The ratio of total liabilities to total assets

The mean of BOD\_MEET is 29,076 times a year, with a minimum value of 8 times and a maximum value of 112 times a year. The Regulation of Financial Service Authority Number 57/POJK.04/2017 states that the BOD is required to hold a meeting at least two times a month. Thus, the BOD that only meets 8 times a year violates this regulation. Furthermore, the mean of SSB\_SIZE is 2,342 or between 2 and 3 members. The minimum value of SSB\_SIZE is 1 and the maximum is 4 members. The mean of FML\_SSB is 0.0796, the minimum value is 0.000 (indicating that the ICB does not have female SSB members), and the maximum value is 0.500. The mean of SSB\_MEET is 14,722 times a year with a minimum value of 7 times and a maximum value of 41 times a year. The Regulation of Financial Service Authority Number 33/POJK.04/2014 states that the SSB is required to hold a meeting at least once a month. This, the SSB that meets only 7 times a year violates the rule. The mean of SSBC\_AGE is 61,200 years with a minimum value of 36,461 years and a maximum value of 84,333 years. The mean of SSBC\_TEN is 4,578 years with a minimum value of 0.025 years and a maximum value of 15,722 years. The mean of AGE\*TEN\_SSBC is 2.290 (the logarithm of 10 of the actual value of the variable). The minimum value of AGE\*TEN\_SSBC is 0.163 and the maximum value is 3.076. The mean of D\_SOEs is 0.2152 with a minimum value of 0 (indicating that the ICBs is not SOE), and the maximum is 1 (indicating that the ICB is SOE). Due to limited space, the rest of the other variables' descriptive statistics can be seen in Table 2.

**Table 2. Descriptive statistics**

Variables	Mean	Std. Deviation	Minimum	Maximum	Skewness	Kurtosis
CSRD	0.5792	0.1109	0.3107	0.7858	−0.0401	2.1565
BOD_SIZE	4.4810	1.3764	2	12	1.532	7.7680
FML_BOD	0.1868	0.1970	0	0.7500	0.7701	2.8495
BOD_MEET	29.0760	18.4907	8	112	1.8339	7.8860
SSB_SIZE	2.3418	0.5266	1	4	0.9206	3.0461
FML_SSB	0.0796	0.1755	0	0.5000	1.8180	4.4519
SSB_MEET	14.7215	5.6848	7	41	2.2443	9.3269
SSBC_AGE	61.2000	9.5407	36.4611	84.3333	−0.1800	2.2212
SSBC_TEN	4.6893	3.4989	0.0250	15.7222	0.8997	3.1344
AGE*TEN_SSBC	2.2898	0.4703	0.1629	3.0762	−1.2192	5.6737
D_SOEs	0.2152	0.4123	0	1	1.3861	2.9213
CAR	0.3395	0.4459	0.1021	3.9050	2.7036	9.7218
NPF	1.7924	1.5663	0	4.9700	0.5549	2.0165
SIZE	7.0204	0.7421	4.8360	8.9440	−0.0031	3.2127
PROF	1.6355	2.5244	−8.8100	7.9600	−0.6723	5.5728
LEV	0.1665	0.0739	0.0116	0.3826	0.1921	2.7004

Source: Processed annual reports of the Indonesian ICBs in the period of 2008–2021

#### 4.2. Correlational test

The results of the correlational test between the independent variables reflecting the chances of multicollinearity occurring are presented in Table 3. From Table 3 it is known that the correlation coefficient between the independent variables is below 0.75 indicating that the developed model is free from multicollinearity symptoms.

#### 4.3. Variance inflation factor model test

We used the Variance Inflation Factor (VIF) model test, in addition to the correlational test, to detect possible symptoms of multicollinearity. The test results of the VIF model are presented in Table 4. Furthermore, from Table 4 it is known that the values of all independent variables, including control variables, show a VIF smaller than 10.00 with a mean VIF of 2.64. This means that there are no symptoms of multicollinearity from the estimated data set (Lassoued, 2018).

#### 4.4. Estimation results

The estimation results of the GLS model, as well as Pooled Least Square (PLS) and Fixed Effect Model (FEM), are shown in Table 5.

