The Influence of Sharia Compliance and Corporate Social Responsibility (CSR) on Financial Performance: A Case Study of Islamic Commercial Banks in Indonesia during the 2019-2023 Period

Muhammad Alif Syaifurrosyid, Usnan, S.E.I., M.E.I.

Departement of Sharia Accounting, Faculty of Islamic Economics and Business,
Universitas Islam Negeri Raden Mas Said Surakarta, Surakarta, Indonesia
*Corresponding email: muhlifrosyid10@gmail.com

Abstract *- This study aims to examine the influence of Corporate Social Responsibility (CSR) and Sharia compliance on financial performance, using a case study of Islamic commercial banks during the 2019–2023 period. The population of this research comprises all Islamic commercial banks registered with the Otoritas Jasa Keuangan (OJK) in Indonesia over the 2021–2023 period. The sample was determined using a purposive sampling technique, whereby observations were selected based on predefined criteria to ensure their relevance to the objectives of the study. The findings indicate that Corporate Social Responsibility (CSR) and Sharia compliance—proxied by the Profit Sharing Ratio, Islamic Income Ratio, and Zakat Performance Ratio—exert a positive influence on the financial performance of Islamic commercial banks in Indonesia during the 2019–2023 period. Furthermore, CSR demonstrates a moderating role in strengthening the relationship between Sharia compliance (Profit Sharing Ratio, Islamic Income Ratio, and Zakat Performance Ratio) and the financial performance of Islamic commercial banks over the same period. In addition, firm size functions as a control variable affecting the financial performance of Islamic commercial banks in Indonesia between 2019 and 2023. This study is subject to certain limitations, particularly the limited availability of prior empirical studies and supporting datasets, which may explain why earlier research has occasionally reported inconsistent or insignificant relationships among specific variables during the 2019–2023 period. Future research is therefore encouraged to expand the existing body of literature and provide additional empirical evidence, particularly in examining the relationship between Corporate Social Responsibility (CSR), Sharia compliance, and the financial performance of Islamic commercial banks.*

Keywords*: Sharia Compliance (Profil Sharing Ratio, Syariah Islamic Income Ratio, Zakat Performance Ratio), Corporate Social Responsibility (CSR), Financial Performance, Return on Assets (ROA), Firm Size.*

I. INTRODUCTION

Banking institutions play a crucial role in the Indonesian economy as financial intermediaries that facilitate the mobilization and allocation of funds within the financial system. Financial institutions may take various forms or operate as sub-sectors within the broader financial industry, carrying out activities related to the collection of funds from the public and their subsequent distribution to productive sectors. Banks, therefore, represent essential institutions that enable individuals and businesses to conduct a wide range of financial transactions and, consequently, contribute significantly to a country's economic growth, including that of Indonesia. In addition, banks provide capital for entrepreneurs and create opportunities that facilitate investment activities for investors (Fadhilah & Suprayogi, 2020).

In Indonesia, Islamic banking has experienced considerable growth following the enactment of several regulatory frameworks that provide legal certainty and support the development of the Islamic financial market, most notably Law Number 21 of 2008 on Islamic Banking (Hodi, 2023). To strengthen their position and gain broader public confidence, Islamic banks in Indonesia are required to continuously enhance their financial performance, including through business expansion strategies. The success of a banking institution can generally be evaluated through its financial performance, which reflects the effectiveness of managerial capabilities in managing and allocating financial resources. Financial ratios, therefore, serve as important analytical tools for assessing a bank's current financial condition, enabling more informed and accurate financial decision-making in the future.

Considering that Indonesia is home to the world's largest Muslim population, Islamic banking plays a significant role as an alternative financial institution offering products and services that comply with Sharia principles. According to a report published by the The Royal Islamic Strategic Studies Centre (RISSC), the Muslim population in Indonesia reached approximately 240.62 million people in 2023, representing around 86.7% of the country's total population of 277.53 million. This demographic composition indicates a substantial potential market for Sharia-based financial products and services. Moreover, a considerable portion of Indonesian society demonstrates increasing awareness of the importance of adhering to Sharia principles in their financial activities (Mutia, 2023).

Financial performance represents an overview of a company's operational achievements, typically assessed through the analysis of financial statements over a particular period while taking into account relevant performance indicators. In the banking sector, financial performance reflects the results of banking operations within a specified timeframe. Such performance is generally presented in annual financial reports published by banking institutions. These reports contain various performance indicators, with financial ratios commonly serving as the primary tools for evaluating banking performance. Financial performance is therefore of critical importance not only for banks themselves but also for stakeholders and investors, as it provides a clear indication of how effectively a particular banking institution operates. Data from the Otoritas Jasa Keuangan (OJK) indicate that the total assets of Islamic banking institutions in Indonesia have continued to increase over time. By the end of 2022, this upward trend in the asset growth of Islamic commercial banks was clearly illustrated in the graphical data presented below.

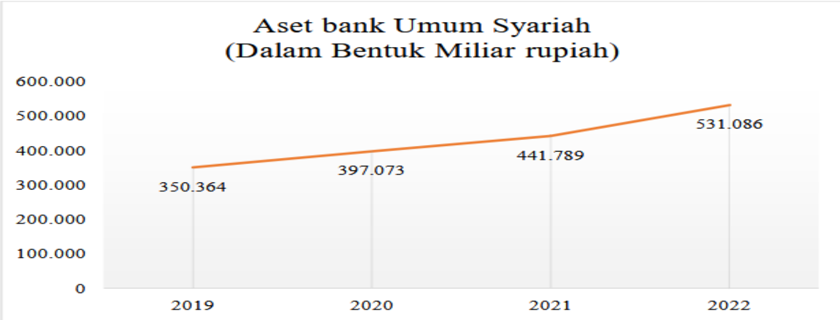

Fig. 1 Asset Growth of Islamic Commercial Banks, 2019-20122 Based on the statistical data presented above, reports from the Otoritas Jasa Keuangan (OJK) in 2022 indicate that Islamic financial assets grew by 20.39%, reaching IDR 531.86 trillion in the same year. This growth increased the market share of Islamic finance in Indonesia to 10.69% of the total national financial assets. Meanwhile, the assets of Islamic banking institutions—including Islamic commercial banks and Islamic business units—reached IDR 868.98 trillion, reflecting an annual growth rate of 11.1% (year-on-year). The expansion of these assets was primarily driven by the growth in financing activities and third-party funds (DPK). As of December 2023, the outstanding financing of Islamic commercial banks and Islamic business units amounted to IDR 568.43 trillion, representing a year-on-year increase of 16.65% from IDR 491.48 trillion in 2022. Despite this positive trend, the market share of Islamic banking financing remained relatively modest at 8.01%. The growth in the assets of Islamic commercial banks is closely associated with their level of profitability, which serves as an important indicator for assessing the financial performance of institutions, whether financial or non-financial in nature (Shaid, 2024).

