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Determination of Net Profit Growth of Islamic Digital Banks in Indonesia: The Role of Bank Popularity, Portion of Independent Commissioners, and Environmental, Social, and Governance (ESG) Disclosure

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ABSTRACT

Islamic digital banks in Indonesia have grown rapidly since 2020, driven by accelerated digitalization, the COVID-19 pandemic, and supportive regulations. However, this growth has not always been matched by net profit growth. Bank Aladin Syariah, a representative Islamic digital bank in Indonesia, recorded sharp fluctuations in net profit during 2020–2024. While many previous studies have examined net profit growth from a financial perspective, this study examines the role of non-financial aspects, namely reputational assets (bank popularity), governance assets (the portion of independent commissioners), and Environmental, Social, and Governance (ESG) disclosure. The study uses multiple linear regression on 60 monthly observations of Bank Aladin Syariah for 2020–2024, estimated in EViews 12. Robustness was checked by re-estimating the model with third-party funds and financing as control variables, which yielded consistent results. Bank popularity and the portion of independent commissioners have significant positive effects on net profit growth, whereas ESG has no significant effect. Jointly, the three variables significantly explain net profit growth, accounting for about 30% of its variance.

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Introduction

Islamic banking in Indonesia has traditionally relied on physical branches for direct customer interactions, such as account opening and face-to-face consultations (Asrah et al., 2023; Windasari et al., 2022). This operational model results in higher operating costs because of the physical infrastructure and human resources required at each branch (Asrah et al., 2023). In

contrast, full-digital banks, also known as digital-only banks, virtual banks, or internet-only banks, operate entirely digitally without physical branches (Pavithra & Geetha, 2021). All banking activities, from account opening and transactions to customer service, are conducted through mobile applications, websites, or other digital platforms (Pavithra & Geetha, 2021), and the head office serves administrative and regulatory purposes rather than direct customer service. Without physical branches, full-digital banks use technology for all business processes and offer 24/7 accessibility without geographical limitations, so that overhead costs and human resource needs can be significantly reduced, making these banks more competitive (Asrah et al., 2023).

Islamic digital banks have grown rapidly since 2020 (Desky & Maulina, 2022). This growth was driven by accelerated digitalization, the COVID-19 pandemic, and supportive regulations (Buwono et al., 2022). It is reflected in the continued increase in mobile banking transactions in Indonesia, particularly from 2019 to 2021, in line with the need for remote transactions during the pandemic (Buwono et al., 2022; Saffana et al., 2023). Bank Indonesia data recorded a 62.82% year-on-year increase in digital banking transactions to IDR 4,314.3 trillion in January 2022; QRIS transactions also surged 290% year-on-year, and transaction volume increased 326% year-on-year (Nathania et al., 2023). Digital transactions and the number of digital bank customers in Indonesia continue to increase, driven by technological innovation, the pandemic, and changes in consumer behavior toward more practical and efficient financial services (Arif & Sulaiman, 2023; Nathania et al., 2023). However, this rapid growth is not always accompanied by a steady increase in profitability. Therefore, this study examines Islamic digital banks with a full-digital banking concept to analyze the underlying challenges (Apriyani, 2020; Paltrinieri et al., 2021).

The growth of Islamic digital banks in Indonesia from 2020 to 2024 was marked by rapid growth in customers and digital transactions, but this did not always correspond to net profit growth (Yunita, 2021). Among these banks, Bank Aladin Syariah stands out as a pure Islamic digital bank and the pioneer of Islamic digital banking in Indonesia (Husada & Yunus, 2024). Nevertheless, its net profit fluctuated sharply during 2020–2024. After recording a profit of IDR 44.9 billion in 2020, the bank's performance declined sharply, resulting in losses of IDR 121.3 billion in 2021 and IDR 264.9 billion in 2022, before improving gradually with losses decreasing to IDR 226.7 billion in 2023 and IDR 73.7 billion in 2024 (PT Bank Aladin Syariah Tbk, 2021–2025). This condition indicates that, despite increasing digital penetration and a growing customer base, the profitability of Islamic digital banks remains under pressure from high digitalization costs, technology development, and the suboptimal monetization of digital services (Anzar et al., 2024).

