

Sharia Aspects and Profitability of Islamic Banks in Indonesia



Media Kusumawardani^{1*}, Achmad Soediro², Dinda Safira³

^{1,2,3} Accounting Department, Universitas Sriwijaya, South Sumatra, Indonesia

¹mediakusumawardani@fe.unsri.ac.id, ² achmadsoediro@fe.unsri.ac.id

*Corresponding author

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ABSTRACT

This study examines Sharia aspects that influence the profit of Islamic banks. The Tests use independent variables, namely the components of the Islamicity Performance Index (Profit Sharing Ratio, Zakat Performance Ratio, Equitable Distribution Ratio, Welfare Ratio, Islamic Income, Islamic Investment), Maqashid Index, and Islamic Social Reporting, while the dependent variable is proxied to the profitability variable. The data used the annual reports of Islamic banks in Indonesia for 2012 – 2020. The data collection method is purposive sampling, with the amount of data processed being 73 data and statistical testing using statistical data processing software. The results of the study show that Profit Sharing Ratio (PSR), Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), Islamic Income (IsIR), Islamic Investment (IIR), Maqashid Index, and Islamic Social Reporting (ISR) have a positive effect on Profitability, while the Welfare Ratio (DEWR) has a negative impact on profit. The statistical results show that all the hypotheses in this study are accepted.

1. INTRODUCTION

Islamic banking has experienced significant development by dominating the Islamic finance industry in Indonesia. Sharia Banking Statistics by the Financial Services Authority as of July 2022 recorded 12 Sharia Commercial Banks , 21 Sharia Business Units , and 202 Sharia People's Financing Banks operating nationally. Islamic Banking experienced total asset growth of 16% compared to 2020 and 25% compared to 2019.

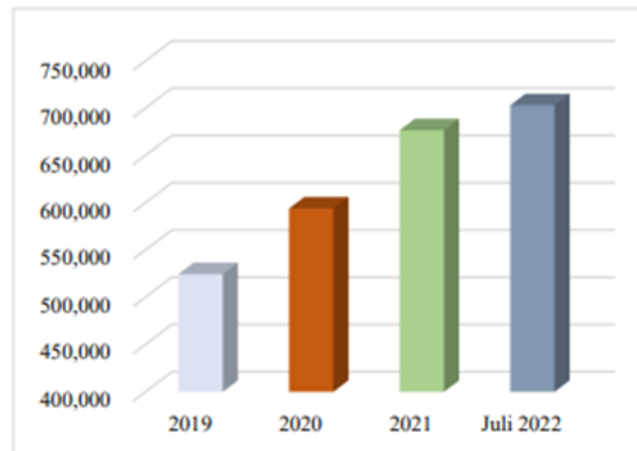


Figure 1. Growth of Islamic Bank Assets

This growth encourages competition between Islamic financial industry institutions, especially Islamic commercial banks in maintaining positive performance to compete with other Islamic financial institutions. Therefore, it is necessary to have a performance appraisal that can describe the company's operational activities as a whole to find out information that happened as a consideration for decision-making by stakeholders in the future.

Many studies have used profitability as an indicator in measuring and evaluating company performance. Profitability ratios can reflect the prospects of the company as a whole. It is related to the level of demand for shares that has an impact on company value (Dewi & Abundanti, 2019). Thus, the stakeholders have sufficient assurance of a profitable company.

Even though profit is a significant element in a business entity, Islamic banks are not only required to seek profit but also must carry out their functions and objectives as a Sharia business entity (good Sharia objectives) (Mayasari, 2020). Based on previous research, several indicators can affect the profitability of Islamic business entities, especially Islamic banks. These indicators can function as an alternative performance disclosure under the unique characteristics of Islamic banking.

