

## The Influence of *Green Banking, Islamic Social Reporting, and Financial Performance on Firm Value: Evidence from Islamic Banks in the GCC Region (2018–2024)*

Rihhadatul Aisy Salsabil<sup>1\*</sup>, Rini Safitri<sup>2</sup>

Universitas Islam Negeri Maulana Malik Ibrahim Malang

**Corresponding Author:** Rihhadatul Aisy Salsabil [aisysalsabil18@gmail.com](mailto:aisysalsabil18@gmail.com)

---

### ARTICLE INFO

*Keywords:* *Green Banking, Islamic Social Reporting (ISR), Financial Performance, Firm Value, Islamic Banks*

*Received :* 05, October

*Revised :* 07, November

*Accepted:* 09, December

©2025 Salsabil, Safitri: This is an open-access article distributed under the terms of the [Creative Commons Atribusi 4.0 Internasional](https://creativecommons.org/licenses/by/4.0/).



### ABSTRACT

This study examines the influence of *Green Banking, Islamic Social Reporting (ISR), and Financial Performance* on the firm value of Islamic banks in the Gulf Cooperation Council (GCC) region during 2018–2024. Using secondary data from annual and sustainability reports of ten Islamic banks, the research applies a quantitative approach with panel data regression and Fixed Effect Model analysis. The results show that Financial Performance (ROA) has a positive and significant effect on firm value, while *Green Banking* and *ISR* have positive but insignificant effects. However, the three variables jointly influence firm value significantly. These findings indicate that financial, social, and environmental dimensions collectively enhance the sustainability and competitiveness of Islamic banks in the GCC.

---

## **INTRODUCTION**

Firm value has become a crucial aspect for Islamic banks within the Gulf Cooperation Council (GCC), in line with their rapid growth and continuous market expansion. In 2024, global Islamic financial assets reached USD 3.88 trillion, with the GCC region contributing 53.1% of the total. Leading banks such as Al Rajhi and Qatar Islamic Bank have strengthened their international positions through the issuance of USD 750 million sukuk, which were oversubscribed by more than three times (Everington, 2025). This phenomenon reflects increasing market confidence in the performance of Islamic banks, making firm value a strategic element in maintaining reputation and competitiveness amid the transition toward a green economy.

Tobin's Q is employed as an indicator of firm value because it integrates the market value of equity and liabilities, providing a comprehensive view of managerial effectiveness in utilizing both tangible and intangible assets (Ana & Wibowo, 2025). Solid financial performance further reinforces firm value, particularly through profitability. Return on Assets (ROA) assesses the effectiveness of assets in generating net income (Wijaya, 2019). Sari et al. (2021) found that profitability exerts a positive and significant influence on firm value. However, Khalifaturofi'ah & Setiawan (2025) reported that ROA has no significant effect, while Aprilia & Manda, (2023) argued that investors tend to rely more on technical rather than fundamental analysis.

Beyond financial aspects, firms also bear social and environmental responsibilities. The growing global awareness of sustainability urges financial institutions to contribute to environmental mitigation efforts. Although the banking sector is not a direct contributor to environmental degradation, Gulf nations, including Saudi Arabia and Kuwait, experience environmental challenges that stem from their heavy reliance on fossil fuel resources. Consequently, the financial sector is encouraged to adopt green investment policies to support sustainability initiatives. One such initiative is the implementation of green banking, a financial business model emphasizing environmentally friendly practices (Romli & Zaputra, 2021). According to Hossain et al. (2016), The green banking framework is introduced as a strategic response to address global warming, climate instability, and the pursuit of sustainable growth. Implementing this concept enhances both institutional reputation and public trust in the bank's sustainability commitment Winarto et al. (2021). Khan et al. (2021) identified a positive linkage between green banking initiatives and the enhancement of corporate value, while Hartanti et al. (2025) revealed a negative impact, and F. K. Putra & Budastra (2024) reported an insignificant relationship. This study adopts the indicators developed by Shaumya & Arulrajah (2017a) grounded in stakeholder theory.

In addition to green banking, The Islamic Social Reporting (ISR) framework signifies the extent of social responsibility demonstrated by institutions in accordance with Sharia-based ethical principles. According to the World Business Council for Sustainable Development (Rachman et al. 2011), social responsibility represents a continuous commitment by entities to act ethically and improve societal well-being. Haniffa (2002) describes ISR as a form of social accountability rooted in Islamic teachings. Disclosure of ISR enhances corporate legitimacy and reputation among stakeholders. Jihadi et al. (2021) observed that Islamic Social Reporting is positively correlated with the market valuation of firms, while Ulfah et al. (2023) reported a negative coefficient, and Nohong et al. (2019) found no significant effect. These inconsistencies may arise because the social benefits of ISR manifest in the long term, whereas investors often exhibit short-term orientations. This research employs ISR indicators developed by Othman & Thani (2010), which comprise six dimensions and forty-three items.

