InCAF PROCEEDING OF INTERNATIONAL CONFERENCE ON ACCOUNTING AND FINANCE

Volume 3, 2025, PP: 482-496

Impact of Sharia Compliance and Islamic Corporate Governance on Financial Performance of Islamic Banks Moderated by Islamic Corporate Social Responsibility

Baso Pangerang, Ledy Setiawati, Anisa Abubakar Lahjie

Master of Accounting, Faculty of Economics and Business, Mulawarman University

Corresponding author email: basopangeran99@gmail.com

Abstract

This study aims to analyse the effect of Islamic Corporate Social Responsibility (ICSR) moderated by Sharia Compliance and Islamic Corporate Governance (ICG) on the Financial Performance of Islamic Commercial Banking in Indonesia. This study uses secondary data from 9 (nine) Banks in the period of 2017 - 2022 by using purposive sampling technique and Multiple Regression Analysis. The results showed that Sharia Compliance and ICG have a significant and positive effect on financial performance. Furthermore, the results related to moderation variables show that ICSR moderates the effect of Sharia Compliance on Financial Performance, research also shows that ICSR moderates the effect of ICG on Financial Performance. The implications of this research are as follows: (i) increasing the Profit Sharing Ratio as a form of sharia compliance (ii) implementing ICG principles with monitoring and supervising by the Sharia Supervisory Board and conducting regular evaluations through self-assessment. (iii) more sustainable ICSR practices among Islamic banking that are in line with Islamic values.

Keywords: Sharia Compliance, Islamic Corporate Governance Financial Performance, Islamic Corporate Social Responsibility and Islamic Commercial Banks.

INTRODUCTION

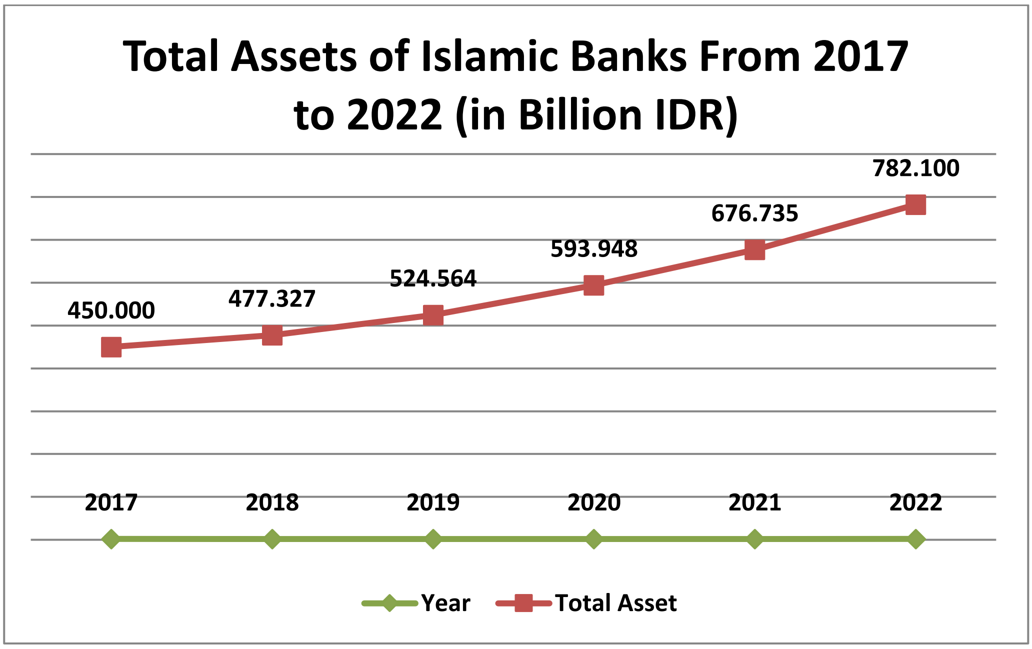
The banking industry has an important role in the economy as an intermediary institution that channels public funds into productive asset investments that will drive the real sector and the economy. (Bank Indonesia, 2021). Conventional banks focus on financial gain with an interest system, while Islamic banks are based on sharia principles with a profit-sharing system with different supervision and regulation (Bank Mega Syariah, 2023). Economic growth has a close correlation with the growth of the banking industry, especially in terms of channeling funds to economic sectors that are priority sectors for the government.

Starting with the establishment of Bank Muamalat Indonesia as the first Islamic bank in Indonesia in 1992 and the establishment of the first legal umbrella for Islamic banks through Law (UU) No. 10 of 1998 which was later updated through Law No. 21 of 2008 which strengthened the existence of Islamic banking in operating in Indonesia. Since the issuance of regulations on Islamic banking, there are currently 13 Islamic Commercial Banks (BUS), 20 Islamic Business Units (UUS), and 169 Islamic People's Financing Banks (BPRS) (OJK, 2023).

The existence of Islamic banks in the general public is increasingly widespread, this gives a sign that Islamic banks have begun to be trusted as one of the intermediary institutions in addition to conventional banks. The progress of Islamic banking can be attributed to the interest of Muslim communities in Indonesia who want to live life according to sharia principles.

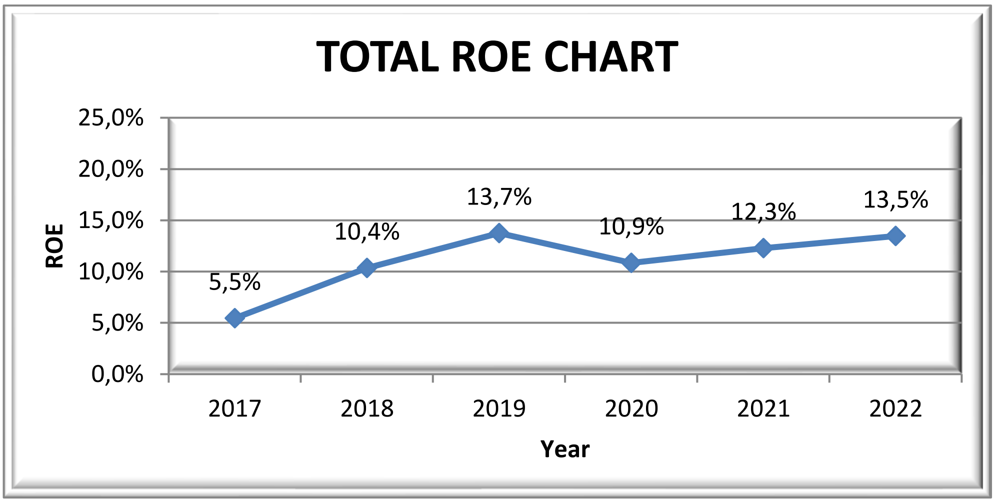
Based on Figure 1, from 2017 to 2022 experienced growth of 6.06% to 15.60% respectively. This shows that progressive growth occurs in Islamic banks which indicates the existence of a wide - open market share of Islamic banks. Although Islamic banking has experienced progressive asset growth, of course, the market share of Islamic banking is still relatively low, below 10% compared to

Indonesia's national banking (Yunianto, 2022). Compared to other countries, the market share of Islamic banks in Indonesia is in the 18th position, still below Brunei and Malaysia, which are ranked 3rd and 6th respectively with a market share of 63% and 26% (Desta et al., 2022).



