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The role of Sharia compliance in moderating the indirect influence of board diversity on roe mediated by Zakat disclosure

Rizalnur Firdaus[1*], Sumiati[2], Atim Djazuli[3], Nur Khusniyah Indrawati[4]
[1,2,3,4]Management Department, Faculty of Economics and Business, Universitas Brawijaya, Indonesia; rizalnur3682@student.ub.ac.id (R.F.).

Abstract: This study aims to examine the moderating role of Sharia compliance on the relationship between the diversity of the Board of Directors, Board of Commissioners, and Sharia Supervisory Board and Return on Equity (ROE), with Zakat Disclosure as a mediating factor. The research is grounded in agency theory, stakeholder theory, and legitimacy theory, focusing on how board diversity and Sharia compliance influence corporate governance and financial performance, specifically in the context of Islamic banking. The study utilizes a sample of Islamic commercial banks listed with Bank Indonesia. Data from the banks' annual reports and financial statements between 2013 and 2023 are analyzed using a panel data regression model. Multi-Group Analysis (MGA) is employed to test the moderating effects of Sharia compliance on the indirect relationships between board diversity and ROE, mediated by zakat disclosure. The results show that Sharia compliance moderates the relationship between the diversity of the Board of Directors and ROE, with zakat disclosure acting as a mediator. However, Sharia compliance does not moderate the relationship between the diversity of the Board of Commissioners and Sharia Supervisory Board with ROE, as mediated by zakat disclosure. The research provides insights for Islamic banks, highlighting the importance of Sharia compliance and board diversity in enhancing financial performance through zakat disclosure. The findings can inform regulators and practitioners in improving corporate governance practices within Islamic financial institutions. This study contributes to the literature by offering new evidence on the role of Sharia compliance in the governance-performance relationship, particularly the indirect effects through zakat disclosure, and how this dynamic operates within the unique framework of Islamic banking.
Keywords: *Board diversity, MGA, Moderated mediation, Sharia compliance.*

1. Introduction

Indonesia is the country with the largest Muslim population in the world, making it highly promising for the development of the Islamic finance industry. Islamic finance in Indonesia has shown significant growth, with assets increasing from IDR 382.02 trillion in 2012 to IDR 2,375.84 trillion in 2022, as reported by the Financial Services Authority (*Otoritas Jasa Keuangan*, OJK). However, despite this significant growth, Islamic banking holds only a relatively small market share of about 10.69% of the total national banking market. This imbalance can be attributed to various factors, including challenges in the financial performance of Islamic banks, which are characterized by significant fluctuations in Return on Equity (ROE) and unstable asset growth. For example, although ROE reached as high as 24% in 2014, it sharply declined to just 5.85% in 2015 and continued to show instability until 2023. One solution to improving financial performance in companies is to enhance corporate governance, particularly through board functional diversity. Research suggests that functional diversity within boards can improve company management effectiveness, especially in minimizing suboptimal investments and positively influencing financial performance. Moreover, the functional experience diversity of boards significantly contributes to enhancing oversight of corporate investments and improves the board's ability to manage external dependencies, providing more effective challenges to

* Correspondence: rizalnur3682@student.ub.ac.id

executive management assumptions [1,2]. A study in Malaysia also found that the diverse functional backgrounds of board members have a significant positive correlation with a company's financial performance [3]. There remains a significant gap in research specifically focusing on the impact of board diversity on financial performance within Islamic banking. Most studies tend to focus on other aspects of corporate governance in the Islamic banking context, such as the role of the Sharia supervisory board and board structure, rather than on board diversity itself. For instance, a study by [4] in Bahrain showed that board size has a significant impact on ROE but did not specifically address board diversity. Additionally, a study by [5] examining religious diversity within boards emphasized that this type of diversity does not have a significant direct impact on the financial performance of Islamic banks. This suggests that while some research touches on board diversity, there is a lack of empirical exploration focused on the specific impact of diversity, particularly in the context of Islamic banking, warranting further investigation.