Overall, prior studies reveal inconsistent findings. Some demonstrate positive effects (Jihadi et al., 2021; Khan et al., 2021; Sari et al., 2021; Winarto et al., 2021), while others report negative (Hartanti et al., 2025; Ulfah et al., 2023) or insignificant results (Aprilia & Manda, 2023; Khalifaturofi'ah & Setiawan, 2025; Nohong et al., 2019; Oktaviana et al., 2021; F. K. Putra & Budastra, 2024). Such inconsistencies raise the question of how green banking practices, ISR disclosure, and financial performance jointly influence the firm value of Islamic banks. This study covers the 2018–2024 period to provide a comprehensive picture of the dynamics between green banking, ISR, and financial performance in determining firm value amid the era of sustainability regulation. The findings are expected to enrich the literature on the determinants of firm value from both financial and non-financial perspectives. For regulators, the results may serve as a foundation to strengthen policies on green banking and ISR implementation, whereas for Islamic bank management, the findings may guide strategic efforts to optimize profitability and enhance firm value through sustainable practices.

## LITERATURE REVIEW

### *Financial Performance*

Financial performance describes a company's financial standing over a given time frame, covering its effectiveness in mobilizing and allocating financial resources. Typically, this aspect of performance is commonly evaluated using several indicators, including capital sufficiency, liquidity position, and profitability as a measure of income-generating capacity (Jumingan & MM, 2023). A company's financial performance can be observed from its published financial statements. According to Munawir (2018), Financial performance acts as a fundamental reference in assessing a firm's overall financial health and operational stability, conducted through an analysis of financial ratios.

One of the most critical measures in evaluating financial performance is profitability. Profitability reflects how efficiently a firm converts its operational activities into earnings generation and serves as an indicator of management efficiency as well as the firm's overall financial health (Gitman et al., 2015). The most frequently applied metrics in measuring profitability are Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). This research applies Return on Assets (ROA) as the principal measure of financial performance in Islamic banking since it best captures how efficiently a bank utilizes its total assets to produce net earnings (Mardiana, 2018).

### ***Green Banking***

*Green banking* is a business concept adopted by financial institutions that emphasizes environmentally responsible practices (Romli & Zaputra, 2021). Its primary objective is to encourage the banking sector to develop sustainably by integrating environmental considerations into its operational and strategic frameworks. Banking activities have notable external environmental impacts, even though such impacts are often difficult to quantify precisely. Awareness of these effects fosters a stronger commitment among banks to engage in environmentally responsible investments. Moreover, financial institutions are increasingly expected to be more selective in their financing decisions, ensuring compliance with environmental regulations and promoting sustainable development. Consequently, the responsibility of the banking sector extends beyond financial performance to include tangible contributions to environmental protection through sustainable lending and investment policies.

This study employs the *green banking* indicators developed by Shaumya & Arulrajah (2017), which were conceptualized based on *stakeholder theory* Freeman & McVea (2005). The theory asserts that corporations, including banks, bear responsibilities not only to their shareholders but also to a broader network of stakeholders – employees, customers, communities, and the environment. In this regard, the adoption of *green banking* practices demonstrates an institution's responsiveness to multi-stakeholder expectations and its alignment with sustainable development goals. The *green banking* framework by Shaumya & Arulrajah (2017) comprises sixteen indicators grouped into four main dimensions: (1) employee-related practices, (2) daily operational practices, (3) customer-related initiatives, and (4) internal banking policies. The employee dimension focuses on fostering environmental awareness, training, and involvement among staff. The operational dimension includes reducing energy consumption, minimizing paper use, and adopting eco-efficient technologies. The customer dimension emphasizes offering green products, encouraging online transactions, and financing environmentally friendly projects. Finally, the internal policy dimension involves integrating environmental considerations into strategic decision-making, formulating green policies, and establishing monitoring systems for sustainable performance.

### ***Islamic Social Reporting***

The *Islamic Social Reporting* (ISR) index functions as a tool to evaluate how extensively an organization communicates its social accountability in accordance with Sharia-based guidelines. In annual reports, companies are expected not only to communicate the board of directors' expectations concerning their economic role in society but also to address the spiritual needs of Muslim stakeholders who rely on the reports for decision-making (H. F. Putra, 2014). In essence, ISR serves as an Islamic-based reporting standard designed to assess a company's social performance in alignment with Islamic ethical, material, and spiritual values.

The *Accounting and Auditing Organization for Islamic Financial Institutions* (AAOIFI), as a global authority in Islamic finance standardization, defines ISR as a benchmark for Sharia-compliant social responsibility disclosures. Under the Sharia compliance framework, ISR includes disclosure categories that represent Islamic values within six core aspects – financing and investment, product and service responsibility, employee welfare, community engagement, environmental stewardship, and governance Othman & Thani (2010). These six ISR dimensions together create a holistic framework for assessing the extent to which Islamic financial institutions embed ethical and social considerations within their business practices.

The financing and investment dimension emphasizes openness in reporting financial operations that adhere to Sharia principles, explicitly avoiding elements of *riba* (interest), *gharar* (ambiguity), and *maysir* (speculative gambling). The product and service dimension evaluates whether the institution's offerings align with Islamic ethics and deliver social benefits. The employee dimension assesses fairness, welfare, and equality practices within the organization, ensuring compliance with Islamic labor ethics. The society dimension covers community empowerment initiatives, philanthropy (*zakat*, *infaq*, and *sadaqah*), and socio-economic development programs. The environmental dimension addresses efforts toward ecological preservation, resource efficiency, and sustainable practices. Finally, the governance dimension emphasizes accountability, transparency, and integrity in decision-making, in line with the Islamic principle of *amanah* (trustworthiness).