Source: OJK (2024)

Figure 1. Total Assets of Islamic Commercial Banks



Source: FSA 2024

Figure 2. Return on Equity of Islamic Commercial Banks

The growth of Islamic banking is measured not only based on assets, financial performance is one of the important aspects in terms of the financial condition of a company, by measuring the financial performance of a company can find out about the level of success achieved in its operations. The better the financial performance of the Islamic Commercial Bank, it shows that the Islamic Commercial Bank has a healthy financial condition (Diyah et al., 2021). Return on Equity is an important measure in measuring the financial performance of Islamic banks because it provides a specific picture of the efficiency of Islamic banks in utilising equity capital to generate profits in accordance with sharia principles. Based on Figure 2 above, ROE experienced fluctuating growth, in the period 2017 to 2022, there was an increase in ROE from 2017 to 2019, until 2020 it showed a decline, then showed an upward trend until 2022. Although there was an increase in ROE from 2017 to 2022. Based on Bank Indonesia Circular Letter (No.13/24/DPNP/201), a good ROE standard is 15%. The ROE value of Islamic banking is still below the good ROE standard, which is 15%, (Diana et al., 2021). It can be concluded that ROE for Islamic banking is still below other conventional banks (Hertina & Rahmah, 2022) Islamic banks must not only prioritise profits in running their business, but must also fulfil their mandate to apply sharia principles. Sharia compliance is one way to build and maintain public trust (Djuwita et al., 2019).

Sharia Compliance is the adherence of Islamic banks to the principles of Islamic sharia based on the Qur'an and Hadith (Lestari, 2020). Islamic banks with principles in accordance with sharia, offer profit sharing as an alternative for their customers. Profit sharing in Islamic banking is the principle used to share profits and risks between Islamic financial institutions and their customers together (Bank Mega Syariah, 2023). This study uses indicators in measuring Sharia Compliance, namely the Profit-Sharing Financing Ratio (PSR), namely the profit-sharing principle. Some studies show that (Dewanata et al., 2016); (Djuwita et al, 2019); (Hamsyi, 2019) which states that Sharia Compliance has a significant and positive effect on the financial performance of Islamic banks. An increase in PSR reflects the high level of sharia compliance of banks, which has an impact on public and investor confidence. This can attract more third-party funds and increase business activities that lead to an increase in Return on Equity (ROE). Islamic banks with high PSR are able to demonstrate capital efficiency in generating profits, in accordance with sharia principles that prioritise risk distribution between banks and customers.

The development of Islamic banking in Indonesia has raised various challenges that must be faced. One of the biggest challenges is to maintain the image and good name in the eyes of customers in order to maintain customer trust and loyalty to Islamic banks (Rachman & Arkoyah, 2022). Customer loyalty can be maintained when they believe that the bank or financial company has prioritised the principles of good and fair corporate governance in its operations (Obioha & Garg, 2018) Corporate Governance in Islam is a system that directs and controls the company to fulfil the company's objectives by protecting the interests and rights of all stakeholders by using the basic concepts of decision making based on Islamic social-scientific epistemology based on the divinity of Allah (Prabowo, 2019). The implementation of GCG in Islamic banking is regulated in Bank Indonesia Regulation (PBI) No. 11/33/PBI/2009 concerning GCG Implementation for Islamic Commercial Banks and Islamic Business Units By implementing GCG, it can improve performance, because GCG has an influence on company performance (Gholy & Nadya, 2020). In the research of (Lestari, 2020) and (Yuniasary & Nurdin, 2019) shows that Islamic Corporate Governance affects financial performance. Islamic Corporate Governance emphasises transparency, accountability, and compliance with sharia principles in bank operations. Effective implementation of ICG, including the role of the Sharia Supervisory Board (DPS), can reduce information asymmetry between banks (agents) and capital owners (principals). This creates trust among investors and customers, which in turn increases the amount of funds managed by the bank as well as operational efficiency. As a result, the level of ROE increases along with the increase in profits generated from equity capital.

Islamic Corporate Social Responsibility can help build a positive reputation for Islamic banks as financial institutions that adhere to Islamic sharia principles, by improving public image and trust (Afandi et.al 2019). Increased public trust can have a positive impact on business growth and financial performance, as customers will be more likely to save and invest their funds in Islamic banks. The results showed that ICSR can strengthen the influence of zakat (as a proxy for Sharia Compliance) on financial performance (Wardiwiyono & Jayanti, 2021) Islamic Corporate Social Responsibility also plays a role in integrating the principles of sustainability in the business practices of Islamic banks, namely by paying attention to environmental, social, and GCG aspects, banks are able to ensure that their operations not only comply with sharia principles, but also support economic and social sustainability. This creates a strong foundation for ICG. Through the implementation of ICSR, Islamic banks can also strengthen internal and external controls to ensure that every business policy and practice is in accordance with the principles of Islamic finance. Combining ICSR with ICG, Islamic banks are able to create a sustainable and ethical business environment. This not only supports long-term business growth but also makes a positive contribution to the financial performance of Islamic banks through increased public trust, customer growth, and effective risk management. Research conducted by Nurlinda shows that ICSR is a variable that can moderate the influence of the relationship between ICG variables on financial performance (Nurlinda, 2020). This research focuses on the role of ICSR in strengthening the influence of Sharia Compliance and Islamic Corporate Governance on the financial performance of Islamic banks, which has not been widely explored in banking in Indonesia.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review and Hypothesis Development

The supporting theories in conducting discussions in this study are Agency Theory and Sharia Enterprise Theory. Agency theory reveals the relationship between principal and agent which is based on the separation of ownership and control of the company, separation of risk bearers, decision making and control functions (Jensen & Meckling, 1976). This theory states that the relationship between owners and managers is inherently difficult to create because of conflicting interests (Conflict of Interest). This theory argues that companies focus on the personal separation between owners and controllers, along with the legal separation between ownership rights and managerial decision rights (Lahjie, 2017). The agent knows better information about the organisation than the principal. This is an opportunity for the agent to carry out earnings management to manipulate the principal regarding the performance and condition of the company (Yuliani & Fithria, 2022). One of the efforts to minimise this conflict is by implementing ICG. By implementing ICG which regulates corporate governance that does not exclude Islamic values in it. Dianti, 2023).