Based on a balanced perspective between materialistic values and spiritual values, Rahmatullah et al., (2020), Mayasari (2020), and Afandi and Haryono (2022) project it on the Islamicity Performance Index (IPI) indicator that is not only viewed from a purely financial perspective but also evaluating the principles of justice, halalness, and self-

purification (tazkiyah) (Suhada and Sigit, 2019). Meanwhile, Hosen et al., (2019) and Santoso (2022) stated that the Maqashid Index (SMI) is related to the achievement of the functions and objectives of sharia. It is beneficial to see the level of conformity of business operations to the rule of law (shari'a) to achieve prosperity (*maslahah*). Belianti and Ruhadi (2020) and Santika (2019) claim that Islamic Social Reporting (ISR) is an inherent indicator and consequence of Islamic teachings themselves that concern the fulfillment of legal and moral obligations (Pratiwi, 2019).

Rivaldi (2017), Mayasari (2020), and Oktarini et al., (2023) suggest that the Islamicity performance index (IPI) is proxied by the profit sharing ratio (PSR), zakat performance ratio (ZPR), equitable distribution ratio (EDR), welfare ratio (DEWR), Islamic income (IsIR), and Islamic investment (IIR) affect the profitability of Islamic banks either partially or simultaneously. Meanwhile, Harahap et al., (2017) and Azifah (2020) revealed that the Islamicity performance index (IPI) proxied by Islamic investment (IIR) and Islamic income (IsIR) do not affect on Islamic banking profitability partially. Regarding the maqashid index (SMI), Santoso (2022), Belianti and Ruhadi (2020); and Belianti and Ruhadi (2020) argue that the maqashid index (SMI) influences the profitability of Islamic banking in Indonesia. However, Hosen et al., (2019) and Pratiwi (2019) identified that the maqashid index (SMI) does not affect the profitability of Islamic banking. Furthermore, Listiyorini and Rita (2020); Santika (2019) and Harahap *et al.* (2017) argued that Islamic social reporting (ISR) influence profitability but Hosen et al., (2019) and Pratiwi (2019) stated otherwise.

Theoretically, the independent variables are assumed to correlate with profitability as the dependent variable. In addition, the implementation of social responsibility (Islamic social reporting) can increase company revenues and profits through increased demand for products and services. Performance appraisal through the Maqashid Index (SMI) and Islamicity Performance Index (IPI) can encourage management to run business operations optimally under Islamic values. It has an impact on achieving management productivity targets through meeting profit targets. However, the results of previous research have different results. Some research explains that the Islamicity Performance Index, Maqashid Index, and Islamic social reporting have an influence on profitability, but other research shows that these variables have no influence on profitability.

Accordingly, the research on sharia aspects such as Islamicity Performance Index, Maqashid Index, and Islamic social reporting, must be tested for its effect on profitability in a multiple regression model.

2. LITERATURE REVIEW AND HYPOTHESIS

Shari'ah enterprise theory is concerned with providing information to stakeholders and the natural environment as a form of accountability to God, humans and the natural environment (Triyuwono, 2001). Islamic banking efforts to increase profitability must not deviate from the established sharia principles. Belianti and Ruhadi (2020) illustrated profitability is the ability of a company to generate profits in a certain period by using the measurement of profitability factors including evaluation of financial performance, resources, sustainability, management, and performance of social functions. Rahayu et al. (2020) defines profitability as net income from various policies and decisions made by the company that used as a tool to measure the company's profitability.

Islamicity performance index (IPI) is an assessment instrument to evaluate the materialistic and spiritual performance of Islamic banks (Afandi and Haryono, 2022). The indicators measured in *islamicity performance index* (IPI) Hameed et al., (2004) are *Profit Sharing Ratio, Zakat Performance Ratio, Equitable Distribution Ratio, Equitable distribution ratio, Directors Employees Welfare Ratio, Islamic Income vs Non Islamic Income, Islamic Investment VS Non Islamic Investment Ratio. The sharia maqashid index (SMI) or the maqashid sharia index* adopts Islamic noble values (*maqashid sharia*) which promote the value of welfare and benefits (*jalb al masalih*) and eliminate suffering (*dar al-mafasid*) (Antonio et al., 2012). The index was developed by Mohammed *et al* (2008) referring to the concept of Abu Zahrah's maqashid sharia theory. According to Zahrah (1997), the achievement of sharia goals (*maqashid sharia*) includes Educating Individuals, Upholding Justice, and Achieving Prosperity. In general, Islamic Corporate Social Responsibility (ICSR) has the same concept as corporate social responsibility (CSR). However, the difference between the two is seen in the principles and targets set. Islamic Corporate Social Responsibility (ICSR) is corporate social responsibility which includes not only responsibility to society but also to Allah as the absolute owner of the world and everything in it Haniffa (2002).