Profitability constitutes one of the principal metrics used to evaluate the performance and success of banking institutions. It reflects the capacity of an organization to generate profits within a specific period and simultaneously functions as an indicator of managerial efficiency in conducting daily operational activities (Sakinah Indah, 2022). According to the latest statistics on Islamic banking, the number of Islamic commercial banks in Indonesia reached 14 institutions in 2023, while the number of Islamic business units totaled 20 (Hodi, 2023). Consequently, the profitability of Islamic banking institutions has become a significant subject of scholarly investigation, both within Indonesia and in the broader international context.

Profitability is widely recognized as one of the most appropriate indicators for assessing a company's financial performance. It is closely associated with the financial performance of banking institutions, including Islamic Commercial Banks and Islamic Business Units. Financial performance refers to the outcomes achieved by an institution, organization, or individual in fulfilling work requirements established by the respective entity. In a broader sense, financial performance reflects the extent to which actions—or in some cases inactions—undertaken by different components of an organization influence its overall contribution in terms of output quality, output quantity, timeliness, and operational cooperation (Kumara, 2023).

The financial performance of Islamic Commercial Banks is presented below in the form of diagrammatic data as follows :

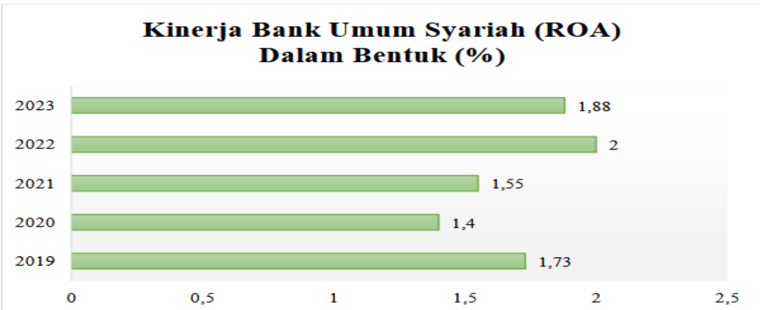

Fig. 2 The Development of the Financial Performance of Islamic Commercial Bank (TOA), 2019-2023 Based on the graphical data presented above, profitability—as measured by the Return on Assets (ROA) ratio—has exhibited a fluctuating trend over the past five years. In 2019, ROA increased from 1.28% to 1.73%. However, in 2020, at the onset of the COVID-19 pandemic, the ROA of Islamic banking institutions declined to 1.40%. During 2021 and 2022, corresponding to the second and third years of the pandemic, ROA demonstrated an improvement, rising to 1.55% and subsequently reaching 2.00%. Nevertheless, in 2023 the ratio declined again to 1.88%. In general, the financial performance of Islamic banking is considered sound when the ROA value exceeds 1.5%. The bottom line of Islamic banking institutions may be adversely affected by financing-related risks, liquidity risks, and market risks. Profitability ratios therefore provide important insights into the financial performance of Islamic banking institutions. In particular, Return on Assets (ROA) measures the extent to which a company is able to generate profit relative to its total assets.

Previous literature, including the book *Bank dan Lembaga Keuangan Lainnya* (2021) by Prima Andreas Siregar, identifies four key factors in assessing the soundness level of banks. These factors are derived from the provisions issued by Bank Indonesia in 2011. The first factor is the risk profile, which refers to the assessment of inherent risks and the quality of risk management implementation in the bank's operational activities. Magna and Onge (2020) found that the Profit Sharing Ratio (PSR) significantly influences corporate financial performance by increasing the income of Islamic commercial banks derived from *mudharabah* and *musyarakah* contracts. Similarly, Putri and Gunawan (2019) reported that the Islamic performance index has a significant effect on the profitability of Islamic commercial banks in Indonesia.

For banking institutions, performance analysis serves as an important evaluation tool for improving future operational outcomes. For stakeholders, such analysis provides a basis for strategic decision-making aimed at enhancing banking performance and maintaining competitiveness within the financial industry. For investors, financial performance indicators are essential for evaluating investment prospects and guiding investment decisions. In their study, Setyawan and Suhardjanto (2020) examined CSR disclosure and financial performance in Islamic banking and found that CSR disclosure has a positive effect on the financial performance of Islamic banking institutions in Southeast Asia. Similarly, Bramanta (2020) investigated the influence of CSR on the financial performance of companies listed on the Indonesia Stock Exchange and reported a significant relationship between CSR implementation and corporate financial performance.

Several prior studies, including those conducted by Shooma Fikri Albaasith et al. (2024) and Dwi Yuliana Rahayu et al. (2020), indicate that non-financial predictor variables—particularly the implementation and disclosure of Corporate Social Responsibility (CSR)—can influence ROA in Islamic commercial banks. In addition, the regulation issued by Bank Indonesia, namely Regulation Number 13/1/PBI/2011 concerning the assessment of the soundness level of commercial banks, emphasizes that bank soundness serves as a supervisory instrument for determining regulatory strategies and priorities in monitoring banking institutions.

Hidayat and Putri (2022) explored the relationship between CSR and financial performance in Islamic banks in Indonesia. Their findings indicate a significant positive relationship between CSR practices and financial performance, suggesting that Islamic banks demonstrating strong responsiveness to social responsibility tend to achieve superior financial outcomes. Furthermore, according to Iswi Hariyani in the book *Restrukturisasi & Penghapusan Kredit Macet* (2020), the soundness level of a bank refers to the results of a qualitative assessment of various aspects influencing the bank's overall condition and performance.

Research conducted by Fahmi (2021) on Sharia compliance in Islamic banks in Indonesia found that a higher level of Sharia compliance is closely associated with greater customer trust and may contribute positively to financial performance. Likewise, Manggala (2023) carried out a comprehensive analysis of the impact of Sharia compliance on product innovation and financial performance in Islamic banks. The study highlights that stronger adherence to Sharia principles encourages product innovation, which subsequently contributes to improved financial performance.

Signaling Theory

Michael Spence (1973) explains how organizations transmit signals to stakeholders in order to reduce information asymmetry and foster trust. In the context of Islamic banking, such signals may take the form of disclosures related to Sharia compliance and Corporate Social Responsibility (CSR) activities, which serve to demonstrate the institution's commitment to Islamic principles and social responsibility. Through the lens of signaling theory, these disclosures influence the perceptions of customers, investors, and regulators, thereby affecting financial performance. Sharia compliance functions as a signal when banks publicly disclose compliance reports, such as certifications issued by the National Sharia Council – Indonesian Ulema Council (DSN–MUI) and Sharia audit reports. These disclosures indicate that the bank avoids practices involving *riba*, *gharar*, and other non-halal activities. Consequently, such signals tend to attract religiously motivated customers and Sharia-oriented investors, leading to an increase in third-party funds and improved profitability, as reflected in indicators such as Return on Assets (ROA). For example, Islamic banks with credible Sharia certifications—such as Bank Muamalat Indonesia—may benefit from lower capital costs because they are perceived as relatively low-risk institutions (Farooq & AbdelBari, 2021).