Sharia Enterprise Theory (SET) was developed by (Triyuwono, 2001) This theory underlies sharia accounting (Triyuwono, 2001). SET theory was originally developed by (Koehler, 1969) which explains that all people who have a direct interest or indirect interest in each company, such as management, owners, government, creditors, communities, regulators, employees, and other interested parties internalised the value of tawhid so that this theoretical understanding is truly in accordance with Islamic law. Sharia Enterprise Theory is a theory that is able to explain the variables of Sharia Compliance and ICSR in Islamic banking. According to Meutia (2010), SET is the most appropriate theory to reveal the social responsibility of Islamic banks that emphasise the importance of accountability, transparency, and responsibility in Islamic banking (Meutia, 2010). This theory highlights the importance of material and spiritual well-being for stakeholders, which is in line with the objectives of Islamic economics, SET theory also emphasises the importance of social responsibility and disclosure of social performance in Islamic banking. Sharia Enterprise Theory is present in providing accountability to Allah SWT (horizontal accountability) and then elaborated in the form of accountability to humans and the natural environment (vertical accountability) (Irawan & Muarifah, 2020).

The effect of Sharia Compliance on the financial performance of Islamic banking

In Sharia Enterprise Theory requires consideration of stakeholders when presenting financial information, not only for owners, but also for those who directly or indirectly contribute to the business. Sharia Compliance proxied by Profit Sharing Ratio illustrates how far Islamic banks achieve existence by obtaining profit sharing from financing to customers. The Profit Sharing Ratio which shows an increase illustrates the financial performance (ROE) of Islamic banks in good condition so that it can maintain public trust and potential investors to decide on choices in Islamic banks because Islamic banks are considered good when Islamic banks are able to manage shareholder capital through profit sharing loans, and they can prove that profit sharing loans can dominate the loans offered by Islamic Banks, so they apply the profit sharing principle that is unique to Islamic Banks. Islamic banks that are consistent with Sharia Compliance have a positive reputation and image in the eyes of shareholders and the public. This good reputation can increase investor and customer confidence to invest in Islamic banks which will have an impact on increasing the bank's financial performance. Research conducted (Djuwita et al., 2019), (Hamsyi, 2019) and (Munifatussa'idah, 2021) state that sharia compliance has a significant and positive effect on the financial performance of Islamic banks.

H_1: Sharia Compliance has a significant and positive effect on financial performance in Islamic banking.

The effect of ICG on financial performance in Islamic banking

According to Jensen & Mackling (1976), in agency theory the principal makes a contract with the agent when the principal delegates his work to the agent. The separation of duties between the principal and the agent will have an impact on the imbalance in the control of information, where the agent, in this case the Islamic bank, knows much better information than the principal. . The existence of a Sharia Supervisory Board in the implementation of ICG will increase the principal's trust in the agent in managing the company properly without conveying Islamic values in it. So that the application of Islamic Corporate Governance will affect the financial performance of Islamic banks. Islamic Corporate Governance emphasises the importance of transparency and accountability in bank operations. A high level of transparency, information provided to stakeholders, including customers and investors, becomes clearer and more trustworthy. This increased trust can encourage more customers to use bank products and services, as well as attract more investment, which ultimately improves the financial performance of Islamic banks. The results of research conducted by Nida Siti Nabila show that ICG has a significant effect on financial performance. This is due to the still less than optimal performance of Islamic commercial banks in the company's internal management (Nabila & Azib 2022). Other research conducted by Diana Djuwita shows that ICG has a significant effect on financial performance ((Djuwita et al., 2019). Then strengthened by other research conducted by (Tarihoran, 2021) and (Sutapa & Hanafi, 2019) shows that ICG has a significant effect on financial performance (Azizi 2021).
H_2: ICG has a significant and positive effect on the financial performance of Islamic banking.

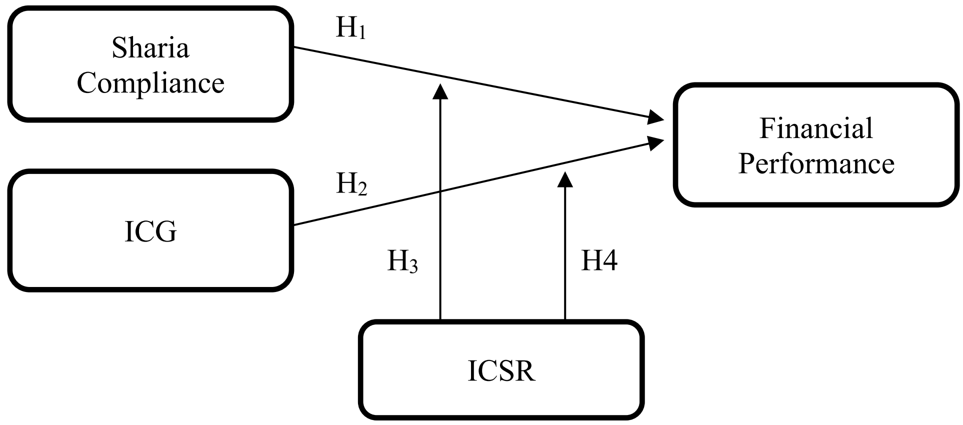
The effect of ICSR in moderating Sharia Compliance on the financial performance of Islamic banking

From the perspective of Shariah Enterprise Theory, the implementation of ICSR by BUS can also be seen from the bank's efforts in maintaining compliance with Islamic sharia. Islamic banks that disclose more information related to ICSR tend to get more support from stakeholders. With such support, the financial performance of Islamic banks will also increase. Through well-planned ICSR practices, Islamic banking can strengthen its reputation and build trust among customers, shareholders, and the public. Implementation of ICSR consistent with sharia principles not only strengthens compliance with Islamic values but can also create an environment that supports long-term financial performance (Uswatun, 2021). Islamic banks that disclose more information related to ICSR tend to get more support from stakeholders. If ICSR is well implemented, it automatically has an impact on compliance. Compliance is adherence to the corridors set by the bank. Therefore, a good implementation of ICSR will ensure compliance is well fulfilled, which in turn supports the bank's performance.
H_3: ICSR strengthens the influence of Sharia Compliance on the financial performance of Islamic banking. Influence.