### ***Firm Size***

According to Sartono (2010) firm value can be defined as the selling price of a company while it is still operating. This value exceeds its liquidation value because it reflects the firm's overall performance and the management's effectiveness in utilizing corporate resources. The attainment of corporate objectives is highly dependent on the implementation of sound and efficient financial management functions. Consequently, both investors and prospective investors require comprehensive information about a company's performance to evaluate the viability of their current and future investments, as well as to assess the firm's long-term prospects.

The measurement of firm value has undergone significant evolution, with modern methods offering greater accuracy and broader analytical scope. Common indicators used to assess firm value include Tobin's Q, Price to Earnings Ratio (PER), and Price to Book Value (PBV). In this study, firm value is measured using the Tobin's Q ratio, as it provides a more comprehensive and market-oriented representation of a company's valuation. Tobin's Q reflects the relationship between the market value of a company's assets and their replacement cost, thereby capturing both tangible and intangible aspects of value creation. A higher Tobin's Q ratio indicates that the market perceives the company as having strong growth potential and efficient asset utilization, whereas a lower ratio suggests the opposite.

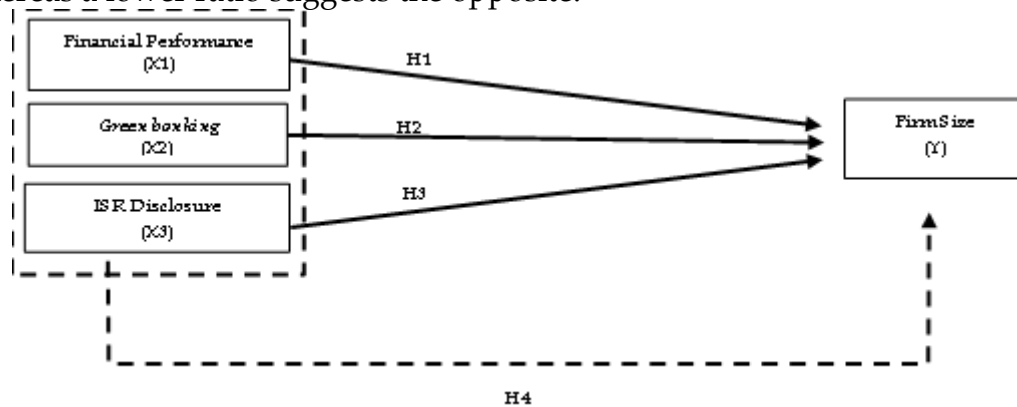


Figure 1. Conceptual Framework

## METHODOLOGY

This study employs a quantitative method with a descriptive-verification approach to test the causal relationship between financial performance, *green banking*, and *Islamic Social Reporting* (ISR) on the firm value of Islamic banks in the Gulf Cooperation Council (GCC) region during 2018–2024. The research uses secondary data derived from annual and sustainability reports officially published by ten Islamic banks that met the purposive sampling criteria – listed on each country's stock exchange and consistently disclosing reports throughout the observation period. The variables include Return on Assets (ROA) is employed as a representative indicator of financial performance, the 16-item *Green Banking* index (Shaumya & Arulrajah, 2017b), the 46-item ISR index (Othman & Thani, 2010), while Tobin's Q ratio is utilized to assess a company's market-based valuation.

The dataset was processed using panel data regression through EViews 12, applying Common, Fixed, and Random Effect models, with model determination guided by the Chow and Hausman tests. In addition, classical diagnostic tests, covering normality, multicollinearity, autocorrelation, and heteroskedasticity were conducted to confirm the robustness of the regression model. The hypotheses were examined through the t-test, F-test, and Adjusted R<sup>2</sup>, with a significance level of 5%, to empirically evaluate the impact of financial performance, green banking, and ISR on the firm value of Islamic banks across the GCC region.

## RESEARCH RESULT

### *Descriptive Analysis*

This research employed secondary data from ten Islamic banks within the GCC countries for the 2018–2024 period, encompassing 70 observations, and analyzed variables including Green Banking Disclosure, *Islamic Social Reporting* (ISR), Financial Performance, and Firm Value.

**Table 1. Descriptive Analysis**

	X1 (GB)	X2 (ISR)	X3 (ROA)	Y (TOBINS'Q)
Mean	0.672857	0.716000	1.096429	1.149143
Median	0.690000	0.720000	1.035000	1.150000
Maximum	1.000000	1.000000	2.760000	1.710000
Minimum	0.060000	0.220000	-1.620000	0.870000
Std. Dev.	0.268755	0.151508	0.895977	0.209857
Observations	70	70	70	70

As shown in Table 1, the average *green banking* score (mean = 0.67) indicates a moderate level of environmental practice implementation among GCC Islamic banks, with a standard deviation of 0.27 reflecting medium variability. The average ISR score (mean = 0.72) suggests relatively consistent Sharia-based social disclosure (SD = 0.15). Financial performance measured by ROA shows a mean of 1.10, indicating positive profitability, though the wide range (-1.62 to 2.76) and high standard deviation (0.90) highlight disparities in asset efficiency. Firm value, proxied by Tobin's Q, records an average of 1.15 with low variability (SD = 0.21), implying generally stable market perceptions of Islamic banks in the GCC throughout the observation period.