Research Gap and Novelty

Other studies show that net profit growth is influenced by financial factors. Adawiya (2020) found that the net profit of Islamic banks is significantly influenced by the operating expense ratio (BOPO) and third-party funds (DPK), using panel data regression on Bank Muamalat Indonesia, Bank Syariah Mandiri, Bank Syariah Mega Indonesia, and Bank BRISyariah for 2009–2012. Hasanah et al. (2024) found that the net profit of Islamic commercial banks in 2018–2023 was influenced by profit-sharing income and fee-based income. Putri and Yunita (2024) showed that net profit growth in Islamic banks is influenced by good corporate governance, return on assets, and the capital adequacy ratio.

To date, no study has been found that integrates bank popularity, the portion of independent commissioners, and ESG practices into a single model to explain the net profit growth of Is-

lamic digital banks in Indonesia, particularly in the post-pandemic period (2020–2024). This study addresses this gap by using a time series approach on Bank Aladin Syariah as a representative of pure Islamic digital banks in Indonesia. In interpreting the findings, the study also draws on institutional (legitimacy) theory as an overarching lens that links reputation, governance, and sustainability to organizational performance (Scott, 2008; Suchman, 1995).

Literature Review and Hypotheses Development

In the context of Islamic digital banks, popularity plays a crucial role in increasing brand awareness and customer engagement (Febriandika et al., 2023). Jefri et al. (2024) revealed that Islamic branding and social media marketing increase interest in saving in Islamic digital banks, with social media marketing strengthening the branding effect on customer interest. Hati et al. (2022) also showed that brand familiarity and brand trust increase customers' investment intentions, although profit-sharing rates also play a significant role. A bank's online popularity, measured through search volume, has also been shown to increase deposits in Indonesian banks (Saputro et al., 2024). However, the literature also shows that social media engagement (entertainment, personalization, eWOM) that increases customer–brand engagement does not automatically affect profitability (Garzaro et al., 2020; Onuorah et al., 2022; Ria & Lesmana, 2022). This creates a research gap regarding whether popularity directly contributes to the net profit growth of Islamic digital banks. It is therefore important to examine whether popularity not only increases brand awareness but can also influence net profit growth through increased customer engagement, a link that has not been fully proven empirically (Shukhratovna, 2025). The selection of the bank popularity variable is based on branding and customer engagement theory, in which popularity through social media and Islamic branding increases brand awareness and customer loyalty, which in turn drives transactions and revenue (Hati et al., 2022; Jefri et al., 2024). In the digital era, popularity plays a major role in driving customer and transaction growth, making it important to reveal its impact on company profits (Nathania et al., 2023).

H1: Bank popularity has a positive effect on the net profit growth of Islamic digital banks.

Net profit growth is also assessed from the proportion of independent commissioners. Based on agency theory (Jensen & Meckling, 1976), independent commissioners oversee management to ensure efficiency and freedom from conflicts of interest. Theoretically, therefore, a larger proportion of independent commissioners strengthens corporate governance and improves profit performance (I. Agustin & Filianti, 2021). However, empirical evidence shows a gap between theory and practice. In Islamic banks, the proportion of independent commissioners is unable to significantly control earnings management practices (I. Agustin & Filianti, 2021). Furthermore, in digital banks, the effectiveness of traditional supervision is questionable because technology-based business models require different expertise and oversight mechanisms (I. Agustin & Filianti, 2021; Ningsih & Hajar, 2021; Rahmiati & Agustin, 2022). While the proportion of independent commissioners is theoretically important for governance and profitability, empirical evidence in Indonesian banking, including Islamic and digital banks, shows that its direct impact on profit is not yet significant. Independent commissioners can support profits through improved risk management and decision-making, particularly in digital banks that are exposed to rapid technological innovation (Ningsih & Hajar, 2021; Rahmiati & Agustin, 2022).

H2: The portion of independent commissioners has a positive effect on the net profit growth of Islamic digital banks.

