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Financial Performance of Islamic Banks in Indonesia: Islamic Performance Indeks Approach

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Abstract

The objective of the study was to examine the impact of the Islamicity Performance Index and Intellectual Capital on the profitability of Islamic Commercial Banks in Indonesia. The sample for this study consisted of seven Sharia Commercial Banks registered with Bank Indonesia, specifically those categorized under the BUKU II in 2018. The research utilized SPSS 20 for conducting a multiple linear regression analysis. The partial hypothesis test results indicated that the variables Intellectual Capital (IC), Equitable Distribution Ratio (EDR), and Directors Employed Welfare Ratio (DEWR) had a positive but non-significant effect on the profitability of Commercial Sharia Banks in Indonesia. On the other hand, the variables Profit Sharing Ratio (PSR), Zakat Performance Ratio (ZPR), and Islamic Income Ratio (IsIR) were found to significantly influence productivity in Commercial Sharia Banks in Indonesia. All independent variables, as hypothesized, had a positive impact on profitability, with Intellectual capital (IC) being identified as the dominant variable.
Keywords: *islamic performance index; intellectual capital; profitability*

INTRODUCTION

Indonesia is the largest Muslim population in the world, and the Islamic banking industry has recently attracted the interest of business people as a result of achieving 65% asset growth in the last five years. Recent studies show that the presence of the banking industry contributes to Indonesia's economic development (Safira & Rahmanto, 2022), which the contribution it's depends on the stable banking system itself, therefore many studies concluded that sustainable economic growth is a challenge, in the absence of a stable banking sector that facilitates the flow of business capital (Rahmanto et al., 2020).

The vital contribution of banks to economic growth occurs through the bank's function as an intermediary between surplus and deficit parties (Masykuroh et al., 2020). In addition, good banks' performance also contributes to economic growth (Masykuroh et al., 2020). Nevertheless, the presence of Islamic banks is just as crucial that aims to contribute to the welfare of Indonesian societies. However, intense competition in the banking industry requires Islamic bank management to work efficiently and effectively (Viantina et al., 2022). To achieve an efficient cost structure, Islamic banks need to manage low-cost funds optimally and control expenses, especially labor costs to improve performance.

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The Covid-19 phenomenon pandemic has caused a decrease in revenue in various industrial sectors, including the banking sector. According to (Masykuroh et. al, 2020), profitability is an indicator to assess the company's performance in carrying out its business activities to generate profits. Furthermore, one of the ratios to measure profitability is the return on assets (ROA). The better ROA ratio shows the better financial performance of banks. Thus, the increasing ROA indicator indicated an increase in shareholder welfare (Walkling & Long, 1984).

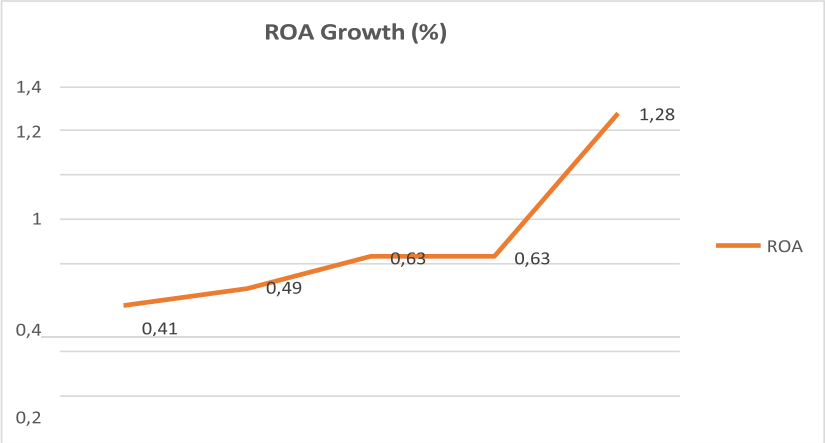

Figure 1 Statistic Growth of ROA on Commercial Banks

Source: Islamic Banks Statistic December 2016 and July 2019

It is shown that the value of return on Assets (ROA) at 14 Islamic Commercial Banks, has experienced significant growth. Although it has increased, the rate is meager, ranging from 0 – 1.3%, much lower than national banks with an average ROA of 2.55% as of March 2018, while Islamic Commercial Bank has only 1 .28% Return on Assets (ROA) in 2018, Meanwhile, the greater the bank's profit, the higher the bank's income, and the better.

