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ISLAMIC CORPORATE GOVERNANCE AND INTELLECTUAL CAPITAL: DRIVERS OR DETRACTORS OF SUSTAINABILITY DISCLOSURE?

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ABSTRACT - This study investigates the relationship between Islamic Corporate Governance (ICG), intellectual capital, and the disclosure of sustainability reports among companies listed on the Indonesia Sharia Stock Index (ISSI). As sustainability reporting becomes increasingly important in promoting transparency and ethical accountability, especially within Islamic economic systems, this research aims to evaluate whether Sharia-based governance and intangible assets influence sustainability disclosure practices. Using a purposive sampling method, data were collected from 69 companies listed on the Jakarta Islamic Index 70 (JII70) as of November 2022. Sustainability reporting was measured using a checklist adapted from the Global Reporting Initiative (GRI), while ICG and intellectual capital were assessed using modified instruments based on Haniffa and Cooke (2005) and the VAIC™ model by Pulic (2000), respectively. The findings reveal that ICG does not significantly affect sustainability report disclosure, while intellectual capital exhibits a significant negative effect. Among control variables, only company size shows a significant positive relationship with sustainability disclosure. These results suggest that the implementation of ICG in Indonesia remains limited and that firms with high intellectual capital may prioritize internal development over transparency. The study contributes to the literature on Islamic business ethics and highlights the need for stronger integration of Sharia values and governance structures in sustainability practices.
Keywords: Islamic Corporate Governance, Intellectual Capital, Sustainability Reporting, Sharia Enterprise Theory, ISSI

ABSTRAK - Islamic Corporate Governance dan Modal Intelektual: Pendorong atau Penghambat Pengungkapan Keberlanjutan? *Penelitian ini mengkaji hubungan antara Islamic Corporate Governance (ICG), modal intelektual, dan pengungkapan laporan keberlanjutan pada perusahaan yang terdaftar dalam Indeks Saham Syariah Indonesia (ISSI). Seiring meningkatnya pentingnya pelaporan keberlanjutan dalam mendorong transparansi dan akuntabilitas etis, khususnya dalam sistem ekonomi Islam, penelitian ini bertujuan untuk mengevaluasi apakah tata kelola berbasis syariah dan aset tidak berwujud memengaruhi praktik pengungkapan keberlanjutan. Dengan menggunakan metode purposive sampling, data dikumpulkan dari 69 perusahaan yang masuk dalam Jakarta Islamic Index 70 (JII70) per November 2022. Pelaporan keberlanjutan diukur menggunakan daftar periksa yang diadaptasi dari Global Reporting Initiative (GRI), sementara ICG dan modal intelektual diukur menggunakan instrumen modifikasi dari Haniffa dan Cooke (2005) serta model VAIC™ dari Pulic (2000). Hasil penelitian menunjukkan bahwa ICG tidak berpengaruh signifikan terhadap pengungkapan laporan keberlanjutan, sedangkan modal intelektual berpengaruh negatif secara signifikan. Di antara variabel kontrol, hanya ukuran perusahaan yang berpengaruh positif secara signifikan terhadap pengungkapan keberlanjutan. Temuan ini mengindikasikan bahwa implementasi ICG di Indonesia masih terbatas dan perusahaan dengan modal intelektual tinggi cenderung lebih fokus pada pengembangan internal daripada transparansi. Studi ini memberikan kontribusi terhadap literatur etika bisnis Islam dan menekankan perlunya integrasi yang lebih kuat antara nilai-nilai syariah dan struktur tata kelola dalam praktik keberlanjutan.*
Kata kunci: *Islamic Corporate Governance, Modal Intelektual, Pelaporan Keberlanjutan, Teori Entitas Syariah, ISSI*

INTRODUCTION

Global warming has triggered significant climate change, adversely impacting various aspects of human life—economic, social, and environmental. This phenomenon has increased public scrutiny of corporate social and environmental responsibility (Gautama So et al., 2023). In response, stakeholders are increasingly demanding transparency in corporate sustainability practices, compelling companies to disclose their environmental and social responsibilities through comprehensive sustainability reporting.