### *Chow Test*

The Chow Test functions as a statistical approach for comparing two econometric models to identify which specification best matches the characteristics of panel data. In this context, this test assists in determining whether the Common Effect Model (CEM) or the Fixed Effect Model (FEM) provides the most suitable representation of the dataset. When the probability value is higher than 0.05, the Common Effect Model becomes the preferred option, implying the absence of significant variations among cross-sectional entities. On the other hand, when the probability value is at or below 0.05, the results favor the Fixed Effect Model, indicating significant heterogeneity across the observed entities.

**Table 2. Chow Test**

Effects Test	Statistic	d.f.	Prob.
Cross-section F	63.414124	(9,57)	0.0000
Cross-section Chi-square	167.933800	9	0.0000

Referring to the results shown in Table 2, the F-statistic probability (Prob. F) value of 0.0000 lies well beneath the 0.05 level of significance. This outcome suggests that the Fixed Effect Model (FEM) provides the most suitable specification for interpreting the dataset. The notably low probability value offers compelling justification to reject the null hypothesis ( $H_0$ ) and confirm the acceptance of the alternative hypothesis ( $H_1$ ).

### ***Hausman Test***

The Hausman Test is applied to identify whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) provides a better fit for the characteristics of the panel data. The model selection decision relies on the probability value (p-value) obtained from the cross-section random test output. When the p-value falls below the 0.05 significance threshold, the null hypothesis ( $H_0$ ) is rejected, signifying that the Fixed Effect Model (FEM) is the more appropriate option since the individual effects exhibit correlation with the explanatory variables. Conversely, when the p-value exceeds 0.05, the Random Effect Model (REM) becomes preferable, implying that cross-sectional differences are random and have no correlation with the independent variables.

**Table 3. Hausman Test**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	17.326888	3	0.0006

As shown in Table 3, the Chi-Square probability value is 0.0006, which is below the 0.05 threshold. This result leads to the rejection of the null hypothesis and the acceptance of the alternative, confirming that the Fixed Effect Model (FEM) is the most appropriate specification for this study. The low probability value indicates that the cross-sectional differences among Islamic banks are not random but influenced by fixed, bank-specific factors that significantly affect the dependent variable. Therefore, subsequent estimations and hypothesis testing in this research are conducted using the Fixed Effect Model to ensure robustness and accuracy of the results.

### ***Normality Test***

The Normality Test is conducted to evaluate whether the data used in the study follow a normal distribution pattern. This assumption is essential to ensure the validity of parametric statistical analyses. The test was applied to all key variables, *Green Banking*, *Islamic Social Reporting (ISR)*, and *Financial Performance*, against *Firm Value* to confirm that the residuals from the regression model are normally distributed.

**Table 4. Normality Test**

Jarque-Bera	4.645737
Probability	0.097992

As shown in Table 4, the Jarque–Bera statistic produces a probability value of 0.097992, which exceeds the 0.05 significance level. This indicates that the residuals are normally distributed, meaning the data satisfy the normality assumption required for further regression analysis. Hence, the model can be considered statistically appropriate for subsequent inferential testing.

**Multicollinearity Test**

The Multicollinearity Test is an essential step in regression analysis used to assess the degree of linear relationship among independent variables. This test helps to detect whether two or more explanatory variables are highly correlated, which could distort the accuracy of regression estimations. Typically, the test is performed using a correlation matrix. If the correlation coefficient between any pair of independent variables exceeds 0.80, it indicates a potential multicollinearity problem that may affect the model’s validity and interpretation.

**Table 5. Multicollinearity Test**

Variabel	X1	X2	X3
X1	1.000000	0.581295	0.223815
X2	0.581295	1.000000	0.364636
X3	0.223815	0.364636	1.000000

As presented in Table 5, all correlation coefficients among the independent variables. *Green Banking* (X1), *Islamic Social Reporting* (X2), and *Financial Performance* (X3), are below the 0.80 threshold. This indicates that there is no strong linear relationship among the independent variables. Therefore, it can be concluded that the regression model is free from multicollinearity issues, meaning the independent variables can be reliably used to explain variations in the dependent variable.

**Heteroskedasticity Test**

The Heteroskedasticity Test is employed to detect the presence of non-constant variance in the residuals of a regression model, which could affect the accuracy and reliability of statistical inference. Inconsistent variance indicates that the magnitude of the error terms varies with one or more independent variables, suggesting that the residuals are not randomly distributed across observations.

**Table 6. Heteroskedasticity Test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.036451	0.017715	2.057684	0.0442
X1	0.011638	0.019391	0.600178	0.5508
X2	-0.013863	0.037708	-0.367633	0.7145
X3	-0.001143	0.004745	-0.240887	0.8105

As presented in Table 6, the results of the Breusch Pagan Godfrey test show that the probability values for all independent variables *Green Banking* (X1), *Islamic Social Reporting* (X2), and *Financial Performance* (X3) are greater than the 0.05 significance level. This implies that the regression model does not exhibit heteroskedasticity, meaning the residual variance is constant across all observations. Therefore, it can be concluded that the model satisfies the classical assumption of homoskedasticity, ensuring that the estimation results are statistically valid and reliable for further interpretation

#### **Partial Significance Test (t-Test)**

The *t*-test (partial significance test) is a statistical procedure used to evaluate the extent to which each independent variable individually influences the dependent variable within a regression model. This test helps determine whether each predictor variable makes a statistically significant contribution to explaining variations in the dependent variable while controlling for the effects of other variables in the model.