One of the sources of income obtained by Islamic banks is profit sharing on product and service offerings to customers based on certain contracts. Financing disbursed by

Islamic banks will increase net profit because the higher the level of distribution of financing to customers including mudharabah, musyarakah, murabahah, and others, the higher the profit contribution obtained by Islamic banks. If the profit margin shows a high value, it will make it easier for management to determine sales strategies which then encourage increased performance effectiveness in controlling operational cost (Yusnita, 2019). The increase in profit margins will also attract investors' contributions. This concept is also supported by research conducted by Rivaldi (2017); and Mayasari (2020) which suggests that the profit-sharing ratio (PSR) influences profitability.

H₁ : Profit Sharing Ratio (PSR) has a positive and significant effect on profitability

Zakat is one form of purification (*tazkiyah*) of wealth in Islam. In this case, as a sharia business entity, a sharia bank has the obligation to issue the zakat and disclose it in the zakat resource and consumption report. The larger the zakat issued will increase the profit obtained by sharia banks because the wealth owned has been cleared from the rights of others that will bring the pleasure of Allah SWT to His creatures. The concept is supported by research by Oktarina et.al (2023) and Putri and Gunawan (2019) who argue that zakat performance ratio (ZPR) has an influence on achieving profits.

H₂ : Zakat Performance Ratio (ZPR) has a positive and significant effect on Profitability

People's welfare, justice, universalism, and freedom from non-halal elements are some reflections of *maslahah* (Suhada and Sigit, 2019). Therefore, in distributing income, Islamic banks must prioritize this principle. It is in line with the Sharia *maqashid* theory and Sharia entity theory. The two theories above require that business activities must be under Sharia values with the existence of vertical accountability obligations. Fair income distribution will create a balance between the interests of various parties by eliminating the value of exploitation to encourage the emergence of loyalty from these parties to the company. Investors will be more interested in companies that can provide a fair share of income for the contributions that have been made, where this is also a competitive advantage for other investors to contribute and then increase the company's profitability.

In this regard, Oktarina et.al (2023) and Putri and Gunawan (2019) argued that the equitable distribution ratio (EDR) influences achieving profits.

H3 : Equitable Distribution Ratio (EDR) has a positive and significant effect on Profitability

Significant differences between the amount of remuneration of the board of directors and employees tend to reduce the effectiveness of employee performance (Khasanah, 2016). The directors–employees welfare ratio (DEWR) is a comparative ratio between the remuneration of the board of directors and the amount of funds used for the welfare of employees. It is necessary to pay attention to the welfare of employees through the provision of remuneration in the form of salaries, training funds, travel funds, and others because employees are the motor of the company's operations. Providing fair remuneration tends to increase work motivation and employee loyalty to the company (Khasanah, 2016). According to Harahap et al., (2017), Azifah (2020), and Putri and Gunawan (2019), the variable directors – employees welfare ratio (DEWR) harms profitability. So it can be concluded that the smaller the welfare ratio (DEWR), the greater the profit earned. It is because the fulfillment of employee welfare will encourage the creation of a positive work ethic in order to optimize the company's operations.

H4 : Welfare Ratio (DEWR) has a negative and significant effect on Profitability

Islamic income (IsIR) is a measurement ratio that describes the level of obtaining halal income compared to the total income received by Islamic banks. This ratio is necessary because Islamic banks obtain other income from conventional banks (interest) (Khasanah, 2016). In Q.S Al Jumu'ah verse 10 contains the command of Allah SWT to His servants to believe and get halal sustenance. Therefore, Islamic banking must eliminate non-halal income. Azifah (2020), Putri and Gunawan (2019), and Cakhyaneu (2018) suggest that the Islamic income variable (IsIR) has a positive effect on the profitability of Islamic banking. So, it concluded that the greater the ratio of Islamic income (IsIR), the greater the acquisition of halal income of Islamic banks that affects the increase in profits assuming the cost of expenses is fixed.