Sustainability reporting involves the systematic disclosure of a company's environmental, social, and economic impacts. Such reports provide critical insights into sustainability initiatives and demonstrate a company's commitment to sustainable operations and environmental stewardship (Gautama So et al., 2021). By disclosing sustainability performance, firms can foster trust and inform stakeholders of their long-term value creation strategies.

In the context of Islamic economics, sustainability reporting is inherently broader and more ethically grounded than in conventional systems. It encompasses moral obligations derived from Sharia principles, emphasizing equilibrium among economic, social, and environmental objectives (Muwazir et al., 2006). This framework prioritizes ethical conduct, social justice, and environmental preservation, integrating religious values into business practices. Accordingly, sustainability disclosures by Islamic entities not only address social and environmental concerns but also include the halal-haram dimensions of transactions and accountability to Allah SWT.

Unlike conventional economics, which often emphasizes short-term profitability, Islamic economics promotes long-term societal welfare, guided by instruments such as zakat and infaq. Consequently, companies operating under Islamic principles are expected to issue holistic sustainability reports that align with Sharia norms, encompassing financial, social, and environmental dimensions (Cendika & Sawarjuwono, 2021). These disclosures function as dual mechanisms of accountability—to both society and the divine—thus reinforcing ethical business conduct.

Islamic entities, therefore, are mandated to operate in accordance with Islamic morals, particularly emphasizing transparency and accountability. These expectations necessitate the implementation of Islamic Corporate Governance (ICG), which integrates Sharia compliance with conventional governance mechanisms (Haron et al., 2022). ICG fosters responsible business practices by ensuring that operations align with Islamic ethical standards and legal frameworks (Farook et al., 2012; Hartono, 2018).

At the core of ICG is the concept of *Tawhid*—the oneness of Allah—implying that all corporate activities are ultimately accountable to both Allah SWT and stakeholders (Hasan, 2009). This theological foundation compels Islamic organizations to embrace governance structures that uphold honesty, justice, and fairness. The principles of ICG closely mirror those of sustainability reporting, both aiming to enhance transparency and inform stakeholder decision-making.

Several empirical studies have explored the link between ICG and sustainability report disclosure. For instance, Nilasakti and Falikhatun (2020) reported a significant positive relationship between specific ICG components—such as board size, audit committees, and slack resources—and sustainability reporting in Islamic commercial banks in Indonesia and Malaysia. Interestingly, the Sharia Supervisory Board exerted a negative influence, while board meeting frequency was found to be non-significant. In contrast, Gautama So et al. (2021) identified a negative relationship between ICG and sustainability disclosure among firms listed on the Indonesia Sharia Stock Index (ISSI), whereas Haron et al. (2022) found no significant correlation in their comparative study of Indonesian and Malaysian Islamic firms.

Beyond ICG, intellectual capital has emerged as a strategic intangible asset that can shape corporate sustainability disclosures. Intellectual capital includes knowledge-based resources such as information, expertise, and intellectual property, which are instrumental in enhancing organizational value (Kannan & Aulbur, 2004). Its effective management has been linked to improved transparency and reporting standards (Cuozzo et al., 2017). Bananuka et al. (2021) argued that limited intellectual capital impairs sustainability disclosure practices due to resource constraints, a view echoed by Selfiani and Usmar (2023).

Despite these insights, existing studies present conflicting findings regarding the relationship between ICG and sustainability reporting. For instance, while Nilasakti and Falikhatun (2020) highlighted positive effects of several ICG elements, Gautama So et al. (2021) and Haron et al. (2022) found no significant or even negative correlations. Meanwhile, research examining the interplay between intellectual capital and sustainability reporting—particularly in

Islamic entities—remains sparse. The combined influence of ICG and intellectual capital in shaping sustainability disclosures in Islamic firms has yet to be thoroughly explored.