ICSR in moderating ICG on Islamic banking financial performance

Sharia Enterprise Theory is present in providing accountability, primarily to Allah SWT (horizontal accountability) and then elaborated in the form of accountability to humans and the natural environment (vertical accountability) (Muarifah, 2020). Through the planned implementation of ICSR, Islamic banking can strengthen the foundation of Islamic Corporate Governance by incorporating Islamic ethical values into corporate decision making (Diyani & Oktapriana, 2020). Islamic Corporate Governance is closely related to trust. With more disclosure of ICSR, this will have a positive impact on the bank. As a result, the number of investors, customers, and consumers who invest in the bank will increase, which in turn will improve the bank's performance. Research conducted by Nurlinda, 2020) shows that Islamic Corporate Social Responsibility is a variable that can moderate the effect of the relationship between ICG variables on financial performance ((Nurlinda, 2020).
H_4: ICSR strengthens the influence of ICG on financial performance.

A conceptual framework is needed to make it easy to serve as a guideline for thinking. This comes from the explanation that has been presented previously regarding the relationship that occurs in each variable. Therefore, this framework was formed:



ICG = Islamic Corporate Governance
ICSR = Islamic Corporate Social Responsibility

Figure 3. Research Framework

Figure 3 shows that the independent variables in this study are Sharia Compliance, ICG which will be tested for their influence on the dependent variable, namely Financial Performance while ICSR is a moderating variable.

METHODS

This research is a study that uses a descriptive quantitative approach. According to Sugiyono (2018) quantitative data is a research method based on hard data, research data is presented in the form of numbers that are measured using statistics as a computational testing tool and related to the problem under consideration to arrive at a conclusion.

The data collection technique in this research is the documentation method. The documentation method includes data collection in the form of theory and data collection from previous research, journals, and books. The form of data used in this research is quantitative data. Quantitative is data collection using research tools presented in the form of numbers and analysis using statistics and the aim of testing the hypothesis that has been set Sugiyono (2017).

This research is sourced from secondary data in the form of audited financial statements and annual reports of Islamic banks for the period 2017-2022 which have been published on the official website of each bank.

This research variable consists of four variables. The independent variable is Sharia Compliance which is denoted by X1 and the independent variable is Islamic Corporate Governance which is denoted by X2. The dependent variable denoted by Y is Financial Performance. Moderation variable which is denoted by Z, namely Islamic Corporate Social Responsibility.

This research was conducted using purposive sampling method in sampling. The purposive sampling method is a method of collecting samples along with several considerations Sugiyono, (2017: 85). The sample selection criteria according to the purposive sampling method are as follows: the first Islamic Commercial Bank registered with the OJK. Second, Islamic Commercial Banks that are not listed in the OJK during 2017-2022 and third, Islamic Commercial Banks that have complete data on the variables studied.

Table 1. Operational Definition

Variables	Measurement
Sharia Compliance	Sharia Compliance denotes compliance with sharia law. Thus, it must be in accordance with the contractual principles of Islamic law and not have elements that are fundamentally prohibited (riba, gharar, maysir, etc.) as a prerequisite for sharia compliance. (Ribadu & Wan, 2019) The proxies used in this study were used in this study (Hameed et al. 2004) as follows: $$\text{Profit Sharing Ratio} = \frac{\text{Mudharabah} + \text{Musyarakah}}{\text{divided by Total Financing}}$$
Islamic Corporate Governance	ICG is a system that is run by companies in a transparent manner based on Islamic law, not only increasing accountability and added value for shareholders, but accountability to God (Mardiani et al., 2019). In this study, ICG employs Islamic Corporate Governance, which is proxied by the implementation of the duties and responsibilities of the Sharia Supervisory Board (DPS). This variable is measured based on a self-assessment of the implementation of Good Corporate Governance (GCG) in Islamic banks, with ratings and interval scales as follows: (1) rank one, predicate very good, scale five; (2) rank two, predicate good, scale four; (3) rank three, predicate fairly good, scale three; (4) rank four, predicate less good, scale two; (5) rank five, predicate not good, scale one.
Financial Performance	Measurement of company performance can be expressed in the form of financial ratios. Profitability ratio is a ratio to measure the company's ability to generate profits (Kuppusamy & Samudhram, 2010) explains that profitability can be measured using ROE, which compares net income with total equity owned, to measure the bank's ability to generate profits from the management of equity owned by the bank. $$\text{ROE} = \frac{Net\ profit}{Total\ equity}\ X\ 100\%$$
Islamic Corporate Social Responsibility	ICSR is a commitment of the company or business world to contribute to sustainable economic development with the concept of ICSR in Islam consisting of the concept of zakat, justice, and benefit that aims according to Islamic law (Maqashid alshariah) so that business is an effort to create maslahah, not just seeking profit.In this study, ICSR which in its reporting is measured by the Islamic Social Reporting disclosure method developed on the basis of reporting standards based on the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) which was then developed by Haniffa by making five ISR disclosure themes, namely Funding and Investment Theme, Products and Services Theme, Employee Theme, Community Theme, and Environmental Theme. Then developed by (Othman et al. 2009) by adding one disclosure theme, namely the theme of Corporate Governance. ICSR is calculated as follows: Score 0, if there is no disclosure of the relevant item. Score 1, if there is disclosure of related items. $$\text{ICSR} = \frac{The\ number\ of\ disclosed\ items\ (\sum X1)}{Total\ number\ of\ disclosure\ items\ (n)}\ X\ 100\%$$

Table 2. measurement and sampling

Criteria	Total
Islamic Commercial Banks registered with the OJK.	13
Islamic Commercial Banks that are not listed in the OJK during 2017-2022.	(4)
Islamic commercial banks that have complete data on the variables studied.	0
Total population that fulfils the criteria	9
Research period	6
Total sample that met the criteria	**54**

Based on Table 2, out of the 13 Islamic banks, 4 banks do not meet the criteria as they were not registered with the OJK during the 2017-2022 period. As a result, 9 Sharia Commercial Banks meet the criteria to be included as research samples.

RESULT AND DISCUSSION

Based on the results of the normality test using kolomogorov, the results show residuals with a significant value of 0.200> 0.05 so that the data is declared normally distributed.

Then the stage carried out is the multicollinearity test. The results show that all independent variables have a tolerance amount greater than 0.10 and a VIF value of less than 10, so it is stated that there is no multicoreliniearity problem between the Sharia Compliance variables, ICG.Then the next step is the Heteroscedasticity Test. Gletser Test from the output of the SPSS 29 programme shows the results of the sig value of the Sharia Compliance and ICG variables more than 0.05 So that researchers can conclude that there is no heteroscedasticity problem.