In addition to these two factors, Environmental, Social, and Governance (ESG) practices may also influence net profit growth. Several studies have shown that environmental and governance factors can increase profits and stakeholder trust, especially when supported by a strong governance structure (Muneer et al., 2025). ESG disclosure in Islamic banks can strengthen reputation and transparency, potentially increasing investor confidence and long-term performance (F. Agustin et al., 2023; Meng et al., 2023; Shalhoob, 2025). However, empirical findings are contradictory. A panel data study in developing countries found that overall ESG implementation decreased the profitability of Islamic banks; only the environmental pillar increased profits, while the social and governance pillars were insignificant (Fakhrunnas et al., 2025). This gap between what ESG should achieve and the results observed in developing countries calls for further study in the context of Islamic digital banks in Indonesia. In the era of sustainability, ESG practices are an increasing concern for stakeholders and can affect a bank's reputation and long-term performance (Aydoğmuş et al., 2022). The selection of ESG variables is based on stakeholder theory (Freeman, 2010), which holds that environmental, social, and governance practices build stakeholder trust and enhance long-term reputation through sustainable investment and risk reduction (F. Agustin et al., 2023; Muneer et al., 2025). ESG helps Islamic digital banks attract ethically conscious investors and customers, although in developing countries such as Indonesia its implementation needs to be adapted (Meng et al., 2023; Shalhoob, 2025).

H3: ESG has a positive effect on the net profit growth of Islamic digital banks.

Previous studies tend to examine popularity, the proportion of independent commissioners, and ESG separately. Supporting studies show that popularity through Islamic branding and social media can increase savings interest and loyalty, which contributes to profits (Hati et al., 2022; Jefri et al., 2024); that independent commissioners strengthen governance and profitability in Islamic banks (I. Agustin & Filianti, 2021); and that ESG disclosure improves reputation and long-term performance (F. Agustin et al., 2023; Meng et al., 2023). Conversely, other studies find that popularity does not automatically affect profitability because it captures only engagement (Garzaro et al., 2020; Onuorah et al., 2022); that the portion of independent commissioners is insignificant in digital banks with technology-based business models (Ningsih & Hajar, 2021; Rahmiati & Agustin, 2022); and that ESG as a whole can reduce profitability in developing countries, with only the environmental pillar having a positive effect (Fakhrunnas et al., 2025). Because reputational, governance, and sustainability factors may operate together, this study also tests their joint effect.

H4: Bank popularity, the portion of independent commissioners, and ESG simultaneously affect the net profit growth of Islamic digital banks.

Method

Research Design

This study uses a quantitative approach, which focuses on measuring variables and testing causal relationships through previously formulated hypotheses (Mohajan, 2020). The approach is explanatory because it explains the direct effects of bank popularity, the portion of independent commissioners, and ESG on net profit growth, with third-party funds (TPF) and financing as control variables reflecting the bank's internal liquidity conditions (Imbeau et al., 2021).

Population, Sample, and Data Sources

The population comprises all Islamic digital banks operating in Indonesia between 2020 and 2024 (Hossan et al., 2023). Digital banking operations are regulated by OJK Regulation No. 12/POJK.03/2021 concerning Commercial Banks, which sets out the definition and requirements of digital banks, and OJK Regulation No. 21 of 2023 concerning Digital Services by Commercial Banks. The sample is one bank, Bank Aladin Syariah, observed monthly from January 2020 to December 2024 (60 observations) (Casteel & Bridier, 2021).

The study uses secondary data collected through documentation (Permatasari et al., 2025). Data were obtained from official documents, namely monthly financial statements, annual reports, sustainability reports, and governance reports available on Bank Aladin Syariah's official website (https://aladinbank.id/). Regulatory information was obtained from the OJK website (https://www.ojk.go.id/), and bank popularity data were obtained from Google Trends (https://trends.google.com/trends/), following the use of search volume as a proxy for bank popularity by Saputro et al. (2024).