This research gap is particularly relevant given the distinctive nature of Islamic finance, where sustainability reporting extends beyond conventional metrics to include spiritual and ethical accountability. As Daud et al. (2023) emphasized in their systematic literature review, studies in accounting that address governance and sustainability reporting—especially within Indonesia—are still limited and yield inconclusive results.

Accordingly, the present study aims to examine the influence of Islamic Corporate Governance and intellectual capital on sustainability report disclosures among firms listed on the Indonesia Sharia Stock Index (ISSI). This research also considers control variables such as profitability, leverage, and firm size to provide a more nuanced understanding of sustainability practices within Islamic corporate settings. By addressing the existing literature gap, this study seeks to offer both theoretical contributions and practical recommendations for enhancing corporate accountability and transparency in alignment with Sharia principles.

LITERATURE REVIEW

Shariah Enterprise Theory

Shariah Enterprise Theory (SET) provides a theological and ethical framework for corporate responsibility in Islamic business contexts. According to Triyuwono (2001), this theory posits that all resources are ultimately owned by Allah SWT, and stakeholders are merely trustees entrusted with their stewardship. The responsibility to manage these resources must align with divine intent and ethical principles. Extending this view, Triyuwono (2003) emphasizes that the distribution of value-added benefits should not be confined solely to those directly involved in the firm's operations, but also extend to external stakeholders and the broader community. This perspective is rooted in the concept of khalifatullah fil ardh—humans as vicegerents of God—charged with promoting universal prosperity for humanity and nature.

Haniffa (2002) supports this notion by highlighting Tawhid—the fundamental Islamic concept of monotheism and submission to Allah—as the cornerstone of all ethical and corporate behavior in Islam. *Tawhid* implies that all human actions, including business activities, must reflect obedience to divine will, accountability before Allah SWT, and recognition of His ultimate ownership of all resources.

Agency Theory

Agency Theory, as introduced by Jensen and Meckling (1976), describes the principal-agent relationship as a contractual arrangement where the principal delegates authority to the agent to make decisions on their behalf. In this relationship, the agent is expected to act in accordance with the objectives of the principal, who retains the right to monitor performance and terminate the relationship if necessary. Transparency and accountability are fundamental, requiring agents to provide performance reports to principals (Sulistyanto, 2018). The theory highlights the importance of aligning interests and mitigating conflicts through governance mechanisms and incentive systems.

Stakeholder Theory

Stakeholder Theory argues that organizations have responsibilities not only to shareholders but to a broader group of stakeholders who are affected by or can affect corporate outcomes. Freeman (1984) posits that stakeholders have a dynamic relationship with organizations, wherein their interests must be considered in corporate decision-making. Sejati and Prastiwi (2015) suggest that sustainability reports serve as a strategic medium to communicate with stakeholders, as they encapsulate a company's social, environmental, and economic performance, thereby strengthening stakeholder relationships and trust.

Sustainability Reporting Disclosure

Sustainability reporting involves the disclosure of a company's economic, environmental, and social performance as part of its commitment to sustainable development and transparency. These disclosures are typically published annually and aim to inform stakeholders of corporate sustainability initiatives. Romero et al. (2019) noted that large firms increasingly issue sustainability reports—voluntarily or in compliance with guidelines—through digital platforms or annual reports. The adoption of the Global Reporting Initiative (GRI) standards has been instrumental in standardizing these reports globally. In Indonesia, the Financial Services Authority (OJK) formalized this practice through Regulation No. 51/POJK.03/2017, which mandates public companies to disclose sustainability reports.

Islamic Corporate Governance (ICG)

Islamic Corporate Governance (ICG) integrates Sharia principles into corporate governance frameworks, emphasizing ethical conduct, transparency, and accountability. Farook et al. (2012) argue that ICG has emerged as a crucial mechanism for ensuring compliance with Islamic business ethics. According to Badruzaman (2020), ICG serves to protect the interests of stakeholders who adhere to Sharia by embedding these values in corporate systems.