### 5. Discussion

This study examines the effect of Board of Directors (BOD) characteristics, Sharia Supervisory Board (SSB) characteristics, and State Ownership on CSRD of Islamic commercial banks (ICBs) in Indonesia during the period 2008–2021 using the GLS model. The results of the GLS model are accompanied by the results of the PLS and FEM models we show in Table 4. Furthermore, by controlling bank specific factors, namely capital adequacy ratio (CAR), non-performing financing (NPF), size (SIZE), profitability (PROF), and leverage (LEV), the following is the discussion.

**First**, the estimation results show that the BOD Size has no effect on the CSRD performance of ICBs in Indonesia. The relationship between board size and corporate performance, including CSR performance, is ambiguous in view of theoretical and empirical literature. Thus, it is possible that BODs with a larger size than ICBs in Indonesia focus more on efforts to improve financial

Table 3. The multicollinearity test results using the correlation between independent variables

Variable	BOD_SIZE	FML_BOD	BOD_MEET	SSB_SIZE	FML_SSB	SSB_MEET	CSSB_AGE	SSB_TEN	AGE*TEN_CSSB	D_SOEs	CAR	NPF	SIZE	ROA	LEV
BOD_SIZE	1														
FML_BOD	-0.2421	1													
BOD_MEET	0.0481	-0.0016	1												
SSB_SIZE	0.2550	-0.0908	-0.1407	1											
FML_SSB	0.1656	0.0185	0.1759	-0.1355	1										
SSB_MEET	0.0132	-0.0571	-0.0131	-0.1701	0.1027	1									
SSBC_AGE	-0.2185	-0.0089	0.0176	-0.1543	-0.1368	-0.1623	1								
SSBC_TEN	-0.0905	-0.0085	0.2426	-0.2633	-0.0570	0.0905	0.3055	1							
AGE*TEN_SSBC	-0.0912	0.0345	0.1884	-0.2359	-0.0552	0.0231	0.3773	0.8513	1						
D_SOEs	0.2205	-0.2323	0.2778	-0.0475	0.0697	0.1317	0.2571	0.1572	0.0495	1					
CAR	0.2246	0.1128	-0.0941	0.1710	0.1578	-0.0515	-0.2778	-0.0441	-0.0499	-0.0618	1				
NPF	-0.0639	-0.1158	-0.1793	0.1345	-0.1741	-0.1802	0.2264	0.0294	0.0622	-0.0445	-0.2918	1			
SIZE	0.5037	-0.2088	0.2290	-0.0556	0.1903	0.0807	-0.0062	0.1179	0.1174	0.3202	0.1519	-1.763	1		
ROA	0.1339	0.0137	0.2011	-0.2422	0.2483	0.2061	-0.0607	0.0493	-0.0262	0.1535	-0.1911	-4.166	0.3139	1	
LEV	0.1756	-0.2588	0.0940	0.0863	-0.0153	-0.1002	0.0185	-0.1015	-0.0446	0.3498	-0.0642	.1210	0.2399	0.1781	1

Source: Processed annual reports of the Indonesian ICBS in the period of 2008–2021.



**Table 4. Result of the variance inflation factor**

<b>Variabel</b>	<b>VIF</b>	<b>1/VIF</b>
LEV	6.65	0.1504
SSB_MEET	4.92	0.2031
AGE*TEN_SSBC	3.76	0.2659
BOD_MEET	3.61	0.2770
SSBC_TEN	3.35	0.2987
NPF	3.17	0.3156
PROF	2.39	0.4186
FML_BOD	1.97	0.5070
CAR	1.97	0.5074
D_SOEs	1.63	0.6142
FML_SSB	1.45	0.6901
SSBC_AGE	1.40	0.7146
SIZE	1.22	0.8217
SSB_SIZE	1.11	0.9033
BOD_SIZE	1.05	0.9508
<b>Mean VIF</b>	<b>2.64</b>	

Source: Processed by the authors for this study

performance and efficiency levels, as reported by (Hakimi et al., 2018) and (Mezzi, 2018) in Bahrain Islamic banks and the MENA region. As a result, BOD size does not show a significant influence on CSRD performance. This result is supported by (Rouf & Hossan, 2021) who report that BOD size is not related to the CSR performance of conventional banks in Bangladesh. However, the results are not in line with resource dependency theory which argues that larger boards are associated with higher CSR performance (Al Maeeni et al., 2022; Ali et al., 2022). These results, therefore, lead to the rejection of Hypothesis 1.