Organizational performance can be linked to the Islamic Performance Index. Profit sharing ratio, zakat performance ratio, equity ratio, director employee welfare ratio, Sharia versus non-sharia-based product, and Sharia versus non-Sharia Investment are the components of the Islamic Performance Index. The higher the percentage performance, the higher the bank's productivity. However, in this study, not all of the seven ratios included in the Islamic Performance Index are used to measure financial performance. Therefore, this study did not test these variables (Khasanah, 2016).

According to the Infobank Institute, a dominant Muslim population does not significantly guarantee an increasing market share in the Islamic Finance industry due to the rational market, where people transact at banks based on economic considerations and not ideological-based factors. Surveys prove that most Islamic bank customers have primary accounts at conventional banks. So Islamic banks must be able to balance the top traditional banks, both in marketing and operational strategies, so they have a strong image (Febriyanti, 2022).

LITERATURE REVIEW

1. Agency Theory in Financial Performance

In agency theory, there is potential for bank management (agents) to maintain their position by achieving performance that meets the expectations of the owner. Therefore, even in COVID-19 pandemic conditions, bank management will try to increase ROA to maintain its reputation. The better ROA achieved by the bank, the better management's reputation, so there are chances to improve the welfare and career of bank management as well as increase the banks' performance and impact their behavior by implementing efficiency and expansion strategies adapted to external conditions (Masykuroh et al., 2020). All stakeholders, especially investors, consider an entity's sustainability. Therefore, being concerned with financial reporting assumes that an entity can continue its business for future periods (Zona, 2011). In addition, referring to the statement of León-Bravo et al. (2019), company reputation and performance reflect an entity's or company's sustainability.

2. Profitability Ratio

Profitability is a ratio that describes a bank's ability to generate profits over a certain period, taking into account supply, resources, and available capital (Kumbirai and Webb, 2010). The amount of money circulating in the market also can affect the bank's profitability (Pratiwi et al., 2020). One of the indicators used to measure bank profitability is Return on Assets (ROA). ROA reflects the ability of bank management to generate profits from the assets owned by the company (Masykuroh et al., 2020). ROA also estimates the efficiency of asset utilization by organizations in creating income (Ihwanudin et al., 2020). A high ROA indicates management's success in generating net profit, efficiency, and effectiveness in utilizing company resources.

3. Islamicity Performance Index (IPI)

One indicator that might be used to predict the possibility of internal extortion is the Islamicity Performance Index (IPI). Najib & Rini (2016) confirmed that the IPI has a detrimental influence on fraud. IPI considers a global perspective and Islamic principles such as ethics, halal, and cleanliness in evaluating the financial performance of Islamic banks. It is expected that running operations in accordance with Islamic principles will reduce the possibility of internal fraud. According to The Association of Certified Fraud Examiners (ACFE), there are two types of fraud: external fraud and internal fraud, where customers or other parties may be involved in the fraud.

4. Profit Sharing Ratio

According to Muhammad (2005), profit Sharing Ratio is a practice in which some of the company's profits are given to employees in the form of final profit sharing, performance bonuses, and the like. In general, profit sharing is a mechanism that allows fund managers and fund owners, as well as banks and customers receiving funds, to share business results.

5. Zakat Performance Ratio (ZPR)

Zakat is one of the main goals of Islamic bookkeeping and plays an important role in Islamic finance. As a result, the payment of zakat becomes the basis to evaluate the performance of Islamic banks. Zakat replaces traditional execution metrics such as earnings per share. As an alternative to focusing on net income, which is the conventional approach, Islamic banks measure their success using net assets. Thus, if bank assets increase, zakat payments will also increase (Hameed et al., 2004).