ICG not only governs economic transactions but also prescribes moral behavior consistent with Islamic teachings (Abu-Tapanjeh, 2009). Bhatti and Bhatti (2010) define ICG as a holistic system that aligns corporate behavior with ethical and religious norms, thereby advancing social welfare objectives. Key actors in ICG include the Chief Executive Officer (CEO), Board of Directors, and the Sharia Supervisory Board (SSB). These entities jointly influence strategic decisions and ensure operational compliance with Sharia (Lestari et al., 2024; Isbah et al., 2024).

ICG and Sustainability Report Disclosure

SET advocates that firms should pursue not only financial goals but also social and environmental responsibilities consistent with Sharia principles (Triyuwono, 2003). As a Sharia-based governance system, ICG rests on the principle of *Tawhid*, demanding accountability to both Allah SWT and stakeholders (Hasan, 2009; Utami et al., 2024).

Haron et al. (2022) assert that Islamic governance incorporates spiritual and moral dimensions into corporate conduct, seeking to balance profit maximization with societal welfare. According to Nastiti (2023), all corporate activities must be conducted transparently and be accountable to stakeholders. These values compel companies to actively engage with sustainability issues and disclose their initiatives in comprehensive sustainability reports.

Zubaidah and Pratiwi (2024) emphasize that sustainability reports serve as effective channels for communicating governance performance and social outcomes to stakeholders. Consistent with this view, previous studies have established a positive correlation between ICG and sustainability report disclosure (Gautama So et al., 2021; Zubaidah & Pratiwi, 2024). Hence, the first hypothesis is proposed: *"Islamic Corporate Governance (ICG) has a positive effect on sustainability report disclosure"*.

Intellectual Capital and Sustainability Report Disclosure

Within the framework of SET, organizations are expected to ethically manage their resources and integrate social, environmental, and economic considerations into business operations (Triyuwono, 2003). Intellectual capital—comprising intangible assets such as knowledge, expertise, and intellectual property—plays a crucial role in this endeavor. It enables firms to improve transparency and align operations with Sharia principles (Ibrahim & Rosniar, 2024).

Kasma and Aryanty (2024) highlight that effective utilization of intellectual capital enhances corporate sustainability by adding intrinsic value and enabling ethical decision-making. Cuozzo et al. (2017) argue that intellectual capital facilitates higher disclosure standards, particularly in sustainability reporting. Organizations with abundant intellectual capital are better equipped to identify and communicate their societal and environmental impacts.

Yusliza et al. (2020) affirm that intellectual capital significantly influences the quality of sustainability disclosures. This is supported by Alvino et al. (2021), who note that comprehensive sustainability reporting requires adequate resources and intellectual capacity. Conversely, Bananuka et al. (2021) find that companies with limited intellectual capital often produce rudimentary reports due to resource constraints. These findings are echoed by Selfiani and Usmar (2023), who also confirm the positive relationship between intellectual capital and sustainability reporting. In line with these insights, the second hypothesis is proposed: *"Intellectual capital has a positive effect on sustainability report disclosure"*.

METHODOLOGY

Population and Sample

The population for this study comprises companies listed on the Indonesia Sharia Stock Index (ISSI). The sampling method employed is purposive sampling, which allows for the selection of companies that meet specific criteria relevant to the research objectives. The sample includes firms that fulfill the following requirements:

a. Listed on the Jakarta Islamic Index 70 (JII70) as of November 2022. The JII70 comprises 70 stocks of companies that meet Sharia compliance standards, as regulated by the National Sharia Council (DSN) and the Financial Services Authority (OJK). Companies listed on JII70 operate within sectors deemed permissible (halal) under Islamic law and comply with financial and operational criteria aligned with Sharia principles.
b. Publish both annual reports and sustainability reports.
c. Exhibit positive equity, thus excluding firms with negative shareholder equity.

Data Collection

This research utilizes secondary data, specifically annual reports and sustainability reports published by the selected companies. These documents were obtained from the official websites of each respective firm. The documentation method was employed for data collection, wherein relevant data were systematically extracted and compiled for analysis.

