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Reputation is not enough: Revisiting performance in Southeast Asian Islamic banking

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Abstract

Islamic banks combine commercial intermediation with a religiously grounded social mandate, most visibly the administration of ***zakat***, and this mandate is often expected to earn a reputation that later shows up in financial performance. This study puts that expectation to the test. Partial least squares structural equation modeling is applied to a balanced panel of 14 Islamic banks from Indonesia, Malaysia, and Brunei Darussalam (112 bank-year observations, 2017–2024) to examine whether financial intermediation and the ***zakat***-based social function are related to financial performance directly and through reputation, and whether Islamic corporate governance (ICG) moderates these links. Reputation is proxied by deposit market share. The social function is positively associated with both reputation and financial performance, whereas financing-to-deposit intensity is negatively associated with reputation. Reputation itself has no significant association with performance and mediates none of the hypothesized paths. ICG shows no direct association with performance; its interaction with intermediation is positive and significant, although the intermediation–performance slope is not significant at low or high ICG considered separately. Because the model predicts financial performance poorly out of sample, the estimates are interpreted as associations rather than causal effects. The social mandate therefore appears to matter financially through a direct channel rather than through deposit-based reputation, with governance acting mainly as a conditioning factor. For bank managers, the results support treating ***zakat*** activity as part of core strategy, not only as a source of reputation.

Keywords: Islamic banks, zakat, reputation, Islamic corporate governance, financial performance

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Introduction

Islamic banks carry a mandate that conventional banks do not: alongside commercial intermediation, they take on social obligations such as collecting and distributing ***zakat*** (Kasri, 2021; Alsaadi, 2021). The legal and institutional basis of these obligations differs across Indonesia, Malaysia, and Brunei (Meidina et al., 2025; Salim et al., 2025; Yusuf et al., 2018). The usual expectation is that obligations met credibly, under sound Islamic Corporate Governance (ICG), reinforce stakeholder trust, reputation, and financial performance (Satiawan et al., 2026). This study tests whether that expectation holds: do the social and governance commitments of Islamic banks translate into reputational and financial returns? Southeast Asia is a useful setting for the question, because Islamic banking in the region is well established, yet in several markets Islamic banks remain small relative to conventional banks (Lebdaoui & Wild, 2016).

Where Islamic banks are the smaller players, credible ***zakat*** practice and governance disclosure may help them appear authentic and build a reputation, and through that reputation support deposit growth and profitability (Wilson, 2009; Mahmod et al., 2024; Azmi et al., 2025). A social mandate can, however, keep an institution legitimate without producing any measurable financial gain (Andrikopoulos et al., 2014). The three countries also institutionalize the mandate differently. Indonesia has BAZNAS operating next to licensed ***zakat*** institutions (LAZ), some of them affiliated with banks (Bayinah et al., 2021; Hosen et al., 2022); Malaysia relies on state ***zakat*** authorities (Mahmod et al., 2024); and Brunei's arrangement is more centralized and closely tied to the state (Yusuf et al., 2018).

These institutional differences may shape how stakeholders view banks, and they complicate comparison across countries (Abojeib et al., 2025). Convergence in Shariah governance standards adds a further difficulty: as disclosure becomes more uniform, any financial effect of governance may become harder to detect (Abdullah et al., 2015). Much of the earlier work examines the ***zakat***–performance link with single-equation regressions (Sidik & Reskino, 2016) and treats reputation as an outcome of ***zakat*** or social disclosure rather than as a channel through which these activities reach financial performance (Muhajirin et al., 2025; Rizwanti et al., 2023).

Where reputation has been tested as a mediator, the study covers a single country and finds no significant mediating effect (Kholqi & Septiarini, 2021). Multi-country Southeast Asian studies estimate the direct effects of ***zakat***, social disclosure, and governance on profitability but omit reputation from the model (Dewi & Wardana, 2024; Nasution & Haryono, 2023).Work on Shariah governance has developed largely on its own track, and its profitability findings depend on how well governance is implemented, how strong oversight is, and how national regulation is designed (Wahyuni & Wafiroh, 2023).

Studies grounded in legitimacy and stakeholder theory take a different view of ***zakat***: its main return is reputational, through stronger legitimacy and stakeholder trust

(Sawmar & Mohammed, 2021), while any financial return is indirect and slow to appear (Robbana et al., 2024). Intermediation raises an ambiguity of its own. The financing-to-deposit ratio (FDR) measures how intensively a bank intermediates, yet a high FDR may equally point to liquidity pressure (Diyani & Oktapriana, 2020; Van den End, 2016).

Three gaps follow from this review. Reputation is seldom modeled as the pathway that links intermediation, ***zakat***, and governance to financial performance. ICG, when measured with disclosure-based indices, is rarely tested as a moderator of these links. And few cross-country studies account for differences in how ***zakat*** and Shariah governance are regulated. The present study responds with a single model that tests whether reputation mediates the relationship between the dual mandate of Islamic banks and their financial performance, and whether ICG moderates that relationship.