Data Analysis

The data were analyzed with multiple linear regression on time series data in EViews 12 (Kim et al., 2024; Hussain & Khattak, 2024). The analysis proceeded from descriptive statistics to classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation), followed by the estimation of two models: a main model without control variables (Model 1) and a robustness model with control variables (Model 2). Hypotheses were tested with the t test (partial), the F test (simultaneous), and the coefficient of determination. The two models are:

$$\begin{aligned}\text{Model 1: } NPG_t &= \beta_0 + \beta_1 BP_t + \beta_2 PIC_t + \beta_3 ESG_t + \varepsilon_t \\ \text{Model 2: } NPG_t &= \beta_0 + \beta_1 BP_t + \beta_2 PIC_t + \beta_3 ESG_t \\ &\quad + \beta_4 TPF_t + \beta_5 FIN_t + \varepsilon_t\end{aligned}$$

where NPG is net profit growth, BP is bank popularity, PIC is the portion of independent commissioners, ESG is Environmental, Social, and Governance, TPF is third-party funds, and FIN is financing.

Results

Descriptive Statistics

Table 1 presents the descriptive statistics of the 60 monthly observations.

Table 1. Descriptive Statistics ($n = 60$)

Variable	Mean	Median	Maximum	Minimum	Std. dev.
Net profit growth (NPG)	0.143	0.139	1.334	−0.340	0.290
Bank popularity (BP)	22.10	24.00	63.00	0.00	14.36
Independent commissioners (PIC)	0.062	0.057	0.261	0.026	0.034
ESG	0.0273	0.0265	0.0367	0.0135	0.0076
Third-party funds (TPF), IDR million	4,657,393	4,535,023	9,556,465	60,690	2,919,618
Financing (FIN), IDR million	3,209,455	2,476,646	9,513,316	348,946	2,221,264

The standard deviation of net profit growth (0.290) is about twice its mean (0.143), indicating

that net profit growth varied widely during the study period. The highest monthly net profit growth occurred in February 2023 (1.334) and the lowest in May 2021 (-0.340). The relatively low average growth suggests that the bank had not yet generated net profit optimally because it recorded losses in the early phase of its digital operations; digital profits tend to increase only when the bank's size and digital transaction volume grow (Yunita, 2021).

Bank popularity ranged from 0 in early 2020, before Bank Aladin Syariah was officially launched as a digital bank in 2021, to 63 in early 2021, with a mean of 22.10 and a standard deviation of 14.36. The portion of independent commissioners ranged from 0.026 to 0.261 (mean 0.062, standard deviation 0.034). ESG ranged from 0.0135 to 0.0367 (mean 0.0273, standard deviation 0.0076). The control variables, third-party funds and financing, also vary considerably over the period; for both, the mean exceeds the standard deviation.

Classical Assumption Tests

Classical assumption tests are a prerequisite for hypothesis testing to ensure that the ordinary least squares estimator is the best linear unbiased estimator (BLUE) (Alita et al., 2021; Mardiatmoko, 2024). Table 2 summarizes the results for both models.

Table 2. Classical Assumption Test Results

Test	Statistic	Model 1		Model 2	
		Value	Prob.	Value	Prob.
Normality (Jarque–Bera)	JB	124.078	0.000	103.863	0.000
Heteroscedasticity (ARCH)	F	0.098	0.755	0.059	0.808
	Obs*R^2	0.102	0.750	0.061	0.804
Autocorrelation (Breusch–Godfrey LM)	F	2.664	0.079	1.240	0.298
	Obs*R^2	5.389	0.068	2.731	0.255

Normality. The Jarque–Bera probability is 0.000 in both models, below 0.05; therefore, the residuals are not normally distributed. Non-normal residuals do not bias the ordinary least squares coefficients, which remain unbiased and consistent under the other assumptions. With 60 observations, inference relies on the asymptotic normality of the estimator (Gujarati & Porter, 2010; Wooldridge, 2018), but the large Jarque–Bera statistics indicate the presence of extreme observations, so the t and F statistics should be interpreted with caution.

Multicollinearity. Multicollinearity occurs when independent variables are highly correlated with each other, which can cause unstable coefficient estimates and inflated standard errors (Shrestha, 2020). A variance inflation factor (VIF) above 10 indicates a serious problem (Salmerón-Gómez et al., 2025). All VIF values are below 2 (Table 3); therefore, neither model suffers from multicollinearity.