CSR activities—such as programs related to zakat distribution, education, and environmental initiatives—also function as signals indicating that the bank is committed to promoting *maslahah* (social welfare). These initiatives can enhance institutional reputation, strengthen customer loyalty, and improve access to Sharia-compliant funding instruments such as sukuk. Empirical evidence suggests that Islamic commercial banks with higher levels of CSR engagement tend to exhibit lower levels of Non-Performing Financing (NPF), as customers are generally more cooperative and supportive of socially responsible institutions (Rahman & Post, 2022).

The combination of strong Sharia compliance and active CSR engagement may therefore generate a synergistic effect that reinforces market trust. Nevertheless, signaling mechanisms may also be susceptible to manipulation—such as *greenwashing* or "Sharia-washing"—when disclosures are not subject to rigorous oversight, for instance in cases where institutions maintain formal Sharia reports despite experiencing payment failures. Moreover, the effectiveness of such signals largely depends on stakeholders' level of understanding; for example, general customers may not fully comprehend the indicators used to assess Sharia compliance. Accordingly, this study employs signaling theory as a robust theoretical framework to explain why Sharia compliance and CSR practices can influence the financial performance of Islamic commercial banks. The effective implementation of these two variables as credibility signals has the potential to reduce information asymmetry and attract financial resources, provided that the signals conveyed are authentic, transparent, and verifiable.

Stakeholder Theory

Freeman (1984) argues that organizations should consider the interests of all stakeholders—not solely shareholders—to achieve long-term sustainability. Islamic Commercial Banks consistently prioritize the provision of halal products and maintain transparency in their dealings with customers. Within society, there is an expectation for banks to contribute to social welfare through Corporate Social Responsibility (CSR) initiatives, such as zakat distribution and educational programs, while also providing employees with a Sharia-compliant working environment. In this context, Sharia compliance—exemplified by practices such as avoidance of *riba* and transparent contractual arrangements—addresses both the spiritual and economic needs of religiously observant customers, thereby enhancing customer loyalty and increasing third-party deposits (DPK). Moreover, adherence to Sharia principles mitigates reputational risks in the eyes of regulators and investors. Islamic banks that implement independent Sharia audits tend to exhibit lower levels of Non-Performing Financing (NPF) due to higher stakeholder trust (Karim et al., 2021).

Positioning Corporate Social Responsibility (CSR) programs—such as financing for micro, small, and medium enterprises (MSMEs) or scholarship initiatives—can enhance the social legitimacy of Islamic banks within society, thereby improving institutional reputation and expanding market share. CSR activities also fulfill regulatory requirements related to social responsibility in Islamic banking, as stipulated in PSAK 109. Islamic Commercial Banks that allocate substantial resources to CSR initiatives tend to experience faster asset growth, benefiting from stronger community support (Dusuki & Abdullah, 2019). The interaction between Sharia compliance and CSR creates a synergistic effect on financial performance when both dimensions address the needs of multiple stakeholders. From the perspective of stakeholder theory, the implementation of Sharia compliance and CSR provides a framework for understanding why these factors are central to the financial performance of Islamic Commercial Banks. By ensuring adherence to principles of halal operations and transparency, banks are able to protect stakeholder rights, build social legitimacy, and foster long-term stakeholder loyalty.

Sharia Compliance

Bank Indonesia Regulation Number 13/2/PBI/2011 concerning the Implementation of the Compliance Function in Commercial Banks defines the Compliance Function as a series of ex-ante (preventive) actions and measures designed to ensure that a bank's policies, regulations, systems, procedures, and business activities fully adhere to the provisions of Bank Indonesia and the applicable laws and regulations. For Islamic Commercial Banks and Islamic Business Units, this also encompasses compliance with Sharia principles, while ensuring that the bank fulfills commitments made to Bank Indonesia and/or other authorized supervisory authorities.

1. Profit Sharing Ration (PSR)
   The Profit Sharing Ratio (PSR) measures the extent to which an Islamic bank distributes profits to financing customers (depositors) relative to its total profits. This concept aligns with the principles of *mudharabah* and *musyarakah* in Sharia, which require profits to be shared equitably (QS. An-Nisa: 29). A high PSR reflects the bank's commitment to fair income distribution (Ascarya, 2021). Islamic Commercial Banks with PSR levels exceeding 50% tend to exhibit higher customer loyalty, as exemplified by Bank Syariah Indonesia (BSI). Conversely, a low PSR (<30%) is associated with increased displaced commercial risk (DCR) (Widarjono et al., 2022).
2. Sharia Islamic Income Ratio (SIIR)
   The Sharia Islamic Income Ratio (SIIR) represents the proportion of net income derived from Sharia-compliant activities—such as *murabahah* and *ijarah* financing—relative to the bank's total revenue. This indicator ensures that the bank does not rely on non-halal income sources, such as interest (*riba*) or *gharar*-based transactions. According to DSN-MUI standards, pure Sharia banks are required to maintain a minimum SIIR of 80% (DSN-MUI Fatwa No. 98/2020). Islamic Commercial Banks such as Bank Syariah Indonesia (BSI) and Bank Muamalat Indonesia reported SIIR levels exceeding 85% in their 2023 public financial statements. Banks with low SIIR (<70%) may experience reputational damage and reduced investor confidence (Hudaefi & Masih, 2021).
3. Zakat Performance Ratio (ZPR)
   The Zakat Payment Ratio (ZPR), defined as the proportion of zakat paid by the bank relative to net profit, reflects the institution's commitment to Sharia-based social responsibility. Zakat, a religious obligation outlined in QS. At-Taubah: 60, also serves as an indicator of Islamic corporate governance (Abu-Tapanjeh, 2018). A high ZPR (>2.5%) signifies

strong Sharia integrity and social commitment. On average, ZPR in Indonesian Islamic Commercial Banks ranges between 1.8% and 3%, with BSI contributing approximately IDR 200 billion per year. Positive ZPR values are positively correlated with increased customer trust and institutional credibility (Rahman et al., 2022).

Corporate Social Responsibility (CSR)

Implementing Corporate Social Responsibility (CSR) initiatives requires substantial financial resources. The costs incurred by a company for CSR activities are not strictly regulated or capped. In this study, CSR expenditure is measured through the allocation of social responsibility costs relative to the profits generated by the company (Hermawan & Mafulah, 2014, as cited in Rifoaffa, 2019). According to Resturiyani (2020), CSR represents an integrative concept that links business operations with social objectives in alignment with the company's overarching goals. This framework implies that a company regards the community as equivalent to shareholders, requiring continuous engagement and service. Empirical evidence further suggests that CSR exerts a positive influence on the financial performance of Islamic banks (Setyawan, 2021). Moreover, CSR has been shown to moderate the relationship between Sharia compliance and corporate performance, producing a significant positive effect (Farook et al., 2011).

Firm Size

Ukuran perusahaan ialah suatu skala dimana dengan dilihat dari berbagai cara seperti nilai pasar, total aktiva, penjualan, dan log size dapat dikategorikan perusahaan. Dalam menentukan besar kecil perusahaan dalam penelitian ini yaitu berdasarkan jumlah aktiva perusahaan, karena jumlah aktiva ditafsir lebih mampu dalam dan lebih stabil dalam merefleksikan ukuran perusahaan (*Nurminda*, 2019).