6. Equitable Distribution Ratio (EDR)

Islamic bookkeeping has a broader purpose than profit sharing, ensuring balance and adequacy in all transactions. Therefore, the main objective of this indicator is to evaluate the various methods used by Islamic banks in distributing their income to multiple stakeholders, such as the allocation of funds for Qardh and donations, employee costs, and so on. According to the authors (Febriyanti et al., 2022), it is recommended to use the distribution ratio (to the public, employees, investors, and businesses) divided by total income before zakat and taxes are deducted. The indicators used to evaluate distribution according to the local area include shareholders, Qardh and donations, costs incurred by employees, and net income (Hameed et al., 2004).

7. Islamic Income Ratio (IsIR)

Director compensation has a very important role. There are many cases where directors receive compensation that exceeds their actual performance. This proportion is in contrast to director compensation and costs reserved for employee welfare. According to Nurmalisari (2017), these values are used to compare the amount of money given as a director's salary with the amount given for employee welfare, which includes salary, training, and other components.

8. Directors-Employees Welfare Ratio

In this context, the terms 'Qardh' and 'Hibah' refer to the funds disbursed by the bank in accordance with the principles of Islamic law. The sources of these funds come from both internal and external. All expenses related to employee payroll are included in the category of employee expenses. The term 'shareholder' refers to individuals who own shares in a company and have the right to receive a distribution of dividends or profits. The company's net profit is the result of subtracting all costs and expenses from its total revenue, Febriyanti et al. (2022) recommend evaluating the number of shipments made to local communities, employees, financial supporters, and other organizations, separating them from the total payment after deducting zakat and duties."

9. Intellectual Capital (IC)

The arrangement of scientific capital has been proposed and acknowledged by a handful of scientists with commonalities in the gathering. In his initial exploration, Saint-Onge

(1996) arranged scientific capital into three parts: human capital, customer capital, and structural capital. This characterization is also supported by Stewart (1997). Intellectual capital is further categorized into three types by Sveiby (1997): human capital, authorized capital, and social capital. Comparable assessments are communicated by Trivial and Guthrie (2000) and Kujansivu (2005), who state that human capital, primary capital, and social capital are the three fundamental blends of scientific capital. Hsu and Tooth (2009) proposed a scientific capital class consisting of human resources, development capital, and principal capital as the information mix. Over time, the definition of each component of intellectual capital may change. Human Capital is one of the main categories of intellectual capital. Roos et al. said that human capital is defined as an employee of a company who has the ability, knowledge, skills, and experience (Bontis et al., 2000) It makes sense that authoritative workers are human resources. According to Riahi-Belkaoui's definition, human capital is also considered an innovation process generated by capital. Faizah et al. (2019) stated that human resources are an essential and main component of academic capital, which also impacts organizational implementation and is used to expand the effectiveness and capacity of capital.

METHOD

This is a common study which is conducting correlational analysis, as explained by Aditya (2016). A cooperative study aims to find the relationship between several variables, which allows the formation of specific hypotheses to predict and control certain phenomena. The data collected in this study are numerical in nature, so categorized as quantitative research. annual financial reports Islamic Commercial Banks use as a secondary data source which is taken from the website www.bi.go.id.

They are 14 Islamic Commercial banks were selected as the population of the study, the sample is part of the population taken. To ensure more detailed information, researchers used a purposive sampling technique, which is a method for selecting certain test samples with a predetermined size (Noor, 2011). The sample in this study consisted of Islamic Commercial Banks that met BUKU 2 criteria from 2014 to 2018 and were registered with the OJK. There are seven banks that meet these criteria as samples in this study.

RESULTS

In this section, empirical investigations were conducted by presenting descriptive statistics which provide information about the distribution of variables. The mean value is the average measure of the variable over the period examined. The standard deviation shows how far a variable is diversified from its average value. While the minimum shows the lowest value, the maximum value shows the highest value in the sample, and the dependent variable is Return on Assets (ROA), the results obtained are as follows:

The following curve describes the development of the Islamicity Performance Index (IPI) in Islamic commercial banks from 2014-2018.

