JURNAL INDO-ISLAMIKA
Vol. 16 No. 1 – June 2026 (208-224)
P-ISSN 2088-9445 (Print) || e-ISSN 2723-1135 (Online)
Website: http://journal.uinjkt.ac.id/index.php/indo-islamika/index
DOI: https://doi.org/10.15408/jii.v16i1.51737

Living Islam in Strengthening Sustainable Profit Growth of Islamic Banks in Indonesia

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Article Info
Article history:
Received: January 2026
Revised: March 2026
Accepted: June 2026

Keywords:
Living Islam; Islamic Banking; Sustainable Profit Growth; Organizational Capability

ABSTRACT
This study examines how Living Islam strengthens sustainable profit growth in Islamic banks in Indonesia by shaping internal resource management and institutional responses to external economic dynamics. It addresses a key problem in Islamic banking scholarship: profitability has often been explained through financial ratios and macroeconomic variables, while limited attention has been given to how lived Islamic values become organizational capabilities that sustain performance. Using a qualitative interpretive documentary approach, this research analyzes publications, regulatory documents, annual reports, sustainability reports, corporate governance reports, and policy literature through content and thematic analysis. The findings show that Living Islam strengthens profit growth by institutionalizing Islamic values into everyday organizational practices, including ethical governance, value-driven leadership, trustworthy human resource management, prudent asset allocation, operational efficiency, customer-oriented services, and adaptive responses to macroeconomic uncertainty. Internal resources such as capital, human capital, assets, digital infrastructure, ATM networks, and branch offices become stronger organizational capabilities when guided by *amānah, iḥsān, shūrā, ʿadl,* and *maṣlaḥah*. External factors such as national economic expansion, oil price volatility, and exchange rate movements are also navigated sustainably when strategic decisions are grounded in Islamic ethical principles. Theoretically, this study extends the Resource-Based View by conceptualizing Living Islam as a value-based organizational capability that transforms resources into sustainable competitive advantage. Practically, it offers strategic insights for Islamic bank managers, regulators, and policymakers to strengthen governance, organizational culture, human resource development, and long-term competitiveness.

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How to cite: Nofinawati, N., Siregar, S., Harahap, I., Nasution, A.M., Maulidizen, A., Afifah, S. (2026). Living Islam in Strengthening Sustainable Profit Growth of Islamic Banks in Indonesia. *JURNAL INDO-ISLAMIKA, 16* (1), 208–224. https://doi.org/10.15408/jii.v16i1.51737

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Vol. 16, No. 1, 2026, 208-224. | P-ISSN 2088-9445 || e-ISSN 2723-1135
DOI: https://doi.org/10.15408/jii.v16i1.51737

INTRODUCTION

Indonesia has emerged as one of the most promising markets for Islamic banking, supported by the world's largest Muslim population, a rapidly expanding halal economy, and continuous regulatory support for Sharia-compliant finance. Despite these favorable conditions, the financial performance of Islamic banks remains an important issue, particularly regarding the sustainability of profit growth. Quarterly data published by the Islamic Financial Services Board (IFSB) indicate that the profit growth of Indonesian Islamic banks followed a recurring pattern of sharp contraction in the first quarter, substantial recovery in the second quarter, and gradual moderation during the remaining quarters throughout the 2019–2023 period. This persistent volatility demonstrates that improvements in profitability have not yet been sustained consistently despite the industry's continuing expansion. Such an empirical condition suggests that the challenge facing Islamic banking in Indonesia is no longer limited to achieving growth, but also to maintaining stable and sustainable profitability in an increasingly dynamic economic environment.

The fluctuation in profit growth becomes increasingly paradoxical when viewed alongside the remarkable development of Indonesia's Islamic banking industry. According to the Otoritas Jasa Keuangan, Islamic banking has experienced continuous growth in total assets, financing, and third-party funds over the past decade, reflecting stronger institutional capacity and increasing public acceptance of Sharia-based financial services. This progress has been further reinforced by the establishment of Bank Syariah Indonesia (BSI) through the merger of state-owned Islamic banks, alongside national policies promoting the integration of the halal industry and Islamic finance. Recent research on Indonesian Islamic banking confirms that merger policy is not only an institutional consolidation strategy, but also a mechanism for strengthening sharia compliance culture. Isman et al. (2024) show that the sharia compliance ratio of Islamic banks improved after the merger, indicating that institutional integration can create a more positive sharia ecosystem, reinforce religiosity values, and support the consistent application of sharia standards. Likewise, Bank Indonesia has strengthened the Islamic financial ecosystem through initiatives supporting digital finance, financial inclusion, and the halal value chain. These structural achievements indicate that Indonesia possesses substantial institutional and demographic advantages for developing Islamic banking. Nevertheless, the persistence of unstable profit growth suggests that industrial expansion alone is insufficient to ensure sustainable financial performance, thereby requiring a broader understanding of the organizational mechanisms underlying profitability.