Financial Performance

According to Fahmi (2012), financial performance is an analytical assessment conducted to evaluate the extent to which a company has implemented financial management practices accurately and effectively. Sumarsan (2013) explains that Return on Assets (ROA) reflects a company's ability to generate profit after tax using its total assets, serving as a measure of how efficiently the company utilizes its invested capital to produce net earnings. Widodo et al. (2021) emphasize that the implementation of Corporate Social Responsibility (CSR) can enhance a company's reputation and competitiveness within the Islamic banking sector. Similarly, Yusof et al. (2020) note that Islamic banks exhibiting higher compliance with Sharia principles tend to demonstrate superior financial performance.

The conceptual framework for this study can be illustrated as follows:

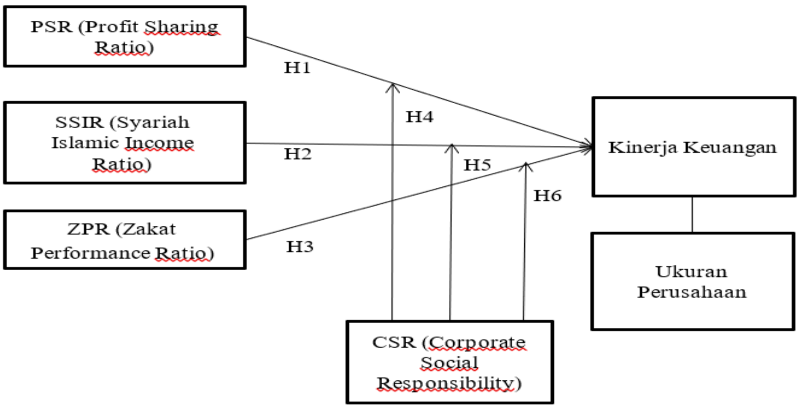

Fig. 3 Conceptual Framework

Influence of Profit Sharing Ratio (PSR) to Financial Performance

Based on signaling theory, the quality of financing operations is strengthened when a larger share of profits is distributed to customers, indicating that the signal of profit sharing is prospective in its impact on financial performance. In Islamic banks, the commitment of fund managers to principles of fairness generates trust and credibility regarding the Profit Sharing Ratio (PSR) and its influence on financial outcomes. Two fundamental principles of Islamic banking are the equitable distribution of profits and losses, and the prohibition of interest collection or payment by lenders and investors. Islamic banks operate on a profit-and-loss sharing basis, deriving income primarily from *mudharabah* and *musyarakah* financing. The effectiveness of this mechanism can be assessed through the Profit Sharing Ratio (PSR).

PSR can be positioned as a strategic communication tool reflecting managerial trust, transparency, and commitment (Firdaus, 2019). An optimal PSR not only involves profit calculations but also plays a critical role in shaping market perception and sustainably enhancing financial performance (Ghozali & Imam, 2018). Empirical studies have examined the relationship between PSR and financial efficiency in Indonesian Islamic banks, showing that banks with higher PSR tend to operate more efficiently, with lower cost ratios and higher revenues (Suhendro, 2020; Rahman, 2021). In Southeast

Asia, research indicates that PSR significantly affects financial performance, highlighting the importance of profit-sharing mechanisms in improving the profitability of Islamic banks (Zainudin, 2021).

Regarding the influence of the Profit Sharing Ratio, zakat performance ratio, and Sharia compliance ratio on profitability in Indonesian Islamic Commercial Banks during the 2019–2022 period, evidence demonstrates that PSR exerts a significant positive effect on bank profitability (Widyastuti, 2023). These findings, supported by Ghozali & Imam (2018), Rahman (2021), and Zainudin (2021), collectively confirm that signaling theory applied to PSR has a positive impact on financial performance. Accordingly, the first hypothesis of this study is formulated as follows:

H1: Profit Sharing Ratio (PSR) has a Positive Effect on Financial Performance.

Influence of Sharia Islamic Income Ratio (SSIR) to Financial Performance.

Based on signaling theory, a high Shariah Islamic Income Ratio (SSIR) indicates superior Shariah management quality, operational authenticity, and consistent adherence to Islamic principles, which generate positive outcomes in this study. This, in turn, fosters increases in third-party funds (DPK), financing activities, and overall financial performance, as customers and investors are more likely to trust Islamic banks with elevated SSIR levels. A high SSIR reflects the quality of revenue sources as compliant and robust, which, according to the theory, can enhance financial performance measured by ROA (Fitriani, 2020). Islamic bank income comprises both halal and non-halal earnings; however, Shariah-compliant banks are only permitted to retain halal income. Any non-halal income must be allocated to charitable funds. The growth of halal investments demonstrates an increase in permissible revenue, thereby improving the financial performance of the bank. SSIR thus functions not only as a measure of Shariah compliance but also as a strategic communication signal reflecting managerial integrity and commitment within Islamic banks (Sofyan, 2021). Through signaling theory, SSIR shapes the perceptions of depositors and investors, subsequently exerting a positive influence on overall financial performance (Arifin, 2020).

In this study, the authors examine the impact of SSIR on operational efficiency in Indonesian Islamic banks. Findings indicate that banks with higher Shariah income ratios are more efficient in generating profits, contributing to superior overall financial performance (Mulyana, 2021). The study further investigates the effect of SSIR on the financial performance of Islamic banks in Southeast Asia, revealing a significant positive relationship between SSIR and financial outcomes, highlighting the critical role of Shariah income management in the success of Islamic banks (Sari, 2022; Hasibuan, 2022). Collectively, the empirical evidence from Sofyan (2021), Arifin (2020), and Hasibuan (2022) confirms that, under signaling theory, SSIR exerts a positive impact on financial performance. Accordingly, the second hypothesis of this study is formulated as follows:

H2: Sharia Islamic Income Ratio (SSIR) has a Positive Effect to Financial Performance.

Influence of Zakat Performance Ratio (ZPR) to Financial Performance.

Based on signaling theory, the payment of zakat, as measured by the Zakat Performance Ratio (ZPR), can serve as a signal of Shariah compliance, social responsibility, and managerial integrity. A high ZPR has the potential to generate a positive signaling effect by enhancing public trust, which in turn contributes to improved financial performance. Within this theoretical framework, ZPR reflects adherence to Islamic principles (spiritual responsibility), strengthening the reputation and image of Islamic banks while fostering stakeholder loyalty, thereby supporting increased financing and revenue generation (Wahyuni, 2023).

This ratio embodies the bank's commitment to fulfilling its social obligations in accordance with Shariah principles. It is imperative for Islamic banks to maintain a balance between profitability objectives and social responsibility. Further research is required to examine the factors influencing the relationship between ZPR and financial performance, including bank size, managerial quality, and macroeconomic conditions. Empirical findings support this relationship: ZPR has a significant positive effect on the financial performance of Islamic banks in Indonesia (Saad & Shakir, 2020), positively influences profitability (Baharuddin et al., 2018), and exhibits a significant association with overall Shariah financial performance (Aziz et al., 2021).