**Table 7. Partial Significance Test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.065710	0.034735	30.68128	0.0000
X1	-0.054426	0.038023	-1.431396	0.1578
X2	0.116899	0.073938	1.581049	0.1194
X3	0.033157	0.009303	3.564016	0.0007

As presented in Table 7, the regression results can be interpreted as follows:

1. Effect of Green Banking on Firm Value

The regression coefficient for Green Banking (X1) is  $-0.054426$ , with a *t*-statistic of  $-1.431396$  and a probability value (*p*-value) of  $0.1578$ , which is greater than the  $0.05$  significance threshold. This outcome reveals that Green Banking exerts a negative yet statistically insignificant influence on firm value (Tobin's *Q*). Hence, the first hypothesis (H1), stating that Green Banking has a positive and significant effect on firm value, is rejected. The result suggests that environmentally friendly banking practices have not yet been fully recognized by the market as a determinant of firm value among Islamic banks in the GCC.

2. Effect of Islamic Social Reporting (ISR) on Firm Value

The regression result for Islamic Social Reporting (X2) shows a coefficient of  $0.116899$ , a *t*-value of  $1.581049$ , and a probability of  $0.1194$ , which is above the  $0.05$  threshold. The findings imply that ISR disclosure exerts a positive yet statistically insignificant impact on firm value. Therefore, the second hypothesis (H2), which posits a positive and significant influence of ISR on firm value, is rejected. The finding indicates that Sharia-based social reporting, while enhancing transparency and ethical accountability, has not yet translated into measurable market value within the observation period.

3. Effect of Financial Performance on Firm Value

The financial performance indicator ( $X_3$ ), represented by Return on Assets (ROA), yields a coefficient of 0.033157, a t-statistic of 3.564016, and a p-value of 0.0007, which is substantially below the 0.05 significance level. This result confirms that financial performance has a statistically significant and positive influence on firm value. In other words, the higher the profitability achieved by Islamic banks, the greater the investor confidence in their future prospects resulting in an increase in the firm's market valuation. Therefore, the third hypothesis ( $H_3$ ), stating that financial performance has a positive and significant effect on firm value, is accepted.

**Simultaneous Significance Test (F-Test)**

The F-test is employed to determine whether all independent variables collectively exert a statistically significant influence on the dependent variable. This test evaluates the overall explanatory power of the regression model by examining the F-statistic value. If the probability associated with the F-statistic is smaller than the significance level of 0.05, the null hypothesis ( $H_0$ ) is rejected, indicating that the independent variables jointly have a significant effect on the dependent variable. Conversely, if the probability exceeds 0.05, the null hypothesis is accepted, implying no simultaneous effect.

**Table 8. Simultaneous Significance Test**

F-statistic	119.0125
Prob(F-statistic)	0.000000

As presented in Table 8, the regression output shows an F-statistic value of 119.0125 with a probability of 0.000000, which is far below the 0.05 significance threshold. These findings offer compelling statistical justification to reject the null hypothesis ( $H_0$ ) while supporting the alternative hypothesis ( $H_4$ ). Thus, it can be inferred that the independent variables Green Banking ( $X_1$ ), *Islamic Social Reporting* ( $X_2$ ), and Financial Performance ( $X_3$ ) jointly have a significant impact on the firm value ( $Y$ ).

This evidence verifies the robustness of the model, showing that the integration of environmental, social, and financial aspects meaningfully contributes to explaining variations in firm value across Islamic banks in the GCC region. Although some variables were found to be individually insignificant in the t-test, their joint effect remains statistically significant, indicating the interdependence of financial and non-financial factors in shaping firm value within the framework of sustainable Islamic banking.

### ***Coefficient of Determination***

The coefficient of determination serves to quantify how well the independent variables account for changes in the dependent variable within the regression framework. In this research, model adequacy is evaluated through the Adjusted R<sup>2</sup> statistic, which serves as the main indicator of model performance, as it provides a more accurate representation of the model's explanatory power by adjusting for the number of predictors used.

**Table 9. R Square**

R-squared	0.961620
Adjusted R-squared	0.953540

As presented in Table 9, the regression output demonstrates an R-squared of 0.961620 and an Adjusted R-squared of 0.953540. The results reveal that around 95.35% of the changes in the dependent variable (Firm Value measured by Tobin's Q) can be attributed to the independent variables. *Green Banking* (X1), *Islamic Social Reporting* (X2), and Financial Performance (X3). The residual 4.65% of variance is influenced by factors that lie outside the variables incorporated in this regression model.

## **DISCUSSION**

This research utilizes secondary data derived from the financial reports of Islamic commercial banks across the Gulf Cooperation Council (GCC) countries, covering the period from 2018 to 2024. The study is centered on examining the effects of Financial Performance (ROA), Green Banking initiatives, and *Islamic Social Reporting* (ISR) on Firm Value as represented by Tobin's Q. The data were collected from officially released annual and sustainability reports, as well as from the stock exchange databases of respective GCC member countries. All collected data were processed systematically using a quantitative method to explore the interrelationships among variables, thereby offering insights into how financial performance, sustainability transparency, and Sharia-compliant disclosures collectively enhance the firm value of Islamic banks within the region.