Intermediation is measured by FDR; the social function by ***zakat*** collected and distributed; reputation by the bank's market share of third-party funds; financial performance by ROA and ROE; and ICG by a Corporate Governance Disclosure Index (CGDI) built from annual reports. Treating deposit market share as a reputation proxy assumes that the way depositors allocate their funds reveals how far they trust a bank. Diyani and Oktapriana (2020) measure the reputation of Indonesian Islamic banks in a similar way, using a market measure based on third-party funds. Because the proxy captures what depositors do rather than what they think, it has a limitation, which is discussed under Limitations and Future Research.

The model draws mainly on legitimacy and signaling theories, with stakeholder theory, the resource-based view (RBV), and agency theory in supporting roles. In legitimacy terms, ***zakat*** performance and credible Shariah governance show that a bank meets societal and religious expectations, and meeting them earns the bank stakeholder acceptance and access to resources (Gnes & Vermeulen, 2018; Suchman, 1995; Haniffa & Hudaib, 2007; Meskovic et al., 2024).Stakeholder theory narrows the focus to the specific groups whose expectations the bank must meet, namely depositors, regulators, Shariah boards, and ***zakat*** beneficiaries (Freeman, 1984; Noordin & Alhabshi, 2023).

Seen this way, ***zakat*** disclosure supports both stakeholder trust and institutional legitimacy (Abojeib et al., 2025). Signaling theory addresses information asymmetry: observable financial indicators and governance disclosures convey bank attributes that outsiders cannot observe directly, although how such signals are read may vary with context (Connelly et al., 2025; Reynoso, 2025; Connelly et al., 2011).

The RBV treats reputation as a valuable, hard-to-imitate intangible resource that may underpin superior performance (Fombrun & van Riel, 1997; Smith et al., 2013), and agency theory explains how ICG mechanisms, including Shariah supervisory boards, can reduce conflicts of interest and strengthen oversight (Jan et al., 2025). Together, these perspectives motivate the hypothesized links among intermediation, the social function, reputation, and financial performance, and the direct and moderating roles assigned

to ICG. FDR shows how much of a bank's third-party funds is channeled into financing (Bouhider, 2021).

Financing usually carries longer maturities, whereas deposits can be withdrawn at short notice, so the ratio reflects intermediation efficiency and liquidity risk at once (Boussaada et al., 2022). Up to a prudent level, a higher FDR may support reputation and profitability; past that level, it may signal thinner liquidity buffers and greater refinancing risk (Badarin et al., 2024; Wijayanti & Suprayitno, 2025). If depositors take perceived liquidity into account when deciding where to place their funds, FDR would also bear on a bank's share of national Islamic banking deposits, which is the reputation proxy used here.

Prior findings point in different directions. Diyani and Oktapriana (2020) report a negative association between FDR and the reputation of Indonesian Islamic banks, while Widarjono (2018) and Yustianita and Purwanto (2018) find positive but insignificant associations between FDR and ROA. A related literature stresses liquidity and credit risk as factors in Islamic bank stability and identifies liquidity dynamics specific to the Islamic banking model (Hassan et al., 2019; Beck et al., 2013; Čihák & Hesse, 2008). Given these mixed results, H1 and H2 are stated without a predicted direction:

H1: Financial intermediation (FDR) affects the reputation of Islamic banks in Southeast Asia.

H2: Financial intermediation (FDR) affects the financial performance of Islamic banks in Southeast Asia.

Zakat is one of the features that distinguish Islamic banks, because it writes social obligations into their operations. Here the social function is captured by the natural logarithms of ***zakat*** collected and ***zakat*** distributed, taken from the banks' statements of sources and uses of ***zakat*** funds (Table 2); the indicators are thus reported financial amounts rather than survey-based perceptions. Well-managed ***zakat*** can signal social responsibility and Shariah commitment, which may strengthen depositor trust, draw deposits, and support profitability (Platonova et al., 2018; Sidik & Reskino, 2016).

Prior studies link Islamic social disclosure to religious and governance pressures (Farook et al., 2011) and to financial performance (Mallin et al., 2014; Platonova et al., 2018), but their results do not converge. ***Zakat*** is associated with stronger reputation or better financial performance in some studies (Muhajirin et al., 2025; Sidik & Reskino, 2016; Dewi & Wardana, 2024), its reputational effects are inconsistent in others (Rizwanti et al., 2023; Kholqi & Septiarini, 2021), and one study reports a negative association between ***zakat*** disclosure and financial performance among Southeast Asian Islamic banks (Nasution & Haryono, 2023). This leads to the following hypotheses:

H3: The social function of Islamic banks affects their reputation in Southeast Asia.

H4: The social function of Islamic banks affects their financial performance in Southeast Asia.

Islamic Corporate Governance (ICG) joins the general principles of transparency, accountability, responsibility, independence, and fairness to the economic and religious obligations of the bank (Grassa & Matoussi, 2014; Muneeza & Hassan, 2014). From an agency perspective, effective ICG may improve performance by limiting conflicts of interest, moral hazard, and gaps in oversight. Shariah compliance also brings monitoring problems that are specific to Islamic banks (Mallin et al., 2014; Mollah et al., 2017). Shariah supervision has been found to interact with conventional board oversight (Mollah & Zaman, 2015), and governance arrangements shape risk-taking, returns, and financial performance (Farag et al., 2018; Nomran et al., 2018). The evidence thus suggests possible gains in profitability and efficiency, but these gains depend on how governance is implemented, how effective the board is, bank size, and the regulatory setting. Hence:

H5: Islamic Corporate Governance affects the financial performance of Islamic banks in Southeast Asia.