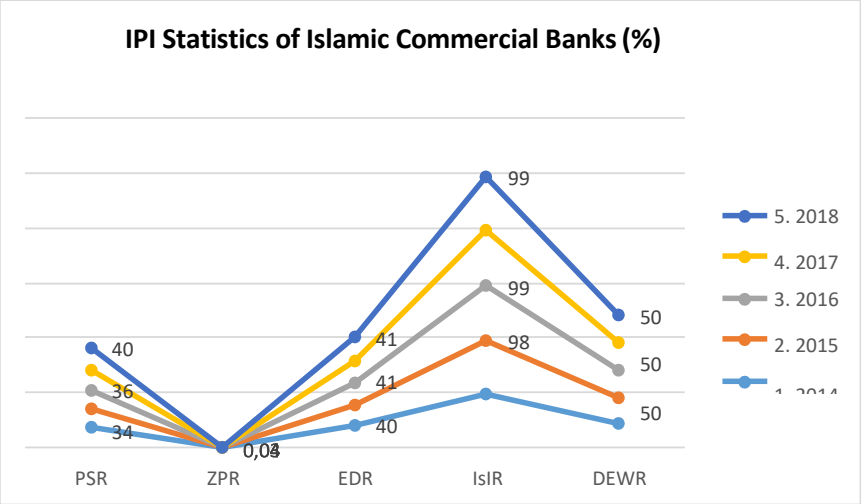

Figure 2 Graph of 2014-2018 IPI Development Source: Secondary data, processed in 2020

The second graph shows fluctuations in the Profit-Sharing Ratio (PSR) in the previous year. In 2014, PSR was 37%, then decreased to 33% in 2015. However, from 2016 to 2018, PSR experienced successive increases of 34%, 36%, and 40%. During that period, the average PSR remained below half. Most companies still allocate their funds to cost-plus financing (Murabahah).

For five years, from 2014 to 2018, the Zakat Performance Ratio (ZPR) experienced growth fluctuations for five years. In 2014 and 2015, the ratio remained at 0.04%. However, in 2016, it decreased to 0.03%, rose again to 0.04% in 2017, and fell again to 0.03% in 2018. This ZPR value shows low performance, which is below 1%. This indicates that Islamic Commercial banks still do not meet zakat management standards due the value of zakat assets is still low. Thus, only a small amount is paid in the form of Zakat. `

The average growth of the Equitable Distribution Ratio (EDR) fluctuates according to the calculation results. In 2014, the EDR value was 42%, but between 2015 and 2018, there was a significant increase from 36% to 41%. The fact that Islamic Commercial banks pay enough attention to social aspects is reflected in the average EDR value, which is close to 50%.

The graph above shows a significant increase in the Islamic Income Ratio (IsIR). The IsIR average was 99% from 2016 to 2018 and 98% from 2014 to 2015. This shows that payments obtained from exchanges are legal. During this five-year period, the Proportion of Government Representative Head Assistance (DEWR) underwent fundamental developments. In 2014, the DEWR reached 45%, then increased to 46% in 2015, and reached 50% from 2016 to 2018. Although the DEWR is generally still below, these results indicate that there is still a gap between pioneers and representatives. As an Islamic financial Intuition, Transportation must comply with the principle of fairness in every strategy set so that it will not have a negative impact.

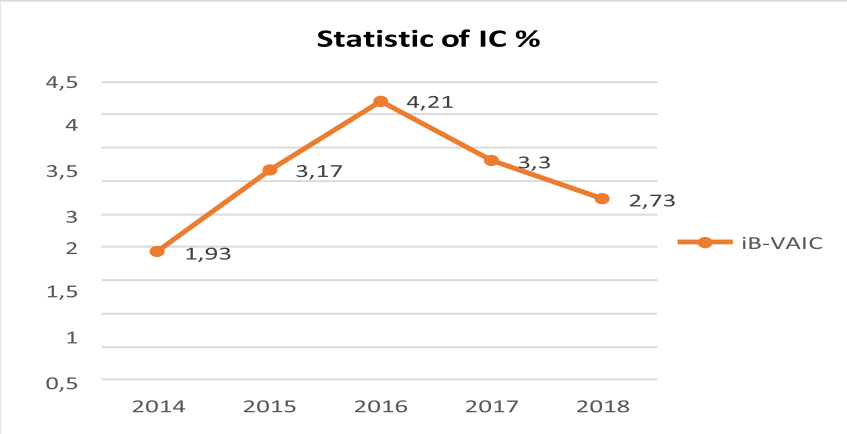

Figure 3 Graph of IC Development Source: secondary data, processed in 2020

From the graph above, the iB-VAICTM has fluctuated. In 2014, it was 1.93, then in 2015–2016, it increased significantly by 3.17 and 4.21. Then in 2017, it fell again to 3.30, and 2.73 in 2018. This shows that attention to Intellectual Capital in business companies is still relatively low.