### **1. Effect of Financial Performance on Firm Value**

Financial Performance, as measured by Return on Assets (ROA), exhibits a positive and significant effect on firm value. This finding suggests that profitability remains the primary determinant of investors' perception of a bank's market value. In the context of GCC Islamic banking, the ability to generate profit from total assets reflects managerial efficiency, strong fundamentals, and operational stability. Investors tend to regard highly profitable banks as entities capable of managing risk effectively and maintaining sustainable growth prospects. Strong financial performance also signals management's success in optimizing Sharia-compliant funds, thereby enhancing investor confidence and increasing market capitalization.

2. The significant influence of ROA on firm value also demonstrates that financial aspects continue to be the dominant consideration for investors, even amid the growing global focus on sustainability. This is understandable, given that financial institutions rely heavily on asset efficiency and public trust in their stability. Moreover, in the GCC, institutional investors many of whom originate from the energy and finance sectors hold strong expectations for stable capital returns. Consequently, financial indicators such as ROA are viewed as key benchmarks for assessing a bank's long-term value. Similar findings were reported by Haryanto et al. (2018), who confirmed that financial performance has a positive and significant effect on firm value.

3. Effect of Green Banking on Firm Value

The results indicate that the Green Banking variable has a negative but statistically insignificant relationship with firm value. This finding implies that the implementation of environmentally responsible banking policies among Islamic financial institutions in the GCC has not yet significantly influenced market perceptions of firm value. Although some banks have adopted sustainability principles through green financing, energy efficiency, and environmentally friendly projects, investors may not yet view these initiatives as primary determinants of stock market performance. The GCC financial markets remain largely focused on conventional financial indicators such as profitability, asset efficiency, and short-term stability.

In this context, Green Banking strategies are often perceived as complementary social or ethical initiatives rather than direct economic value drivers. The lack of significance may also stem from the high initial investment costs required for implementing environmental programs, which in the short term can reduce profit margins. This observation aligns with Bose et al. (2018), who argued that during the early stages of implementation, green banking practices may impose operational burdens before their long-term economic and reputational benefits become evident.

This study's findings are consistent with (Shaumya & Arulrajah, 2017) who noted that the impact of Green Banking on firm value is long-term in nature, as markets require time to internalize environmental factors into share price mechanisms. The transition toward green finance in the GCC involves structural adjustments in technology, human resources, and the development of green financing instruments, which remain relatively limited in the region. As a result, the positive effects of environmental policies are more likely to materialize over the long term and may not yet be fully reflected in current firm valuations. Furthermore, environmental awareness within GCC capital markets is still developing, meaning that Green Banking has yet to emerge as a strong economic signal capable of influencing investor sentiment. Ayu et al. (2023) similarly found that Green Banking does not significantly affect firm value.

4. Effect of Islamic Social Reporting (ISR) on Firm Value

The Islamic Social Reporting (ISR) variable shows a positive but statistically insignificant relationship with firm value. This suggests that while Sharia-based social disclosure aligns theoretically with the notion that ethical and social responsibility enhances public trust, empirically it has yet to elicit a significant market response. In the GCC's Islamic banking system, most banks practice social responsibility through corporate zakat, social financing, and charitable contributions; however, disclosure practices remain inconsistent and lack a standardized format recognized by investors. This limits comparability and the readability of ISR disclosures, thus reducing their measurable effect on firm value.

Additionally, GCC investors are generally focused on financial stability and predictable returns, whereas ISR disclosure tends to be more qualitative and long-term in nature. In efficient capital markets, such information gains relevance only when stakeholders perceive that social responsibility contributes tangibly to reputation, customer loyalty, or future financial performance. Therefore, the positive yet insignificant relationship found in this study suggests that ISR currently functions more as a moral signal than a market signal. This is consistent with Agustina (2020), who found that ISR has no significant influence on firm value.

5. Joint Effect of Green Banking, Islamic Social Reporting, and Financial Performance on Firm Value

The simultaneous test results reveal that Green Banking, Islamic Social Reporting, and Financial Performance collectively have a significant influence on firm value. This means that, although some variables show no individual significance, their combined effect explains a substantial proportion of the variation in firm value. These findings imply that, within the broader framework of Islamic financial sustainability in the GCC, economic, social, and environmental dimensions operate in a complementary manner. Financial performance serves as the foundational driver of stability, while social and environmental practices provide added value in the form of reputation, legitimacy, and long-term stakeholder trust.

When these three dimensions function in harmony, Islamic banks gain a stronger competitive advantage in creating economic value aligned with both Sharia principles and global sustainability objectives. Therefore, it can be concluded that sustainability in Islamic banking depends not on a single dimension but on the integration of financial efficiency, social responsibility, and environmental stewardship. In the long term, balancing these three pillars will determine the growth trajectory of Islamic banks in the GCC, enabling them to evolve into financial institutions that are not only economically stable but also socially beneficial and environmentally responsible.

## CONCLUSIONS AND RECOMMENDATIONS

This study investigates the influence of *Green Banking*, *Islamic Social Reporting* (ISR), and Financial Performance on the firm value of Islamic banks operating within the Gulf Cooperation Council (GCC) region during 2018–2024. The results demonstrate that Financial Performance, as measured by Return on Assets (ROA), has a positive and significant effect on firm value. This finding confirms that profitability remains the dominant determinant of investor confidence and corporate valuation in Islamic banking.

