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Linkage Islamicity Performance Index and Islamic Corporate Governance throught Financial Health Performance of Indonesian Islamic Banks

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Abstract

This study examines the impact of the Sharia Supervisory Board's size (SSB) and the Board of Directors on the financial performance of Islamic commercial banks in Indonesia, focusing on a decade-long period from 2011 to 2020. The research adopts a quantitative approach, analyzing secondary data from the Good Corporate Governance (GCG) reports of ten selected Sharia Commercial Banks (BUS). Advanced panel data analysis techniques, including regression model estimation, model selection, assumption testing, and hypothesis testing, are utilized to ensure a robust examination. The analysis reveals multifaceted outcomes. Key financial indicators such as the profit-sharing ratio, zakat performance ratio, and Islamic income ratio show no significant impact on the bank's financial health. However, the Islamic investment ratio positively correlates with financial robustness. The size of the SSB has a negative, albeit insignificant, influence, whereas the Board of Directors' size does not significantly affect financial health. Notably, the study highlights the substantial moderating effects of SSB and the Board of Directors on the relationship between the Islamicity performance index and financial health. This research contributes to the field by showcasing the critical roles of SSB size and the Board of Directors in evaluating the financial health of Islamic commercial banks. It provides practice and theory implications of the factors that drive financial performance, offering valuable insights for policymakers and stakeholders in the Islamic banking sector

Keywords:

Sharia Supervisory Board; Islamic Bank; Financial Performance Health
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1. Introduction

The discourse on the financial health of Islamic banks continues to be a central concern within the financial sectors of numerous countries, including Indonesia. The health of Islamic banks extends beyond mere financial metrics, requiring the support of components inherent in Islamic corporate governance (Franzoni & Allali, 2023; Jan et al., 2019). This necessity stems from the imperative that Islamic banking fulfils stakeholders' interests through effective performance implementation, thereby not limiting its performance assessment to profit-oriented aspects but also encompassing social and Sharia-oriented dimensions (Archer & Abdel Karim, 2019). As institutions entrusted with significant responsibilities, Islamic banks must garner public trust, a cornerstone for operational stability and sectoral integrity. The failure or instability of a single bank can resonate across the industry, eroding public confidence and potentially triggering systemic impacts (I. et al., 2021; Metawa et al., 2022). Ali (2019) accentuates that the performance assessment of Islamic banking has predominantly been financial, mirroring the approach of conventional banks and overlooking the distinct Sharia-based benchmarks.

This observation signals a crucial need for a more nuanced performance assessment framework. In response, regulatory bodies such as Bank Indonesia and the Financial Services Authority have instituted frameworks like PBI No.18/1/PBI/2016 and POJK.03/2014, respectively, emphasizing a comprehensive assessment of bank health based on both qualitative and quantitative factors, including risks related to the application of Sharia principles (KNKS, 2018). The landscape of Sharia banking, as reported by the Financial Services Authority (2022), demonstrates positive trends with significant growth in assets, financing, and third-party funds. However, the financial ratios have experienced shifts, such as in Capital Adequacy Ratio (CAR) and Operating Expense Ratio (BOPO), and a decrease in Return on Assets (ROA) and Non-Performing Financing (NPF), indicating a nuanced landscape of financial health that requires comprehensive evaluation (OJK, 2022).

It need for a holistic approach to performance assessment has led to the development of various indices, such as several studies conducted by Griffin & Mahon (1997), Botosan (1997), Stanwick & Stanwick (1998), Klapper & Love (2004), and Black et al. (2006). Despite their contributions, these indices must fully address Islamic financial institutions' performance assessment. Recognizing this gap, Hameed et al. (2004) proposed the Islamicity Index, a comprehensive tool aimed at aligning the performance assessment of Islamic banks with Sharia principles, ensuring that banks meet stakeholder needs and uphold the tenets of Sharia law. The evolution of performance assessment in Islamic banking underscores the dynamic nature of the sector and the ongoing pursuit of frameworks and tools that resonate with the unique principles of Islamic finance (Habib, 2018). As the industry progresses, refining these assessment methodologies and their alignment with Sharia principles will be pivotal in ensuring Islamic financial institutions' comprehensive evaluation and sustainable growth (Hassan et al., 2023; Khamar Tazilah et al., 2021).

It furthermore highlighted two pivotal factors that can significantly enhance the health level of Islamic banks: firstly, the Islamicity Disclosure Index, which encompasses Sharia compliance, corporate governance, and social/environmental considerations; and secondly, the Islamicity Performance Index, comprising profit sharing, zakat performance, equitable distribution, director-employee welfare, Islamic investment, and Islamic income (Mergaliyev et al., 2021). Despite the critical nature of these factors, research in the realm of bank financial health performance, Islamicity Performance Index, and Islamic Corporate

Governance remains relatively nascent, presenting a substantial opportunity for empirical investigations to expand the academic discourse and research scope further.