Within Islamic banking, sustainable profit growth represents more than an indicator of financial success because it determines the institution's capacity to strengthen capital, expand financing, improve service quality, and maintain public trust while fulfilling its Sharia mandate. Unlike conventional financial institutions, Islamic banks are expected to achieve commercial sustainability without neglecting ethical values, social justice, and the objectives of *Maqāṣid al-Sharī'ah*. This ethical expectation is also central to recent discussions on sharia digital financing in Indonesia, where financial innovation must be supported by legal certainty, sharia compliance, consumer protection, and substantive ethical values such as justice, public welfare, and trustworthiness. Therefore, sustainable profit growth in Islamic banking cannot be separated from the ability of Islamic financial institutions to align business expansion, digital transformation, and regulatory compliance with the ethical objectives of Islamic finance (Lestari et al., 2025). Muhammad Umer Chapra argues that economic performance in Islamic institutions should ultimately contribute to justice and public welfare rather than merely maximizing financial returns. Similarly, Asyraf Wajdi Dusuki and Nurdianawati Irwani Abdullah emphasize that the legitimacy and long-term sustainability of Islamic banks depend upon their ability to balance commercial objectives with social and ethical responsibilities. Consequently, maintaining sustainable profit growth is not merely a managerial issue but also an institutional challenge concerning how Islamic values are translated into organizational practice (Chapra, 2001; Dusuki & Abozaid, 2007).

Existing studies have extensively investigated the determinants of Islamic bank profitability from financial and economic perspectives. Internal factors such as capital adequacy, financing quality, operational efficiency, liquidity, bank size, and digital transformation have consistently been identified as important determinants of financial performance. Likewise, external variables—including economic growth, inflation, exchange rates, monetary policy, and financial market conditions—have been widely examined to explain changes in Islamic bank profitability. Although these studies have substantially

enriched the empirical literature, they generally assume that organizational performance is primarily determined by measurable financial and macroeconomic variables. Consequently, the existing body of knowledge provides a comprehensive explanation of what factors influence profit growth, yet offers relatively limited understanding of how Islamic organizational values shape the management of those factors within Islamic banking institutions.

The limited attention given to organizational values becomes particularly significant in the Indonesian context, where Islamic banking develops within a socio-religious environment characterized by the continuous interaction between Islamic teachings, local cultural traditions, and institutional practices. Rather than functioning merely as formal religious principles, Islamic values are experienced, interpreted, and practiced in everyday organizational life through ethical leadership, trust (*amanah*), excellence (*ihsan*), collective responsibility (*maslahah*), and Sharia-based decision-making. This perspective resonates with the concept of Living Islam, which understands Islam not only as a normative doctrine but also as a lived social reality embedded in institutional behavior and everyday practice. From this standpoint, sustainable profit growth may not solely depend on financial resources or macroeconomic conditions but also on how Islamic values strengthen organizational capability in managing internal resources and responding to external challenges. This perspective provides an important foundation for re-examining the sustainability of profit growth in Indonesian Islamic banks beyond conventional financial explanations.

The growing body of literature has identified numerous determinants of Islamic bank profitability, with particular emphasis on internal organizational characteristics. Previous studies consistently report that capital, asset quality, financing composition, operational efficiency, liquidity management, bank size, and intellectual capital significantly influence the financial performance of Islamic banks (Beck et al., 2013; Chapra & Ahmed, 2002 ; Farooque et al., 2023; Begum et al., 2024; Naqvi, 2022; Ninglasari et al., 2024; Saggay et al., 2023; Sobol et al., 2023; Sholihah & Wardana, 2025). More recent studies further highlight the strategic role of human capital, digital transformation, innovation capability, and governance quality in improving profitability under increasingly competitive financial markets (Saif-Alyousfi, 2022; Gazi et al., 2024; Shehadeh et al., 2024; Sutjipto & Hadi, 2024; Zulkifli et al., 2023). Collectively, these findings suggest that sustainable profit growth largely depends on the effectiveness of internal resource management. Nevertheless, the existing literature predominantly interprets these determinants as measurable managerial variables while paying relatively little attention to the organizational values that shape managerial behaviour and institutional decision-making. As a result, the mechanisms through which Islamic values influence the management of these internal factors remain insufficiently explained.