**Second**, the results show that Female BOD has a significant positive effect on the CSRD performance of ICBs in Indonesia. This result means that greater female representation on ICBs Indonesia's board of directors gives strong impetus to bank management to undertake and express higher CSR. This study provides strong support for the assumption that the characteristics of a woman tend to show high concern and responsibility for social and environmental conditions. These results are supported by agency and resource dependency theory which considers that gender diversity on the board increases the independence and effectiveness of board decision-making which in turn can improve performance, including CSR performance. This result is supported by (Matuszak et al., 2019) who prove that female BOD has a significant positive effect on conventional bank CSRD in Poland. Therefore, this result accepts Hypothesis 2.

**Third**, the results show that the BOD meeting has a significant positive effect on the CSRD performance of ICBs in Indonesia. This result means that the frequency of more frequent meetings reflects the competence, diligence and harder effort of the board of directors in supervising, evaluating and controlling the actions of ICB management to align with the interests of shareholders. In this case, shareholders are concerned with various higher measures of bank performance, one of which is CSRD performance. This result is supported by (Elmaghrabi, 2021) and (Chakraborty, 2019) who report that more frequent board meetings are associated with higher CSR performance from non-financial companies in the United Kingdom and Dhaka Stock Exchange. Therefore, this result accepts Hypothesis 3.

**Table 5. Summary of the results of the PLS, FEM, and GLS models**

Variable	GLS		FEM		PLS	
	Coefficient	t	Coefficient	t	Coefficient	t
BOD_SIZE	−0.0022	−0.61	.0003	0.06	−0.0022	−0.61
FML_BOD	0.1020**	2.57	.0623**	2.23	0.1020**	2.57
BOD_MEET	0.0016***	5.00	.0018***	5.92	0.0016***	5.00
SSB_SIZE	−0.0158	−1.15	−.0082	−0.75	−0.0158	−1.15
FML_SSB	0.0753***	4.00	.0690**	2.22	0.0753***	4.00
SSB_MEET	0.0026**	2.28	.0021**	2.22	0.0026**	2.28
SSBC_AGE	−0.0002	−0.32	−.0007	−1.00	−0.0002	−0.32
SSBC_TEN	0.0017	0.41	−.0044	−1.48	0.0017	0.41
AGE*TEN_SSBC	0.1141***	4.26	.1276***	5.76	0.1141***	4.26
D_SOEs	0.1013***	3.23	.0827***	5.29	0.1013***	3.23
CAR	−0.0005	−0.03	.0098	0.70	−0.0005	−0.03
NPF	0.0120**	2.22	.0102**	2.49	0.0120**	2.22
SIZE	−0.0035	−0.24	.0222**	2.52	−0.0035	−0.24
ROA	0.0103**	2.20	.0133***	4.96	0.0103**	2.20
LEV	−0.4500**	−4.90	−.3731***	−4.60	−0.4500**	−4.90
Constant	0.2962**	2.23	.1096	1.39	0.2962**	2.23
Adj R-squared	63.21%		63.21%		68.67%	
F-value	52.74		19.16		23.95	
Probability	0.0000		0.0000		.0000	
Banks	14		14		14	
Observations	158		158		158	

Notes: \*\*\*significant at 1%; \*\*significant at 5%; \*significant at 10%

**Fourth**, the findings reveal that SSB Size has no effect on the CSRD performance of ICBs in Indonesia. As previously stated, the relationship between board size and corporate performance is equivocal in the literature. Thus, it is conceivable that SSBs with a greater scale than ICBs in Indonesia are more focused on efforts to supervise and manage all bank operations (products and business activities) to ensure compliance with Sharia standards. As a result, SSBs with greater sizes do not pay more attention to CSRD performance than ICBs in Indonesia. This finding is verified by (Ridwan & Mayapada, 2020), who found that SSB size is unrelated to the CSRD performance of Islamic banks in Indonesia between 2011 and 2018. However, the results of this study are different from (Bukhari et al., 2020) and (Nugraheni & Nur Khasanah, 2019) reporting that larger SSB sizes are associated with higher levels of Islamic banks CSRD. Therefore, this result rejects Hypothesis 4.