The absence of comprehensive studies examining the influence of the Islamicity Performance Index on the financial health of Islamic banks, coupled with the moderating role of Islamic Corporate Governance, underscores the potential for significant scholarly contributions (Hameed et al., 2004). This research delves into the dimensions of the Islamicity Performance Index—profit sharing, zakat performance, Islamic investment, and Islamic income—and the general interpretation of Islamic Corporate Governance (ICG) as governance anchored in Islamic principles. This research aims to elucidate the financial health of Islamic commercial banks by examining these variables and their interactions in light of previous studies that have not focused on these specific dimensions as determinants of financial health in the context of Islamic banking.

The research delineates a pivotal theoretical contribution by dissecting the interplay between Islamic Corporate Governance and the Islamic Performance Index in determining the financial health of Islamic banks. This innovative approach introduces a nuanced paradigm for analyzing financial health through the Islamic Index (Hameed et al., 2004). Prior studies predominantly focused on evaluating the Islamicity Performance Index in isolation, without delving into the interrelation with Islamic corporate governance as a moderating variable. This study's novel insights reveal that the financial health of Islamic commercial banks can be distinctly assessed through the independent yet non-intersecting lenses of the Islamic Performance Index and Islamic Corporate Governance. These theoretical frameworks present a fertile ground for future empirical investigation, particularly in the domains of financial health, Islamic indices, and Islamic corporate governance (Ali, 2019; Asutay & Harningtyas, 2017; S. et al., 2023; Zirman et al., 2019).

From a policy standpoint, the findings underscore the need for Islamic banks to diversify their financing modalities beyond *Murabahah*, venturing into higher-risk, higher-return contracts like *Mudharabah* and *Musharakah*. This strategic shift could enhance profit-sharing margins, bolstering the banks' financial health. The research also advocates for a more equitable and expansive distribution of zakat by Islamic banks, fulfilling a religious mandate and potentially enhancing the banks' social performance and public image. This, in turn, could attract more deposits and increase financing, culminating in improved financial health.

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2. Method

This study adopts an explanatory method to delineate the dynamics between the Islamicity Performance Index (independent variable) and the financial health of Islamic commercial banks (dependent variable), with Islamic Corporate Governance serving as a moderating variable; research used a quantitative design with explanatory methods and secondary data. The population in this study are all Sharia Commercial Banks in Indonesia. Based on Sharia Banking Statistics data as of December 2020, the number of Sharia Commercial Banks (BUS) was 14. The time of research observation was from 2011 to 2020. The research sample was selected using a purposive sampling method; that is, the type of sample selection is limited to certain types of people or specific groups who can provide the desired information, either because they are the only ones who have it or who meet several criteria determined by the researcher to be able to become a research sample. These include Sharia Commercial Banks, registered in the Indonesian Banking Directory, Sharia Commercial Banks, which publish annual financial reports between 2011-2020, and Sharia Commercial Banks, which publish

Good Corporate Governance reports between 2011-2020.

The sample criteria are that BUSs were still operating when the research was conducted until the end of 2020, with 14 BUS registered with Bank Indonesia that met the criteria. BUS that published annual financial reports on the BUS website or through the Bank Indonesia website, 10 BUS were selected that published their annual financial reports in 2011-2020; there were 4 BUS that did not meet the criteria for not publishing their annual financial reports in 2011-2013. Sharia Commercial Banks with Good Corporate Governance Implementation Reports for 2011-2020 were selected. 10 BUS were selected, and there were 4 BUSs that did not meet the criteria and did not publish Good Corporate Governance Implementation reports for 2011-2013. Overall, in the existing BUS population, there are 10 BUSs that meet the three predetermined criteria. Meanwhile, there are 4 BUS that need to meet the criteria such as BTPN Syariah, BJB Syariah, Bank Aceh Syariah and Bank NTB Syariah.