Beyond internal organizational characteristics, previous studies have also demonstrated that Islamic bank profitability is closely associated with external economic conditions. Macroeconomic indicators, including Gross Domestic Product (GDP), exchange rate movements, oil prices, inflation, and monetary conditions, have repeatedly been found to influence the performance of Islamic banking institutions across different countries(Hesse & Poghosyan, 2009); Beck et al., 2013b; Boubaker et al., 2023; Widarjono, 2020; Saif-Alyousfi, 2022; Sholihah & Wardana, 2025b). Recent empirical evidence further indicates that geopolitical uncertainty, financial crises, technological disruption, and post-pandemic economic recovery have intensified the complexity of the external environment faced by Islamic banks (Saif-Alyousfi, 2022; Gazi et al., 2024; Shah et al., 2023) Although these studies provide valuable insights into the macroeconomic determinants of profitability, they generally assume that Islamic banks respond to environmental changes through conventional organizational capabilities. Consequently, limited attention has been devoted to understanding how Islamic values strengthen institutional adaptability in responding to external challenges.

The limited integration of organizational values into profitability studies is particularly important because Islamic banking fundamentally differs from conventional banking in its philosophical foundation. Islamic banks are established not merely as profit-oriented financial intermediaries but also as institutions responsible for implementing Islamic ethical principles in economic activities. According to Muhammad Umer Chapra (2001), Islamic economic institutions are expected to balance financial efficiency with justice, accountability, and social welfare in accordance with the objectives of *Maqāṣid al-Sharī'ah*. Likewise, Dusuki & Abozaid, (2007) argue that the legitimacy of Islamic banking depends upon its ability to integrate commercial objectives with ethical and social responsibilities. Despite this

normative foundation, empirical studies on Islamic bank profitability have rarely examined how these Islamic values are translated into everyday organizational practices that shape managerial decisions and institutional performance.

This conceptual limitation opens an important space for incorporating the perspective of Living Islam into Islamic banking studies. ather than viewing Islam solely as a normative legal framework, Living Islam understands Islamic teachings as values that are continuously interpreted, practiced, and reproduced within everyday social and institutional life (Hefner, 2000). Recent scholarship further demonstrates that lived religion is manifested through everyday routines, institutional practices, and social interactions that translate religious values into concrete patterns of behaviour within Indonesian society (Rahiem et al., 2025). In the Indonesian context, Islamic values are embedded not only in formal religious regulations but also in organizational culture, leadership practices, interpersonal relationships, and institutional decision-making. Consequently, Living Islam provides an analytical perspective for understanding how values such as *amanah*, *ihsan*, *'adl*, *shura*, and *maslahah* become organizational resources that influence managerial behaviour. This perspective extends existing profitability studies by emphasizing that financial sustainability is inseparable from the institutionalization of Islamic values within organizational practice.

Although previous studies have primarily examined Living Islam within family, educational, and community settings, the same perspective can be extended to organizational contexts. Islamic banks may likewise be understood as institutional spaces where Islamic values are continuously interpreted, enacted, and reproduced through governance practices, leadership, organizational culture, and managerial decision-making.

Building upon the above discussion, this study argues that Living Islam should be understood as a value-based organizational capability through which Islamic values strengthen the management of both internal and external factors supporting sustainable profit growth. This argument complements the Resource-Based View, which emphasizes that sustainable organizational performance originates from valuable, rare, difficult-to-imitate, and institutionally embedded resources (Barney, 1991). Unlike previous profitability studies that primarily focus on financial resources and macroeconomic variables, this study proposes that the lived implementation of Islamic values constitutes an intangible organizational capability that reinforces ethical leadership, organizational commitment, strategic adaptability, and institutional resilience. Therefore, sustainable profit growth should be interpreted not only as the outcome of financial management but also as the result of organizational capability rooted in the lived experience of Islamic values.