From the results of the classical assumption test that the normality test, multicollinearity test and heteroscedasticity test have been fulfilled. So that the regression model is suitable for further analysis. Based on the results of the coefficient of determination test, the following is obtained:

Table 3. Determinant Coefficient Test Results

Model	Adjusted R Square before Moderation	Adjusted R Square after Moderation
1	0,383	0,978

a. Predictors: (Constant), Sharia Compliance*ICSR, ICSR, Sharia Compliance

Based on Table 3, it is known that the Adjusted R Square value is 0.383 (38.3%), indicating that the independent variable, Sharia Compliance, is able to influence the dependent variable, Financial Performance, by 38.3%, with the remaining 61.7% being influenced by non-research variables. The value of the coefficient of determination after moderation, as shown in Table 3, indicates that the Adjusted R Square value increases to 0.978 (97.8%), meaning that the variables of Sharia Compliance, ICSR, and the interaction between Sharia Compliance and ICSR are able to influence the Financial Performance variable by 97.8%, with the remaining 2.2% being attributed to non-research variables.

Table 4. Determinant Coefficient Test Results

Model	Adjusted R Square before Moderation	Adjusted R Square after Moderation
1	0,383	0,981

a. Predictors: (Constant), ICG*ICSR, ICSR, ICG

Based on Table 4, it is observed that the Adjusted R Square value is 0.383 (38.3%), indicating that the independent variable, ICG, is able to influence the dependent variable, Financial Performance, by 38.3%, with the remaining 61.7% being influenced by non-research variables. The coefficient of determination after moderation, as shown in Table 4, reveals that the Adjusted R Square value increases to 0.981 (98.1%), meaning that the variables ICG, ICSR, and the interaction between ICG and ICSR are able to influence the Financial Performance variable by 98.1%, with the remaining 1.9% being attributed to non-research variables.

Table 5. Multiple Linear Regression Analysis

Coefficients[a]						
		Unstandardised Coefficients		Standardised Coefficients		
Model		**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	-1,033	0,236		-4,382	0,001
	Sharia Compliance	1,107	0,164	0,654	6,768	0,001
	ICG	0,297	0,118	0,243	2,520	0,015

a. Dependent Variable: Financial Performance

Based on Table 5, the results show that for the *Sharia Compliance* variable, the t-value obtained is 6.768, which is greater than the critical t-value of 1.675, with a significance level of 0.001, which is smaller than 0.05. This indicates that Sharia Compliance has a significant and positive effect. For the ICG variable, the t-value obtained is 2.520, which is also greater than the critical t-value of 1.675, with a significance level of 0.015, which is smaller than 0.05. This indicates that ICG has a significant and positive effect.

Table 6. Moderated Regression Analysis (MRA)

Coefficients[a]						
		Unstandardised Coefficients		Standardised Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-42,806	5,391		-7,940	0,001
	Sharia Compliance	3,911	1,585	0,170	2,467	0,015
	ICG	3,190	1,019	0,241	3,129	0,002
	ICSR	12,331	1,436	0,626	8,588	0,001
	Sharia Compliance*ICSR	8,446	2,293	0,247	3,684	0,001
	ICG*ICSR	0,822	0,133	0,412	6,161	0,001

a. Dependent Variable: Financial Performance

Based on Table 6, the significance value for the ICSR variable is 0.001, which is less than 0.05. The interaction variable Sharia Compliance*ICSR has a significance value of 0.001, which is also less than 0.05. Therefore, the ICSR variable is a moderating variable. The interaction variable ICG*ICSR has a significance value of 0.001, which is less than 0.05. Hence, the ICSR variable serves as a moderating variable.

The Effect of Sharia Compliance on Financial Performance.

The results of the simple linear regression test and t-test show that Sharia Compliance has a positive and significant effect on Financial Performance. It is evident from the regression coefficient, which has a positive value, and the t-value > t-table, that is, 6.768 > 1.675, with the significance test showing a value <0.05, specifically 0.001. This indicates that the higher the Profit Sharing Ratio, the better the Financial Performance of the Sharia Commercial Bank. These findings align with the research conducted by Indrayani & Anwar (2022) which states that profit sharing significantly influences profitability.

Sharia Compliance proxied by Profit Sharing Ratio has a significant and positive effect on Financial Performance. The results of this study are in line with *Sharia Enterprise Theory* (SET) which describes how the manager of a company acts as a representative who carries the mandate to manage the company and is responsible for presenting *value-added* statements in the form of habluminallah accountability (human relationship with God). From this theory it can be concluded that Islamic banking is a bridge between Islamic principles and Muslims.

Based on the analysis of the results of the calculation of the Profit Sharing Ratio, it can be seen how much the role of Islamic Commercial Banks in carrying out their intermediary function. Based on the data, several Islamic Commercial Banks show a strong commitment in carrying out the sharia-based intermediary function, especially through a high proportion of profit-sharing-based financing (mudharabah and musyarakah) to total financing. These banks include PT Bank Syariah Bukopin, and PT BCA Syariah. For example, PT Bank Syariah Bukopin recorded a proportion of profit-sharing financing of 67.95% in 2018, 58.95% in 2019, and 83.88% in 2022. PT BCA Syariah also shows high commitment with the proportion of profit-sharing financing of 75.51% in 2021 and increasing to 89.20% in 2022. The high proportion of mudharabah and musyarakah financing reflects the dedication of these banks in implementing sharia principles as intermediary institutions that connect fund owners and fund managers through profit-sharing schemes. This is because what distinguishes Islamic banks from conventional banks is the profit-sharing system they operate.

Total financing includes profit-sharing, leasing, buying and selling, lending, and multi-service transactions. The increase in profit-sharing financing shows that the income of Islamic banks is also increasing. The results of this study are in accordance with research conducted by (Sutrisno & Basuki, 2014) which states that financing policy has a positive and significant effect on financial performance. Meanwhile (Ramdony, 2019) states that the Profit Sharing Ratio has a negative effect on financial performance in Islamic banks.

The Effect of ICG on Financial Performance

The results of the simple linear regression test and t test show that ICG has a positive and significant effect on Financial Performance. It is known from the regression coefficient that it has a positive value with the value of t count> t table, namely 2.520> 1.675 and the significance test value shows a number <0.05, namely 0.015**.** This means that if ICG in Islamic Commercial Banks is well managed and has increased, the greater the level of ROE obtained by Islamic Commercial Banks.