The dependent variable (Y) in this study is the financial health of Islamic commercial banks; the independent variables (X) in the research are the Islamicity Performance Index (X1) and Islamic Corporate Governance (X_2) as moderating variables. Operational research variables can be seen in the following table:

Table 1. Operational Summary of Research Variables

Variable	Indicator	Definition	Measurement	Scale
Financial Health Islamic Commercial Banks (Y)	Capital Adequacy Ratio (CAR)	Capital adequacy ratio that serves to accommodate the risk of loss that may be faced by the bank (Sarwar et al., 2020).	Capital / ATMR x 100%	Ratio
	Non-Performing Financing (NPF)	The ratio is used to measure the level of financing problems faced by Islamic banks, especially regarding problem financing consisting of those with less classification (Wasiaturrahma et al., 2020).	Non-Performing Financing / Total Financing x 100%	Ratio
	Operational Efficiency Ratio (OER)	The efficiency ratio is measured according to operational expenses to operational income which reflects the level of operational efficiency (Arif & Firmansyah, 2021).	Operating Expenses / Operating Revenue x 100%	Ratio
	Short Term Mismatch (STM)	A ratio that shows a bank's ability to calculate the size of its short-term assets compared to its short-term liabilities, so that it can determine the bank's	Short-term Assets / Short-term Liabilities x 100%	Ratio

		ability to meet its short-term liquidity needs (Falikhatun & Assegaf, 2012; Raouf & Ahmed, 2022).		
Islamicity Performance Index (X1)	Profit Sharing	Income from profit sharing obtained through *Mudharabah* and *Musyarakah* agreements (Hamsyi, 2019).	*Mudhrabah* + *Musyarakah* / Total Financing	Ratio
	Zakat Performance	Bank wealth should be based on net assets rather than net profit (Wijaya et al., 2021).	Zakat / Net Assets	Ratio
	Islamic Investment	A method that can be used to compare halal investments with the total investment made by sharia banks as a whole (halal and non-halal) (Falikhatun & Assegaf, 2012; Yusnita, 2019).	Halal Investment / Halal Investment + Non-Halal Investment	Ratio
	Islamic Income	Frankly disclose any income that is considered halal and that is prohibited in Islam (Hamsyi, 2019; Najib & Rini, 2016).	Halal Income / Halal Income + Non-halal Income	Ratio
Islamic Corporate Governance (X_2)	Implementation of the Duties and Responsibilities of the Sharia Supervisory Board	The Sharia Supervisory Board shows the DPS performance ranking in the GCG report (Aslam et al., 2021; A. A. Jan et al., 2022; Khamar Tazilah et al., 2021; Mansour & Bhatti, 2018).	GCG Self-Assessment Values for Implementing Duties and Responsibilities of the Sharia Supervisory Board.	Ordinal
	Implementation of Duties and Responsibilities of the Board of Directors	The Board of Directors shows the performance ranking of the Directors in the GCG report (Aslam et al., 2021; A. A. Jan et al., 2022; Khamar Tazilah et al., 2021; Mansour & Bhatti, 2018).	GCG Self-Assessment Values Implementation of Duties and Responsibilities of the Board of Directors.	Ordinal

The empirical basis is rooted in secondary data, specifically the annual financial statements and Good Corporate Governance reports of Sharia Commercial Banks from 2011 to 2020. The scope of the research encompasses all Sharia Commercial Banks in Indonesia, with a selected sample of 10 Sharia Commercial Banks, focusing mainly on those adhering to the criteria of operational continuity and consistent publication of annual financial statements and Good Corporate Governance reports throughout the study period. Data processing techniques include data calculations and research model analysis using statistical methods assisted by the SPSS 25 program. Research data analysis uses panel data, a combination of time-series and cross-section data. There are two types of panel data, namely balanced panel data and unbalanced panel data. Balanced panel data is a situation where cross-sectional units have the same number of time series observations (Croissant & Millo, 2018). Unbalanced panel data is a situation where cross-sectional units have unequal time series observations (Hsiao, 2022). This research uses panel balance panel data. The stages or steps are to carry out quantitative analysis, which consists of estimating a regression model using panel data, selecting a panel data regression model, testing assumptions, and testing hypotheses. A pooled data approach is utilized, amalgamating time-series and cross-section data to facilitate an extensive panel data analysis (Baltagi, 2021).

3. Result and Discussion

The research outcomes reflect a reduction in the original observation sample size due to excluding outliers—observations that deviate significantly from the norm, potentially due to all banks' inconsistent publication of annual reports. These outliers, though statistically marginal, play a role in shaping the research model and are thus accounted for in the analysis (Kleinbaum et al., 2013). The study's analytical approach involves descriptive statistical analysis, providing insights into the data's range, mean, and other pertinent measures, offering a nuanced understanding of the financial health of Islamic commercial banks concerning the Islamicity Performance Index and Islamic Corporate Governance (Garson, 2016). The study presents a detailed descriptive analysis of the financial health of Islamic commercial banks in Indonesia.