Although previous studies have significantly advanced the understanding of Islamic bank profitability, the existing literature remains fragmented in explaining the relationship between financial performance and Islamic organizational values. Studies on internal and external determinants have generally developed in parallel with studies on Islamic ethics, governance, and Sharia compliance, with limited integration between these two streams of research. Consequently, Islamic values are frequently positioned as normative principles or governance requirements rather than as organizational capabilities that shape managerial behaviour and institutional performance. This separation has restricted a more comprehensive understanding of how Islamic banks sustain profitability while maintaining their distinctive Islamic identity (Chapra, 2001; Dusuki & Abozaid, 2007; Beck et al., 2013a).

The Indonesian context provides a particularly important setting for addressing this limitation. As the country with the world's largest Muslim population, Indonesia has developed a distinctive pattern of Islamic practice in which religious values are continuously interpreted and expressed through social, cultural, and institutional interactions. Within this context, Living Islam offers a broader analytical perspective for examining how Islamic values are embedded in organizational culture, leadership, governance, and daily managerial practices. Rather than viewing Islamic principles merely as formal compliance mechanisms, the Living Islam perspective emphasizes their practical manifestation in shaping organizational behaviour and institutional decision-making (Hefner, 2000; Azra, 2015). Consequently, this perspective enables a deeper understanding of how Islamic values strengthen organizational capability in supporting sustainable financial performance.

Based on the above discussion, this study identifies an important research gap. While previous studies have extensively examined the financial determinants of Islamic bank profitability, relatively limited attention has been devoted to explaining how Living Islam is translated into organizational

capability that strengthens the management of internal and external factors supporting sustainable profit growth. Existing studies predominantly emphasize measurable financial indicators, whereas the institutionalization of Islamic values within organizational practices has received comparatively less scholarly attention. As a result, the strategic contribution of Living Islam to strengthening organizational capability and financial sustainability remains insufficiently explored, particularly in the context of Indonesian Islamic banking.

This study offers both theoretical and contextual contributions to the Islamic banking literature. Theoretically, it extends previous profitability studies by conceptualizing Living Islam as a value-based organizational capability, rather than merely as a normative religious principle or a Sharia compliance framework. This perspective explains that Islamic values become strategic organizational resources when institutionalized through ethical leadership, organizational culture, governance practices, collective trust, and managerial decision-making. Contextually, the study enriches the literature by demonstrating how the Indonesian experience of Living Islam provides a distinctive framework for strengthening organizational capability in managing internal resources and responding to external environmental dynamics. Accordingly, this research broadens existing discussions on Islamic banking by integrating organizational capability with lived Islamic values as complementary foundations for sustainable profit growth.

Accordingly, this study aims to analyse how Living Islam strengthens the profit growth of Islamic banks in Indonesia through its role in reinforcing the management of internal and external factors. Using a qualitative approach based on a comprehensive analysis of the Islamic banking literature, regulatory documents, and the socio-institutional context of Indonesian Islamic finance, this study seeks to develop a conceptual explanation of the organizational mechanisms through which lived Islamic values contribute to sustainable financial performance. The findings are expected to contribute theoretically by expanding the discourse on Islamic banking beyond conventional financial determinants toward a value-based organizational perspective. Practically, the study provides insights for Islamic bank managers, regulators, and policymakers in strengthening organizational governance and institutional resilience through the implementation of Living Islam as an integral component of sustainable organizational development.

METHOD

This study employs a qualitative research design using an interpretive documentary approach. This approach was selected because the study does not seek to establish causal relationships among variables but rather to interpret how Living Islam is institutionalized within Islamic banking organizations and how its values strengthen organizational capability in supporting sustainable profit growth. Qualitative research is particularly appropriate for exploring meanings, organizational processes, institutional practices, and socio-cultural contexts that cannot be adequately explained through quantitative measurement (Creswell & Poth, 2018). Furthermore, this study is grounded in an interpretivist paradigm, which assumes that organizational reality is socially constructed through values, meanings, and institutional practices rather than existing as an objective phenomenon independent of human interpretation (Merriam & Tisdell, 2016). Accordingly, Islamic banks are understood not merely as financial intermediaries but as socio-religious organizations in which Islamic values are continuously interpreted and embedded in governance, leadership, organizational culture, and strategic decision-making.