In a two-tier governance system, the board of commissioners and the board of directors have distinct roles. The board of commissioners is responsible for oversight and ensuring that policies are implemented as planned (in Indonesia, this is regulated by Financial Services Authority Regulation No.33/POJK.04/2014), while the board of directors oversees the day-to-day operations of the company. This separation allows the board of commissioners to focus on oversight, while the board of directors handles executive decision-making. With these distinct roles, diversity within both the board of commissioners and the board of directors can complement each other, potentially improving company performance. Research exploring the impact of functional diversity in the board of commissioners on *Return on Equity* (ROE) is still limited. Although some studies have been conducted, they primarily focus on specific aspects of diversity, such as gender and religious background. For example, gender diversity on the board of commissioners has been linked to improved financial performance in Islamic banks. Studies in both Indonesia and Malaysia found that gender diversity within the board of commissioners and the Sharia supervisory board is positively associated with better financial performance [6]. Furthermore, research on religious background diversity shows that variation in the religious beliefs of board members does not have a significant impact on the financial performance of Islamic banks, as evidenced by studies in Malaysia [5]. Additionally, the role of board diversity in times of crisis or economic recovery is crucial, as research indicates that diversity can promote Islamic bank performance, although under turbulent conditions, the impact can be reversed [7].

One key difference between Islamic and conventional banks in their operations is the presence of a Sharia Supervisory Board (SSB), which serves as a key governance element in Islamic banks. The SSB plays a vital role as the "highest authority" in Islamic banks [8]. It acts as an additional layer in the governance system, complementing the roles of the board of commissioners, board of directors, and other operational committees. Consequently, the SSB creates a multi-layered governance structure in Islamic banks, different from the single-layer governance structure that typically involves only the board of directors and executive sub-committees in conventional banks [9,10]. However, research specifically addressing how functional diversity within the SSB, such as variations in educational background, Sharia expertise, and industry experience, relates to financial performance, particularly *Return on Equity* (ROE), remains scarce, presenting opportunities for further exploration in this area. Although numerous studies have shown that board diversity positively influences the financial performance of Islamic banks [11–15], there is still a lack of research detailing why or how this positive effect occurs. In other words, few studies focus on the underlying reasons or mechanisms that explain the relationship between board diversity and positive outcomes, indicating the need for more attention to this topic in future research. This study shifts the focus to the role of zakat disclosure in explaining the relationship between board diversity and financial performance (ROE) in Islamic banks in Indonesia.

Zakat, one of the pillars of Islam, is an obligation for financially capable Muslims, intended to help those in need and reduce poverty within the Muslim community [16–18]. Zakat as a corporate social aspect is expected to enhance a company's image, which can serve as a driver for profitability. Generally, investors seek to invest in companies that offer high returns, making profitability information highly relevant. Companies that disclose zakat in their annual reports benefit from better and more stable financial performance [19]. In recent studies, researchers have sought to extend the existing literature by examining the mediating role of zakat disclosure in the relationship between board diversity and corporate financial performance. Stakeholder theory underpins this research, as Islamic banks are obligated to actively fulfill the interests of various stakeholders affected by or involved in their operations, including the community, government, and shareholders. In this context, zakat disclosure can be seen as part of the company's social responsibility to its stakeholders. Zakat disclosure demonstrates the company's commitment to fulfilling its religious and social obligations, which can enhance its image and strengthen its relationship with the broader community.

Additionally, we investigate a moderating variable that influences the indirect relationship between board diversity and ROE, mediated by zakat disclosure. Specifically, we highlight the moderating effect of Sharia compliance, where the function of Sharia compliance serves as an ethical filter that ensures that board activities and decisions align with Sharia values and principles, enhancing the integrity and sustainability of banking businesses. Legitimacy theory is employed as the foundation for analyzing the role of Sharia compliance as a moderator in this study. Legitimacy theory posits that organizations, in this case, Islamic commercial banks, strive to establish and maintain legitimacy within their social environment through various actions and policies that align with societal values, norms, and expectations [20]. In the context of Islamic banking, adherence to Sharia principles is not only a legal and regulatory requirement but also key to maintaining their legitimacy in the eyes of the public. When Islamic banks demonstrate high levels of Sharia compliance, it creates a positive perception among stakeholders that the bank operates in accordance with Islamic principles and values, thereby enhancing the bank's trust and reputation. Therefore, through the lens of legitimacy theory, this study aims to uncover how Sharia compliance moderates the effect of board diversity on the financial performance of Islamic banks, mediated by zakat disclosure, ensuring the bank’s continued legitimacy within society.