Reputation is an intangible asset reflecting how an Islamic bank is perceived in terms of credibility, service quality, performance, and Shariah compliance (Azrak et al., 2016). In this study it is proxied by the bank's share of third-party funds in its national Islamic banking market, which reflects the trust depositors reveal through their choices. Within the RBV, reputation can support profitability by fostering customer loyalty and confidence and by easing deposit mobilization (Roberts & Dowling, 2002; Deephouse, 2000). Empirical studies of Islamic banks suggest that bank reputation is positively associated with financial performance, although the relationship may vary with risk exposure and other institutional or market conditions (Jawadi et al., 2016). Accordingly:

H6: Reputation affects the financial performance of Islamic banks in Southeast Asia.

ICG may also condition how effectively banks turn intermediation and social activities into financial results (Jan et al., 2025). Agency theory suggests that sound governance tightens oversight, while stakeholder theory highlights the role of ***zakat*** disclosure in meeting stakeholder expectations and reinforcing legitimacy. Both lines of reasoning imply that ICG may strengthen the links from intermediation and social activities to financial performance (Firdaus et al., 2024). The Shariah supervisory board, in particular, helps keep ***zakat*** management Shariah-compliant (Zakiy et al., 2025), and governance disclosure can make ***zakat*** administration more transparent and accountable (Wahyuni & Wafiroh, 2023). The moderating hypotheses are:

H7: ICG moderates the relationship between financial intermediation and the financial performance of Islamic banks in Southeast Asia.

H8: ICG moderates the relationship between the social function and the financial performance of Islamic banks in Southeast Asia.

The study contributes in three ways. It models reputation, proxied by deposit market share, as a possible pathway between financial performance and both intermediation

and the ***zakat***-based social function. It evaluates ICG, measured through a disclosure index, as a direct determinant of performance and as a moderator of the intermediation–performance and social function–performance relationships. And it estimates this integrated framework on a hand-collected panel of Islamic banks from Indonesia, Malaysia, and Brunei, three countries whose ***zakat*** and Shariah governance arrangements differ, thereby extending the mostly single-country, direct-effect designs of prior research.

Method

Research Design

The design is explanatory and quantitative, and the model is estimated with variance-based partial least squares structural equation modeling (PLS-SEM). PLS-SEM suits the study for four reasons: the model combines composite constructs with moderation terms; the financial ratios are not normally distributed; the sample is small relative to the number of parameters; and the aim is to test theory while assessing prediction, not to reproduce a covariance matrix (Hair et al., 2022; Kock & Hadaya, 2018). All estimations were run in SmartPLS 4.

Population and Sample

The population comprises domestic Islamic commercial banks in Indonesia, Malaysia, and Brunei Darussalam. Banks were selected purposively: each had to operate continuously from 2017 to 2024 and disclose all study variables completely and consistently in its annual reports. Fourteen banks met these criteria (five Indonesian, eight Malaysian, and one Bruneian), giving a balanced panel of 112 bank-year observations (Table 1). Data were hand-collected from audited annual reports and ***zakat*** fund statements published under the supervision of OJK, Bank Negara Malaysia, and the Brunei Darussalam Central Bank. Sample adequacy was checked with the inverse square root method of Kock and Hadaya (2018). At 80% power and a 5% significance level, the method sets the minimum sample size at $(2.486/|\beta|)^2$. With 112 observations, the smallest path coefficient that can be detected reliably is about 0.23 in absolute value, so the sample can pick up moderate or large effects but may miss smaller ones.

Because the observations are repeated measures from the same 14 banks, they may not be fully independent, and the effective sample size is correspondingly lower. Non-significant results are read with both constraints in mind.

Table 1. Sample Composition

Country	Banks	Sampled institutions
Indonesia	5	Bank Aceh Syariah; Bank Muamalat Indonesia; Bank Victoria Syariah; Bank Mega Syariah; BCA Syariah

Country	Banks	Sampled institutions
Malaysia	8	Affin Islamic; AmBank Islamic; Bank Islam Malaysia; Bank Muamalat Malaysia; Hong Leong Islamic; Maybank Islamic; RHB Islamic; MBSB Bank
Brunei Darussalam	1	Bank Islam Brunei Darussalam (BIBD)

Note: 14 banks × 8 years (2017–2024) = 112 bank-year observations.

Variables and Measurement

The operational definitions of the research variables are summarized in Table 2 below. The variable measuring financial intermediation is Financing to Deposit Ratio (FDR). The social role of Islamic banks is measured by two variables, the natural logarithm of zakat collection (PZ_LN) and the natural logarithm of zakat distribution (DZ_LN). Zakat collection reflects the mobilization of funds while zakat distribution represents the distribution of funds. Since both measures are reported in MYR and BND, they have to be translated into IDR in the relevant observation years using the annual exchange rate. The source of the exchange rate used and its rate convention must be specified explicitly. Reputation is defined as TPF of a particular bank as a proportion of total TPF of all Islamic banks in a particular country and year, multiplied by 100 (Diyani & Oktapriana, 2020).