Table 3. Variance Inflation Factors

Variable	Model 1	Model 2
Bank popularity	1.480	1.555
Portion of independent commissioners	1.073	1.110
ESG	1.553	1.664
Third-party funds	–	1.234
Financing	–	1.187

Heteroscedasticity. The heteroscedasticity test checks whether the residual variance is constant (Daryanto, 2020). This study uses the ARCH test, in which a Chi-square probability above 0.05 indicates no heteroscedasticity (Sahir, 2022). The probabilities are 0.750 for Model 1 and 0.804 for Model 2; therefore, there are no symptoms of heteroscedasticity.

Autocorrelation. The autocorrelation test detects correlation between residuals across periods, which is a particular concern in time series data (Uyanto, 2020). Using the Breusch–Godfrey LM test, a Chi-square probability above 0.05 indicates no autocorrelation (Sahir, 2022). The probabilities are 0.068 for Model 1 and 0.255 for Model 2; therefore, there are no symptoms of autocorrelation at the 5% level, although the result for Model 1 is close to the threshold.

Regression Results and Hypothesis Testing

Table 4 reports the estimates of both models.

Table 4. Multiple Linear Regression Results (Dependent Variable: Net Profit Growth)

	Model 1 (main)				Model 2 (with controls)			
Variable	Coef.	Std. err.	t	Prob.	Coef.	Std. err.	t	Prob.
Constant	-0.404	0.150	-2.692	0.009	-0.228	0.167	-1.368	0.177
BP	0.0087	0.0027	3.260	0.002	0.0084	0.0027	3.126	0.003
PIC	2.129	0.952	2.236	0.029	2.208	0.944	2.338	0.023
ESG	8.139	5.209	1.562	0.124	6.574	5.260	1.250	0.217
TPF					-1.86×10^{-8}	1.17×10^{-8}	-1.587	0.118
FIN					-1.36×10^{-8}	1.51×10^{-8}	-0.899	0.373
R^2		0.338				0.393		
Adjusted R^2		0.303				0.336		
F (Prob.)		9.530 (0.000)				6.979 (0.000)		
Observations		60				60		

The estimated equations are:

$$\widehat{NPG}_t = -0.404 + 0.0087\,BP_t + 2.129\,PIC_t + 8.139\,ESG_t \quad \text{(Model 1)}$$

$$\widehat{NPG}_t = -0.228 + 0.0084\,BP_t + 2.208\,PIC_t + 6.574\,ESG_t - 1.86 \times 10^{-8}\,TPF_t - 1.36 \times 10^{-8}\,FIN_t \quad \text{(Model 2)}$$

The constant represents the predicted net profit growth when all explanatory variables equal zero. Because this condition is practically impossible, the constant is treated as a mathematical component of the model and is not interpreted substantively.

Bank popularity (H1). In Model 1, bank popularity has a positive and significant effect on net profit growth ($\beta = 0.0087$, $t = 3.260$, $p = 0.002$): a one-point increase in the popularity index is associated with an increase of 0.0087 in net profit growth. The effect remains positive and significant in Model 2 ($\beta = 0.0084$, $p = 0.003$). Therefore, H1 is supported.

Portion of independent commissioners (H2). The portion of independent commissioners has a positive and significant effect on net profit growth in Model 1 ($\beta = 2.129$, $t = 2.236$, $p = 0.029$): an increase of 0.01 in the portion of independent commissioners is associated with an increase of about 0.021 in net profit growth. The effect remains significant in Model 2 ($\beta = 2.208$, $p = 0.023$). Therefore, H2 is supported.

ESG (H3). ESG has a positive but insignificant coefficient in Model 1 ($\beta = 8.139$, $t = 1.562$, $p = 0.124$) and in Model 2 ($\beta = 6.574$, $p = 0.217$). Therefore, H3 is not supported.

Control variables. Third-party funds ($p = 0.118$) and financing ($p = 0.373$) have negative but insignificant coefficients in Model 2.

Simultaneous test (H4). The F statistic for Model 1 is 9.530 ($p < 0.001$); therefore, bank popularity, the portion of independent commissioners, and ESG jointly have a significant effect on net profit growth, and H4 is supported. The joint effect remains significant after the control variables are added in Model 2 ($F = 6.979$, $p < 0.001$).