In this study, we aim to make a significant contribution to the existing literature by exploring the relationship between board diversity, zakat disclosure, and financial performance, as well as the moderating role of Sharia compliance. Specifically, we investigate how zakat disclosure mediates the influence of board diversity on corporate financial performance, measured by *Return on Equity* (ROE). Zakat disclosure in this context is a company’s social and religious commitment that can enhance reputation and public trust, positively impacting financial performance. This research also introduces Sharia compliance as a moderator in the relationship between board diversity and zakat disclosure. Unlike previous studies that tend not to explicitly include Sharia compliance, we examine whether the level of Sharia compliance can strengthen or weaken the effect of board diversity on zakat disclosure and its impact on ROE. Thus, this study expands understanding of how Sharia compliance plays a crucial role in strengthening the mechanisms linking board diversity and financial performance. Moreover, this research provides meaningful contributions within the context of Islamic banking, particularly in emerging economies like Indonesia. Most prior research has focused on conventional companies in developed countries. Our study emphasizes the importance of considering Islamic elements in analyzing corporate financial performance, particularly through zakat disclosure and how companies can enhance their value through board diversity. With this approach, we hope this research provides new and more holistic insights into the role of zakat disclosure and Sharia compliance in improving the financial performance of Islamic companies, enriching the literature in this field, particularly within the underexplored global Islamic economic environment.

2. Literature Review

2.1. Board Diversity and its Impact on ROE

Research on the influence of board diversity on financial performance, particularly within the context of Islamic banking, reveals significant findings. Diversity in terms of educational background, interlocking directorships, and industry experience on the board is believed to enhance more strategic and effective decision-making. According to social network theory, board diversity allows companies to benefit from broader networks and connections, which can lead to improved access to resources and enhanced capabilities in addressing industry challenges [21]. Studies by Fidanoski et al. [22] and Habtoor [23] have found that educational diversity among board members is positively related to firm performance, particularly in improving *Return on Equity* (ROE). Moreover, research by Hatane et al.

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[24] supports these findings, indicating that diverse industry experience among board members provides broader insights in decision-making, ultimately contributing to financial performance. On the other hand, some studies report conflicting results. For example, Boadi & Osarfo [25] and Hatane et al. [24] found that educational diversity does not always have a positive impact, with some findings showing weak or even negative effects on firm performance.

Diversity on the board of commissioners includes individuals from various backgrounds, such as gender, ethnicity, education, and nationality. Some literature suggests that this diversity influences firm performance, particularly through the enhancement of information exchange and innovation. Diverse knowledge helps companies adapt to market changes and seize new opportunities, which positively impacts financial performance [3]. The relationship between the board of commissioners and firm performance, from a social network theory perspective, involves the influence of board structure and composition on both internal and external connections [26]. Research shows that the diverse expertise and industry experience of the board of commissioners positively contributes to financial performance and company value [27–29]. Boards that include former government officials have been shown to have easier access to third-party funding and improved profitability, especially in developing countries [30–32]. However, some studies indicate that the experience of the board of commissioners does not always significantly contribute to firm performance [33,34]. Other research also reveals that a background in government service does not always have a significant impact [35–38].

The Sharia Supervisory Board (SSB) plays a critical role in ensuring the compliance of Islamic financial institutions with Sharia principles and providing guidance on issues related to Islamic law. On the other hand, social network theory focuses on the relationships and interactions between individuals or organizations within a network and how these relationships influence behavior and outcomes [39]. One of the links between the SSB and social network theory is the SSB's monitoring function. The SSB is responsible for overseeing the activities of Islamic banks and ensuring they comply with Sharia principles. This supervisory function can be seen as a form of social control within the network of Islamic financial institutions. The SSB acts as a key node in the network, connecting various stakeholders such as shareholders, managers, and customers, and ensuring that their interests are protected. Through its monitoring activities, the SSB can detect and address deviations from Sharia principles, thereby maintaining the integrity and trust within the network. Some earlier studies reveal a non-correlational relationship regarding the reputation of the SSB. Khalil & Boulila Taktak [40], reported that the reputation of the SSB, as proxied by the presence of Muftis or scholars, does not have a significant impact on the Z-score. Similarly, Hakimi; Nawaz, and Nomran [4,41,42] argued that the expertise of the SSB in finance and accounting does not significantly influence the performance of Islamic banks. This is because the SSB's supervisory function is limited to oversight, which has not yet maximally impacted the management's policies and performance. Likewise, earlier findings revealed no correlation between the tenure of the SSB and the performance of Islamic banks [43]. Nainggolan [44] study linked the increased risk-taking behavior of Islamic banks to the diminishing effectiveness of supervision and the lack of dynamics among long-tenured SSB members. Based on the research presented above, the following hypotheses are proposed:

H_1A: Board of Directors diversity significantly influences the financial performance (ROE) of Islamic commercial banks in Indonesia.

H_1B: Board of Commissioners diversity significantly influences the financial performance (ROE) of Islamic commercial banks in Indonesia.

H_1C: Sharia Supervisory Board diversity significantly influences the financial performance (ROE) of Islamic commercial banks in Indonesia.

2.2. The Role of Zakat Disclosure as a Mediating Factor

The purpose of zakat disclosure in Islamic banking is to comply with Sharia principles and enhance public trust in the bank. A study by Khan [45] found that board diversity can improve strategic decision-making processes. Additionally, board diversity has been shown to enhance the organization's reputation and strengthen internal processes [46]. Board diversity has also been found to positively affect the dissemination of corporate social responsibility reporting practices [47]. Research by N. A.

Rahman & Jusoh [48] revealed that board diversity can improve zakat distribution performance. Empirical evidence also suggests that zakat disclosure has a significant impact on the financial performance of Islamic banks [19,49,50]. To clarify the role and benefits of zakat disclosure and its influence on board diversity and company financial performance, the following hypotheses are proposed:

H_2A: Zakat disclosure mediates the relationship between Board of Directors diversity and financial performance (ROE) of Islamic banks.

H_2B: Zakat disclosure mediates the relationship between Board of Commissioners diversity and financial performance (ROE) of Islamic banks.

H_3C: Zakat disclosure mediates the relationship between Sharia Supervisory Board diversity and financial performance (ROE) of Islamic banks.

2.3. The Role of Sharia Compliance in Moderating Indirect Relationships

Sharia compliance refers to efforts to align Islamic principles with business practices in Islamic banks, making it a key differentiator from conventional banks. It is crucial for ensuring that all bank operations comply with Sharia principles, which underpin the integrity and credibility of Islamic banks. In addition to systems, employee ethics and morality play a role in realizing this compliance consistently and comprehensively. Empirical studies support the importance of Sharia compliance in Islamic bank performance. Tlemsani et al. (2020) found that Islamic banks in Egypt that were more compliant with Sharia principles outperformed conventional banks. This research suggests that Sharia compliance can positively contribute to banking performance. Moreover, a study by Haniffa & Hudaib (2007) in Malaysia found that Islamic banks that adhered more closely to Sharia principles had higher customer satisfaction levels, which positively impacted customer trust, loyalty, and financial performance.

However, inconsistencies or a lack of Sharia-related disclosures can create opportunities for management to pursue personal interests at the expense of shareholders, as highlighted by Alam et al. (2021). Therefore, maintaining Sharia compliance is essential for upholding the ethical legitimacy and responsibility of Islamic banks to stakeholders (Tabash et al., 2022). In Indonesia, Sharia compliance is regulated by the OJK through Law No. 21 of 2008 on Islamic banking and Government Regulation No. 74 of 2008 on the implementation of Sharia principles in banking activities. The OJK also sets guidelines and standards for Sharia governance, including the role of the Sharia Supervisory Board and Sharia compliance units, to ensure the operational adherence of banks to Sharia principles.

H_3A: Sharia compliance moderates the relationship between Board of Directors diversity and financial performance (ROE) of Islamic commercial banks in Indonesia, mediated by zakat disclosure.

H_3B: Sharia compliance moderates the relationship between Board of Commissioners diversity and financial performance (ROE) of Islamic commercial banks in Indonesia, mediated by zakat disclosure.

H_3C: Sharia compliance moderates the relationship between Sharia Supervisory Board diversity and financial performance (ROE) of Islamic commercial banks in Indonesia, mediated by zakat disclosure.