**Fifth**, the results show that FML\_SSB affect the CSRD performance of ICB in Indonesia. The effect of FML\_SSB on CSRD from ICBs Indonesia is statistically significant positive at the level of 1%. This reflects that the greater representation of women in SSBs is able to encourage the management of Islamic commercial banks (ICBs) in Indonesia to improve their CSR performance. The positive influence of FML\_SSB on ICB Indonesia's CSRD seems to be the same as when they were present at the BOD which also shows a positive influence on the CSRD of the bank. This means that indeed the characteristics of women tend to be strong to show high social care and responsibility regardless of their position. The results indicate that the presence of women in SSB in addition to monitoring and controlling the compliance of bank operations, they also pay special attention to the CSRD performance of ICBs Indonesia. The results of this study are supported by (Jain & Jamali,

2016; Landry et al., 2016; Post et al., 2015) which states that the presence of women in corporate governance tends to further promote corporate social practices, they have psychological characteristics that allow for more sensitive to the claims of various stakeholder groups. Meanwhile (Eagly et al., 2003), argues that the presence of women on board of directors exhibits more communal qualities than their male counterparts, such as having compassion and kindness, great interpersonal sympathy and sensitivity, and often show concern for the welfare of others. Furthermore, the communal nature shown by this women's board can influence other board members to think more broadly about socially responsible business practices and consider broader stakeholders (Byron & Post, 2016). Therefore, even though the representation of women in SSB is relatively small, they show high social responsibility which can affect other SSB members. The results of this study have consequences for accepting H5.

**Sixth**, the results show that SSB\_MEET affect the CSRD performance of ICBs in Indonesia. The effect of SSB\_MEET on CSRD from positive ICBs is statistically significant at the level of 5%. This means that the higher frequency of meetings of SSBs reflects their diligence and earnestness in supervising and controlling ICBs' compliance with sharia rules, including rules regarding the obligation to disclose higher levels of CSR. This empirical evidence is supported by resource dependency theory which considers frequent board meetings as a measure of board involvement and commitment in monitoring management that is used as a proxy for active boards, diligence, and board effectiveness Min and Chizema (2018). This finding is supported by Ridwan and Mayapada (2020) who found that there was a significant positive relationship with CSR from Islamic banks in Indonesia during the period 2011–2018. Therefore, this result accepts H 6.

**Seventh**, the results of the study show that the age of the SSB chairman (SSBC\_AGE) does not affect the CSRD of ICBs Indonesia. The relationship between CEO age and company performance is ambiguous in terms of literature. On the one hand, the age of the CEO influences the board's policy in managing the business leading to their experience and openness to new ideas (Ouma & Webi, 2017) (Beji et al., 2021) report that CEO age is positively related to CSRD in France. On the other hand, older age of the CEO is associated with higher risk aversion, loss of creativity productivity which in turn can decrease company performance (Kim & Lim, 2010) (Fahad & Rahman, 2020) in India and Khan et al. (2019) in Pakistan reported that CEO age is negatively associated with CSR. In this case, it is possible that the evidence found implies that the older SSB chairman is more focused on supervising, evaluating, and controlling the overall compliance of bank operations with sharia rules so that there is no direct relationship with the CSR of ICBs Indonesia. Therefore, this result rejects H 7.

**Eighth**, the results show that the tenure of the SSB chairman (SSBC\_TEN) has no effect on the CSRD of ICBs Indonesia. Similar to the case of CEO age, the relationship between CEO tenure and CSR performance differs in terms of literature. For example (Fallah & Mojarrad, 2019), argue that by gaining more organizational experience, boards adopt long-term strategies focused on sustainability and higher social responsibility. Thus (Jouber, 2021), concluded that the tenure of the president director is one that predominantly appears to encourage higher CSRD. However (Salehi et al., 2020), reported that there is no relationship between the tenure board chairman and CSR performance on the Tehran Stock Exchange. In this context, perhaps the evidence found implies that SSB chairman in ICBs Indonesia with longer tenures are more focused on supervising, evaluating, and controlling the compliance of bank operations with sharia rules so that there is no direct relationship with CSRD. Therefore, this result rejects H 8.

**Ninth**, the results show that the interaction between the age and tenure of the SSB chairman (AGE\*TEN\_SSBC) has a significant positive impact on the CSRD of ICBs in Indonesia. These results imply that SSB chairman with older age and longer tenure accumulate positive characteristics in both variables so as to form a synergistic combination that in turn can improve the CSRD of ICBs Indonesia. A positive characteristic present in older president directors is that the quality of high-level management increases with age (Fischer & Pollock, 2004; Peni, 2014), which leads to experience and openness to new ideas (Hafsi & Turgut, 2013; Ouma & Webi, 2017). Meanwhile,

the positive characteristics present in president directors with longer tenure are that they have more interest in achieving the company's long-term goals, and show high social concern (Kruger, 2009). Some positive characteristics of the two interacting variables were collected and synergized by the SSB chairman of ICBs in Indonesia. Therefore, the results of this study accept H 9.