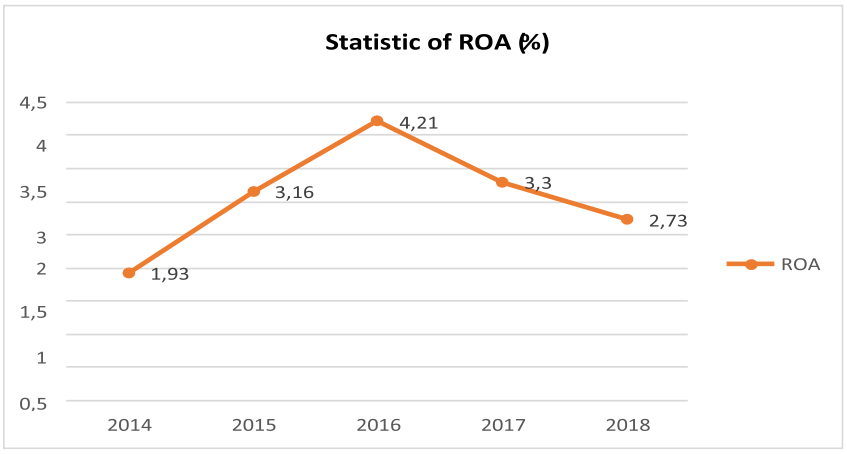

Figure 4 Graph of ROA Development Source: Secondary data, processed in 2020

From the graph above, it shows that it has fluctuated over a period of five years. In 2014–2016, there was a significant increase of 1.93%, then 3.16%, then 4.21%. In 2017, it decreased to 3.3%, and in 2017 it was 2.73%. The return on Assets of Islamic Commercial Banks is on average above 2%, so the Return on Assets of Islamic Commercial Banks is said to be good.

As good value research, it must pass the classical assumption test, so we can see the results obtained from the SPSS output as follows:

1. Normality Test

The normality test is used to check whether the residual distribution of the regression model meets the normal or proportional distribution assumptions of the data population. In this study, the Kolmogorov-Smirnov test was used to evaluate the normality of the data. If the significance value (sig.) is greater than the significance level a = 5% (0.05), then it can

be said that the data is normally distributed. In this normality test, the Kolmogorov-Smirnov value was 0.874, with a significance level of 0.429. The importance value of 0.429 is greater than the alpha of 0.05. Therefore, it can be concluded that the information in this study is spread normally and in accordance with the distribution assumptions used. Furthermore, the information from this study can be analyzed further.

2. Multicollinearity Test

The multicollinearity test is used to identify whether there is a strong correlation between the independent variables in the multiple linear regression model. A strong correlation between the independent and dependent variables can disrupt the relationship between them. In a good regression model, it is important to avoid multicollinearity. According to Boedjiwonno (2007), the tolerance value and variance inflation factor (VIF) must be greater than 0.10. The multicollinearity test results show that the IC variable has a VIF of 1.346 with a tolerance of 0.743. The PSR variable has a VIF of 1.491 with a tolerance of 0.671. The ZPR variable has a VIF of 1.047 and a tolerance of 0.955. The EDR variable has a VIF of 1.626 with a tolerance of 0.615. Meanwhile, the IsIR variable has a VIF of 1.105 with a tolerance of 0.905. Finally, the DEWR variable has a tolerance of 0.722 and a VIF of 1.385. Therefore, it can be concluded that the regression model does not show evidence of multicollinearity between the independent variables.