3. Methodology

3.1. Research Sample

In this study, which focuses on the Islamic banking sector in Indonesia, the selection of an appropriate population and sample is crucial to ensure the validity of the results. The population refers to all Islamic commercial banks that are registered and operate under the supervision of the Financial Services Authority (*Otoritas Jasa Keuangan*, OJK), with a total of 12 Islamic Commercial Banks. Given the limitations in assessing all entities, it is important to select a representative sample. The sample can be drawn based on certain criteria, such as asset size or branch reach, using appropriate sampling methods. The results of the study from the selected sample are expected to reflect the actual conditions and dynamics of the Islamic banking industry in Indonesia. Due to the small population size, the entire population is used as the sample (saturated sampling). All selected companies are included as research samples. Therefore, the sampling technique in this study is called the saturated sampling or census technique, where all members of the population are used as the sample. The total population in this study is 132, derived from available secondary data during the study period (2013-2023). The mergers that occurred in several banks in 2021 resulted in a reduction of the initial population size. Banks that had merged were no longer recorded as separate entities after the merger process, and additional data were not available. As a result, the researcher decided to use the existing population size while maintaining the integrity and consistency of the data in accordance with the predetermined study period.

3.2. Variable Measurement

To meet the research objectives, Return on Equity (ROE) is used as a proxy for firm performance, serving as the dependent variable. Meanwhile, Board of Directors Diversity, Board of Commissioners Diversity, and Sharia Supervisory Board Diversity are used as independent variables. Zakat disclosure serves as a mediating variable, while Sharia Compliance acts as a moderating variable for the indirect relationship.

Table 1.
Variable measurement.

Variable	Acronym	Indicator	Source
Board of directors diversity (X1)	BoD	• Educational background • Industrial experience	[25,28,51–54]. [55–57].
Board of commissioner's diversity (X2)	BOC	• Experience in the islamic finance industry • Government connections	[28,58–60]. [61–63]
Sharia supervisory board diversity (X3)	DPS	• Expertise in Islamic Capital Markets • Tenure	Based on the financial services authority regulation number 5/POJK.04/2021 [3,64,65].
Zakat disclosure (Mediator)	PZ	0 = Bank does not report zakat Payments 1 = Minimal information reporting 2 = Detailed information reporting 3 = Very detailed information reporting	[49]
Sharia compliance (Moderator)	SC	Financial assessment/Screening: • The total interest-based debt compared to total assets should not exceed 45% • The total income from interest and other non-halal sources compared to total business income and other revenues should not exceed 10%	Based on the financial Services authority regulation number 35/POJK.04/2017
Islamic bank financial performance	ROE	RoE = $\frac{Profit\ after\ tax}{Equity}\ x\ 100\%$	[42,66,67]

4. Result and Discussion

4.1. Descriptive Analyst

In Table 2, descriptive statistics reveal that the variables for board diversity (BOD) and board of commissioners (BOC) exhibit moderate variation across companies, with the average diversity for

BOD1 at 0.341 and BOC1 at 0.169. The diversity measures for BOD2 and BOC1 indicate that many companies do not exhibit significant diversity on these indicators, although some outliers are present. The average diversity of the Sharia Supervisory Board (SSB) for SSB1 is relatively high (0.497), while SSB2 demonstrates lower diversity. Zakat disclosure tends to be high, with an average of 2.642, while company profitability, measured by ROE and ROA, shows significant variation, reflecting fluctuations in financial performance.

Table 2.
Descriptive analyst.

Variable	Mean	Median	Min.	Max.	Std. deviation
BOD1	0.341	0.375	0	0.625	0.19
BOD2	0.258	0.333	0	0.5	0.204
BOC1	0.279	0.375	0	0.722	0.24
BOC2	0.235	0.375	0	0.722	0.224
SSB1	0.497	0.5	0	0.667	0.125
SSB2	0.236	0	0	0.5	0.244
ZDI	2.642	3	1	4	0.972
Compliance			0	1	
ROE	4.017	3.5	-27.62	32.87	8.574

4.2. Hypothesis Testing

4.2.1. Direct and Indirect Testing

The hypothesis testing was conducted using t-tests to assess whether the research hypotheses are supported by empirical data. The results of the hypothesis testing are presented in the following table.