The study relies exclusively on documentary evidence as its primary source of data. Documentary analysis is particularly suitable because official documents provide stable, rich, and contextually meaningful evidence for understanding organizational processes and institutional development (Bowen, 2009; Yin, 2018). The primary documents include *Statistik Perbankan Syariah* and the *Roadmap Pengembangan dan Penguatan Perbankan Syariah Indonesia 2023–2027* published by the Financial Services Authority (OJK), Islamic economic reports issued by Bank Indonesia, annual reports, sustainability reports, and corporate governance reports of Bank Syariah Indonesia (BSI), statistical publications from Statistics Indonesia (BPS), and the *Islamic Financial Services Industry Stability Report* together with the *Prudential and Structural Islamic Financial Indicators (PSIFIs)* published by the Islamic Financial Services Board (IFSB). These institutional documents are complemented by peer-reviewed journal articles, academic books, and policy publications discussing

Islamic banking, Living Islam, Islamic corporate governance, Islamic moral economy, and organizational capability. Therefore, the unit of analysis is the institutional ecosystem of Islamic banking in Indonesia, encompassing Islamic commercial banks, regulatory institutions, governance systems, and organizational practices through which Islamic values are embedded in everyday institutional life.

The documentary sources were selected through purposive sampling because this technique enables researchers to identify information-rich documents capable of providing an in-depth understanding of the research problem (Patton, 2015). Four criteria guided the selection process. First, documents had to originate from authoritative institutions or reputable academic publishers. Second, they had to contain information related to Islamic banking performance, internal organizational factors, external environmental conditions, Islamic governance, or Living Islam. Third, the documents had to correspond with the theoretical framework adopted in this study. Finally, priority was given to publications issued between 2020 and 2025 to capture recent developments in Indonesia's Islamic banking industry, while seminal theoretical works were retained to establish the conceptual foundations of the study. The analytical framework consists of four interrelated dimensions. Internal organizational factors include capital, human capital, assets, ATM networks, and branch offices. External environmental factors comprise Nominal Gross Domestic Product (GDP at current prices), global oil prices, and the exchange rate (IDR/USD), representing the macroeconomic environment surrounding Islamic banking. Nominal GDP was selected because it reflects the overall scale of national economic activity and provides a broader macroeconomic context for understanding the institutional development of Islamic banking rather than merely capturing annual economic growth. Living Islam is interpreted through organizational manifestations of *amanah*, *ihsan*, *shura*, *maslahah*, justice, ethical leadership, and Sharia governance, while organizational capability is examined through leadership, governance, organizational culture, and strategic decision-making in supporting sustainable profit growth.

Data were analysed using thematic analysis supported by qualitative content analysis. Following Miles et al., (2014) the analytical process involved data condensation, data display, conclusion drawing, and verification. Documentary evidence was coded deductively according to the analytical dimensions established in the conceptual framework while allowing inductive themes to emerge from institutional documents. Documentary evidence was coded deductively according to the analytical dimensions established in the conceptual framework while allowing inductive themes to emerge from institutional documents.

In interpreting documentary evidence, the analysis did not merely identify references to Islamic values but examined how these values were represented as everyday organizational practices within Islamic banking institutions. Accordingly, the coding process focused on identifying recurring patterns describing the enactment of Islamic principles in governance, leadership, employee behaviour, customer interaction, financing decisions, and institutional culture. These recurring organizational practices were subsequently interpreted as manifestations of Living Islam operating within the institutional environment of Islamic banking. Through this interpretive process, Living Islam was conceptualized not merely as a normative religious framework but as an organizational phenomenon emerging from the continuous enactment of Islamic values in everyday institutional practices.

Building upon this interpretive coding process, the analysis did not seek to statistically examine the influence of individual variables. Rather, it focused on interpreting how Living Islam interacts with internal organizational resources and external environmental conditions in strengthening organizational capability. In this study, sustainable profit growth was interpreted through documented institutional trends reported in regulatory publications and annual reports rather than through econometric modelling. This approach enabled the study to explain how Islamic values, when continuously enacted through everyday organizational practices, become organizational resources that reinforce institutional resilience and support sustainable profit growth.

To enhance the trustworthiness of the findings, the study employed source triangulation, theoretical triangulation, and document criticism. Source triangulation was conducted by systematically comparing information obtained from OJK, Bank Indonesia, BPS, IFSB, Bank Syariah Indonesia, and peer-reviewed academic literature. Theoretical triangulation was undertaken by interpreting the findings through complementary perspectives, including Living Islam, the Resource-Based View (Barney, 1991), Islamic Moral Economy (Chapra, 2001), and Maqāṣid al-Sharīʿah (Dusuki & Abozaid, 2007). Document criticism was further applied by evaluating the credibility, institutional authority, publication

date, and relevance of each source before inclusion in the analysis (Bowen, 2009). Since this study relies exclusively on publicly available documentary sources and does not involve human participants, formal ethical approval was not required. Nevertheless, the study adheres to academic research ethics through transparent citation practices, critical interpretation of documentary evidence, and a clear distinction between empirical findings and the author's analytical interpretation.