Operational Variable

Dependent Variable

The dependent variable is the extent of sustainability report disclosure, measured using the Sustainability Reporting (SR) Checklist developed by Jamil et al. (2021). This checklist includes 48 disclosure items based on the Global Reporting Initiative (GRI) framework, which are categorized into three dimensions: Environmental Performance (EVP), Economic Performance (ECP), and Social Performance (SP). The content analysis method is applied to evaluate the extent of disclosure. Each item is assigned a binary score: a value of 1 if disclosed, and 0 if not. The SRD score for each company is computed as:

$$SRD = \frac{\Sigma(\text{EVP+ECP+SP})}{48} \tag{1}$$

This approach is consistent with the methodology adopted by Gautama So et al. (2021).

Independent Variables

a. Islamic Corporate Governance (ICG)

ICG is measured using a modified version of the instrument developed by Haniffa and Cooke (2005), which evaluates key leadership components within the context of Sharia compliance. The modification includes an additional indicator based on insights from Lestari et al. (2024) and Isbah et al. (2024), emphasizing the role of the Sharia Supervisory Board (SSB) in governance. Table 1 presents the components used to measure ICG.

Table 1. Measurement of Islamic Corporate Governance

No.	**Component**	**Measurement Formula or Scoring Criterion**
1	Percentage of Muslim Board of Directors (BOD)	(Muslim BOD) / (Total BOD)
2	Muslim Independent Non-Executive Directors	(Muslim Independent Directors) / (Total Independent Directors)
3	Presence of Muslim Chairman	Score of 1 if present; 0 otherwise
4	Presence of Muslim CEO	Score of 1 if present; 0 otherwise
5	Presence of Sharia Supervisory Board (SSB)	Score of 1 if present; 0 otherwise

(Source: Adapted from Haniffa and Cooke, 2005)

b. Intellectual Capital (IC)

Intellectual capital is measured using the Value-Added Intellectual Coefficient (VAIC™) model developed by Pulic (2000). This model evaluates how effectively a company utilizes its capital and knowledge-based resources to generate value.

Table 2. Operational Definition of Intellectual Capital Variables

No.	**Component**	**Formula**	**Description**
1	Value Added (VA)	VA = OUT - IN	OUT: Total Revenue; IN: Operating & Non-operating Expenses (excluding salaries)
2	VACA	VA / CE	CE: Capital Employed (Total Equity)
3	VAHU	VA / HC	HC: Human Capital (Employee Expenses)
4	STVA	SC / VA	SC: Structural Capital (VA – HC)
5	VAIC™	VACA + VAHU + STVA	Total value-added intellectual capital

(Source: Pulic, 2000)

The VAIC™ model comprises three components: VACA (Value Added Capital Employed), VAHU (Value Added Human Capital), and STVA (Structural Capital Value Added). The measurement formulas are shown in Table 2.

Control Variables

The following control variables are included to isolate the effects of ICG and intellectual capital on sustainability disclosure:

a. Profitability (ROA): Indicates a firm's efficiency in generating profits from its assets (Sudana, 2009). Measured as:
$$RoA = \frac{Earning\ After\ Tax}{Total\ Assets} x\ 100\% \quad (2)$$

b. Company Size (SIZE): Represents the scale of a company's operations. Following Ho and Taylor (2007), this is measured as:
Size = Ln (Total Assets) (3)

c. Leverage (LEV): Reflects the firm's financial structure. Based on Scott (2009), leverage is calculated as:
$$LEV = \frac{Total\ Liability}{Total\ Equity} \quad (4)$$

Data Analysis Method

The hypothesis testing in this study is conducted using multiple regression analysis to examine the effect of ICG and intellectual capital on sustainability report disclosure, while controlling for profitability, size, and leverage. The regression model is specified as follows:

$$SRD_{i,t} = \beta_0 + \beta_1 ICG_{i,t} + \beta_2 IC_{i,t} + \beta_3 ROA_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \varepsilon \quad (5)$$