Table 3.
Direct and indirect.

Hyph.	Path diagram	Coefficient	P-value
H_1A.	BoD→ ROE	0.248	0.022
H_1B	BoC→ ROE	0.264	0.001
H_1C	DPS→ ROE	-0.200	0.025
H_2A	BoD→ PZ→ROE	-0.015	0.424
H_2B	BoC→ PZ→ROE	-0.007	0.431
H_2C	DPS→ PZ→ROE	0.005	0.433

For the first hypothesis (H1A), the coefficient value of 0.248 and a p-value of 0.022 (p-value < 0.1) indicate that board diversity, proxied by education background and experience in the industrial sector, has a positive and significant effect on ROE. This finding confirms that the educational background and industrial experience of the board are significantly correlated with improved financial performance, aligning with previous studies [22–24,28]. However, this result contradicts some findings that suggest board education and industrial experience have no effect on company performance [25,68]. Therefore, H_1A is supported. The diversity of the board of commissioners, proxied by experience in the Sharia industrial sector and government connections, also shows a significant positive relationship with ROE, with a coefficient of 0.264 and a p-value of 0.001, indicating a significant effect (p-value < 0.1). This finding is consistent with previous studies [27,28,30,32] , which also demonstrate a positive correlation between the diversity of the board of commissioners and financial performance. This study reinforces the idea that functional diversity on the board of commissioners (experience in Sharia industries and government connections) plays a role in increasing ROE, thereby supporting H_1B. The results of testing hypothesis H3 indicate that diversity on the Sharia Supervisory Board (SSB) has a significant negative effect on Return on Equity (ROE). With a coefficient of -0.200 and a p-value of 0.025, the findings suggest that higher diversity in terms of tenure and expertise in the Sharia capital market may reduce company profitability as measured by ROE. The decline in financial performance due to SSB diversity

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can be explained by several factors. First, high diversity can lead to differing opinions, slowing down strategic decision-making and reducing oversight effectiveness. Second, excessive diversity increases governance complexity, requiring more time to reach consensus, especially regarding operations and Sharia compliance. In the dynamic banking industry, this may hinder the bank's ability to respond swiftly to market changes. Hence, H_1C is supported.

The results of testing hypothesis H2A show that zakat disclosure does not mediate the relationship between board diversity and financial performance (ROE). With a coefficient of -0.015 and a p-value of 0.424 ($p > 0.1$), the relationship is not significant. This suggests that while board diversity may have the potential to influence financial performance, zakat disclosure does not serve as a significant channel in bridging this relationship. One possible reason for the failure of zakat disclosure as a mediator is that more fundamental factors within the bank's operations or decision-making processes play a larger role in affecting ROE than transparency related to zakat. Thus, H_2A is **not supported**. Similarly, the results for hypothesis H9 show that zakat disclosure does not mediate the relationship between board of commissioners' diversity and ROE. With a coefficient of -0.007 and a p-value of 0.431 ($p > 0.1$), the relationship is not significant in the full sample. The failure of zakat disclosure as a mediator in this context may be due to the board of commissioners' broader focus on overseeing the overall performance of the bank rather than directly guiding zakat policies. Consequently, although the board of commissioners plays a crucial role in governance, its impact on financial performance through zakat disclosure is not significant. Thus, H_2B is **not supported**. The results for hypothesis H10 show that zakat disclosure does not mediate the relationship between Sharia Supervisory Board diversity and ROE, with a coefficient of 0.005 and a p-value of 0.433 ($p > 0.1$). The failure of zakat disclosure as a mediator here may be due to the fact that while the SSB's role is important in overseeing compliance with Sharia principles, it does not directly affect the bank's profitability. Zakat disclosure tends to be more of a formal compliance issue that does not have a direct impact on financial performance in terms of profitability.

4.3. Moderated Indirect Testing

Hypotheses H_3A, H_3B and H_3C pertain to the moderating role of Sharia compliance. To test these hypotheses, a multigroup analysis was conducted to examine whether there is a difference in the indirect effect between Sharia-compliant and non-compliant groups. The multigroup test results are presented in Table 4.

Table 4.
Comparisons between compliant and non-compliant group.