RESULT AND DISCUSSION

Living Islam as the Foundation of Sustainable Profit Growth in Islamic Banks

Islamic banking in Indonesia has evolved beyond its initial role as a Sharia-compliant financial intermediary to become an institutional arena where Islamic values are continuously interpreted, practiced, and embedded within organizational governance and business operations. This transformation indicates that the sustainability of profit growth in Islamic banks cannot be understood solely through financial indicators such as capital adequacy, asset expansion, or financing performance. Rather, sustainable profitability increasingly depends on how Islamic values are translated into organizational capabilities that guide managerial behaviour, strategic decision-making, and stakeholder relationships. In this context, Living Islam in Islamic banking should not be understood merely as the formal implementation of Sharia principles or compliance with Islamic regulations. Rather, it refers to the everyday enactment of Islamic values through organizational routines, managerial interactions, employee behaviour, customer services, financing decisions, and governance practices. In this sense, Islamic values are continuously negotiated, interpreted, and reproduced in daily institutional life, allowing religion to become a lived organizational reality rather than merely a normative doctrine. Sustainable profit growth therefore emerges not only from financial efficiency but also from the continuous embodiment of Islamic values in organizational practices.

Sustainable profit growth should therefore be understood as an institutional outcome rather than merely a financial outcome. Within Living Islam, profitability reflects the successful institutionalization of Islamic ethical values into organizational behaviour, governance practices, and strategic adaptation. Consequently, financial indicators represent the observable manifestation of deeper organizational processes rather than independent measures of organizational success.

The institutional development of Islamic banking in Indonesia provides strong empirical evidence for this interpretation. According to the Financial Services Authority (OJK), total Islamic banking assets reached approximately Rp980.30 trillion in December 2024, increasing by 9.88% compared with the previous year. Financing also expanded to Rp643.55 trillion, while third-party funds reached Rp753.60 trillion, each recording annual growth close to ten percent. During the same period, the market share of Islamic banking increased from 7.44% to 7.72%, indicating a gradual strengthening of the industry's position within the national financial system. These indicators demonstrate not only financial expansion but also increasing institutional legitimacy, suggesting that Islamic banking has become an integral component of Indonesia's economic development rather than a peripheral alternative to conventional banking. Such institutional consolidation creates a broader organizational environment in which Islamic values can be consistently practiced and reproduced through governance systems, leadership, customer services, financing policies, and strategic business decisions. Figure 1 illustrates that Living Islam occupies the central conceptual position within this study.

Vol. 16, No. 1, 2026, 208-224. | P-ISSN 2088-9445 || e-ISSN 2723-1135
DOI: https://doi.org/10.15408/jii.v16i1.51737

Figure 1. Conceptual Position of Living Islam
as the Foundation of Sustainable Profit Growth in Islamic Banks