In this ICG variable, *self-assessment* is a measure of the success rate of ICG implementation. This variable will also greatly affect profitability (ROE), because with the implementation of good ICG, it will create trust in the bank so that both investors and customers will be interested and loyal to the bank which in turn can create maximum profit.

The results of the self-assessment of the implementation of ICG, and the composite scores carried out by nine Islamic commercial banks get an average rating of 2 or "good", the "good" category indicates that Islamic banking in Indonesia in 2017-2022 has implemented sharia principles and is in accordance with the provisions of ICG implementation so as to improve the financial performance of Islamic banking. Victoria Syariah bank and BCA Syariah bank get a rating of 1 or "very good". This is reflected in the implementation of ICG principles that are very adequate. If the number obtained is smaller, it reflects a better application of ICG. The better the ICG is implemented, the more the level of profitability (ROE) will increase in Islamic commercial banks.

Good ICG disclosure and in accordance with the applicable system in Islamic banks will have a positive influence on the financial performance of Islamic banks. The results of this study are in accordance with agency theory. This theory also reveals that the separation between the owner (principal) and the manager of the company (agent) creates an agency problem, then the separation of the owner and manager also creates information asymmetry, namely a situation where the agent has access to information that is not owned by the principal.

The results of this study are in line with the results of previous research conducted by (Ananda & Erinos, 2020) and (Juwariyah, 2021) shows that the Islamic Corporate Governance variable has a significant and positive effect on the performance of Islamic Commercial Banks, meaning that by implementing Islamic Corporate Governance, it will be able to improve the performance of Islamic commercial banks.

ICSR Moderates the Effect of Sharia Compliance on Financial Performance

Based on the interaction test equation using moderated regression analysis obtained, it is known that ICSR can moderate the relationship between the independent variable and the dependent variable towards positive or strengthen and significant. The sig. value shows <0.05, namely 0.001 so that the hypothesis is accepted. The result of moderation regression has coefficient of determination 0. 978 or 97.8% which means the variable of Sharia Compliance, ICSR and interaction of Sharia Compliance where ICSR is able to influence the variable of Financial Performance by 97.8% while 2.2% is due to external variables.

These results indicate that the disclosure of good ICSR practices not only strengthens the bank's compliance with sharia principles but also improves financial performance. The implementation of ICsSR in Islamic banking creates added value that not only focuses on profitability but also on social responsibility, which is in line with Sharia Enterprise Theory. SET theory emphasises the importance of integration of moral and ethical values in business activities, where ICSR plays an important role in building reputation and public trust in Islamic banking. In this case, Islamic banks that actively implement ICSR not only improve the image of Islamic banks in the eyes of the public but also strengthen the bank's position in fulfilling sharia obligations, which ultimately contributes to better financial performance (Juliga, 2021).

ICSR Moderates the Effect of ICG on Financial Performance.

Based on the interaction test equation using moderated regression analysis obtained, it is known that ICSR can moderate the relationship between the independent variable and the dependent variable towards positive or strengthen and significant. The sig. value shows <0.05, namely 0.001 so that the hypothesis is accepted. The result of moderation regression has coefficient of determination 0.981 or 98.1% which means the variable of Sharia Compliance, ICSR and interaction of Sharia Compliance where ICSR is able to influence the variable of Financial Performance by 98.1% while 1.9% is due to external variables.

This is in line with research conducted by (Lewis, 2006) (Nurlinda, 2020) which suggests that ICG considers the effects of sharia law and Islamic economic and financial principles on practices and policies, for example on zakat institutions, prohibiting speculation, and developing an economic system based on profit sharing. The decision making carried out exceeds the conventional CG context which includes shareholders, suppliers, creditors, consumers, competitors, and employees. To realise ICG, one of the ways that can be done is by paying attention to ICSR. Sharia Enterprise Theory (SET) is an important concept in the ICG framework. This theory integrates Islamic values into business practices, so that it focuses not only on financial profit, but also on social and spiritual responsibility towards God, humans, and nature.

Corporate governance has an important role in almost all institutions including Islamic banks. The existence of a sharia supervisory board is an important part of Islamic banks that distinguishes them from conventional banks because it has the function of ensuring the conformity of Islamic bank operations with Islamic rules. The mechanism guaranteed by the Islamic supervisory board is what is referred to as ICG.

Islamic banking, Islamic microfinance institutions, and non-bank Islamic financial institutions are examples of companies that apply the concept of CG in Islam. The thing that distinguishes CG in Islamic banking compared to conventional banking is the presence of the Sharia Supervisory Board in its CG structure. According to PBI No. 11/33/2009 concerning the implementation of GCG for Sharia Commercial Banks and Sharia Business Units, the Sharia Supervisory Board has a function to provide advice and suggestions to the board of directors and supervise bank activities to comply with sharia principles.

The existence of the Sharia Supervisory Board (DPS) is very important because it can make the Islamic community believe that Islamic banks will manage their funds in accordance with Islamic law. This will attract the interest of the Islamic community to invest. If many people invest, business activities in Islamic banks will automatically increase and will ultimately improve the company's financial performance.

The existence of DPS should be a solution in overcoming weak supervisory control and lack of commitment from stakeholders. If DPS can carry out its functions properly, then the Islamic community will believe in the management carried out by Islamic banks in accordance with Islamic rules.

CONCLUSION

Based on the research results, there are several recommendations. First, Islamic commercial banks need to increase the proportion of profit-sharing-based financing, such as mudharabah and musyarakah, as a form of compliance with sharia principles. This can be done through product innovation and public education on the benefits of profit-sharing financing schemes in promoting economic justice and partnership. Second, strengthening the implementation of Islamic Corporate Governance (ICG) needs to be done by ensuring that the Sharia Supervisory Board (DPS) plays an active role in overseeing bank operations, and conducting regular evaluations through self-assessment to improve compliance with sharia governance. Third, optimisation of Islamic Corporate Social Responsibility (ICSR) is needed through expanding the scope of Islamic value-based social programmes, such as zakat, infaq, and community social activities, which are communicated effectively to increase public trust.

In terms of implications, theoretically, this study supports the application of Sharia Enterprise Theory which emphasises the importance of responsibility to God, humans, and the environment in the management of Islamic banks. Practically, Islamic banks can use the results of this study to design business strategies that integrate sharia values with governance and social responsibility, which will improve market position and increase profitability (ROE). Policy-wise, the Financial Services Authority (OJK) can improve supervision of the implementation of ICG and ICSR to ensure better compliance with sharia principles, supporting stronger and more sustainable growth of Islamic banks.