*Green Banking* and ISR both exhibit positive but statistically insignificant effects on firm value. These findings suggest that environmental and Sharia-based social initiatives have yet to be fully internalized by investors as primary value drivers. However, when combined, the three variables exert a significant simultaneous effect on firm value, emphasizing the complementary roles of financial, social, and environmental dimensions in shaping corporate sustainability. Overall, the study concludes that firm value in Islamic banks is not determined by financial strength alone, but by the integration of profitability, ethical responsibility, and environmental stewardship. Such integration supports long-term growth, market trust, and alignment with global sustainable finance principles.

For Islamic bank management, it is recommended to strengthen environmental and social disclosure practices by enhancing transparency and aligning reporting frameworks with both *AAOIFI* and global sustainability standards. Developing green financial products and improving ISR reporting quality could improve investor trust and market reputation in the long run. Regulators in GCC countries are advised to issue harmonized sustainability disclosure guidelines and performance incentives for banks that actively engage in green finance. This can accelerate the integration of Islamic values and environmental awareness into regional financial systems. For future researchers, it is suggested to expand the scope beyond the GCC by conducting cross-regional comparative studies or incorporating moderating variables such as corporate governance, market sentiment, or regulatory strength. A mixed-method or longitudinal approach would also provide deeper insight into the long-term financial and reputational impact of sustainability practices in Islamic banking.

## ADVANCED RESEARCH

This study, despite its significant empirical contribution to the understanding of sustainability practices in Islamic banking, is subject to several limitations. First, the research relies on secondary data extracted from annual and sustainability reports, which may vary in disclosure quality and completeness among Islamic banks. Such variations can influence the objectivity of the scoring process for both *Green Banking* and *Islamic Social Reporting* (ISR) indices. Second, the study focuses exclusively on Islamic banks within the Gulf Cooperation Council (GCC) region during 2018–2024, thereby limiting the generalizability of the findings to other regions or financial systems with different regulatory environments and levels of sustainability adoption. Third, the analysis employs a quantitative panel-data regression approach, which, while robust for

identifying causal relationships, may not fully capture the qualitative nuances of managerial strategies or cultural factors influencing disclosure behavior. Additionally, the observation period includes post-pandemic years, during which financial and market conditions were atypical, potentially affecting firm valuation metrics such as Tobin's Q.

Future research is encouraged to extend this study by incorporating qualitative or mixed-method approaches to explore managerial perceptions and strategic motivations behind sustainability disclosures in Islamic banking. Comparative studies across regions, such as ASEAN, South Asia, or North Africa could also provide broader insight into the institutional and regulatory determinants of *Green Banking* and ISR implementation. Moreover, integrating mediating or moderating variables such as corporate governance quality, environmental regulation, or investor sentiment may enrich understanding of how sustainability initiatives translate into market value. Finally, longitudinal studies that extend beyond 2024 would enable researchers to assess the long-term financial and reputational impacts of sustainable banking practices in the era of global green finance alignment.

## REFERENCES

- Agustina, A. (2020). The Influence Of Disclosure Of Islamic Social Reporting, Profitability, and Liquidity on Firm Value in Companies Listed in Jakarta Islamic Index Indonesia Stock Exchange 2016-2019. In Indonesian Interdisciplinary Journal of Sharia Economics (IIJSE (Vol. 3).
- Ana, S., & Wibowo, D. T. (2025). Nilai Perusahaan dalam Formula Tobin's Q Ratio. MUQADDIMAH: Jurnal Ekonomi, Manajemen, Akuntansi Dan Bisnis, 3(1), 126-135.
- Aprilia, N., & Manda, G. S. (2023). Pengaruh Profitabilitas, Dan Struktur Modal Terhadap Nilai Perusahaan Bank Umum Syariah (Studi Empiris Perusahaan Bank Umum Syariah di Indonesia Periode 2017 sd 2021). Innovative: Journal Of Social Science Research, 3(3), 4916-4931.
- Ayu, D., Pramyswari, R., & Marsono, A. D. (2023). Prosiding Seminar Nasional Teknik Industri (SENASTI).
- Bose, S., Khan, H. Z., Rashid, A., & Islam, S. (2018). What drives green banking disclosure? An institutional and corporate governance perspective. Asia Pacific Journal of Management, 35, 501-527.
- Freeman, R. E., & McVea, J. (2005). A stakeholder approach to strategic management. The Blackwell Handbook of Strategic Management, 183-201.
- Gitman, L. J., Juchau, R., & Flanagan, J. (2015). Principles of managerial finance. Pearson Higher Education AU.
- Haniffa, R. (2002). Social reporting disclosure: An Islamic perspective. Indonesian Management & Accounting Research, 1 (2), 128-146.
- Hartanti, R., Marwah, F., & Amalina, N. (2025). Pengaruh kinerja lingkungan, kebijakan dividen, ukuran perusahaan, Return On Asset, dan Leverage terhadap Nilai Perusahaan. Jurnal Akuntansi Trisakti, 12(1), 93-108.