Descriptive Statistical Analysis

Table 2 encapsulates the mean, standard deviation, and the number of observations (N) for each variable, providing a comprehensive statistical overview. The interpretation of descriptive statistical results is to look at the range, mean, minimum and maximum values as well as standard deviation achieved by Islamic commercial banks in Indonesia, shown in Table 2 as follows:

Table 2. Descriptive Test Results

	Mean	Std. Deviation	N
Financial Health Islamic Commercial Banks (Y)	83.3537	9.80221	82
Profit Sharing Ratio (X_1)	.5209	.23674	82
Zakat Performance Ratio (X_2)	.0904	.20332	82
Islamic Investment Ratio (X_3)	.8485	.14444	82
Islamic Income Ratio (X_4)	.9084	.10051	82
Implementation of Duties and Responsibilities of the Sharia Supervisory Board (X_5)	1.9512	.56443	82
Implementation of Duties and Responsibilities of the Board of Directors (X_6)	2.9756	1.77065	82

Source: processed data, 2024

The data, drawn from ten Sharia Commercial Banks over the period 2011 to 2020, reveals that the standard deviation for each variable is less than its mean, indicating a consistent and reliable dataset for the study. The discussion section delves into the influence of the Islamicity Performance Index—with its components of profit sharing, zakat performance, Islamic investment, Islamic income—and Islamic Corporate Governance on the financial health of Islamic commercial banks.

Regression Equation Method

To see the influence of the Islamicity Performance Index with indicators of profit sharing (X_1), zakat performance (X_2), Islamic investment (X_3), Islamic income (X_4) and Islamic Corporate Governance with indicators of the implementation of the duties and responsibilities of the sharia supervisory board (X_5) and the implementation of the duties and responsibilities of the board of directors (X_6) on the financial health of sharia commercial banks. Based on the calculation results, a shape is obtained from multiple linear regression equation as follows:

$$Y = 84.745 + -5.389\ PSR + -0.510\ ZPR + 15.978\ II + -3.078\ PI + -2.333\ SSB + -1.595\ BD + e$$

Y = Financial Health
a = Constant
ß = Regression Coefficient
X1 = Profit Sharing Ratio
X2 = Zakat Performance Ratio
X3 = Islamic Investment Ratio
X4 = Islamic Income Ratio
X5 = Implementation of Duties and Responsibilities of the Sharia Supervisory Board (SSB)
X6 = Implementation of Duties and Responsibilities of the Board of Directors (BD)
e = error term

Coefficient of Determination

The magnitude of the influence that profit sharing, zakat performance, Islamic investment, Islamic income and the implementation of the duties and responsibilities of the sharia supervisory board and the implementation of the duties and responsibilities of the board of directors have on the financial health variable can be seen from the coefficient of determination in Table 3 as follows:

Table 3. Coefficient of Determination

Model	R Square	Adjusted R Square	Prob (F statistic)
1	.630	.458	.001

Predictors: (Constant), X_1, X_2, X_3, X_4, X_5, X_6
Source: processed data, 2024

Table 3 shows that the coefficient of determination (R^2) is 0.129 or 12.9%. This shows that the independent variables together influence the dependent variable by 12.9%, while the remaining 54.2% can be explained by other variables outside the regression model above.

First Stage Hypothesis Testing
Partial Testing (t Test)
Partial testing is carried out to determine the influence of error one independent variable to the dependent variable with the assumption that the other variables are constant. The results of data processing are presented in Table 4 as follows:

Table 4. Multiple Linear Regression t test

Variable	t-Statistic	Prob.
PSR	-1.228	0.223
ZPR	-0.098	0.922
II	2.110	0.038
PI	-0.253	0.801
SSB	-0.922	0.360
BD	-1.766	0.081

Source: processed data, 2024

With df = n-k-1 = 82-7-1 = 74, the t table value is 1.66571. Table 4 explains that the profit sharing (PSR) variable has a calculated t value of -1.228, when compared with the t table value of 1.66571, we get a calculated t value < t table (-1.228 < 1.66571). The significance value of profit sharing is 0.223 when compared with α=5%, obtained 0.223 > 0.05. Thus Ha1.1 is rejected, partially profit sharing does not have a significant influence on the financial health of Islamic commercial banks in Indonesia. Therefore, the greater the profit sharing (PSR) will not affect the financial health of Islamic commercial banks.

Zakat performance (ZPR) is known to have a calculated t value of -0.098, when compared with the t table value of 1.66571, we get t calculated < t table (-0.098 < 1.66571). The significance value of zakat performance (ZPR) is 0.922, when compared with α = 5%, it is obtained 0.922 > 0.05. Thus Ha2.2 is rejected, partially Zakat performance (ZPR) has no influence on the financial health of Islamic commercial banks in Indonesia. Therefore, the greater the zakat performance (ZPR), the less influence it will have on the financial health of Islamic commercial banks.