REFERENCES

Abdul Rachman, D. P. M., & Arkoyah, W. A. & S. (2022). Challenges of Islamic Banking Development in Indonesia. *Islamic Banking And Finance*, *5*, 2.

Afandi, A. A., Ningsih, N. W., & Supaijo. (2019). The Effect of Islamic Corporate Social Responsibility (Icsr) on Company Reputation. *Journal of Law and Economics Sharia*, *7*.

Ananda & Erinos. (2020). *The Effect of Islamic Corporate Governance and Islamic Corporate Social Responsibility on Islamic Banking Performance (Empirical Study on Islamic Commercial Banks Listed on the Indonesia Stock Exchange in 2012-2018). Vol. 2, No*, Page 2065-2082.

Andi Nurlinda. (2020a). *The Effect of Islamic Corporate Governance & Market Share on the Financial Performance of Islamic Banking with Islamic Corporate Social Responsibility as a Moderating Variable (Study on Islamic Banking Companies Listed in Ojk in 2014-2018).*

Andi Nurlinda. (2020b). *The Effect of Islamic Corporate Governance & Market Share on the Financial Performance of Islamic Banking with Islamic Corporate Social Responsibility as a Moderating Variable (Study on Islamic Banking Companies Listed in Ojk in 2014-2018).*

Andi Ramdony, M. (2019). *The Effect of Sharia Income and Sharia Financing on Financial Health at Islamic Commercial Banks in Indonesia in 2015-2018.*

Annisa Abubakar Lahjie. (2017). *The Impact Of Corporate Governance, Corporate Social Responsibility And Information Quality On The Value Of Indonesian Listed Firms.*

Azizi, M. N., & N. (2021). The Effect Of Islamic Corporate Governance On The Financial Performance Of Sharia Commercial Banks In Indonesia. *Islamic Economics, Banking And Finance*, *8*(03), 98-116.

Bank Indonesia. (2021). Bank Supervision: Healthy Banks, Safe Customer Money, Strong Economy. *Bank Indonesia Newsletter Info Booth*, 1-8.

Bank Mega Syariah. (2023a). *6 Differences between Islamic Banks and Conventional Banks*.

Bank Mega Syariah. (2023b). *Understand What is Sharia Bank, Characteristics, Functions, and Products*. Bank Mega Syariah.

Desta, S. Y., Subagiyo, R., & Usdeldi, U. (2022). The Effect of Sharia Compliance on Financial Performance with Mediation of Sharia Maqashid Performance in Islamic Banking. *An-Nisbah: Journal of Islamic Economics*, *9*(1), 76-108. Https://Doi.Org/10.21274/An.V9i1.5485

Dewanata, P., Hamidah, H., & Ahmad, G. N. (2016). The Effect Of Intellectual Capital And Islamicity Performance Index To The Performance Of Islamic Bank In Indonesia 2010-2014 Periods. *Jrmsi - Indonesian Journal of Science Management Research*, *7*(2), 259-278. Https://Doi.Org/10.21009/Jrmsi.007.2.04

Diana, S., Sulastiningsih, Sulistya, E., & Purwati. (2021). Analysis of Islamic Banking Performance during the Covid-19 Pandemic. *Indonesian Journal of Accounting and Business Research*, *1*(1), 111-125. Https://Doi.Org/10.32477/Jrabi.Vxix.Xxx

Dini Nur Dianti. (2023). *The Effect of Islamic Corporate Governance and Sharia Compliance on Financial Performance at Islamic Commercial Banks in Indonesia*.

Diyah, R., Sari, P., Giovanni, A., & Ekonomi, F. (2021). Analysis of the Financial Performance of Islamic Commercial Banks. *Scientific Journal of Management Economics*, *12*(02), 71-85.

Diyani, L. A., & Oktapriana, C. (2020). *Implementation Of Islamic Corporate Governance, Islamic Corporate Social Responsibility And Financial Performance Toward Reputation*. *127* (Aicar 2019), 132-136.

Djuwita, D., Setiowati, N. E., & Kulsum, U. (2019). The Influence Of Sharia Compliance And Islamic Corporate Governance On Financial Performance Of Sharia Commercial Bank. *Al-Amwal: Journal of Sharia Economics and Banking*, *11(2)*, 205-220. Https://Doi.Org/Https://Doi.Org/10.24235/Amwal.V11i2.4072

Djuwita, D., Setiowati, N. E., & Kulsum, U. (2019a). The Influence Of Sharia Compliance And Islamic Corporate Governance On Financial Performance Of Sharia Commercial Bank. *Al-Amwal: Journal of Sharia Economics and Banking*, *11*(2), 216. Https://Doi.Org/10.24235/Amwal.V11i2.4072

Djuwita, D., Setiowati, N. E., & Kulsum, U. (2019b). The Influence Of Sharia Compliance And Islamic Corporate Governance On Financial Performance Of Sharia Commercial Bank. *Al-Amwal: Journal of Sharia Economics and Banking*, *11*(2), 216. Https://Doi.Org/10.24235/Amwal.V11i2.4072

Fitriana Hamsyi, N. (2019a). The Impact Of Good Corporate Governance And Sharia Compliance On The Profitability Of Indonesia's Sharia Banks. *Problems And Perspectives In Management*, *17*(1), 56-66. Https://Doi.Org/10.21511/Ppm.17(1).2019.06

Fitriana Hamsyi, N. (2019b). The Impact Of Good Corporate Governance And Sharia Compliance On The Profitability Of Indonesia's Sharia Banks. *Problems And Perspectives In Management*, *17*(1), 56-66. Https://Doi.Org/10.21511/Ppm.17(1).2019.06

Gholy, P. A., & Nadya, P. S. (2020). The Effect of Good Corporate Governance Implementation on Profitability at Islamic Commercial Banks for the 2014-2018 Period. *Nisbah: Journal of Islamic Banking*, *6*(2), 108. Https://Doi.Org/10.30997/Jn.V6i2.3265

Hertina, D., & Rahmah, M. A. (2022). Comparative Analysis of the Financial Performance of Islamic Banks and Conventional Banks on Investment Decisions for the 2017-2021 Period. *Fair Value: Scientific Journal of Accounting and Finance*, *4*(3), 1813-1819.

Indrayani, T., & Anwar, S. (2022). Analysis of the Effect of Intellectual Capital, Profit Sharing Ratio, Zakat Performance Ratio, Islamic Income Ratio and Income Diversification on Return On Asset. *Journal of Revenue: Scientific Journal of Accounting*, *2* (2), 271-281.