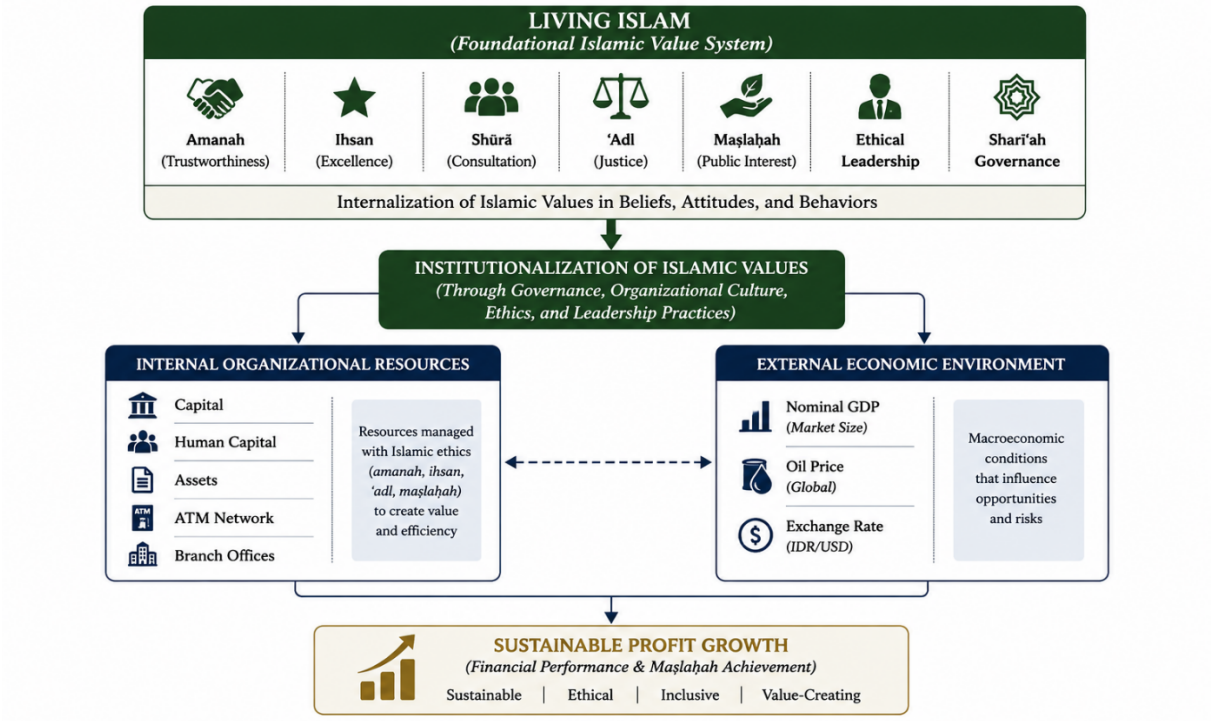


Figure 1 presents the conceptual position of Living Islam as the foundational value system underlying sustainable profit growth in Islamic banks. Rather than conceptualizing profitability solely as the outcome of financial resources or macroeconomic conditions, the figure illustrates that Living Islam provides the normative foundation through which Islamic ethical values are continuously institutionalized into organizational governance, leadership, culture, and managerial behaviour. Through this institutionalization process, Islamic values shape the way internal organizational resources are managed and how Islamic banks respond strategically to changes in the external economic environment. Accordingly, sustainable profit growth is understood not merely as a financial outcome but as the consequence of value-based organizational processes that integrate commercial performance with ethical responsibility and public benefit. Figure 1 therefore serves as the initial conceptual framework derived from the literature, providing the theoretical foundation for the subsequent empirical analysis and the development of the Living Islam-Based Organizational Capability Framework proposed later in this study.

From the perspective of Living Islam, these developments signify more than organizational growth. They reflect the continuous interaction between Islamic ethical values and institutional practices. Living Islam emphasizes that religion is experienced through everyday actions, organizational routines, and social institutions rather than being confined to formal legal doctrines or ritual observance. Within Islamic banking, values such as *amanah* (trustworthiness), *ihsan* (excellence), *shūrā* (consultative decision-making), *ʿadl* (justice), and *maṣlaḥah* (public benefit) become organizational principles that shape how managers formulate strategies, employees deliver services, and institutions respond to economic opportunities and risks. Consequently, profit growth should not be interpreted merely as the result of efficient resource allocation but also as the outcome of value-driven organizational behaviour that enhances stakeholder trust and institutional resilience.

This interpretation extends the growing scholarship on Living Islam, which argues that Islamic values become meaningful through their embodiment in everyday practices and institutional arrangements rather than through doctrinal affirmation alone. Previous studies have shown that Muslims negotiate religious commitments through educational institutions, community organizations, workplaces, and public services, demonstrating that Islam is continuously reproduced within changing social contexts. The Indonesian Islamic banking industry provides a further extension of this perspective by illustrating that financial institutions also function as sites where Islamic values are enacted and

institutionalized. Banking activities—including financing decisions, risk management, customer relations, digital financial services, and corporate governance—represent practical domains in which Islamic ethics are translated into organizational behaviour. Thus, Islamic banking should be understood not merely as a provider of Sharia-compliant financial products but as an institutional environment through which Islamic values are practiced in everyday economic life.