The financial performance of the bank is evaluated using two metrics which are ROA (return on asset) and ROE (return on equity). ICG is determined using Corporate Governance Disclosure Index (CGDI). CGDI is developed using content analysis of the corporate governance section in the annual reports of banks. The CGDI is made up of 63 binary coded items under six components. The components include board of directors (15 items), risk management (13 items), transparency (9 items), audit committee (8 items), Shariah supervisory board (10 items), and investment account holders (8 items). Bank size (measured as natural log of total assets), capital adequacy ratio (CAR), and GDP per capita using PPP are used as controls.

Table 2. Construct Measurement

Construct	Indicator(s)	Measurement
Financial intermediation	FDR	Total financing ÷ total third-party funds × 100 (%)
Social function	PZ_LN; DZ_LN	Natural logarithm of zakat funds collected; natural logarithm of zakat funds distributed (amounts in rupiah), from the statement of sources and uses of zakat funds
Reputation	DPK market share	Bank third-party funds ÷ total Islamic banking third-party funds in the same country and year × 100 (%) (Diyani & Oktapriana, 2020)
Financial performance	ROA; ROE	Net income ÷ total assets × 100; net income ÷ total equity × 100 (%)

Construct	Indicator(s)	Measurement
Islamic Corporate Governance	CGDI	Disclosed governance items ÷ total index items × 100 (%), from content analysis of annual reports
Controls	Bank size; CAR; GDP per capita	Ln total assets; capital adequacy ratio (%); natural logarithm of GDP per capita, PPP

Note: DPK = dana pihak ketiga (third-party funds); CGDI = Corporate Governance Disclosure Index; PPP = purchasing power parity.

Research Model

Figure 1 combines the eight hypotheses in one structural model. Intermediation and the social function are exogenous, and each has paths to reputation (H1, H3) and to financial performance (H2, H4). The path from reputation to financial performance (H6) completes the indirect route through which intermediation and the social function may relate to performance. ICG enters both as a direct predictor (H5) and as a moderator of the two mandate–performance paths (H7, H8). Bank size, CAR, and GDP per capita serve as controls for both reputation and financial performance. The model also includes an ICG × reputation interaction; this term is exploratory, lies outside the hypotheses, and is reported only for completeness.

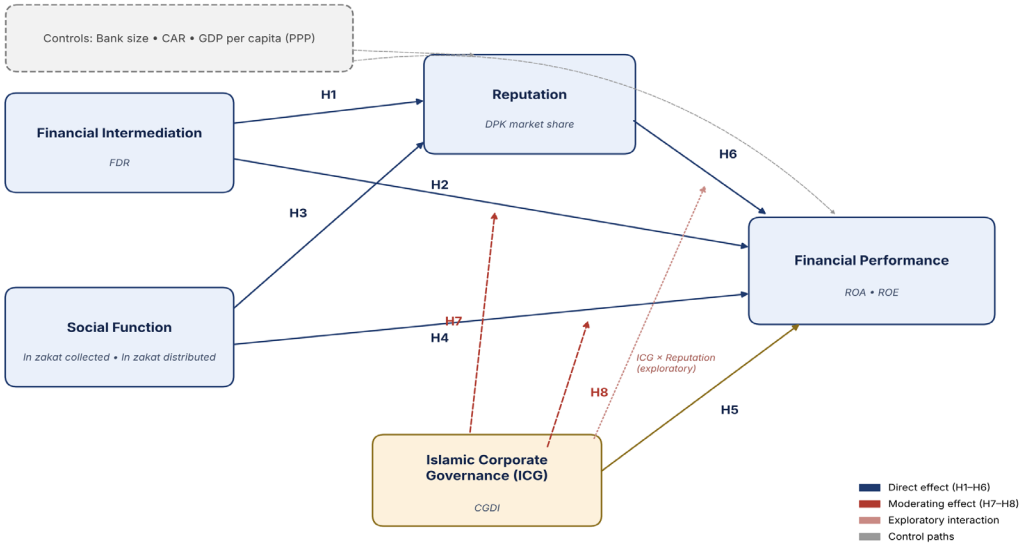


Figure 1. Research Model: Direct Effects (H1–H6), Moderating Effects (H7–H8), and Control Paths