Islamic investment (II) is known to have a calculated t value of 2,110; when compared with the t table value of 1.66571, we get t calculated > t table (2,110 > 1.66571). The significance value of Islamic investment (II) is 0.038; when compared with α = 5%, it is obtained as 0.038 < 0.05. Thus, Ha1.3 accepts that partial Islamic investment (II) significantly influences the financial health of Islamic commercial banks in Indonesia. Therefore, the greater the Islamic investment (II), the more it will affect the financial health of Islamic commercial banks.

Islamic income (PI) is known to have a t value of -0.253 when compared with the t table value of 1.66571, so we get t count < t table (-0.253 < 1.66571). The significance value of Islamic income (PI) is 0.801; when compared with α = 5%, it is obtained as 0.801> 0.05. Thus, Ha1.4 is rejected; Islamic income (PI) partially does not influence the financial health of Islamic commercial banks in Indonesia. Therefore, the greater the Islamic income (PI) will not affect the financial health of Islamic commercial banks.

The implementation of the duties and responsibilities of the Sharia Supervisory Board (DPS) is known to have a calculated t value of -0.922 when compared with the t table value of 1.66571; we get t calculated < t table (-0.922 < 1.66571). The significance value for implementing the duties and responsibilities of the Sharia Supervisory Board (SSB) is 0.360;

when compared with α = 5%, it is obtained 0.360 > 0.05. Thus, Ha1.5 is rejected partially. Implementing the duties and responsibilities of the Sharia Supervisory Board does not significantly influence the financial health of Islamic commercial banks in Indonesia. Therefore, the greater the implementation of the duties and responsibilities of the Sharia Supervisory Board (DPS), the more it will not affect the financial health of Sharia commercial banks.

The implementation of the duties and responsibilities of the Board of Directors (BD) is known to have a calculated t value of -1.766; when compared with the t table value of 1.66571, we get t calculated < t table (-1.766 < 1.66571). The significance value for the implementation of the duties and responsibilities of the Board of Directors is 0.264; when compared with α = 5%, it is obtained 0.264 > 0.05. Thus, Ha1.6 is rejected; partially, the implementation of the duties and responsibilities of the Board of Directors does not have a significant influence on the financial health of Islamic commercial banks in Indonesia. Therefore, the greater the implementation of the duties and responsibilities of the Board of Directors, the less it will affect the financial health of Islamic commercial banks.

Second Stage Hypothesis Testing

Testing the second hypothesis is carried out using the Moderated Regression Analysis method or interaction test to find out whether a variable used as a moderating variable can strengthen or vice versa (weaken) the relationship between the independent variable and the dependent variable.

Table 5. Moderation Results for Each Variable on Financial Health

Model	R Square	Adjusted R Square	Std. Error of the Estimate
Predictors: (Constant), SSB_PSR, SSB, PSR	0.125	0.091	9.34480
Predictors: (Constant), SSB_ZPR, SSB, ZPR	0.155	0.122	9.18311
Predictors: (Constant), SSB_II, II, SSB	0.173	0.141	9.08414
Predictors: (Constant), DPS_BD, PI, DPS	0.115	0.081	9.39883
Predictors: (Constant), BD_PSR, PSR, DD	0. 208	0.177	8.88986
Predictors: (Constant), BD_ZPR, BD, ZPR	0.114	0.080	9.40270
Predictors: (Constant), BD_II, II, BD	0.245	0.216	8.67731
Predictors: (Constant), BD_PI, PI, BD	0.153	0.121	9.19059

Source: processed data, 2024

Table 5 shows that the Sharia supervisory board moderating variable, the R Square value, increased by 0.125 or 12.5%. It is concluded that the hypothesis is accepted: the Sharia supervisory board variable can strengthen the influence of the profit-sharing variable on the financial health of Sharia commercial banks. The Sharia supervisory board moderating variable, the R Square value, increased by 0.155 or 15.5%. It is concluded that the hypothesis is accepted: the Sharia supervisory board variable can strengthen the influence of the Zakat Performance variable on the financial health of Sharia commercial banks. The Sharia supervisory board moderating variable, the R Square value, increased by 0.173 or 17.3%. It is concluded that the hypothesis is accepted: the Sharia supervisory board variable can strengthen the influence of the Islamic Investment variable on the financial health of Sharia commercial banks.