Where:

SRD	: Sustainability Report Disclosure
ICG	: Islamic Corporate Governance
IC	: Intellectual Capital (VAIC^{TM})
ROA	: Return On Asset (Profitability)
SIZE	: Company Size (log of total assets)
LEV	: Leverage

β_0 : Constant
$\beta_1 - \beta_5$: Regression coefficient
ε : Error term

RESULTS AND DISCUSSION

Results

Distribution of Research Samples

The population for this study includes all companies listed on the Indonesian Sharia Stock Index (ISSI). The selection of the final sample was based on specific criteria, as detailed in Table 3.

Table 3. Research Sample Selection

No.	Description	Number of Companies
1	ISSI companies listed in the Jakarta Islamic Index 70 (JII70) as of Nov 2022	70
2	Companies that do not publish annual and sustainability reports	(1)
3	Companies with negative equity	(0)
	Final research sample	**69**

(Source: Processed data, 2024)

Based on these criteria, the final sample comprises 69 companies. One company—PT Solusi Sinergi Digital Tbk. (WIFI)—was excluded due to the absence of a published sustainability report for the year 2022.

Descriptive Statistics

Descriptive statistics for the variables used in the study are summarized in Table 4. The table presents the descriptive statistics for the variables included in the study. The average level of sustainability report disclosure (SRD) for the research sample is 30.7246. The observed SRD values ranged from a minimum of 15 points (SGER) to a maximum of 43 points (PTBA). The mean value for the Islamic corporate governance (ICG) variable is 0.8230. Companies such as BTPS and BRIS recorded the highest ICG value at 4. Notably, twenty-seven sample companies exhibited an ICG value of zero, suggesting that in these cases, the majority of directors and commissioners in these Sharia-compliant Indonesian companies may not be Muslim.

Table 4. Descriptive Statistics (N = 69)

Variable	Minimum	Maximum	Mean	Standard Deviation
SRD	15.00	43.00	30.7246	7.59040
ICG	0.00	4.00	0.8230	1.04840
IC	-3.79	52.20	7.9143	8.96434
ROA	-0.05	0.45	0.1044	0.09517
SIZE	13.82	21.69	17.0435	1.50458
LEV	0.05	22.72	1.3014	2.89890

(Source: Processed data, 2024)

Notes: SRD = Sustainability Report Disclosure; ICG = Islamic Corporate Governance; IC = Intellectual Capital; ROA = Return on Assets; SIZE = Company Size; LEV = Leverage

The average value of intellectual capital (IC) within the research sample is 7.9143. The IC values ranged from a low of -3.79 (TPIA) to a high of 52.20 (ADRO). The average values for the control variables are as follows: profitability (ROA) is 0.1044, company size (SIZE) is 17.0435, and leverage (LEV) is 1.3014.

Hypothesis Testing

The classical assumption tests indicate that the regression model satisfies the requirements for normality, multicollinearity, and heteroscedasticity. A Kolmogorov–Smirnov test for normality yields a value of 0.093 with a significance level above 5%. The results of the individual parameter significance test (t-test) are presented in Table 5.

The results of the t-tests indicate that the Islamic corporate governance (ICG) variable does not have a statistically significant impact on sustainability report disclosure (SRD). This is supported by a significance level (p-value) exceeding the conventional threshold of 0.05. Consequently, the null hypothesis (Ho) that ICG has no effect on SRD is accepted, and the alternative hypothesis (Ha) is rejected, suggesting that corporate governance, as measured in this study, does not significantly influence sustainability report disclosure among the sample companies.

In contrast, the test results for the intellectual capital (IC) variable reveal a significant negative effect on SRD, with a p-value of 0.012. This finding is contrary to the expectation of a positive relationship and leads to the rejection of the null hypothesis (Ho) of no effect. While this result does not support the alternative hypothesis (Ha) proposing a positive effect, it indicates that intellectual capital is significantly associated with lower levels of sustainability report disclosure among Sharia-indexed companies in Indonesia.