Coefficient of determination. The adjusted R^2 of Model 1 is 0.303, meaning that bank popularity, the portion of independent commissioners, and ESG explain 30.3% of the variation in net profit growth; the remaining 69.7% is explained by factors outside the model. In Model 2, the adjusted R^2 is 0.336 (33.6%). These values are reasonable for banking research, in which performance is influenced by many external factors.

Discussion

The Effect of Bank Popularity on Net Profit Growth

The results indicate that bank popularity has a positive and significant effect on net profit growth, suggesting that increasing public popularity contributes to higher net profit growth. From the perspective of institutional theory, a bank's popularity can be viewed as a form of institutional legitimacy gained through public and media recognition (Del-Castillo-Feito et al., 2020). This legitimacy can increase customer and investor trust, expand the customer base, and facilitate access to funding sources, all of which can contribute to net profit growth (Doan et al., 2020). Furthermore, more popular banks tend to be more responsive to institutional pressures to adopt best practices, increase transparency, and strengthen governance, thereby increasing profitability (Alam & Miah, 2024).

This finding is supported by Hati et al. (2022), who revealed that a bank's popularity and public trust encourage customers' investment intentions, and by Jefri et al. (2024), who found that Islamic branding and social media marketing increase interest in saving at Islamic digital banks. The popularity of Islamic digital banks also plays a significant role in increasing brand awareness and customer engagement (Febriandika et al., 2023). Thus, a bank's reputation or popularity acts as an intangible asset that strengthens customer and investor trust and positively affects customer loyalty and perceptions of institutional stability (Doan et al., 2020). These results align with institutional theory, which emphasizes that institutional legitimacy is not only a means of organizational survival but also a factor influencing economic performance (Deegan, 2019; Scott, 2008). As a form of social legitimacy, a bank's popularity strengthens market trust and creates an institutional environment conducive to net profit growth (Chand et al., 2024; Kumar et al., 2022).

The Effect of the Portion of Independent Commissioners on Net Profit Growth

The results indicate that the portion of independent commissioners has a positive and significant effect on net profit growth, suggesting that a larger proportion of independent commissioners on the board contributes to higher net profit growth. Within institutional theory, the presence of independent commissioners reflects normative and coercive pressures arising from regulations, governance standards, and stakeholder expectations regarding good corporate governance in the banking sector (Geni et al., 2025; Paulina et al., 2023; Siman-

juntak & Kusuma, 2025). A more independent board structure increases the bank's institutional legitimacy, particularly by ensuring that decision-making is transparent and accountable (Hasanuddin et al., 2025; Mainoma et al., 2025; Petro et al., 2023).

A higher proportion of independent commissioners is associated with less earnings management through financial statement manipulation, which reflects conflicts of interest between managers on the one hand and shareholders and creditors on the other (Arifin et al., 2022; Sinatraz & Suhartono, 2021). Effective oversight encourages more prudent strategic decisions and a focus on sustainable financial performance (Adi, 2025; Harisriwijayanti et al., 2024), which in the medium to long term supports the stability and growth of bank net profits. Independent commissioners also improve the quality of internal control and risk management (Arifin et al., 2022). Tighter oversight of a bank's operational and financial policies can reduce potential losses from opportunistic management practices or excessive risk-taking (Adi, 2025), and improved operational efficiency and risk management support net profit growth (Harisriwijayanti et al., 2024).

This finding is consistent with the view that independent commissioners oversee management to ensure efficiency and freedom from conflicts of interest, thereby strengthening governance and profit performance (I. Agustin & Filianti, 2021). Other studies have also found that the proportion of independent commissioners has a significant positive effect on bank profitability, especially when supported by strong operational efficiency (Pendong et al., 2022; Pratiwi et al., 2023; Prawirosaputro & Bimo, 2025). The findings also align with institutional theory, which emphasizes that governance structures serve not only as formal compliance tools but also as mechanisms for gaining and maintaining legitimacy (Scott, 2008; Suchman, 1995), which in turn influences economic performance, including net profit growth.