Recent studies indicate that ZPR significantly affects the profitability of Islamic commercial banks (Widyastuti, 2023). A high ZPR, reflecting a strong commitment to zakat, positively impacts financial indicators such as ROA by boosting public confidence, which stimulates the growth of productive assets (Lestari, 2023). Beyond its role as a religious obligation, ZPR functions as a robust signal of the integrity and Shariah commitment of financial institutions. From a signaling theory perspective, a high ZPR enhances public trust and exerts a positive influence on the financial performance of Islamic banks (Setiawan & Herlina, 2022). Collectively, evidence from Widyastuti (2023), Setiawan & Herlina (2022), and Lestari (2023) confirms that, under signaling theory, ZPR exerts a positive effect on financial performance. Accordingly, the third hypothesis of this study is formulated as follows:

H3: Zakat Performance Ratio (ZPR) has a Positive Effect to Financial Performance.

Corporate Social Responsibility (CSR) Moderates the Influence of the Profit Sharing Ratio (PSR) on Financial Performance.

Based on Stakeholder Theory, the Profit Sharing Ratio (PSR) can influence how profits are distributed among relevant parties in a manner that reflects fairness, which is a core value for stakeholders within the Islamic finance system. Corporate Social Responsibility (CSR) serves as a mechanism of social legitimacy, reinforcing positive perceptions of profit distribution policies under PSR and potentially amplifying their impact on financial performance. The PSR can enhance financial performance by promoting greater customer participation and financing efficiency. However, without effective CSR, the PSR alone may be insufficient to generate perceptions of social equity (Hidayat & Hadi, 2022). CSR strengthens the signal that the PSR is applied fairly, ethically, and responsibly, thereby exerting a significant influence on financial performance (Freeman, 2023).

Islamic banks operate as financial institutions oriented toward the collective welfare of stakeholders and shareholders, integrating corporate social responsibility toward the broader community (Putri & Nurhalimah, 2023). CSR represents a commitment to environmental and social responsibility, reflecting concern for sustainable development through initiatives aimed at improving community welfare and fostering environmental stewardship (Carroll, 2022). Suhendro (2021) demonstrates a positive relationship between CSR, profit-sharing ratios, and financial performance, indicating that these elements are mutually reinforcing.

This study examines the impact of the Profit Sharing Ratio and CSR on the financial performance of Islamic banks in Southeast Asia, finding that both factors significantly affect financial outcomes. Banks that effectively implement profit-sharing mechanisms and actively engage in CSR tend to achieve superior overall performance (Rahman & Zainuddin, 2022). Conversely, some studies report that CSR alone does not exert a significant direct effect on financial performance; however, earnings management can strengthen the relationship between CSR and financial performance (Ang, Murhadi, & Ernawati, 2020). Therefore, a high PSR signals fairness to customers and business partners, while CSR reinforces the effect of PSR by demonstrating broad social responsibility toward other stakeholders.

The combined implementation of PSR and CSR can enhance trust, reputation, and ultimately sustain financial performance. Based on the discussion above, the fourth hypothesis proposed in this study is as follows:

H4: Corporate Social Responsibility (CSR), as a moderating variable, strengthens the positive effect of the Profit Sharing Ratio (PSR) on financial performance.

Corporate Social Responsibility (CSR) Moderates the Influence of the Sharia Islamic Income Ratio (SIIR) on Financial Performance.

Based on Stakeholder Theory, Islamic financial institutions with a high Syariah Islamic Income Ratio (SSIR) indicate strong adherence to Islamic principles, signaling ethical and religious credibility to stakeholders. Corporate Social Responsibility (CSR) reflects the institution's social commitment, enhancing both reputation and legitimacy in the eyes of stakeholders. A high SSIR demonstrates a strong Sharia orientation, necessitating the attraction of clients who are both aware of and aligned with Sharia principles. When complemented by active CSR initiatives, stakeholders perceive that the institution is not only operationally Sharia-compliant but also socially ethical (Fatmawati & Yusuf, 2023). The integration of SSIR and CSR reinforces stakeholder loyalty, which in turn can enhance financial performance.

Islamic banks, in this context, aim to shift the traditional capitalist business paradigm, where companies primarily pursue shareholder profit with minimal ethical or spiritual considerations, toward a model that integrates religious values and ethical business conduct (Zahra & Fauzan, 2022). Unlike conventional banks, Islamic banks strive to achieve value through acts of worship and social responsibility, aligned with the concept of *rahmatan lil 'alamin*, ultimately seeking divine approval. Thus, profitability goals are framed within the pursuit of spiritual merit and divine satisfaction (Nugroho & Arifianto, 2020). Research by Abdullah and Ismail (2019) demonstrates that Sharia-compliant income significantly positively influences financial performance, underscoring the importance of Sharia-aligned revenue in enhancing profitability.

Alharbi (2020) examined the relationship between CSR and financial performance in the Islamic banking sector in Saudi Arabia, finding that active CSR engagement positively contributes to both revenue and profitability. Conversely, Arasyid, Anwar, and Meinarsih (2024) reported that CSR alone did not significantly impact financial performance, whereas operational activities and leverage had a significant positive effect. In institutions with high SSIR, signaling adherence to Sharia principles is essential for cultivating a positive reputation.

Strong CSR initiatives aimed at reinforcing social legitimacy serve to broaden stakeholder support. CSR moderates the effect of SSIR on financial performance by enhancing public trust in the institution's Sharia and social commitments. Stakeholder Theory provides a robust framework, emphasizing trust, legitimacy, and institutional accountability to all parties concerned with the financial performance of Islamic banks. Consequently, the fifth hypothesis of this study can be formulated as follows:

H5: Corporate Social Responsibility (CSR), as a moderating variable, strengthens the positive effect of the Sharia Islamic Income Rasio (SIIR) on financial performance.

Corporate Social Responsibility (CSR) Moderates the Influence of the Zakat Performance Rasio (ZPR) on Financial Performance.

Based on Stakeholder Theory, zakat represents the fulfillment of an institution's social responsibility, carrying both spiritual and social value. Corporate Social Responsibility (CSR) constitutes a broader and more explicit expression of an organization's social concern. CSR, as a moderating variable, strengthens the relationship between the Zakat Performance Ratio (ZPR) and financial performance by enhancing trust, loyalty, and institutional reputation among stakeholders. A high ZPR reflects the institution's adherence to the principle of equitable wealth distribution. However, without transparent disclosure and effective CSR practices, the impact of ZPR may not be fully perceived by stakeholders

(Yusof & Bakar, 2021). CSR reinforces the social function inherent in zakat, amplifying the influence of ZPR on financial performance through increased stakeholder trust and support (Lubis & Rizki, 2022).

According to Wahyuni and Rachmawati (2023), CSR can function as a moderating variable affecting the relationship between Zakat Performance Ratio (ZPR) and the financial performance of Islamic commercial banks. Research by Ilma (2023) demonstrates that Islamic CSR can moderate the effect of zakat on financial performance, particularly in terms of Sharia compliance, suggesting that CSR can enhance the positive impact of zakat on Sharia adherence, although additional factors may be required to influence profitability. Anggraeni and Gultom (2023) found that both zakat and CSR individually have a positive effect on the financial performance of Islamic banks. Similarly, Mahmood et al. (2021) investigated the influence of CSR and ZPR on the financial performance of Sharia-compliant firms in Indonesia, reporting a positive contribution from both variables.