H5 : Islamic Income (IsIR) has a positive and significant effect on Profitability

The Islamic investment ratio (IIR) is a ratio between halal investment and the total investment made by Islamic banks as a whole. This ratio illustrates the success of Islamic banks in carrying out business activities according to Islamic principles, namely without the

elements of maysir, gharar, and usury in investing. Investment in Islam is an activity that is highly recommended because it can guarantee the achievement of physical and mental well-being (*falah*) where which is under the concept of maqasid sharia. Investment is defined as an investment activity for a certain period with the hope of getting profits in the future. Therefore, Setiawan and Sudiro (2019), Azifah (2020), and Harahap et al., (2017) argue that *halal* investment has a positive effect on increasing the profitability of Islamic entities. So it can be concluded that the greater the level of halal investment in the Islamic investment ratio (IIR), the greater the profit earned by Islamic banking because it encourages wealth growth (acceleration of wealth) through the distribution of investment returns for companies.

H₆ : Islamic Investment (IIR) has a positive and significant effect on Profitability

The Maqashid Index (SMI) is a model for assessing the performance of Islamic banking in accordance with the objectives and characteristics of Islamic entities. The development of this assessment model is based on the incompatibility of using conventional performance indicators in Islamic banking (Cakhyaneu, 2018). Santoso (2022), Hosen et al., (2019), Belianti and Ruhadi (2020), and Cakhyaneu (2018) state that the maqashid index (SMI) has a positive effect on increasing profitability. In line with the concept put forward in the maqashid sharia theory that the purpose of implementing the rule of law prescribed by Allah is to bring about the welfare of His servants both in this world and in the hereafter. Based on the measurement indicators of the *maqashid sharia* concept by Zahrah (1997) covering educating individuals, upholding justice, and creating prosperity, Islamic business entities in this case Islamic banks will be assessed as having positive performance in the form of compatibility between *sharia* banking business activities and the *maqashid sharia* concept by the investors. So that there is an increase in demand for investment in Islamic banks by investors because according to the *maqashid sharia* theory, these investors believe that by investing in sharia business entities that carry out Islamic principles and rules properly they will be able to provide benefits and prosperity.

H₇ : Maqashid Index (SMI) has a positive and significant effect on Profitability

Islamic Social Reporting (ISR) contains indicators of the level of achievement of corporate social responsibility to the public. Unfortunately, currently only a few companies carry out this social responsibility. They assume that these social activities require large

funds so that they will reduce company profits (Pratiwi, 2019). Allah says in Q.S Al-Baqarah verse 177 regarding the importance of integration of faith and social values.

This social responsibility practice is considered to have a positive impact on entities including as a product marketing media where this is also useful as a company branding effort to create a good image in society and increase trust in the company. Harahap et al., (2017), and Pratiwi (2019) also argue that the implementation of social responsibility expressed in Islamic social reporting (ISR) has a positive effect on the profitability of Islamic companies. So it can be concluded that the greater the value of social responsibility disclosure based on Islamic social reporting (ISR), the greater the company's profit earned because it increases public use of the needs of sharia banking products and services.

H8 : Islamic Social Reporting (ISR) has positive and significant effect on profitability.

3. RESEARCH METHOD

This quantitative study examines the sharia aspects that consist of all indicators of the Islamicity performance index (Profit Sharing Ratio, Zakat Performance Ratio, Equitable Distribution Ratio, Welfare Ratio, Islamic Income, and Islamic Investment), maqashid index, and Islamic social reporting on profitability (ROE). ROE (Return of Equity) is a measure of profitability ratio. ROE shows management's effectiveness in generating profits using equity. The sample in this study is a bank, while banks often use their equity in carrying out their business activities. The sampling procedure used is non-probability-purposive sampling. The sample criteria are Islamic commercial banks that publish annual reports for 2012-2020 and Islamic commercial banks disclose the information needed for research data. Secondary data was obtained from the Annual Report of Indonesian Sharia Banks published on the Indonesia Stock Exchange. Data that met the criteria totaled 73 data from 10 Islamic Commercial Banks and 9 years of observation. The dependent variable in this study is profitability. Return on Equity (ROE) is a profitability ratio that measures a company's ability to earn a profit with its equity (shareholder's equity).