Model Evaluation and Estimation Strategy

Model evaluation followed a two-stage procedure (Hair et al., 2022). In the measurement stage, single-indicator constructs (FDR, reputation, CGDI, and the controls) have loadings fixed at one. Their reliability and validity therefore cannot be tested

statistically and rest instead on how well each ratio or index corresponds to the concept it represents. For the two multi-indicator constructs, outer loadings, outer weights, and their bootstrap significance were examined. Following Hair et al. (2021), an indicator was retained when its outer loading was significant and at least 0.50, even if its weight was not significant. Since the indicators of these composites are not interchangeable, internal consistency reliability and average variance extracted are not applied as criteria; the evaluation relies on indicator loadings, weights, and collinearity. At the structural stage, path significance was tested with 5,000 bootstrap resamples and two-tailed tests at the 5% level ($t \geq 1.96$; $p < 0.05$), and 95% percentile bootstrap confidence intervals are reported for the hypothesized paths. Mediation through reputation was examined with bootstrapped specific indirect effects. Moderation was examined with the interaction terms of ICG with intermediation and with the social function, supplemented by simple slope analysis at the mean of ICG and at one standard deviation above and below the mean (Memon et al., 2019). Out-of-sample predictive power was evaluated with PLSpredict (10 folds, 10 repetitions) (Chin et al., 2020; Shmueli et al., 2016, 2019) and with the cross-validated predictive ability test (CVPAT) (Liengaard et al., 2021). Because PLS-SEM treats every bank-year as an independent observation, the bootstrap does not account for the clustering of observations within banks, and significant results are interpreted cautiously for that reason.

Results and Discussion

Results

Descriptive Statistics

Table 3 reports descriptive statistics for the 112 observations. Profitability varies considerably (mean ROA 1.58%; mean ROE 9.82%), and so does financing intensity (mean FDR 84.64%). Governance disclosure, by contrast, is fairly uniform (mean CGDI 75.71%; SD 4.60). Deposit market share is right-skewed (mean 11.01%; median 4.86%), and its maximum of above 81% may reflect differences in the structure of national markets. ***Zakat*** amounts vary widely across banks and years. ***Zakat*** collected averages IDR 20,855.91 million (median IDR 10,656.02 million), and ***zakat*** distributed averages IDR 20,660.96 million (median IDR 10,467.93 million). This strong right skew justifies the logarithmic transformation. After transformation, the two indicators have similar distributions (mean PZ_LN 22.43; mean DZ_LN 22.38), and the median within-bank-year difference between DZ_LN and PZ_LN is close to zero (−0.0002), which suggests that banks generally distribute roughly as much ***zakat*** as they collect.

Table 3. Descriptive Statistics (n = 112)

Variable	Mean	Median	Min.	Max.	Std. dev.
ROA (%)	1.58	1.00	0.02	13.33	1.89
ROE (%)	9.82	9.91	−0.09	28.48	6.27
FDR (%)	84.64	83.78	35.50	134.90	21.11
Zakat collected (IDR million)	20,855.91	10,656.02	9.50	185,321.21	29,673.00
PZ_LN (ln zakat collected)	22.43	23.09	16.07	25.95	2.37
Zakat distributed (IDR million)	20,660.96	10,467.93	10.55	185,321.21	29,979.88
DZ_LN (ln zakat distributed)	22.38	23.07	16.17	25.95	2.38
ICG / CGDI (%)	75.71	76.19	47.62	84.13	4.60
Reputation (DPK share, %)	11.01	4.86	0.14	81.39	18.75
Bank size (ln assets)	32.03	32.47	28.14	34.66	1.62
CAR (%)	22.38	18.90	12.34	149.68	14.57
GDP per capita, PPP (ln)	10.10	10.30	9.37	11.29	0.53

Source: Authors' compilation from annual reports and zakat fund statements, 2017–2024. Statistics for the model variables are taken from the SmartPLS 4 descriptives of the estimation dataset; zakat amounts before the logarithmic transformation are computed from the same dataset. Standard deviations use n as the denominator, as in SmartPLS.

Measurement Model

Table 4 presents the outer loadings and outer weights for the multi-indicator constructs. Both ***zakat*** indicators have high and significant loadings on the social function (DZ_LN: 0.966; PZ_LN: 0.993; both $p < 0.001$), indicating that the composite strongly reflects both collection and distribution. Their outer weights, by contrast, are not significant (DZ_LN: −0.872, $p = 0.422$; PZ_LN: 1.856, $p = 0.079$), and the signs and sizes of these weights point to suppression arising from the very high correlation between the two indicators.

As both loadings are significant and above 0.50, both indicators are retained (Hair et al., 2021), and the social function is read as the shared scale of ***zakat*** activity rather than as the separate contribution of either indicator. The correlation between DZ_LN and PZ_LN in the estimation data is 0.99, equivalent to an indicator VIF of 51.8. This degree of collinearity is severe, so the individual weights should not be interpreted; a negative weight on an indicator with a high positive loading is a typical sign of such collinearity.

For financial performance, ROE shows a high, significant loading (0.983; $p < 0.001$) and a significant weight (0.899; $p < 0.001$). ROA shows a lower yet significant loading (0.572; $p < 0.001$) and a non-significant weight (0.203; $p = 0.421$); it is kept because its loading is above 0.50, although the composite is driven mainly by ROE. By definition, single-indicator constructs have loadings and weights of 1.000.

Table 4. Outer Loadings and Outer Weights of Multi-Indicator Constructs

Indicator → construct	Outer loading	t (loading)	p (loading)	Outer weight	p (weight)
DZ_LN → Social function	0.966	22.228	< 0.001	−0.872	0.422
PZ_LN → Social function	0.993	39.226	< 0.001	1.856	0.079
ROA → Financial performance	0.572	3.382	< 0.001	0.203	0.421
ROE → Financial performance	0.983	8.894	< 0.001	0.899	< 0.001

Note: 5,000 bootstrap resamples; two-tailed p-values. Single-indicator constructs have loadings and weights of 1.000.