**Tenth**, the findings suggest that state ownership (D\_SOEs) has an impact on the CSRD of ICBs in Indonesia. The effect of D\_SOEs on CSRD from ICBs is statistically significant at the 1% level. The empirical data discovered is consistent with expectations, as the Indonesian state, as a CSR regulator, has set a positive example by demonstrating stronger social concern (CSR) for their ownership of ICBs than BUMD and the National Private Sector. These findings are validated by other recent research, including (Alkayed & Omar, 2022) in Jordanian non-financial enterprises (Dong et al., 2022), in Chinese industrial companies, and (Matuszak et al., 2019) in samples of conventional commercial banks in Poland. In almost the same context (Thuy et al., 2022), concluded that the role of state ownership moderation improved the relationship between corporate governance and CSR disclosure of companies listed on the Vietnam Stock Exchange during the period 2015–2018. Therefore, the results of this study received H 10.

**Finally**, the results show that control variables proxied with Non-performing financing (NPF) and Profitability (PROF) variables have a significant positive effect on the CSRD of ICBs in Indonesia. Meanwhile, Leverage (LEV) has a significant negative effect on the CSRD. The positive impact of NPF on CSRD is because CSR grows the amount of financing which in turn can increase the profitability of ICBs Indonesia. Meanwhile, NPF moves in line with the increase in financing, as a result, NPF is positively related to CSRD. This study did not find any significant effect of Capital adequacy ratio (CAR) and bank size (SIZE) on CSRD of ICBs in Indonesia.

## 6. Conclusion

This study investigates the influence of the board of directors (BOD) and Sharia supervisory board (SSB) characteristics as well as the state ownership on the CSRD of Islamic commercial banks (ICBs) in Indonesia during 2008–2021 by employing the GLS model. It manages to discover some convincing empirical evidence. First, the presence of women in BOD and SSB plays a crucial role in increasing the corporate social responsibility disclosure (CSRD) of ICBs in Indonesia. Second, the more frequent meetings of BOD and SSB are able to encourage ICBs in Indonesia to express higher social awareness. Third, the interaction variable between the age and tenure of the SSB's chairman can significantly increase the CSRD of ICBs in Indonesia. Fourth, state ownership shows a significant positive impact on the CSRD of ICBs in Indonesia. However, this study does not succeed to prove the significant impact of BOD size, SSB size, age as well as the tenure of the SSB's chairman on the CSRD of ICBs in Indonesia.

This study contributes to the development of the corporate governance literature proxied by BOD characteristics and state ownership. Besides, it also enriches the literature on Islamic corporate governance proxied by SSB characteristics and their relationship with the CSRD of ICBs in Indonesia. This study adds to the understanding of practitioners, such as regulators, investors, and Islamic banks management regarding the influence of BOD and SSB characteristics as well as state ownership of the CSRD of ICBs, especially in Indonesia. These practitioners can recognize the characteristics of BOD and SSB as well as majority shareholders that contribute significantly to increasing CSRD and enable them to make more informed decisions and actions.

In principle, this study bears two limitations. First, it used a sample of ICBs in Indonesia (only one type of Islamic bank), so the observation was relatively limited. Second, the determinants of CSRD only rely on certain selected characteristics of BOD and SSB as well as state ownership. Therefore, future research is suggested to take samples of other types of banks or ICBs in other countries and consider other variables of board characteristics, such as multiple board positions, board expertise, and board ethnic diversity. In addition, future research is suggested to consider foreign institution ownership, BOD ownership, SSB ownership, and the level of Islamic bank compliance with Sharia rules and its impact on the CSRD of Islamic banks.

### Funding

We would like to express our gratitude to the Center for Research and Community Service (P3M) of Politeknik Negeri Bandung (Polban) for funding our study through contract Number: B/92.47/PL1.R7/PG.00.03/2023, resulting in the production of this paper.

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### Disclosure statement

No potential conflict of interest was reported by the author(s).

### Citation information

Cite this article as: Board characteristics, state ownership, and corporate social responsibility: Evidence from Indonesian Islamic banks, Muhamad Umar Mai, Sudradjat & Etti Ernita Sembiring, *Cogent Economics & Finance* (2023), 11: 2266323.

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