The Effect of Environmental, Social, and Governance on Net Profit Growth

The results show that ESG has a positive but statistically insignificant coefficient at the 5% level. Although higher ESG implementation or disclosure tends to move together with higher net profit growth, the effect is not strong enough to support a conclusion of a significant effect (Athari et al., 2024; Fakhrunnas et al., 2025).

In neo-institutional theory, decoupling is a condition in which an organization adjusts its structures or policies to institutional pressures only ceremonially, while actual practices continue to follow internal efficiency and performance considerations (Saeed et al., 2018; Stål & Corvellec, 2018; Westphal & Zajac, 2001; Xu et al., 2025). In banking, ESG can be understood as a response to normative and mimetic demands from regulators, investors, and society aimed at gaining institutional legitimacy, which is not yet fully reflected in short-term net profit (Phan & Tran, 2025; Prabowo & Nainggolan, 2025). Furthermore, the long-term nature of ESG impacts may explain its insignificant effect (Zournatzidou et al., 2025). ESG investments often require relatively large initial costs, while the economic benefits appear only in the medium to long term (Chen et al., 2023; Zournatzidou et al., 2025); therefore, ESG's contribution to net profit growth may not yet be observable within the study period.

The insignificance of ESG may also reflect limited variation in ESG practices within the sample (Gutiérrez-Ponce & Wibowo, 2023). When the variation in ESG implementation is small, the model's ability to capture its effect on net profit growth is limited, even though ESG is conceptually relevant to company performance (Cerciello et al., 2023; Menicucci & Paolucci, 2023). From an institutional legitimacy perspective, ESG in banks often serves as a symbolic legitimacy tool rather than a direct driver of net profit growth (Silva et al., 2025). ESG contributes more clearly to stability, asset quality, and long-term risk management, while the decisions

that directly drive net profit (pricing, credit expansion, and core cost efficiency) remain dominated by internal profit–risk considerations (Chiaramonte et al., 2022; Galletta & Mazzù, 2023; Saiz et al., 2024).

The Simultaneous Effect of Bank Popularity, Independent Commissioners, and ESG on Net Profit Growth

The F test indicates that bank popularity, the portion of independent commissioners, and ESG jointly have a significant effect on net profit growth. The combination of reputational, governance, and sustainability factors therefore helps explain variations in the bank's net profit growth during the study period. Within institutional theory, this joint effect reflects multidimensional institutional pressures: bank popularity represents social legitimacy, independent commissioners reflect normative legitimacy through governance, and ESG reflects sustainability legitimacy arising from environmental and social demands. Together, these forms of legitimacy shape the institutional environment that influences bank performance. Although ESG is individually insignificant, it remains part of the legitimacy framework that supports the organization's long-term sustainability and stability. These results suggest that institutional factors should be analyzed together, because focusing on a single variable may provide an incomplete picture of bank financial performance.

Conclusion and Recommendation

This study shows that bank popularity has a significant positive effect on the net profit growth of Islamic digital banks. As a form of social legitimacy, popularity strengthens market trust and creates an institutional environment conducive to net profit growth (Chand et al., 2024; Kumar et al., 2022); more popular banks tend to attract more customers and deposits, which supports profits (Mahmood, 2025). The portion of independent commissioners also has a significant positive effect on net profit growth. A higher portion of independent commissioners is associated with less earnings management (Arifin et al., 2022; Sinatraz & Suhartono, 2021) and with better internal control and risk management (Arifin et al., 2022). In contrast, ESG has no significant effect on net profit growth, which may reflect the long-term nature of ESG benefits, the relatively high initial costs of ESG implementation, and the limited variation in ESG practices during the study period. Jointly, bank popularity, the portion of independent commissioners, and ESG significantly explain net profit growth, and these results are robust to the inclusion of third-party funds and financing as control variables.

Islamic digital banks are recommended to strengthen their brand visibility and digital engagement and to maintain effective oversight by independent commissioners, while treating ESG as a long-term investment in legitimacy and stability rather than a source of short-term profit. This study is limited to a single bank and to 60 monthly observations, and its residuals are not normally distributed. Future research is encouraged to use panel data covering several Islamic digital banks, to apply robust standard errors, and to examine the individual ESG pillars separately.

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