Predictive Power

Table 5 presents the out-of-sample predictive assessment from PLSpredict and the CVPAT. The model predicts reputation well. Its Q²predict is 0.734 at the construct level and 0.714 at the indicator level, and its PLS prediction error is much smaller than that of the naive indicator-average benchmark (RMSE 10.108 against 18.903), though not smaller than that of a linear regression benchmark (RMSE 10.062). Financial performance is a different case: Q²predict is negative at the construct level (−1.229) as well as for ROA (−0.445) and ROE (−1.268), and the PLS prediction errors are larger than those of both benchmarks.

The CVPAT results are consistent with this pattern. Against the indicator-average benchmark, the model yields a significantly lower prediction loss for reputation (loss difference −255.156; t = 2.560; p = 0.012), but not for financial performance (p = 0.511) or for the model overall (p = 0.063). Against the linear regression benchmark, no loss difference reaches significance (financial performance p = 0.456; reputation p = 0.880; overall p = 0.438). Hence, the model has predictive value for reputation but not for financial performance, and the structural results for performance should be understood as in-sample associations.

Table 5. Predictive Power (PLSpredict and CVPAT)

Endogenous construct / indicator	Q²predict	PLS RMSE	PLS MAE	LM RMSE	LM MAE	IA RMSE	IA MAE
Financial performance (construct)	−1.229	–	–	–	–	–	–
ROA	−0.445	2.289	1.230	1.917	1.186	1.904	1.083
ROE	−1.268	9.529	4.789	5.784	4.156	6.328	4.818
Reputation (construct)	0.734	–	–	–	–	–	–
Reputation (indicator)	0.714	10.108	8.532	10.062	8.486	18.903	11.304

Panel A. PLSpredict. Q²predict, RMSE, and MAE; LM = linear regression benchmark; IA = indicator-average benchmark.

Panel B. Cross-validated predictive ability test (CVPAT)

Construct / benchmark	PLS loss	Benchmark loss	Loss difference	t-value	p-value
Financial performance vs. IA	48.024	21.834	26.189	0.660	0.511
Reputation vs. IA	102.172	357.328	−255.156	2.560	0.012
Overall vs. IA	66.073	133.666	−67.592	1.879	0.063
Financial performance vs. LM	48.024	18.564	29.459	0.748	0.456
Reputation vs. LM	102.172	101.248	0.925	0.151	0.880
Overall vs. LM	66.073	46.125	19.948	0.778	0.438

Note: Loss difference = PLS loss − benchmark loss; a negative value indicates that PLS-SEM has a lower prediction error than the benchmark.

Hypothesis Tests

Table 6 presents the structural estimates for the eight hypotheses, obtained from 5,000 bootstrap resamples. Four of the hypotheses receive support.

Table 6. Structural Model Results: Direct and Moderating Effects

H	Path	β	t-stat.	p-value	95% CI	Decision
H1	Intermediation (FDR) → Reputation	−0.463	12.214	< 0.001	[−0.539; −0.396]	Supported (negative)
H2	Intermediation (FDR) → Financial performance	0.019	0.092	0.927	[−0.391; 0.431]	Not supported
H3	Social function → Reputation	0.225	2.755	0.006	[0.080; 0.402]	Supported
H4	Social function → Financial performance	0.657	3.161	0.002	[0.192; 1.013]	Supported
H5	ICG → Financial performance	0.030	0.146	0.884	[−0.476; 0.350]	Not supported
H6	Reputation → Financial performance	0.072	0.202	0.840	[−0.729; 0.647]	Not supported
H7	ICG × FDR → Financial performance	0.280	2.124	0.034	[0.008; 0.533]	Supported
H8	ICG × Social function → Financial performance	−0.272	1.186	0.236	[−0.691; 0.209]	Not supported
–	ICG × Reputation → Financial performance (exploratory)	0.245	0.603	0.546	[−1.004; 0.558]	Not supported

Note: 5,000 bootstrap resamples; two-tailed tests. β = path coefficient; 95% CI = percentile bootstrap confidence interval.

The strongest hypothesized relationship in the model is the negative and significant association between intermediation and reputation (H1: β = −0.463, t = 12.214, p < 0.001); its direction runs counter to the expectation that effective intermediation enhances a bank's standing. The social function shows positive and significant associations with reputation (H3: β = 0.225, t = 2.755, p = 0.006) and with financial performance (H4: β =

0.657, t = 3.161, p = 0.002). No significant association with financial performance is found for intermediation (H2: β = 0.019, p = 0.927), ICG (H5: β = 0.030, p = 0.884), or reputation (H6: β = 0.072, p = 0.840). The interaction between ICG and intermediation is positive and significant (H7: β = 0.280, t = 2.124, p = 0.034), while the interaction between ICG and the social function is negative and non-significant (H8: β = −0.272, t = 1.186, p = 0.236).