Table 5. t-Test Results for Individual Parameters

Variable	**Unstandardized Coefficient (B)**	**Standardized Coefficient (Beta)**	**t**	**Sig.**
Constant	-7.548		-0.689	0.493
ICG	0.676	0.093	0.808	0.422
IC	-0.293	-0.346	-2.576	0.012*
ROA	21.286	0.267	1.793	0.078
SIZE	2.238	0.444	3.426	0.001*
LEV	-0.249	-0.095	-0.688	0.494

Source: Processed data (2024)

Model Summary
- Adjusted R^2 = 0.157
- F-value = 3.529
- Significance (p) = 0.007**

Notes: *Significant at α = 5%; Significant at α = 1%

Regarding the control variables, profitability (ROA) and leverage (LEV) were found to have no statistically significant impact on SRD, suggesting that these factors do not significantly influence the disclosure of sustainability reports in this sample. However, company size (SIZE) exhibited a significant positive effect on SRD ($p < 0.05$). This indicates that larger companies within the sample are associated with significantly higher levels of sustainability report disclosure among Sharia-indexed companies in Indonesia. The regression equation derived from the model is as follows:

$$SRD_{i,t} = -7.548 + 0{,}676ICG_{i,t} - 0.293IC_{i,t} + 21.286ROA_{i,t} + 2.238SIZE_{i,t} - 0.249LEV_{i,t} + \varepsilon$$

Discussion

The Effect of Islamic Corporate Governance (ICG) on Sustainability Report Disclosure

The findings of this study reveal that Islamic Corporate Governance (ICG) does not exert a statistically significant influence on sustainability report disclosure. This result diverges from previous studies by Gautama So et al. (2021) and Zubaidah and Pratiwi (2024), which identified a positive relationship between ICG practices and the extent of sustainability disclosures. In contrast, the present findings align with research by Kusumawati et al. (2021) and Haron et al. (2022), which similarly found no significant effect of ICG on disclosure practices.

A possible explanation for this inconsistency lies in the limited application of ICG principles within non-banking Islamic firms in Indonesia. While ICG is conceptually designed to enhance transparency, accountability, and ethical behavior in line with Sharia principles, its implementation in practice appears to be insufficiently developed, particularly in sectors outside Islamic finance. As Haron et al. (2022) observed, many Islamic companies in Indonesia—beyond the banking sector—lack a fully functional Sharia Supervisory Board (SSB), a key institutional mechanism within ICG. Without adequate Sharia oversight, corporate commitment to sustainability principles may not be adequately enforced or integrated into disclosure practices.

This suggests that the theoretical promise of ICG to enhance sustainability transparency has yet to materialize in operational terms. While the presence of Muslim leadership elements (as measured by ICG indicators) might reflect symbolic adherence to Islamic values, the absence of institutionalized Sharia governance may limit their actual impact on sustainability-related disclosures.

The Effect of Intellectual Capital on Sustainability Report Disclosure

The analysis also reveals a negative association between intellectual capital and sustainability report disclosure, indicating that firms with higher intellectual capital tend to disclose less about their sustainability activities. This finding contrasts with those of Bananuka et al. (2021) and Selfiani and Usmar (2023), who reported a significant positive relationship, suggesting that intellectual capital can be a strategic enabler of transparency and accountability in sustainability reporting.

From the perspective of Shariah Enterprise Theory, the effective use of intellectual capital should ideally enhance a company's ability to embed ethical, social, and environmental considerations into its operations and disclosures. However, the negative relationship observed here may reflect a misalignment between firms' strategic priorities and Sharia-based ethical imperatives. Specifically, firms with high intellectual capital may focus on enhancing operational efficiency, product innovation, and internal knowledge development, while underinvesting in sustainability initiatives and disclosures, which are perceived as cost centers rather than value drivers.