Tabel 1. Variable Operational

Variable	Measurement
Profitability (ROE)	$ROE = \frac{\text{Net profit}}{\text{Total Equity}}$
Profit Sharing Ratio (PSR)	$PSR = \frac{\text{Mudharabah} + \text{Musyarakah}}{\text{Total Financing}}$
Zakat Performance Ratio (ZPR)	$ZPR = \frac{\text{Zakat}}{\text{Net Assets}}$
Equitable Distribution Ratio (EDR)	$EDR = \frac{\text{Qardh} + \text{Employee Expenses} + \text{Dividends} + \text{Net Income}}{\text{Income} - (\text{Zakat} + \text{Tax})}$
Director-Employee Welfare Ratio (DEWR)	$DEWR = \frac{\text{Directors Wages}}{\text{Employee Wages}}$
Islamic Income (IsIR)	$IsIR = \frac{\text{Pendapatan Halal}}{\text{Total Pendapatan}}$
Islamic Investment (IIR)	$IIR = \frac{\text{Halal Investment}}{\text{Total Investment}}$
Maqashid Index	<p>SMI = P1 (O1) + P2 (O2) + P3 (O3), Mohammed <i>et al.</i> (2008)</p> <p>SMI=</p> $[W_1^1(R_1^1 + R_1^2 + R_1^3 + R_1^4)] + [W_2^2(R_2^1 + R_2^2 + R_2^3)] + W_3^3(R_3^1 + R_3^2 + R_3^3)$ <p>Explanation: P1 (O2): Performance indicators W: Weight R: Element ratio</p>
Islamic Social Reporting	<p>$ISR = \frac{\text{Disclosure Points}}{\text{Total weight}}$, Hosen et al., (2019)</p> <p>$ISR = \frac{\text{Disclosure Points}}{48} \times 100\%$</p>

This study uses a multiple linear regression analysis model with the following equation:

$$\text{Pro} = \alpha + \beta_1\text{PSR} + \beta_2\text{ZPR} + \beta_3\text{EDR} + \beta_4\text{DEWR} + \beta_5\text{IsIR} + \beta_6\text{IIR} + \beta_7\text{SMI} + \beta_8\text{ISR} + e$$

Explanation:

Pro : Profitability

α : Constant

$\beta_{1.2.3.4.5.6.7.8}$: Regression Coefficient
PSR	: Profit Sharing Ratio
ZPR	: Zakat Performance Ratio
EDR	: Equitable Distribution Ratio
DEWR	: Welfare Ratio
IsIr	: Islamic Income
IIR	: Islamic Investment
SMI	: Maqashid Index
ISR	: Islamic Social Reporting
e	: error

4. RESULTS AND DISCUSSIONS

The results of the descriptive statistical test in this research are presented in Table 2.

Table 2.
Descriptive Statistic

	Min	Max	Mean	Std.Deviation
ROE	-17.610	32.879	10.363	12.342
PSR	0.019	1.201	0.570	0.300
ZPR	0.001	0.102	0.047	0.271
EDR	0.004	12.550	5.187	2.885
DEWR	0.320	4.010	2.932	0.709
ISIR	0.956	1.000	0.982	0.010
IIR	0.942	1.000	0.982	0.013
SMI	0.405	0.867	0.698	0.104
ISR	75.00	95.830	85.36	6.110

Source: Data processed, 2023

The Classical Assumption Test

The classical assumption test shows that the data used in this research is feasible for hypothesis testing. It is proven by the results of the classical assumption test which includes the Normality Test, Heteroscedasticity Test, Multicollinearity Test, and Autocorrelation Test which show good results. The following is the classic assumption test table:

Table 3.
The Classical Assumption Test Table

The Classical Assumption Test	Measurement	Test result
the Normality Test	Sig >0.05	Sig. 0.143
The Heteroscedasticity	Sig >0.05	PSR : 0.695