Nor is the exploratory interaction between ICG and reputation significant (β = 0.245, t = 0.603, p = 0.546). The 95% confidence intervals in Table 6 indicate how precise these estimates are. For H2, H5, and H6, the intervals are wide and centered close to zero, while for H8 the interval extends from −0.691 to 0.209. In light of the minimum detectable effect of roughly 0.23 reported in the Method section, the non-significant H8 coefficient in particular is better viewed as an imprecise estimate than as evidence that the effect is zero. Table 7 reports the conditional effects of intermediation and the social function on performance across levels of ICG. The intermediation–performance association is negative when ICG is low (−1 SD: β = −0.260, p = 0.267) and positive when ICG is high (+1 SD: β = 0.299, p = 0.241). Neither conditional slope is significant by itself; what is significant, as the H7 interaction shows, is the change in slope.

The conditional association of the social function with performance is strongest at low ICG (−1 SD: β = 0.929, p = 0.013), stays significant at the mean (β = 0.657, p = 0.002), and becomes weaker and non-significant at high ICG (+1 SD: β = 0.385, p = 0.093). Since the H8 interaction is not itself significant, this pattern is purely descriptive. The exploratory conditional association between reputation and performance is non-significant at every ICG level (Table 7).

Table 7. Conditional Effects on Financial Performance at Different Levels of ICG

Path	ICG level	B	t-stat.	p-value
Intermediation (FDR) → Financial performance	−1 SD	−0.260	1.110	0.267
	Mean	0.019	0.092	0.927
	+1 SD	0.299	1.174	0.241
Social function → Financial performance	−1 SD	0.929	2.494	0.013
	Mean	0.657	3.161	0.002
	+1 SD	0.385	1.678	0.093
Reputation → Financial performance (exploratory)	−1 SD	−0.173	0.448	0.654
	Mean	0.072	0.202	0.840
	+1 SD	0.317	0.482	0.630

Note: Simple slopes at the mean of ICG and one standard deviation (SD) above and below it; 5,000 bootstrap resamples.

Table 8 presents the indirect effects through reputation, none of which is significant. The indirect effect of intermediation on performance via reputation is −0.033 (p = 0.841), and that of the social function is 0.016 (p = 0.851). As a result, the total effect of the social function on performance (β = 0.673, t = 3.370, p < 0.001) is made up almost entirely of its

direct effect, while the total effect of intermediation on performance stays non-significant (β = −0.014, p = 0.931). At all three ICG levels, the conditional indirect effects through reputation are likewise non-significant (all p > 0.6). Reputation thus mediates none of the relationships in the model.

Table 8. Indirect Effects Through Reputation and Total Effects on Financial Performance

Indirect path	Indirect β	t-stat.	p-value	Total effect β	Total effect p
Intermediation (FDR) → Reputation → Financial performance	−0.033	0.201	0.841	−0.014	0.931
Social function → Reputation → Financial performance	0.016	0.187	0.851	0.673	< 0.001
Bank size → Reputation → Financial performance	−0.030	0.208	0.836	0.042	0.834
CAR → Reputation → Financial performance	0.002	0.089	0.929	−0.017	0.864
GDP per capita → Reputation → Financial performance	0.062	0.204	0.839	−0.087	0.729

Note: Specific indirect effects equal total indirect effects because reputation is the only mediator; 5,000 bootstrap resamples.

Control Variables

The control paths are reported in Table 9. Bank size has a negative and significant association with reputation (β = −0.415, t = 3.851, p < 0.001) but no significant association with performance (β = 0.071, p = 0.757). GDP per capita is strongly and positively associated with reputation (β = 0.859, t = 11.055, p < 0.001), yet not with performance (β = −0.149, p = 0.660). CAR is not significantly associated with either reputation (β = 0.035, p = 0.525) or performance (β = −0.020, p = 0.835).

Table 9. Control Variable Estimates

Path	β	t-stat.	p-value	Significance
Bank size → Reputation	−0.415	3.851	< 0.001	Significant
Bank size → Financial performance	0.071	0.309	0.757	n.s.
CAR → Reputation	0.035	0.636	0.525	n.s.
CAR → Financial performance	−0.020	0.208	0.835	n.s.
GDP per capita → Reputation	0.859	11.055	< 0.001	Significant
GDP per capita → Financial performance	−0.149	0.440	0.660	n.s.

Note: n.s. = not significant at the 5% level; 5,000 bootstrap resamples.

Discussion

Intermediation as a Liquidity-Risk Signal

That FDR is negatively associated with reputation calls into question the assumption that more financing activity is necessarily a sign of bank strength. From a signaling perspective, depositors may read a high FDR as evidence both of active intermediation and of greater liquidity risk (Connelly et al., 2011; Spence, 1973). This reading is in line with earlier studies (Abdul-Rahman et al., 2018; Diyani & Oktapriana, 2020) and with the reputation perspective of Fombrun and van Riel (1997). The signaling mechanism, however, was not tested directly. In addition, because FDR and deposit market share both contain deposits, part of the negative association may be mechanical. The H1 estimate should therefore be read as an association, not as evidence of a signaling effect. A lagged FDR, or a reputation measure that does not depend on deposits, would allow future studies to distinguish the signaling explanation from the mechanical one.