3. Heteroscedasticity Test

Heteroscedasticity analysis aims to identify the factors that influence the assumption of classical heteroscedasticity, which is related to the residual variation in the regression model. In the current regression model, the residual variables have the same characteristics for each type of problem. In this study, the Glejser test was used to test the presence of heteroscedasticity. According to Glejser's research results, this number is significantly lower than the significance level of a = 5% (0.05), indicating that there is no heteroscedasticity in the data used.

4. Autocorrelation Test

In order to check a correlation between the residuals at different observations at various times, an autocorrelation test was applied. In regression analysis, it is important to ensure that there is no correlation between current observational data and previous data so as to evaluate how the independent variables affect the dependent variable. The Durbin-Watson method was used in this study to test autocorrelation. The test results show that the Durbin-Watson value is 2.034. At a significance level of 5%, this value is compared with the critical Durbin-Watson value. Based on this comparison, it can be concluded that the Mudharabah financing variable does not show any autocorrelation in the data studied.

Partial Regression Results

Based on the results of the regression analysis, the regression model equation has been obtained as follows:

RoA (y) = 3,282 – 0,047PSR – 4,842ZPR + 0,036EDR - 0,010IsIR + 0,069DEWR + 0,145 IC

Interpretation based on the linear regression equation:

DISCUSSION

1. The Effect of Profit-Sharing Ratio (PSR) on the Profitability

The Profit-Sharing Ratio (PSR) has a negative t-statistic value of -2.560 and a t-significance of 0.016, which is smaller than the significance level (0.05), as shown by the partial test results. The H1 hypothesis is rejected because it shows that PSR has a negative and significant effect on the profitability of Islamic Commercial Banks. The consequences of this study can be predicted by research conducted by Rita Novikasari (2017), which states that the Profit-Sharing Proportion has a negative but not massive impact on the productivity of Islamic Commercial Banks in Indonesia. This is not the same as the exploration led by Pandu Dewanta et al. (2016), which states that the Profit-Sharing Ratio has an impact on the benefit of Islamic Commercial Banks.

Based on the analysis of financial statements, this hypothesis is unacceptable. The results of the analysis show that banks do not allocate financing based on profit sharing, so the PSR value of banks is less than 50%. This study state that PSR actually has the opposite effect on profitability as measured by ROA. Bank profitability tends to decrease when PSR increases. The results of an examination of the financial statements also support this finding by showing a decrease in ROA at Islamic Commercial Banks along with an increase in the average PSR. This phenomenon can be caused by several factors, including the profit-sharing system in which the bank acts as the owner of the funds (Shahibul Maal). That is, the bank will bear losses if the fund manager (Mudharib) causes unintentional losses or if the customer is unable to pay for the financing he receives.

Due to the moral hazard that arises after financing is provided, the profit-sharing system of Islamic banks carries significant risks. The profitability of Islamic Commercial Banks can suffer due to this moral hazard, which can result in losses reducing profits. The term "uncertainty contract" refers to an agreement where it is uncertain how much money will be generated. Examples of such agreements include production-sharing agreements. On the other hand, contracts with trading standards are remembered for the class of guarantee contracts, where the benefits are unquestionable. This reality should be seen from the investigation, which shows that most Islamic Commercial Banks distribute most of their assets to support benefit sharing.

2. The Effect of Zakat Performance Ratio (ZPR) on the Profitability

Although ZPR has increased over the last five years and the number is still low, this shows the bank's commitment to distributing corporate income to stakeholders such as employees, shareholders, the public, and the business. This division reflects Islamic Commercial Bank's priority for the interests of stakeholders and the interests of the company itself. Employee motivation to increase productivity can be influenced by this, which has an impact on increasing business profits. In addition, investors may be more inclined to contribute capital if there is a fair distribution of income, which may influence their investment decisions. Improvement in process productivity will occur in tandem with capital investment, which contributes to the long-term profitability of the company.

From the explanation above, it can be concluded that an increase in net resources does not automatically encourage the bank's board of directors to be more concerned when paying Zakat. In addition, an increase in zakat payments does not always have a positive impact on profits; in fact, in many cases, it is quite the opposite. This is because the issuance of zakat is still a major factor for Islamic commercial banks in Indonesia, which are trying to increase their market share (Sumiyati, 2017).