Test		
		ZPR : 0.894
		EDR : 0.754
		DEWR : 0.083
		IsIr : 0.715
		IIR : 0.167
		SMI : 0.562
		ISR : 0.112
The Multicollinearity Test	tolerance >0.1, VIP <10	PSR : 0.929/ VIP : 1.076
		ZPR : 0.925/ VIP : 1.081
		EDR : 0.721/ VIP : 1.388
		DEWR : 0.877/ VIP : 1.140
		IsIr : 0.865/ VIP : 1.156
		IIR : 0.921/ VIP : 1.052
		SMI : 0.853/ VIP : 1.117
		ISR : 0.832/ VIP : 1.202
The Autocorrelation Test	Sig >0.05	Sig. 0.697

Source: Data processed, 2023

Based on the results of the classical assumption test, the normality test tested with the Kolmogorv-Smirnov yields a significance level of more than 0.05, namely 0.143. These results indicate that the data used in this study have normal data. The heteroscedasticity test uses the Glejser test with a significance level of 0.05. Table 2 shows that all variables have a significance level of more than 0.05. It means that the data does not experience heteroscedasticity or the data is homoscedastic. In addition, the multicollinearity test also shows that the data has a tolerance value of >0.01 and VIP <10, which means that the data between independent variables has no correlation or is free from multicollinearity. The autocorrelation test uses the Run Test whose measurement uses a significance limit of 0.05. Testing the Run Test, the data has a significance level of 0.697, which means that the data is free from autocorrelation that has no relationship between related year data.

The Hypothesis test

In this test, the researcher tested whether the independent variables influenced the dependent variable. This study has eight independent variables consisting of Profit Sharing Ratio (PSR), Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), Welfare Ratio (DEWR), Islamic Income (IsIR), Islamic Investment (IIR), Maqashid Index, and

Islamic Social Reporting (ISR) and one dependent variable namely Profitability. The following is the Hypothesis Test Table:

Table 4.
The Hypothesis Test

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-77.378	114.566		-1.548	0.126
PSR	2.828	8.965	0.069	6.243	0.000
ZPR	46.170	0.159	0.101	1.934	0.020
EDR	0.064	3.059	-0.019	2.300	0.007
DEWR	-0.047	33.965	-0.003	3.494	0.007
IsIR	0.476	0.362	0.000	5.243	0.043
IIR	28.031	4.940	0.663	5.243	0.043
SMI	4.832	3.078	-0.045	8.542	0.008
ISR	1.571	70.423	0.778	9.879	0.000

Source: Data processed, 2023

The statistical tests showed that the Profit Sharing Ratio (PSR) has less than 0.05, namely 0.000 with positive Coefficients. It means that the Profit Sharing Ratio (PSR) influence profitability positively. The Zakat Performance Ratio (ZPR) shows a significance level of 0.020 (sig. <0.05); and the Coefficients value is positive, which indicates that the Zakat Performance Ratio (ZPR) has a positive effect on profitability. The Equitable Distribution Ratio (EDR) in the statistical test shows a positive Coefficients value and a significance level of <0.05 (0.007). It proves that the Equitable Distribution Ratio (EDR) effect profitability positively. Another variable Welfare Ratio (DEWR) has a significance level of 0.007 below 0.05 which means that the Welfare Ratio (DEWR) has a negative influence as shown in the Coefficients value (-0.047). Meanwhile, two other variables that are part of the Islamicity Performance Index component, namely Islamic Income (IsIR) and Islamic Investment (IIR) are proven to have a positive influence with a significance level of more than 0.05 (0.043) and Coefficients values (0.476 and 28.031). Maqashid Index (SMI) is proven to have a positive effect on profitability (sig. <0.05: 0.008, and beta 4.832). Meanwhile, Islamic Social Reporting (ISR) has a positive effect with a significance level of 0.000; and the Coefficients are positive. The results of the hypothesis test in Table 4 explain that all hypothesis in this research are accepted

The Determinant Coefficient Testing

The determinant test is used to see how much the effect of the independent variables in this research is on the profitability variable. Based on table 4, the Adjusted R Square value is 0.778 or 77.8%. The AR2 value in this study shows that the variables Profit Sharing Ratio (PSR), Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), Welfare Ratio (DEWR), Islamic Income (IsIR), Islamic Investment (IIR), Maqashid Index (SMI), and Islamic Social Reporting (ISR) contributed 77.8% to Profitability and the remaining 22.2% was explained by other variables outside the model used in this study.