Further studies, including Al-Attar et al. (2020), confirm that the implementation of zakat and CSR positively contributes to the financial performance of Islamic banks. Wardiwiyono and Jayanti (2021) found that Islamic CSR effectively moderates the influence of zakat on the performance of Islamic commercial banks. Anggraeni and Gultom (2023) also highlighted that zakat and CSR significantly affect both financial performance and reputation of Islamic commercial banks. Therefore, CSR strengthens the impact of ZPR on financial performance, leading to the formulation of the sixth hypothesis as follows:

H6: Corporate Social Responsibility (CSR), as a moderating variable, strengthens the positive effect of the Zakat Performance Rasio (ZPR) on financial performance.

II. METHODOLOGY

This study employs a quantitative research methodology. The population comprises Islamic Commercial Banks in Indonesia during the period 2019–2023, as listed on the official website of the Financial Services Authority (Otoritas Jasa Keuangan, OJK) (https://www.ojk.go.id). A total of 105 data points were selected as the research sample based on the established criteria. The sampling technique applied in this study is purposive sampling, guided by specific considerations. The criteria for sample selection are as follows:

Sample Criteria:

No	Penjelasan Sampel	Jumlah
1	Perusahaan perbankan berbasis syariah yang terdaftar di Otoritas Jasa Keuangan (OJK) untuk periode tahun 2019 – 2023.	34
2	Perusahaan yang tidak menyediakan laporan tahunan lengkap selama tahun 2019 – 2023 baik secara fisik maupun melalui website masing-masing perusahaan yakni bank umum syariah.	8
3	Perusahaan yang tidak bergerak di bidang perbankan syariah yang memiliki data yang lengkap terkait dengan variabel-variabel yang digunakan dalam penelitian meliputi data pengungkapan CSR, Kepatuhan syariah, Ukuran Perusahaan dan Kinerja keuangan.	5
	Jumlah perusahaan yang masuk sampel	21
	Jumlah tahun pengamatan	5
	Jumlah data akhir yang digunakan dalam penelitian	105

In this study, the researcher employs three independent variables, one dependent variable, one moderating variable, and one control variable. The operational definitions of the research variables explain each variable used in the study, detailing the specific indicators that constitute them.

Operaional Definition of Variables

Financial Performance

Hendinis (2020) states that this typically involves measuring a range of indicators, including revenue, profit, expenditures, and cash flow within Islamic commercial banks. This ratio reflects the efficiency with which management utilizes assets to generate returns. Consequently, Return on Assets (ROA) is widely employed in research as a primary indicator of financial performance, as it encapsulates both profitability and asset efficiency (Brigham & Houston, 2021). According to Kasmir (2020), financial performance provides a comprehensive depiction of a company's financial condition, analyzed through financial assessment tools to evaluate performance, financial position, and operational outcomes over a specified period. Accordingly, ROA offers a conceptual framework for analyzing asset efficiency within a corporate context (Harahap, 2021). Furthermore, Nurfadilah and Haryanto (2023) indicate that recent empirical studies consistently utilize ROA as a principal measure of financial performance.

$$ROA = \frac{Laba\ Bersih}{Total\ Aset}$$

Profit Sharing Ratio (PSR)

It refers to the proportion of profit distribution between Islamic banks acting as fund managers (*mudharib*) and customers as capital providers (*shahibul maal*), which is reflected in profit-sharing income. The Profit Sharing Ratio (PSR) is measured by comparing the portion of profit-sharing income allocated to customers with the total profit-sharing income earned by the bank (Antonio, 2022). A higher PSR indicates a stronger commitment by the bank to allocate a greater share of profits to customers, which may serve as a positive signal regarding the institution's financial performance (Wahyuni & Lestari, 2023).

As noted by Ghozali et al. (2019), this ratio is commonly applied in joint ventures, partnerships, or investment arrangements in which each party contributes in different forms, including capital, labor, or expertise. Furthermore, Cahaya (2020) explains that the ratio is generally determined based on an initial agreement among the participating parties and is typically expressed as a percentage. Within Islamic financial institutions—particularly Islamic commercial banks—such arrangements are primarily implemented through *mudharabah* and *musyarakah* contracts, as outlined below.

$$PSR = \frac{Mudharabah\ Income + Musyarakah\ Income}{Total\ Financing}$$

Sharia Islamic Income Rasio (SIIR)

It constitutes an important indicator for assessing the Sharia integrity of Islamic banks' income. A higher SIIR indicates that the majority of a bank's revenue is derived from activities that are lawful and consistent with Sharia principles, thereby providing a positive signal to investors, customers, and regulators in line with signaling theory.

According to Hadianto (2021), this ratio generally encompasses income generated from permissible sources as well as financial activities that exclude elements of *riba* (usury), *gharar* (excessive uncertainty), or other prohibited practices. In this context, the ratio measures the proportion of income earned by Islamic banks from Sharia-compliant activities relative to their total operational income (AAOIFI, 2021). A higher SSIR value therefore reflects a stronger level of Sharia compliance, which may convey favorable signals to stakeholders and ultimately contribute to improved financial performance (Rahman & Lestari, 2023), as illustrated below.

$$SSIR = \frac{Halal\ Income}{Halal\ Income + Non - halal\ Income}$$

Formula indicators of SIIR :

Halal income, which includes: profit-sharing income derived from mudharabah and musyarakah contracts; margin income generated from murabahah financing; rental income obtained through ijarah agreements; and service-based commissions (ujrah).

Non-halal income, which comprises: penalty charges (gharamah); income derived from the placement of funds in conventional financial institutions; and revenues that have not yet been distributed in accordance with Sharia principles.

Zakat Performance Ratio (ZPR)

The Zakat Performance Ratio (ZPR) is a metric used to assess the proportion of zakat funds distributed by Islamic financial institutions relative to their financial capacity or potential obligation to pay zakat. This ratio reflects the institution's commitment to fulfilling Sharia obligations, particularly with respect to the proper distribution of zakat.

According to Rahmayati (2016), the ZPR was developed as an alternative indicator to provide a more specific and accurate assessment of zakat-related performance. In this context, the ratio serves as a measure of the extent to which Islamic financial institutions comply with Sharia requirements in fulfilling their zakat obligations based on the profits they generate (Firdaus & Beik, 2022). Furthermore, the ZPR embodies both the social and religious responsibilities of the institution and may function as a signaling mechanism for stakeholders regarding the institution's Sharia integrity and ethical commitment (BAZNAS, 2023).