3. The Effect of Equitable Distribution Ratio (EDR) on the Profitability

The t statistical value for the Equitable Distribution Ratio (EDR) variable was found to be positive, namely 0.012, according to the partial test results. However, the partial significance test shows that there are no significant results because the significance value of t is 0.991, which is greater than the specified probability (0.05). This study indicates that there is a positive but not significant effect between the Equitable Distribution Ratio (EDR) and the productivity of Islamic Commercial Banks, so H3 can be accepted. This result is in line with the findings of Shahul Hameed et al. (2003), who found that the financial performance of Islamic banks can be improved by applying Islamic principles. The findings of this study are also in line with research conducted by Rita Novikasari (2017), who found that the Equitable Distribution Ratio (EDR) positively influences the profitability of Islamic Commercial Banks in Indonesia. However, the results of this study are inconsistent with research led by Pandu Dewanata et al. (2016), who found irrelevant adverse consequences between the Equitable Distribution Ratio (EDR) and the productivity of Islamic banking in Indonesia.

However, in the last five years, EDR has seen an increase. Although the number is still low, this reflects the bank's efforts to distribute corporate income to stakeholders such as employees, shareholders, the public, and the business world. This division shows that Islamic Commercial Banks gives priority to the interests of other stakeholders as well as the interests of the company itself. Employee motivation to increase productivity effectively can be influenced by this, which will ultimately result in increased business profits. In addition, investors may be more inclined to contribute their capital if there is a fair distribution of income, which in turn may influence their investment decisions. Process productivity will

increase along with capital investment, which will have an impact on the company's profitability in the long term.

4. The Effect of Islamic Income Ratio (IsIR) on the Profitability

The results of the partial test show the t statistical value of the Islamic Income Ratio (IsIR) of -0.036, and the results of the partial significance test show that there are no significant results because the significance value of t is 0.971, which is greater than the specified probability (0.05). This shows that H4 is rejected because the Islamic Income Ratio (IsIR) has a negligible influence on the profitability of Islamic Commercial Banks (BUS) in Indonesia. This finding is different from research conducted by Falikhatun and Assegaf (2012), which states that the Islamic Income Ratio (IsIR) has a clear influence on the monetary welfare of Islamic banking in Indonesia. However, these findings are in line with research conducted by Rahmani (2020), which states that the Islamic Income Ratio (IsIR) has an insignificant negative impact on welfare.

Even though the research findings are not significant, indicating that there is no correlation between ISIR and profitability, this does not ignore the fact that ISIR can affect profitability. According to Azwar (2005), this shows that the research data is insufficient to describe this relationship. Although the financial reports show that most BUS earn halal income, changes in the IsIR value do not have a significant impact on BUS profitability, so the hypothesis is rejected. This is due to the fact that non-halal income is not recognized as income and is not used as a source of charitable funds. Therefore, profitability cannot be increased through non-halal income (Nurmalitasari, 2017).

5. The Effect of Directors' Employees Welfare Ratio (DEWR) on the Profitability

The Director' Employees Welfare Ratio (DEWR) has a positive t-statistic value of 1.073 in the partial test. However, the results of the partial significance test did not show significant results because the significance value of t was greater than the specified probability (0.05), namely 0.293. Therefore, the results of the partial significance test are not significant. Even so, H5 is accepted because this study shows a positive correlation between DEWR profitability and BUS profitability, although it is insignificant. This finding reinforces the statement made by Falikhatun and Assegaf (2012) that the Welfare Ratio of Entrepreneurs to Directors positively impacts the financial health of Islamic banking. In addition, this study is in line with the findings of Shahul Hameed et al. (2003), who concluded that the application of Islamic principles will improve the financial performance of Islamic banks.