These results may also be interpreted through the lens of Agency Theory, where agents (managers) seek to optimize firm performance while minimizing expenditures unrelated to core business objectives. As Kasma and Aryanty (2024) argue, intellectual capital may serve to moderate or even weaken the commitment to sustainability disclosures, particularly when managerial incentives prioritize profitability over social responsibility. CEOs may opt to allocate resources toward competitive capabilities rather than corporate social responsibility (CSR) reporting initiatives.

The tendency of firms to use intellectual capital as a tool for internal development rather than external transparency may also explain why the expected positive effect is not observed in this context. This suggests that intellectual capital, while theoretically a resource for sustainability, must be aligned with normative values and governance structures to effectively promote sustainability disclosure.

The Effect of Control Variables on Sustainability Report Disclosure

Among the control variables examined, company size was found to have a significant positive relationship with sustainability report disclosure. This supports the findings of Branco and Rodrigues (2006) and Ho and Taylor (2007), who noted that larger firms are subject to greater public scrutiny and possess more resources, making them more likely to engage in transparency-enhancing activities. The results are also consistent with prior research by Kusumawati et al. (2021), Jamil et al. (2021), and Haron et al. (2022), which suggest that firm size is a key determinant of sustainability disclosure due to visibility pressures and reporting capacity.

Conversely, profitability was not found to significantly affect sustainability report disclosure. This aligns with the conclusions of Karlina et al. (2019), Marsuking (2020), and Gautama So et al. (2021), indicating that firms' financial performance does not necessarily translate into greater sustainability transparency. As Haris and Negoro (2022) note, the issuance of sustainability reports in Indonesia is largely influenced by regulatory mandates—specifically OJK Regulation No. 51/POJK.03/2017—rather than discretionary profit-based decisions. This suggests that regulatory compliance, rather than financial capacity, is the primary driver of sustainability disclosures in the Indonesian context.

Similarly, leverage was not found to significantly influence sustainability reporting practices. This result is consistent with prior findings by Islamiati and Suryandari (2020), Haris and Negoro (2022), and Susilawati et al. (2022), who argue that a firm's debt structure does not necessarily impact management's disclosure behavior in relation to sustainability. The lack of significant influence from creditors in shaping corporate disclosure strategies may reflect the fact that sustainability reporting is more strongly influenced by shareholder and regulatory expectations than by creditor demands.

CONCLUSION

This study investigated the effect of Islamic Corporate Governance (ICG) and intellectual capital on the disclosure of sustainability reports among companies listed on the Indonesia Sharia Stock Index (ISSI). The results show that ICG does not have a significant influence on sustainability report disclosure, indicating that the presence of Sharia-aligned leadership and governance structures alone may not ensure greater transparency. Conversely, intellectual capital was found to have a significant negative effect on sustainability disclosure, suggesting that companies with high intellectual capital may prioritize internal efficiencies over external reporting. Among the control variables, only company size exhibited a significant positive effect, while profitability and leverage showed no meaningful relationship with sustainability disclosure.

The findings contribute to the growing discourse on sustainability in Islamic finance and corporate governance. They imply that the practical implementation of ICG in Indonesian firms—particularly outside the Islamic banking sector—may be underdeveloped and not yet fully integrated into reporting practices. Furthermore, the strategic utilization of intellectual capital does not necessarily support sustainability transparency unless it is aligned with ethical values and long-term stakeholder accountability. These insights emphasize the need for stronger institutional support, regulatory reinforcement, and the internalization of Shariah Enterprise Theory in shaping corporate behavior toward sustainability.

This study is subject to several limitations. The sample is restricted to companies listed on the JII70 index, which may not fully represent all Sharia-compliant firms in Indonesia. Additionally, the measurement of ICG and intellectual capital may not capture the full complexity of their application across different industries. Future research is encouraged to expand the scope to include longitudinal data, incorporate qualitative assessments of governance practices, and explore the moderating role of Sharia supervisory effectiveness or managerial orientation in the relationship between ICG, intellectual capital, and sustainability disclosure.

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