The Zakat-Based Social Function: A Direct Rather Than Reputational Route to Performance

The ***zakat***-based social function is positively associated with both deposit share (H3: β = 0.225) and financial performance (H4: β = 0.657). These associations are consistent with legitimacy theory (Deegan, 2002; Suchman, 1995), stakeholder theory (Freeman, 1984), and earlier empirical studies (Mallin et al., 2014; Platonova et al., 2018; Dewi & Wardana, 2024; Sidik & Reskino, 2016). The path through reputation, however, is negligible: the indirect effect is 0.016 (p = 0.851), so the total effect of the social function (β = 0.673) consists almost entirely of its direct component. In other words, reputation as measured here does not carry the link between ***zakat*** activity and financial performance. Lagged ***zakat*** measures or ***zakat*** ratios would help future studies examine this relationship further.

ICG as a Conditioning Factor

ICG has no significant direct association with financial performance (H5), but it moderates the intermediation–performance relationship (H7). Neither conditional slope is significant on its own, so the interaction does not demonstrate a significant effect at any specific level of ICG; what it shows is that the slope changes as ICG rises. The absence of a direct effect may partly stem from the limited variation in governance disclosure (SD = 4.60), a pattern that fits the distinction between formal compliance and actual performance (Fernandez-Giordano et al., 2022). Because the H8 interaction is not significant, the data give no evidence that ICG strengthens the link between the social function and performance. The possibility that ***zakat*** activity and governance disclosure serve as substitute signals of Shariah commitment remains exploratory.

Reputation and the Role of the Control Variables

Reputation is not significantly associated with financial performance (H6) and mediates none of the relationships examined. The resource-based expectation that reputation generates economic rents (Roberts & Dowling, 2002) is therefore not supported, although effects that emerge over a longer horizon cannot be ruled out. Deposit market share may also capture market position more than a reputation that pays off financially. GDP per capita is the strongest correlate of reputation (β = 0.859), but this association may arise from cross-country differences in market structure, notably the combination in Brunei of high GDP per capita and a single dominant Islamic bank. The negative association between bank size and reputation (β = −0.415) also requires caution, because bank size is highly correlated with ***zakat*** collection (r = 0.81) and ***zakat*** distribution (r = 0.82). Within-country as well as cross-country analyses are needed to clarify these relationships.

Implications for the Theoretical Framework

Overall, the results give partial support to legitimacy and stakeholder theories. ***Zakat*** activity is associated with deposit share and with profitability, but reputation does not mediate its relationship with performance. From a signaling standpoint, intensive intermediation may be associated with weaker depositor support, and its relationship with performance varies with governance. The RBV expectation that reputation yields financial returns is not supported, whereas agency theory directs attention to governance as a moderator of performance rather than a direct driver of it.

Conclusion

This study investigated how the commercial intermediation and ***zakat***-based social function of Islamic banks relate to financial performance, both directly and through reputation, and whether ICG moderates these relationships. PLS-SEM estimates on a balanced panel of banks from Indonesia, Malaysia, and Brunei Darussalam show that ***zakat*** activity is positively associated with reputation and performance, while FDR is negatively associated with reputation. Reputation is neither significantly related to performance nor a mediator of the relationships examined. ICG is not directly associated with performance but moderates the relationship between intermediation and performance. In view of the model's limited out-of-sample predictive ability and the modest sample, these findings should be read as associations rather than causal effects.

Implication

Theoretical Implications

The central theoretical implication is that the financial relevance of the social function of Islamic banks does not have to pass through reputation. The results are partly in line with legitimacy and stakeholder theories and give little support to the view of reputation as a rent-generating resource. They also suggest that intermediation may signal vulnerability to depositors and that governance conditions how intermediation relates to performance. Methodologically, testing mediation explicitly makes it possible to separate the direct association between ***zakat*** activity and performance from any path running through reputation.

Managerial and Policy Implications

For bank managers, the results point to three practical steps: integrating ***zakat*** activity into core strategy, communicating liquidity management more clearly when FDR is high, and reinforcing governance in banks that intermediate intensively. Regulators, including OJK, Bank Negara Malaysia, and the Brunei Darussalam Central Bank, could make ***zakat*** and governance information more credible and comparable by requiring harmonized and substantive disclosure. Since the model does not include country-specific effects, these implications describe regional tendencies and should be validated with national data before they are used to inform policy.

Recommendation

Limitations and Future Research

The study has several limitations. Deposit market share, the reputation measure, may not capture how depositors perceive banks and is not fully comparable across countries. The two ***zakat*** indicators are highly correlated with each other and with bank size, and CGDI measures governance disclosure rather than governance substance. The model has limited out-of-sample predictive ability for financial performance, omits country fixed effects and financing quality, and relies on 14 banks observed over 2017–2024, a period that includes the pandemic. Future research should test whether the results hold under alternative reputation measures, without Brunei, without extreme CAR values, and with additional controls. It should also use lagged or ratio-based ***zakat*** measures, dynamic panel methods, and wider samples that include Islamic banking windows and other ASEAN markets.

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