Even though the research findings do not show a significant relationship, DEWR still has an impact on profitability. However, there is no definite relationship between DEWR and profitability. This shows that the research data is not sufficient to establish the relationship (Azwar, 2005). Another reason why the DEWR value is not significant is that, based on the researcher's analysis of financial statements, the DEWR value at Islamic Commercial Banks tends to fluctuate and was low from 2014 to 2018. This shows the inconsistency of the bank's

approach in dealing with compensation for directors and employees as well as welfare funding. Nonetheless, the positive results show that Islamic business banks have done well in distributing profits to leaders and representatives based on common practice. This makes representatives feel valued for their contributions and motivated to reach higher levels in the organization. The efficiency of Islamic Commercial Banks increases as a result of maximum contribution, which in turn increases bank profitability.

6. The Effect of Intellectual Capital (IC) on the Profitability

The partial test results show a positive statistical t-value of 2.792 for Intellectual Capital (IC). In addition, the partial significance test shows a lower significance level than the probability value of 0.009, which is 0.05. Therefore, H6 is accepted because this study shows a significant positive relationship between Intellectual Capital (IC) variables and the profitability of Islamic commercial banks. This result is in line with the findings of Ihyaul Ulum (2008) and Pandu Dewanata et al. (2016), which show that Intellectual Capital (IC) has a positive impact on the company's financial performance. However, this study contradicts the findings of Hermawan et al. (2013), who found that ROA is negatively affected by intellectual capital.

The positive results indicate that firm profitability increases as the value of intellectual capital (IC) increases. This research indicates that Islamic business banks have succeeded effectively in managing the assets they have. The human resources (HR) department owned by the bank can manage the available assets well to create added value for the organization, which in turn increases its productivity.

Banks need to improve their capabilities and manage the potential owned by their representatives to increase profits at an efficient cost. Professional business management can optimize the use of organizational capital, especially in developing new operational systems, thus providing added value to the bank. Research shows that Islamic commercial banks have successfully used their organizational capital effectively, gradually increasing their business excellence and profitability. This is also seen in the impact of Intellectual Capital and the Islamicity Performance Index on the profitability of Islamic Commercial Banks in Indonesia from 2014 to 2018.

The significance level for F was determined to be 0.005 based on the research findings. This shows that the Sig F value is smaller than the specified probability value (0.05), and the F-count value is greater than the F-table (3.965 > 2.45). Therefore, H7 is accepted because the Islamicity Performance Index and Intellectual Capital simultaneously have a significant effect on profitability. This finding is in line with the findings of Pandu Dewanata et al. (2016), which concluded that EDR, PSR, ZPR, and VAIC variables simultaneously affect ROA.

The value generated from the organization's investment in the workforce is intellectual capital for the bank. Training, research, and development are conducted to encourage skill

innovation as companies realize the importance of workforce knowledge (Sari, 2016). The purpose of these efforts is to add value, which will provide a competitive advantage to the business and ultimately improve the bank's financial performance. The bank's ability to manage resources effectively in accordance with Sharia principles is reflected in the Islamicity Performance Index. The findings show that profitability is enhanced by the Islamicity Performance Index. Nevertheless, it is necessary to develop further perspectives in the implementation of the bank, especially related to the quality and level of exposure, such as in the socialization of zakat and supporting administration.

CONCLUSION

The finding n this study shows that DEWR has a positive but incognisant influence on the profitability of Islamic Commercial banks in Indonesia, which is partly due to the existence of the Islamicity Performance Index. The EDR variable is included in the index. Meanwhile, the IsIR variable has negative but insignificant influence on the profitability of Islamic Commercial Banks in Indonesia, while the PSR and ZPR variables have a significant negative influence. Intellectual Capital variable also affects profitability. There is an increase in the profitability of Islamic Commercial Banks in Indonesia, along with an Increase in EDR, DEWR, and IC, when their values are positive. Furthermore, variables with negative values indicate that PSR, ZPR, and IsIR factors affect ROA. The profitability of Islamic Commercial Banks in Indonesia is influenced simultaneously by EDR, IsIR, DEWR and Intellectual Capital variables.

This study adds to the heated debate on competition in the banking sector and its effect on the stability of banking profitability. The findings in our paper suggest that the presence of Islamic banks in the Indonesian banking industry adds stability to the banking system through profitability. Our results have an important message for Indonesian policymakers: namely, as the Islamic banking sector grows, the banking industry as a whole becomes more stable.

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