The Sharia supervisory board moderating variable, the R Square value, increased by 0.115 or 11.5%. It is concluded that the hypothesis is accepted: the Sharia supervisory board variable can strengthen the influence of the Islamic Income variable on the financial health of Sharia commercial banks. The R Square value, the moderating variable for the board of directors, increased by 0.208 or 20.8%. It is concluded that the hypothesis is accepted; the board of directors' variable can strengthen the influence of the profit-sharing variable on the financial health of Islamic commercial banks. The R Square value, the moderating variable for the board of directors, increased by 0.114 or 11.4%. It is concluded that the hypothesis is accepted; the board of directors' variable can strengthen the influence of the Zakat Performance variable on the financial health of Sharia commercial banks. The moderating variable for the Board of Directors, the R Square value increased by 0.245 or 24.5%. It can be concluded that the hypothesis is accepted; the Board of Directors variable can strengthen the influence of the Islamic Investment variable on the financial health of Islamic commercial banks. The moderating variable for the Board of Directors, the R Square value, is 0.153 or 15.3%. It is concluded that the hypothesis is accepted; the Board of Directors variable can strengthen the influence of the Islamic Income variable on the financial health of Islamic commercial banks.

The Effect of Profit Sharing on the Financial Health of Sharia Commercial Banks

Exploration of profit sharing's impact on the financial health of Sharia commercial banks yields multifaceted insights, particularly in the context of the Indonesian Islamic banking sector. The study's statistical analysis reveals that profit sharing does not significantly influence the financial health of these institutions. This finding is substantiated by data showing that most sampled Islamic commercial banks exhibit a profit-sharing level below 50%. Additionally, the 2020 Islamic financial development report highlights that financing in Islamic banks predominantly relies on certainty contract financing, such as *Murabahah* financing, which constitutes 57.3% of total financing. This dominance of *Murabahah* financing diminishes the profit-sharing potential from uncertain contract financings like *Mudharabah* and *Musharakah* (Masyita, 2012; Suzuki & Miah, 2018).

The research has conclusions diverge from previous research, such as that by Kuppusamy et al. (2010), Meilani et al. (2016), and Wahyudi & Sakti (2016), which have indicated a significant favourable influence of profit-sharing indicators on the financial health of Islamic banks. However, it aligns with findings from Hameed et al. (2004), Vegirawati et al. (2019), (Alhammadi et al., 2018), and Z. Omar (2020), suggesting that profit-sharing indicators may have a negligible or even negative correlation with the financial health of Islamic banks. Despite these findings, it is imperative to recognize the intrinsic value of profit sharing as a distinctive feature of Islamic banks, setting them apart from conventional banking systems. Profit sharing embodies the operational ethos of Islamic banking and serves as a testament to the banks' adherence to Sharia principles (Sudirman et al., 2023). An increase in profit-sharing earnings signifies not just the financial viability of Islamic banking but also its commitment to Sharia-compliant operational activities. This commitment can bolster the banks' reputation in the community, potentially attracting customers seeking consistency in applying Sharia principles in their banking transactions.

The Impact of Zakat Performance on the Financial Health of Sharia Commercial Banks

The study's examination of the Zakat Performance Ratio (ZPR) and its impact on the financial health of Islamic commercial banks in Indonesia reveals a complex and somewhat paradoxical relationship (Habib, 2018). Despite the expectation that zakat payments should enhance the social performance and public image of Islamic banks—potentially attracting more deposits and increasing financing—the statistical analysis indicates that the ZPR does not significantly influence the financial health of these institutions. This finding suggests a neutral or negative association between the ZPR and the financial robustness of Islamic commercial banks in the region.

Contrastingly, previous research by Hameed et al. (2004), Ahmar Ali et al. (2023), Shuaib & Sohail (2022), and Listiana & Edriyanti (2023) posited a positive relationship between the ZPR and the financial health of Islamic commercial banks. These studies aligned with the theoretical expectation that zakat, a fundamental aspect of Islamic banking, should contribute positively to the banks' financial and social performance. However, the current study aligns with findings from Tuan Ibrahim et al. (2020), Hamidi et al. (2019), Asmak et al. (2022), Aydin (2015), and Çıkıryel & Azrak (2023), which suggest a less straightforward relationship. These studies highlight that while zakat is a critical element of Sharia compliance and can enhance the social image of Islamic banks, its direct impact on financial health is not as clear-cut or significantly positive as previously assumed.

The study underscores a broader, more holistic understanding of zakat in Islamic banking, suggesting that its value transcends mere financial metrics. The commitment to zakat is seen as a reflection of the bank's adherence to Islamic principles, inviting blessings and divine favour, which, although not directly quantifiable in financial terms, are believed to contribute to the overall prosperity and productivity of the institution (Begum et al., 2019). The perspective offered here is that zakat should not be viewed merely as a financial transaction or liability but as an integral part of the Islamic banking ethos, potentially yielding benefits beyond the immediate financial parameters.