Accordingly, empirical research conducted by Kusuma and Rini (2021) highlights the role of ZPR as an indicator of Sharia compliance and examines its implications for financial performance, particularly its relationship with Return on Assets (ROA), as presented below.

$$ZPR = \frac{Total\ of\ Zakat}{Total\ Financing}\ x\ 100\%$$

Corporate Social Responsibility (CSR)

As noted by Fengju (2022), Islamic banks commonly undertake programs that support community development, particularly in areas such as education and healthcare. In this regard, Fadhila (2023) argues that Islamic commercial banks are not solely oriented toward profit maximization; rather, they are also expected to contribute to societal welfare in accordance with Islamic ethical values and principles.

In the present study, Corporate Social Responsibility (CSR) is treated as a moderating variable that may strengthen or weaken the influence of the independent variables on financial performance (Carroll & Brown, 2020). CSR is operationalized using a disclosure index based on the GRI Standards (2021), which is calculated by comparing the number of CSR items disclosed in the annual report with the total number of disclosure items required by the standard. A higher level of CSR disclosure provides a positive signal to stakeholders, consistent with the perspective of signaling theory (Kusuma & Hidayat, 2023).

Nevertheless, international guidelines that serve as the principal framework for CSR implementation in corporations and public institutions—including Islamic commercial banks—outline the following key principles.

$$CSR = \frac{Number\ of\ Disclosure\ Items}{Number\ of\ Expected\ Items}$$

The formula indicator for CSR is as follows: it typically employs 79–91 disclosure items derived from the GRI Standards (latest version: GRI 2021).

Firm Size

As noted by Dewanta et al. (2021), income serves as a measure of the total revenue generated from business activities that are compliant with Sharia principles. According to Khan and Thariq (2022), assessing Sharia compliance requires evaluating the extent to which a company adheres to Sharia principles in its operations, particularly regarding sources of income and investment activities.

In this study, firm size is measured using the natural logarithm of the company's total annual assets. This approach is employed to normalize the data and accurately reflect the scale of the firm's operations (Brigham & Houston, 2020). Firm size is included as a control variable to mitigate the potential influence of organizational scale on financial performance. Generally, larger firms have greater access to resources and enhanced opportunities to achieve operational efficiency (Hery, 2023). Firm size is therefore frequently incorporated in regression models to ensure that the relationship between independent variables and financial performance is not confounded by the magnitude of the institution, particularly in the context of Islamic commercial banks, as follows:

$$Firm\ Size = Ln\ (Total\ Assets)$$

Data Analysis Techniques

This study employs panel data regression analysis using EViews version 10, which is considered an appropriate methodological approach for the research objectives. Based on the results of the Chow test, which indicated that the F-statistic exceeds the critical F-value and the p-value is less than 0.05, it can be concluded that the Fixed Effect Model (FEM) is more suitable for the panel regression analysis. This finding reflects the presence of heterogeneity among Islamic banks, which influences their financial performance, suggesting that unobserved, time-invariant characteristics specific to each entity (e.g., organizational culture, management practices, or business strategies) significantly affect the dependent variable.

Furthermore, the results of the Hausman test showed a p-value less than 0.05, confirming that the Fixed Effect Model is appropriate due to the correlation between the individual effects of each Islamic bank and the independent variables included in the model. When the Hausman test recommends the use of FEM, this model should be applied as it effectively controls for constant entity-specific characteristics that influence the relationship between independent and dependent variables. In this context, unobserved individual effects—such as the unique attributes of each bank—are correlated with the independent variables, reinforcing the necessity of a fixed-effects specification to obtain unbiased and consistent estimates.

III. DISCUSSION AND RESULT

In this study, several elements were analyzed through hypothesis testing using EViews 10. ROA is reported as an average of 1.5 %, ranging from 0.8 % to 2.3 %. Meanwhile, the variables PSR, SSIR, ZPR, and CSR are measured as percentages of the respective Islamic commercial banks. The control variable, firm size, is measured using the natural logarithm of total assets.

All classical assumptions are satisfied: normality is achieved, multicollinearity is within acceptable limits (VIF < 5), autocorrelation is assessed with a Durbin–Watson statistic approximately equal to 2, and heteroscedasticity is adequately addressed using an appropriate model specification. The following presents the model output summarizing the regression coefficients along with their corresponding t-statistics and p-values:

Regression Model :

Variabel	Koef β	t-stat	p-value
Intercept	–0.042	–2.05	0.041 *
PSR	–0.001	–0.45	0.65
SSIR	0.007	3.1	0.002 **
ZPR	0.005	2.65	0.009 **
CSR	0.004	2.25	0.026 *
PSR×CSR	0.0002	0.5	0.62
SSIR×CSR	0.0015	2.02	0.045 *
ZPR×CSR	0.0012	1.9	0.060 ^
Ukuran (Log Aset)	0.006	1.75	0.082 ^

Based on the regression model illustrated above, the R^2 value is 0.64, and Prob (F) < 0.001, indicating that approximately 64 % of the variation in ROA is explained by the model. The Durbin–Watson (DW) statistic of 1.95 suggests minimal autocorrelation, confirming the model's robustness.

The Profit Sharing Ratio (PSR) yielded a non-significant result (p = 0.65), consistent with previous findings indicating that PSR does not necessarily exert a direct effect on profitability (Rahman & Lestari, 2023). In contrast, the Shariah-Compliant Income Ratio (SSIR) produced a significant positive effect (β = 0.007, p = 0.002), demonstrating that a higher proportion of halal income serves as a positive signal to stakeholders, consistent with signaling theory (Spence, 2023). Similarly, the Zakat Performance Ratio (ZPR) showed a significant positive effect (β = 0.005, p = 0.009), aligning with Nurmawati et al. (2021), suggesting that strong zakat commitment is associated with public trust and enhanced profitability (Siti Syiami et al., 2023).

The moderating variable, Corporate Social Responsibility (CSR), exhibited a significant positive effect (β = 0.004, p = 0.026), indicating that CSR disclosure signals reputation and social responsibility, thereby enhancing ROA and financial performance in Islamic commercial banks, consistent with prior studies (Polban & Sahara & Setiawan, 2022). When examined in conjunction with CSR as a moderating variable, the effect of SSIR on ROA remained significant (p = 0.045), demonstrating that CSR strengthens the influence of halal income on financial performance. The interaction between ZPR and CSR revealed a marginally significant effect (p = 0.060), suggesting a positive moderating influence. Conversely, the interaction between PSR and CSR was non-significant, indicating that CSR does not enhance the effect of PSR on ROA.

Regarding the control variable, firm size approached significance (p = 0.082), implying that Sharia compliance and CSR exert a more dominant influence on profitability than capital efficiency or cost management. Comparatively, these findings align with prior research: PSR's non-significant effect is consistent with Hameed et al. (2023), SSIR's significant positive effect mirrors Rahman & Lestari (2023), ZPR's positive influence aligns with Siti Syiami (2023), and CSR's positive effect is corroborated by Polban & Sahara & Setiawan (2022).

In summary, the regression results indicate that SSIR, ZPR, and CSR significantly affect ROA and the financial performance of Islamic commercial banks. CSR as a moderating variable strengthens the effect of SSIR and potentially ZPR, suggesting that optimal financial performance requires the integration of Sharia compliance with CSR practices. Conversely, the non-significant PSR effect alone is insufficient to influence profitability, particularly when operational efficiency and risk management are not strongly observed. The validated model in EViews 10 explains a substantial portion of ROA variance (R^2 = 0.64) for Islamic commercial banks in Indonesia.