Table 5.
The Determinant Coefficient Testing

R	R Square	Adjusted R Square	Std Error of the Estimate
0,763	0,801	0,778	6.893241

Source: Data processed, 2023

The Effect of Profit Sharing Ratio (PSR) on Profitability (ROE)

The results of statistical calculations are in accordance with the hypothesis and research by Rivaldi (2017) and Mayasari (2020) suggest that an increase in PSR will increase the value of profitability. Islamic bank income comes from banking activities that generate profits (profit sharing). Disbursed financing increases net profit. It is due to the higher the level of distribution of financing, the higher the profit contribution obtained by Islamic banks. High profit margins make it easier for management to determine sales strategies. This strategy encourages the increased of performance effectiveness in controlling operational costs (Yusnita, 2019). The concept of PSR is in line with the theory of sharia entities. It said that public entities have responsibility for the welfare of the people. One of them is through financing distribution activities with certain contracts. According to Belianti and Ruhadi (2020), a high PSR ratio indicates that the financing distributed to customers has been running effectively. It is in line with the ultimate goal of creating benefit for the people.

The Effect of Zakat Performance Ratio (ZPR) on Profitability (ROE)

The results of testing this hypothesis are in line with research conducted by Cakhyanu (2018) and Rahayu et al., (2020). They state that an increase in the ZPR value increases the value of profitability. Based on the Sharia entity theory, it can happen because zakat is a form of vertical accountability to Allah that can clear the assets own from the rights of others. Al Baqarah verse: 245 reveals that Allah will give invaluable rewards for the good done by His servants. Apart from being one of the pillars of Islam, paying zakat can create benefits by alleviating the economic conditions of the people.

The Effect of Equitable Distribution Ratio (EDR) on Profitability (ROE)

The result states that the equitable distribution ratio (EDR) has a positive effect on profitability. It is in line with Rahmatullah et al., (2020) and Cakhyanu (2018), who argued that an increase in the value of the EDR would increase profitability. It is because the fair distribution of income to stakeholders is not only a form of Islamic banks' efforts to uphold the rules of Allah SWT but also will maintain stakeholder trust in Islamic banks as Islamic business entities. According to maqashid sharia theory, an income fair distribution encourages the creation of *maslahah* where each stakeholder such as shareholders, employees, and internal organization gets a fair reciprocity for the contribution made to the company. This principle of justice then gives rise to satisfaction (satisfaction) for stakeholders, especially internal parties, to maintain performance effectiveness to achieve optimal profit (Anggraini et al., 2020).

The Effect of Welfare Ratio (DEWR) on Profitability (ROE)

The results of testing indicate that the director-employee welfare ratio (DEWR) has a negative and significant effect on the profitability of Islamic banks. Afandi and Haryono (2022) and Mayasari (2020) stated the same thing. Afandi and Haryono (2022); and Mayasari (2020) state that most Islamic banks have not allocated fairly the welfare funds to directors and employees. Sharia rules oppose this element of injustice because they contradict to the sharia rule. According to Afandi and Haryono (2022), a significant difference in the welfare ratio will cause a decrease in employee work ethic. It creates a feeling of dissatisfaction and underappreciation for their contribution to the company. Employees do not have enough motivation to contribute optimally. In the end, it has an

impact on the efficiency of Islamic banking in generating profits. A significant difference in the allocation of welfare funds can be considered a natural thing considering the greater responsibility of the directors, one of which is as a direct organizer of the successful achievement of sharia goals (Yusnita, 2019). The welfare fund needs to be adjusted on the job description and responsibilities. It is because Islam places a high priority on the value of justice in the welfare of the people.