Https://Doi.Org/10.46306/Rev.V2i2.70

Irawan, F. And Muarifah, E. (2020). Analysis of the Implementation of Corporate Social Responsibilty (Csr) in the Perspective of Sharia Enterprise Theory. *Minhaj: Journal of Sharia Science, 1(2)*, 149-178.

Iwan Triyuwono. (2001a). Metaphor of Zakat and Shari'ah Enterprise Theory as Basic Concepts in Shari'ah Accounting. *Indonesian Journal of Accounting and Auditing (Jaai)*, *5*(1), 131-45.

Iwan Triyuwono. (2001b). Metaphor of Zakat and Shari'ah Enterprise Theory as Basic Concepts in Shari'ah Accounting. *Indonesian Journal of Accounting and Auditing (Jaai)*, *5*(1), 131-45.

Jensen, M. C., & Meckling, W. H. (1976). Theory Of The Firm: Managerial Behaviour, Agency Costs And Ownership Structure. *Journal Of Financial Economics*, *3*(4), 305-360. Https://Doi.Org/10.1016/0304-405x(76)90026-X

Juliga, N. R. (2021). Analysis of Islamic Corporate Governance and Islamic Corporate Social Responsibility on Reputation with Performance as a Moderating Variable (Study on Islamic Banks in 2010-2019). In *Repository.Uinjkt.Ac.Id.*

Juwariyah, S. (2021). The Effect of Islamic Corporate Governance (Icg) on the Financial Performance of Islamic Commercial Banks in Indonesia. *Darussalam Journal; Journal of Economics and Islamic Business*, *Vol. 0, No.* (2021).

Koehler, C. P. (1969). The Enterprise Theory Of The Firm And The Systems Concept. *Texas Tech University*, Doctoral Dissertation.

Kuppusamy, M., Saleh, A. S., & Samudhram, A. (2010). Measurement Of Islamic Banks Performance Using A Shariah Conformity And Profitablity Model. *Review Of Islamic Economics*, *13*((2)). Https://Doi.Org/. Https://Doi.Org/10.1136/Jech.2008.086538

Lestari, S. (2020a). The Effect of Sharia Compliance and Islamic Corporate Governance on the Financial Performance of Islamic Commercial Banks. *Al- Sharf Journal of Islamic Economics*, *1*(2).

Lestari, S. (2020b). The Effect of Sharia Compliance and Islamic Corporate Governance on the Financial Performance of Islamic Commercial Banks. *Al- Sharf Journal of Islamic Economics*, *1*(2).

Lewis, M. (2006). *Accountability And Islam, Conference Paper Presented At Fourth International Conference On Accounting And Finance In Transition Adelaide*. 10-12 April.

Mardiani, L., Yadiati, W., & Jaenudin, E. (2019). Islamic Corporate Governance and Financial Performance of Sharia Business Units (Uus) 2013-2017 Period. *Journal of Accounting: Scientific Review of Accounting (Jak)*, *6*(2), 128. Https://Doi.Org/10.30656/Jak.V6i2.1411

Meutia, I. (2010a). *Shari'ah Enterprise Theory as a Basis for Social Responsibility Disclosure*. 1-302.

Meutia, I. (2010b). *Shari'ah Enterprise Theory as a Basis for Social Responsibility Disclosure*. 1-302.

Mohammed Bashir Ribadu and Wan Nurhayati Wan. (2019). An Integrated Approach Towards Sharia Compliance E-Commerce Trust. *Applied Computing And Informatics*, *15*(1), 4.

Muarifah, F. I. A. E. (2020). Analysis of the Implementation of Corporate Social Responsibilty (Csr) in the Perspective of Sharia Enterprise Theory. *Minhaj: Journal of Sharia Science*, *1*(2), 149-78.

Munifatussa'idah, A. (2021). Sharia Compliance, Islamic Corporate Governance, Intellectual Capital, And Earning Management Toward Financial Performance In Indonesia Islamic Banks. *Iqtishadia*, *14*(2), 251. Https://Doi.Org/10.21043/Iqtishadia.V14i2.10152

Obioha, O. O., & Garg, A. K. (2018). Corporate Governance Practices' Influence On Customer Loyalty In Nigerian Retail Banks. *Acta Commercii*, *18*(1), 1-12. Https://Doi.Org/10.4102/Ac.V18i1.549

Ojk. (2023). Statistics of Islamic Commercial Banks. In *Otoritas Jasa Keuangan* (Vol. 66, Issue 11). Https://Doi.Org/10.1097/Dcr.0000000000003086

Prabowo, M. S. (2019). Good Corporate Governance (Gcg) in Islamic Perspective. *Qistie*, *11*(2), 257-

270. Https://Doi.Org/10.31942/Jqi.V11i2.2592

Sutapa, S., & Hanafi, R. (2019). The Impact of Islamic Corporate Governance, Islamic Social Reporting on the Financial Performance of Islamic Banks in Indonesia. *Journal of Indonesian Accounting*, *8*(2), 155. Https://Doi.Org/10.30659/Jai.8.2.155-165

Sutrisno, & Basuki, R. A. (2014). The Effect of Management and Financing Policies on the Performance of Islamic Banks. *Journal of Islamic Economics and Business*, *Viii* (2), 170-185.

Tarihoran, A. H. (2021). The Effect of Sharia Compliance, Islamic Corporate Governance and Islamic Social Reporting on Financial Performance at Islamic Commercial Banks in Indonesia. *Thesis. Thesis, University of Muhammadiyah North Sumatra*, 1-111.

Uswatun, H. (2021). *Thesis The Effect of Islamic Corporate Social Responbility (Icsr) on Sharia Financial Performance of Companies Listed on the Jakarta Islamic Index for the 2018-2020 Period by :*

Wardiwiyono, S., & Jayanti, A. F. (2021). The Role of Islamic Corporate Social Responsibility in Moderating the Effect of Zakat on the Performance of Islamic Commercial Banks. *Journal of Islamic Accounting and Finance*, *9*(1), 73-89. Https://Doi.Org/10.35836/Jakis.V9i1.241

Yuliani, F. D., & Fithria, A. (2022). The Effect Of Implementing Good Corporate Governance On The Profitability And Financing Risk Of Sharia Commercial Banks. *Sharia Economics: Journal Of Economic Studies*, *6(1)*(1).

Yunianto, F. (2022). *Ojk Recorded Sharia Banking Market Share Reached 7.03 Percent As of August*. Between 2022.

Yuniasary, M., & Nurdin. (2019). The Effect of Sharia Compliance and Islamic Corporate Governance on the Financial Performance of Islamic Commercial Banks in Indonesia (Case Study on Islamic Banking in Indonesia 2013 - 2017). *Management*, *5*, 1008.