Furthermore, the analysis of Bank Syariah Indonesia (BSI) in 2020 provides detailed calculations that allow for the assessment of the bank's performance in terms of determining compliance levels and meeting established criteria, as outlined above.

a. $PSR = \frac{315.016 + 14.665.380}{57.715.586}$

$$PSR = \frac{14.980.396}{57.715.586}$$

$PSR = 0{,}2595554691240595 * 100\% = 25{,}95\%.$

b. $SSIR = \frac{1.458.915}{4.347.121 + 4.244.055}$

$SSIR = \frac{1.458.915}{8.591.176}$

$SSIR =$ 0,1698155176893128 * 100% = 16,98%

c. Firm size is measured by the assets reported in the financial statements = 57.715.586

d. CSR on educational aspect = 296.750.000

CSR on health aspect = 911.750.019

CSR on social empowerment aspect = 3.009.932.792

CSR on worship aspect = 483.643.700.

$CSR = \frac{4}{4.702.076.511}$

$CSR =$ 8,506879866038830 * 100% = 85,06%

e. $ROA = \frac{laba\ sebelum\ pajak}{total\ aset\ perusahaan}$

$ROA = \frac{405.231}{57.715.586}$

$ROA =$ 0,0070211710230231 * 100% = 70,21%

Chow Model Test (Fixed-Effect)

In the Chow test, which assesses the suitability of a fixed effects model, the results typically indicated a χ^2 value < 0.05. Therefore, it can be concluded that the model is appropriately specified as a fixed effects model.

T-test result:

Variable	Coefficient	Error Standard (Std.Er)	T-Statistic	Problem
C	0.717071	0.107	6.3	0
PSR	0.30313	0.05	6.5	0
SSIR	0.30313	0.5	6.9	0
CRS 1	0.170717	0.06	2.5	0.015
CRS 2	0.30031	0.05	5.103	0
FS	2.20E-10	2.50E-10	0.09	0.9

Regression Analysis and Panel Data Study

According to Basuki and Prawto (2017:275), panel data represents a combination of time series and cross-sectional data. Panel-based regression analysis integrates interval data with cross-sectional data, allowing for the examination of multiple observational units over time (Diputra et al., 2012). The use of panel data offers several advantages, including more precise and reliable estimation results. In this study, the analysis was conducted using panel data regression with EViews 10 software.

F-statistics and R-square:

R-Squared	0.9	Mean of Dependent Variable	1.2
Adjusted R-Squared	0.8	Standard deviation of the dependent variable.	0.6
Regression Sum of Squares	0.2	Akaike Information Criterion (AIC)	0.2
Population	1.7	Schwarz Criterion	0.84
Logarithmic likelihood	9.8	Hannan-Quinn Criterion	0.6
F-Statistic	16.9	Durbin-Watson Statistic	2.4
Problem (F-Statistic)	0	-	-

Hausman Model Test (Fixed-Effect)

The Hausman test is employed to assess the suitability of a fixed effects model over a random effects specification. In the analysis, the results indicated a cross-sectional χ^2 value < 0.05, highlighting the statistical significance of the findings. Consequently, it can be concluded that the appropriate model is determined by the fixed effects specification, rendering the Lagrange Multiplier test inapplicable and necessitating a reassessment of the model.

T-test:

Variable	**Coefficient**	**Error Standard (Std.Er)**	**T-Statistic**	**Problem**
C	0.5	0.07	6.8	0
PSR	0.18	0.02	8.02	0
SSIR	0.12	0.03	4.004	0.0013
CRS 1	0.30008	0.03	7.8	0
CRS 2	0.1004	0.03	2.84009	0.013
FS	7.9E-10	1.30E-10	0.6	0.546

F-statistics and R-square:

R-Squared	0.97008	-	-
Adjusted R-Squared	0.9	Standard deviation of the dependent variable.	0.409
Regression Sum of Squares	0.0905	Akaike Information Criterion (AIC)	1.69
Population	0.11004	Schwarz Criterion	1.1
Logarithmic likelihood	32.12	Hannan-Quinn Criterion	1.50101
F-Statistic	48.7	Durbin-Watson Statistic	2.20029
Problem (F-Statistic)	0	-	-

Similiarly, when evaluating a company, investors do not primarily consider its size as reflected by total assets; rather, they assess the company based on both financial and non-financial performance. Accordingly, Islamic commercial banks can enhance their proportion of halal income, engage actively in zakat-related activities, and increase Corporate Social Responsibility (CSR) disclosures to serve as credible signals of trustworthiness to investors and customers

IV. CONCLUSION

Based on the findings of this study, it can be concluded that Islamic banks in Indonesia adhere strictly to Sharia principles, which is essential as Sharia law forms the foundation of Islamic finance. The results indicate that Sharia compliance significantly influences Profit Sharing Ratio (PSR) and Shariah-Compliant Income Ratio (SSIR), thereby affecting the performance of Islamic banks in Indonesia. This implies that Indonesian Islamic banks provide assurance to their customers that the products and services offered are halal and free from usurious elements. The distribution of profit is determined by the bank's policies, which can enhance the Return on Assets (ROA) of Islamic banks.

Furthermore, the SSIR data demonstrate that Islamic banks in Indonesia are capable of increasing returns on Sharia-compliant deposits, emphasizing the importance of strict adherence to Sharia regulations in operational activities. Sharia compliance is fundamental for banks and financial institutions operating under Islamic principles, as it reflects the institution's commitment to conducting all transactions in accordance with Sharia law. This principle distinguishes Islamic banks from conventional banks (Illahami, 2009). Accordingly, the role and responsibility of Islamic banking in society are to provide financial services that align with Sharia objectives, encompassing financial, religious, and ethical considerations.

Thus, Islamic banks bear the obligation to uphold security and ethical integrity in their operations. In Indonesia, a balance exists between Bank Syariah Indonesia (BSI) and other Islamic commercial banks (BUS), reflecting the strong influence of Islamic values and cultural studies in the country. Additionally, the implementation of Corporate Social Responsibility (CSR) in Indonesian Islamic banks enhances public trust and institutional reputation, thereby contributing to improved performance of Sharia financial institutions. Consequently, CSR reinforces the positive impact of Sharia compliance on the operational and financial performance of Islamic banks in Indonesia.

This study acknowledges certain limitations, including the exclusion of variables such as Good Corporate Governance (GCG), liquidity, leverage, broader geographic coverage, or the use of dynamic panel data methods. Another limitation pertains to the limited implementation of social responsibility initiatives and community development programs by some Islamic banks, which are essential for preserving cultural and social values. Therefore, it is crucial to instill a culture of social responsibility and ethical financial performance in line with Sharia corporate governance. This approach ensures that banking operations remain free from prohibited elements and usurious practices while maintaining competitive performance and long-term institutional sustainability.

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