Hyph.	Path diagram of compliant vs non-compliant groups	Coefficient differences	P-value
H11	Board_Diversity -> Zakat Disclosure -> ROE	0.527	0.03
H12	Board_of_Commissioners_Diversity -> Zakat Disclosure -> ROE	0.260	0.112
H13	Sharia_Supervisory_Board_Diversity -> Zakat_Disclosure -> ROE	0.210	0.152

Based on the results in the table, the following explanations of the hypotheses are provided. The test results show a coefficient difference of 0.527 with a p-value of $0.03 < 0.1$, indicating that the test is significant. Thus, it can be concluded that Sharia compliance plays a role in moderating the relationship between board diversity and ROE, mediated by zakat disclosure. Hence, H_3A is **supported**. Meanwhile, the test of the role of Sharia compliance in moderating the relationship between board of commissioners' diversity and ROE, mediated by zakat disclosure, shows a coefficient difference of 0.260 with a p-value of $0.112 > 0.1$, indicating that the test is not significant. Therefore, it can be concluded that Sharia compliance does not play a moderating role in the relationship between board of commissioners' diversity and ROE, mediated by zakat disclosure. Consequently, H_3B is not supported. Similarly, the test of the role of Sharia compliance in moderating the relationship between SSB diversity and ROE, mediated by zakat disclosure, shows a coefficient difference of 0.260 with a p-value of $0.112 > 0.1$, indicating that the test is not significant. Thus, it can be concluded that Sharia compliance does not moderate the relationship between SSB diversity and ROE, mediated by zakat disclosure. Therefore, H_3C is also not supported.

5. Conclusion

This study aims to assess the impact of Sharia compliance on the indirect relationship between board diversity (board of directors, board of commissioners, and Sharia Supervisory Board) and ROE, mediated by zakat disclosure, in Islamic commercial banks in Indonesia. By utilizing pooled data, information was obtained from the annual reports of Islamic banks listed on the Financial Services Authority (OJK) website for the 2013-2023 period, covering 12 Islamic commercial banks, resulting in 109 years of observation. Board diversity is proxied by the diversity of educational backgrounds and industrial experience, board of commissioners' diversity is proxied by experience in the Sharia industry and government connections, while SSB diversity is proxied by capital market expertise and tenure. The study's findings reveal that Sharia compliance plays a significant role in moderating the relationship between board diversity and financial performance, as measured by Return on Equity (ROE), which is mediated by zakat disclosure. These findings suggest that when companies adhere to Sharia principles, the impact of board diversity on financial performance becomes stronger through the mechanism of zakat disclosure. Sharia compliance appears to enhance the influence of board diversity on strategic decisions related to zakat disclosure, ultimately contributing to improved company performance.

This study offers valuable insights for corporate governance practices in Islamic banks, particularly concerning board diversity, zakat disclosure, and Sharia compliance. Board diversity, whether in terms of directors, commissioners, or the Sharia Supervisory Board, has been shown to positively contribute to financial performance by enhancing decision-making effectiveness and governance. Zakat disclosure serves as a tool to strengthen this relationship, reflecting social responsibility and increasing public trust. Additionally, Sharia compliance moderates this relationship, with more compliant banks exhibiting better financial performance. For regulators, the findings highlight the importance of strengthening regulations on board diversity and zakat disclosure transparency to improve the performance and reputation of Islamic banks. The integration of agency, social network, stakeholder, and legitimacy theories in this study provides a comprehensive perspective on how governance and Sharia values can create sustainability and value for stakeholders.

This study has several limitations that should be acknowledged. First, the data used is unbalanced panel data due to incomplete data and the removal of outliers, which may affect the results and their generalizability. Second, the merger of Islamic banks, such as Bank Syariah Indonesia, caused a disruption in historical data, reducing continuity in longitudinal analysis. Third, the findings may not be generalizable to the entire Islamic banking sector in Indonesia, as this study only covers specific banks with unique characteristics. Fourth, there are limitations in the validity and reliability of some variable indicators, such as board diversity and Sharia compliance, which may influence the study's conclusions. Finally, the impact of zakat disclosure on financial performance (ROE) is not always significant, especially in more Sharia-compliant banks, indicating the presence of other factors not captured in detail.

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