The Impact of Islamic Investment Ratio on the Financial Health of Sharia Commercial Banks

The study indicates that the Islamic Investment Ratio (IIvR) significantly influences the financial health of Islamic commercial banks in Indonesia. A high IIvR, which reflects compliance with Sharia principles and freedom from usury, is associated with improved financial health (Puteri et al., 2022; Sueb et al., 2022). This positive relationship underscores the importance of halal investments in enhancing the bank's image and attracting more customers and financing, thereby boosting profits and overall financial health. The findings corroborate previous studies by Hameed et al. (2004), Ahmar Ali et al. (2023), El-Chaarani (2023), Ben Abdallah & Bahloul (2023), and Dewi (2022), emphasizing the critical role of Islamic investment in determining the financial health of Islamic banks in Indonesia.

In summary, the study provides a multifaceted analysis of the factors influencing the financial health of Islamic commercial banks, highlighting the complex interplay between zakat performance, Islamic investment, and overall financial health (Firmansyah, 2018). These insights contribute to a deeper understanding of Islamic banking operations and offer a foundation for future research and policymaking in Islamic finance—a positive influence on the financial health of Islamic Commercial Banks. However, another study by Gompers et al.

(2007) says that the Islamic Investment Ratio negatively affects the financial health of Islamic commercial banks. Thus, Islamic investment has a positive and significant influence on the financial health of Islamic commercial banks in Indonesia. Therefore, the more excellent Islamic investment affects the financial health of Islamic commercial banks.

The Impact of Islamic Income on the Financial Health of Sharia Commercial Banks

The study indicates that Islamic Income (PI) does not significantly influence the financial health of Islamic commercial banks in Indonesia, suggesting that an increase in PI does not necessarily translate to enhanced financial health. This finding contrasts with prior studies by Hameed et al. (2004), Falikhatun & Assegaf (2012), Muhammad et al. (2020), Malik et al. (2020), and Meilani et al. (2016), which suggested a positive impact of Islamic income on financial health. However, it aligns with the research of Gompers et al. (2007), which pointed to an adverse effect of Islamic income on financial health. Interestingly, disclosing non-halal income by Islamic banks could potentially damage the banks' image, yet transparency regarding such income may paradoxically boost trust in these institutions. This trust could lead to an increase in third-party funds and financing, thereby enhancing profits and, ultimately, the financial health of the banks.

This paradox underscores the complexity of the relationship between Islamic income, transparency, and financial health. It indicates that while Islamic banks are obligated to pursue halal sources of income, the full impact of such income on financial health is nuanced and may be influenced by factors such as public perception and trust (Aminah et al., 2019; Muflih, 2021). The study underscores the importance of adhering to Sharia principles in banking operations and the potential benefits of transparency and adherence to halal income sources (Adetio Setiawan, 2023; Alsharari & Alhmoud, 2019; Hassan et al., 2023). It suggests that Islamic banks must not only focus on increasing their halal income but also ensure that their income sources and financial activities are in strict compliance with Sharia principles, as this compliance plays a crucial role in shaping the banks' financial health and public image (Bayinah et al., 2021; Tabash et al., 2020).

The Effect of the Implementation of Duties and Responsibilities of the Sharia Supervisory Board on the Financial Health of Sharia Commercial Banks

Implementing duties and responsibilities by the Sharia Supervisory Board is integral to the governance of Islamic commercial banks. However, its impact on financial health is more complex than traditionally presumed (Nurkhin et al., 2018). Drawing on a comprehensive array of statistical tests, this study elucidates that the role of the DPS in shaping the financial health of Islamic commercial banks is marginal and statistically insignificant. This finding is pivotal, highlighting that despite the DPS's critical role in ensuring compliance with Sharia principles and enhancing the awareness of bank employees about Islamic banking operations, its direct influence on the financial performance and productivity of banks is limited (Kenangsari & Falikhatun, 2022; Salman & Kurniasari, 2020).

This observation is particularly noteworthy considering the DPS's external position relative to the core operational activities of banks. The DPS's fundamental task revolves around governance and compliance rather than direct involvement in the financial decision-making processes, which might explain the observed minimal impact on the financial health of banks (Hamsyi, 2019; Islam et al., 2021; Islam & Bhuiyan, 2019). Contrasting with prior studies by Sueb et al. (2022), Nainggolan et al. (2023), Darwanto & Chariri (2019), and Baklouti (2022), which suggested a positive correlation between DPS activities and the financial health of Islamic banks, this research introduces a nuanced perspective, underscoring the complexity of the relationship between DPS activities and bank performance. Notwithstanding the marginal impact on financial health, the role of the DPS remains distinct and crucial in the Islamic banking ecosystem (Khomsatun, et al., 2021). It not only demarcates Islamic banks from their conventional counterparts but also embodies the commitment of these institutions to Sharia principles. Recognizing this, the study advocates for a strategic emphasis on DPS activities that bolster the understanding of Sharia compliance among bank employees, potentially leading to enhanced productivity and, by extension, financial health over time.