The Effect of Islamic Income (IsIR) on Profitability (ROE)

The results are in line with Oktarini (2023) and Rahmatullah et al., (2020). They state that an increase in halal income will increase the profitability of Islamic banks. It is because, as a sharia business entity, Islamic banks revenue comes from profit sharing and fee-based income on transactions that comply with sharia regulations. Therefore, the level of halal income must be greater than non-halal income. It is in accordance with the functions and objectives of Islamic banks as Islamic business entities. A high level of halal income represents the bank's success in implementing sharia rules. It influences the decisions of external parties (investor) to contribute more. It also influence the profit achievements of Islamic banks.

The Effect of Islamic Investment (IIR) on Profitability (ROE)

The results of testing state that Islamic investment (IIR) has a positive influence on the profitability of Islamic banks. It is confirmed by Khasanah (2016) that stated in his research that an increase in the value of Islamic investment (IIR) will also increase profitability. Halal investment is an investment activity with procedures that comply with Islamic law and regulations. Al Isra' verse: 7 states that humans will receive a reward for what they do, therefore they should do good in order to bring back goodness. Halal investment is one form of good activity because the investment is made and aimed at halal financial instruments. This activity is also an implementation of the sharia maqasid theory where investors obey the absolute rules of Allah; and have faith that what ever they do will undoubtedly bring goodness and benefit to the people. This goal is in line with the ultimate goal of maqashid sharia itself, namely to realize the benefits; and eliminate harm (Febriadi, 2017).

The Effect of Maqashid Index (SMI) on Profitability (ROE)

In line with Hosen et al., (2019) and Listiyorini and Rita (2020), the results of testing the hypothesis of this study stated that the maqashid index (SMI) has a positive influence on the profitability of Islamic banks. Maqashid sharia is a guideline for sharia business entities, especially sharia banks operational activities to earn profits. The high level of sharia maqashid index reflects that company has complied with the applicable sharia regulations. It is in accordance with the Islamic entity theory where companies responsible to Allah. According to Belianti and Ruhadi (2020) the efforts of Islamic banks to comply with these sharia rules are to maintain the trust of stakeholders. It included the efforts of Islamic banks to responsible horizontally. The positives performance tends to attract investors' attention more easily. For the investors, the index is useful to understand the use of the provided funds.

The Effect of Islamic Social Reporting (ISR) on Profitability (ROE)

The test states that Islamic social reporting (ISR) positively influences the Islamic banks profitability. It supports the findings of Listiyorini and Rita (2020), Santika (2019), and Harahap et al. (2017) who state that Islamic social reporting (ISR) affects profitability. Based on Sharia enterprise theory (SET), the level of ISR assessment can influence public demand for the company's service and product needs. It happens because people, especially Muslims, already have trust and a positive perspective on the halal products and services they obtain. Islamic banking offers products and services that comply with Sharia rules, so the business entities must always uphold Islamic values in their operational activities.).

5. CONCLUSIONS

Based on the results of the study indicate that all the independent variables in the study affect the profitability level. The study proves that the seven independent variables in this study have a positive effect on profitability level. The seven variables are Profit Sharing Ratio (PSR), Zakat Performance Ratio (ZPR), Equitable Distribution Ratio (EDR), Islamic Income (IsIR), Islamic Investment (IIR), Maqashid Index, and Islamic Social Reporting (ISR). The positive influence on profitability level means that the higher the PSR, ZPR, EDR, IsIR, IIR, Maqashid Index, and ISR Independent variables, the higher the Profitability of Islamic Banks. Other results show differently, Welfare Ratio (DEWR) hurts Profitability

level. These results mean that the lower the ratio between directors' salaries and employee salaries, the higher the profitability level of Islamic banks.

6. IMPLICATIONS, LIMITATIONS AND SUGGESTIONS

The research expects to increase the attention of Islamic business practitioners on the importance of maqasid sharia-based indicators. The year of observation is only until 2020. It is because, since 2021, the Mandiri Syariah, BRI Syariah, and BNI Syariah banks have merged. It maintains the consistency of the financial report data that you want to use. Future research should enrich Islamic business research and practice by contributing other Islamic concepts in strengthening Islamic business and economic growth.

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