- Haryanto, S., Rahadian, N., Mbapa, M. F. I., Rahayu, E. N., & Febriyanti, K. V. (2018). Kebijakan Hutang, Ukuran Perusahaan dan Kinerja Keuangan Terhadap Nilai Perusahaan: Industri Perbankan di Indonesia. *AFRE (Accounting and Financial Review)*, 1(2). <https://doi.org/10.26905/afr.v1i2.2279>.
- Hossain, D. M., Bir, A., Sadiq, A. T., Tarique, K. M., & Momen, A. (2016). Disclosure of green banking issues in the annual reports: a study on Bangladeshi banks. *Middle East Journal of Business*, 11(1), 19–30.
- Jihadi, M., Vilantika, E., Widagdo, B., Sholichah, F., & Bachtiar, Y. (2021). Islamic social reporting on value of the firm: Evidence from Indonesia Sharia Stock Index. *Cogent Business and Management*, 8(1). <https://doi.org/10.1080/23311975.2021.1920116>.
- Jumingan, S. E., & MM, M. S. (2023). Analisis laporan keuangan. Bumi Aksara.
- Khalifaturofi'ah, S. O., & Setiawan, R. (2025). Profitability's impact on firm value in Indonesia's real estate firms: a panel data investigation. *Property Management*, 43(2), 169–186.
- Khan, H. Z., Bose, S., Sheehy, B., & Quazi, A. (2021). Green banking disclosure, firm value and the moderating role of a contextual factor: Evidence from a distinctive regulatory setting. *Business Strategy and the Environment*, 30(8), 3651–3670. <https://doi.org/10.1002/bse.2832>.
- Mardiana, M. (2018). Pengaruh manajemen risiko terhadap kinerja keuangan keuangan: studi pada perbankan syariah yang terdaftar di BEI. *Iqtishoduna: Jurnal Ekonomi Dan Bisnis Islam*, 14(2), 151–166.
- Munawir, S. (2018). Analisa laporan keuangan. Liberty.
- Nohong, M., Sobarsyah, M., Sanusi, A., Sartika Handayani, K., Otoluwa, N. I., & Bon, A. T. (2019). Islamic social reporting disclosure and firm value: Empirical study of firms listed in Jakarta Islamic Index. *Proceedings of the International Conference on Industrial Engineering and Operations Management*, July, 2458–2494.
- Oktaviana, U. K., Jaya, T. J., & Miranti, T. (2021). The Role of Islamic Social Reporting, Islamic Corporate Governance and Maqashid Syariah Index on Firm Value with Firm Size as Moderation Variable. *Proceedings of the International Conference on Engineering, Technology and Social Science (ICONETOS 2020)*, 529(Iconetos 2020), 195–201. <https://doi.org/10.2991/assehr.k.210421.028>.
- Othman, R., & Thani, A. M. (2010). Islamic Social Reporting Of Listed Companies In Malaysia. *International Business & Economics Research Journal (IBER)*, 9(4), 135–144. <https://doi.org/10.19030/iber.v9i4.561>.
- Putra, F. K., & Budastra, M. A. (2024). the Mediating Role of Financial Performance in Environmental, Social, and Governance (Esg) and Firm Value. *Jurnal Akuntansi Bisnis*, 17(1), 1. <https://doi.org/10.30813/jab.v17i1.4931>.
- Putra, H. F. (2014). Analisis Pelaksanaan Dan Pengungkapan Corporate Social Responsibility (Csr) Pada Perbankan Syariah Di Indonesia Berdasarkan Indeks Islamic Social Reporting (Isr). *Jurnal Ilmiah Mahasiswa FEB*, 3(1).

- Rachman, N. M., Efendi, A., & Wicaksana, E. (2011). Panduan lengkap perencanaan CSR. Penebar Swadaya Grup.
- Romli, R., & Zaputra, A. R. R. (2021). Pengaruh implementasi Green Banking, Corporate Social Responsibility terhadap nilai perusahaan pada perusahaan perbankan yang terdaftar di BEI. *Portofolio: Jurnal Ekonomi, Bisnis, Manajemen, Dan Akuntansi*, 18(2), 136-159.
- Sari, P. M., Gede, D., & Suputra, D. (2021). Disclosure of Corporate Social Responsibility in Moderating the Effect of Financial Performance on Firm Value. *American Journal of Humanities and Social Sciences Research*, 5.
- Sartono, A. (2010). Manajemen Keuangan teori dan Aplikasi edisi 4. Yogyakarta: Bpfe, 1-526.
- Shaumya, K., & Arulrajah, A. A. (2017a). Measuring Green Banking Practices: Evidence from Sri Lanka. *SSRN Electronic Journal*, 999-1023. <https://doi.org/10.2139/ssrn.2909735>.
- Shaumya, K., & Arulrajah, A. A. (2017b). Measuring Green Banking Practices: Evidence from Sri Lanka. *SSRN Electronic Journal*, 999-1023. <https://doi.org/10.2139/ssrn.2909735>.
- Ulfah, K., Abdullah, M. W., & Masse, R. A. (2023). Determinants of Firm Value Islamic Banks in Indonesia. *International Journal of Research and Innovation in Social Science*, VII(IX), 1071-1082. <https://doi.org/10.47772/ijriss.2023.70993>.
- Wijaya, R. (2019). Analisis perkembangan return on assets (ROA) dan return on equity (ROE) untuk mengukur kinerja keuangan. *Jurnal Ilmu Manajemen*, 9(1), 40-51.
- Winarto, W. W. A., Nurhidayah, T., & Sukirno, S. (2021). Pengaruh Green Banking Disclosure Terhadap Nilai Perusahaan Pada Bank Umum Syariah Di Indonesia. *Velocity: Journal of Sharia Finance and Banking*, 1(2), 12-22. <https://doi.org/10.28918/velocity.v1i2.4212>.