The Investigation into the Influence of the Board of Directors' Responsibilities and Duties on the Financial Health of Islamic Commercial Banks Yields Intriguing Insights.
The statistical analysis delineates a negative correlation between the operational performance of the Board of Directors and the financial prosperity of these banks. Specifically, it suggests that an intensification in the board's responsibilities inversely relates to the financial health of the banks, a phenomenon observed in institutions such as Bank Muamalat Indonesia and Bank Maybank Syariah, which experienced a decline in rankings over the observed period. This revelation stands in contrast to several prior studies that attributed a positive impact to the Board of Directors' actions on the financial well-being of Islamic banks (Darwanto & Chariri, 2019; Nainggolan et al., 2023; Sueb et al., 2022). Notably, this research supports a subset of literature indicating that the board's role does not significantly propel the financial health of Islamic banks (Bukhari & Rahman, 2015; Khalil & Slimene, 2021; Khan et al., 2024). The findings underscore a critical reflection on the board's efficacy and strategic approach to governing, suggesting that an increase in duties does not necessarily equate to an enhancement in the bank's financial status.

Furthermore, the study prompts a reconsideration of the board's governance strategies, advocating for a management approach that aligns not only with prudential principles but also rigorously adheres to the tenets of Sharia law. The study accentuates the necessity for the Board of Directors to embody their roles in a manner that promotes the health of the bank's financial operations, aligning with the bank's foundational Sharia principles and the broader legal framework.

4. Conclusion

The analysis of various factors influencing the financial health of Islamic commercial banks in Indonesia presents a multifaceted landscape, with certain variables showing no significant impact while others contribute positively. The study indicates that profit sharing does not substantially affect the financial health of Islamic commercial banks in Indonesia. The primary reason cited is the relatively low level of profit sharing, often below 50%, coupled with the dominance of specific contracts, like *Murabahah*, that provide a fixed rate of return. This finding is corroborated by research from Hameed et al. (2004), Falikhatun & Assegaf (2012), Omar et al. (2014), Hamsyi (2019), and Najib & Rini (2016). The research also suggests that the ZPR does not significantly influence the financial health of Islamic commercial banks in Indonesia, aligning with findings from Omar et al. (2014), Meilani et al. (2016), Asutay & Harningtyas (2017), Najib & Rini (2016), and Bukair & Abdul Rahman (2015).

In contrast, Islamic investment is found to have a positive and significant effect on the financial health of these banks. The higher the value of Islamic investment, the more favourable the impact on financial health. This result is supported by previous research from Hameed et al. (2004), Falikhatun & Assegaf (2012), and Meilani et al. (2019). The study reveals that Islamic income (PI) does not influence the financial health of Islamic commercial banks in Indonesia. Factors such as high operational costs and insufficient non-halal income disclosure are contributing factors. This aligns with the research of Gompers et al. (2007), indicating that the Islamic Investment Ratio negatively affects the financial health of these banks. It is noted that the implementation of duties and responsibilities by the DPS has a negligible and insignificant effect on the financial health of Islamic commercial banks. The DPS's position outside the operational activities of Islamic banking is considered a contributing factor. This observation is supported by research from Bukair & Abdul Rahman (2015), Najib & Rini (2016), Nurkhin et al. (2018), Baklouti (2022), Alam et al. (2020), and Sueb et al. (2022). Lastly, the execution of duties and responsibilities by the Board of Directors is found to have no significant impact on the financial health of Islamic commercial banks in Indonesia. This finding is in line with research from Alam et al. (2020), Bukair & Abdul Rahman (2015), Naim & Rahman (2022), Khalil & Ben Slimene (2021), Ajili & Bouri (2018), Bansal et al. (2023), Mezzi (2018), and Aliani et al. (2022).

Furthermore, the study underscores the criticality of meticulous investment instrument selection, ensuring compliance with Sharia principles while focusing on profitability. It also recommends regulatory interventions to demarcate the threshold for investments to be considered halal or haram. This move could provide much-needed clarity and standardization in Islamic banking practices. Moreover, the research calls for enhanced transparency in income disclosure, particularly concerning the Sharia compliance of income sources. It also emphasizes the need to empower the SSB with oversight and internal audit capabilities, ensuring that Islamic banks' operations meticulously adhere to Sharia principles. Lastly, the study underlines the imperative for the board of directors to bolster their professionalism and competence, ensuring that the management of Sharia commercial banks is prudent and strictly adheres to Sharia principles.

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