The findings also reinforce the principles of Islamic Moral Economy, which argue that economic institutions should pursue justice, welfare, and human prosperity rather than maximizing profit alone (Chapra, 2008). In Indonesia, the Roadmap for the Development and Strengthening of Islamic Banking 2023–2027 explicitly positions Islamic banking as a strategic pillar for strengthening national economic resilience, accelerating digital transformation, improving governance quality, and expanding social contributions. This policy orientation demonstrates that regulators increasingly recognize profitability and social responsibility as complementary rather than contradictory objectives. Accordingly, sustainable profit growth emerges when financial performance is accompanied by ethical governance, institutional transparency, responsible financing, and broader socio-economic contributions. The Indonesian experience therefore operationalizes the normative objectives of Islamic Moral Economy within concrete regulatory frameworks and organizational practices.

This organizational interpretation also raises an important theoretical implication regarding the nature of strategic organizational resources. The present findings further contribute to the Resource-Based View (RBV) by proposing that Living Islam constitutes a form of value-based organizational capability. Classical RBV explains that sustainable competitive advantage arises from valuable, rare, inimitable, and organizationally embedded resources (Barney, 1991). While previous Islamic banking studies have primarily emphasized tangible resources such as capital, technology, branch networks, and human resources, the present study argues that organizationally embedded Islamic values represent equally strategic resources. Values such as trust, integrity, consultation, justice, and social responsibility shape organizational culture, strengthen employee commitment, reinforce stakeholder confidence, and improve institutional adaptability in dynamic business environments. Unlike physical resources, these value-based capabilities are socially constructed through continuous organizational learning and therefore are difficult for competitors to imitate. Consequently, Living Islam should be understood not merely as an ethical orientation but as an intangible strategic capability supporting sustainable organizational performance.

Nevertheless, these findings should be interpreted critically. Institutional growth alone does not necessarily indicate that Islamic values have been fully internalized within organizational practices. Previous studies have highlighted that Islamic banking frequently faces criticism for replicating conventional banking models while emphasizing legal compliance over substantive ethical transformation. Asset expansion, financing growth, and profitability therefore cannot automatically be interpreted as evidence of successful implementation of Islamic values. Living Islam becomes meaningful only when organizational growth is accompanied by ethical leadership, transparent governance, equitable financing practices, employee integrity, customer trust, and measurable contributions to social welfare. Without these institutional characteristics, Islamic banking risks achieving commercial success while remaining normatively detached from the broader objectives of Islamic economics.

Overall, the Indonesian experience demonstrates that Living Islam functions as the normative and organizational foundation of sustainable profit growth rather than merely as a complementary ethical framework. Islamic values become embedded within governance structures, organizational culture, leadership practices, and strategic decision-making, enabling Islamic banks to strengthen institutional resilience while maintaining public legitimacy. This finding advances existing Islamic banking literature by positioning Living Islam not only as a socio-religious phenomenon but also as a value-based organizational capability that mediates the relationship between Islamic ethics and sustainable financial performance. Consequently, the sustainability of profit growth in Islamic banking should be understood as the outcome of institutionalized Islamic values that continuously shape organizational behaviour, strengthen stakeholder trust, and enhance long-term competitive capability.

Living Islam in Managing Internal Organizational Resources

The findings indicate that sustainable profit growth in Indonesian Islamic banks is not

determined solely by the availability of internal organizational resources, but by how these resources are managed through the institutionalization of Islamic values. While conventional banking literature generally interprets capital, human capital, assets, branch expansion, and technological infrastructure as strategic resources for improving financial performance, the present study demonstrates that within Islamic banking these resources acquire additional organizational meaning when they are governed through the ethical principles embodied in Living Islam. Consequently, internal organizational resources should not be viewed merely as economic assets but as institutional resources whose effectiveness depends on value-based governance, ethical leadership, and organizational responsibility.

Among the internal resources, capital remains the fundamental foundation supporting business expansion, financing activities, and risk absorption. Otoritas Jasa Keuangan consistently reports that Indonesian Islamic banks maintain capital adequacy ratios above the minimum regulatory requirements, reflecting the industry's capacity to sustain business growth and financial stability. However, from the perspective of Living Islam, capital represents more than financial strength. It embodies the principle of amanah, whereby financial resources entrusted by depositors, shareholders, and society must be managed responsibly, transparently, and prudently. Capital therefore functions not only as an instrument for generating returns but also as a trust that requires accountability to both stakeholders and Islamic ethical principles. This interpretation extends conventional financial management by positioning capital as an ethical resource that supports institutional credibility alongside profitability.

Human capital represents another strategic organizational resource through which Living Islam becomes operationalized within everyday banking activities. Employees, managers, and executive leaders are not merely providers of financial services; they are institutional actors responsible for translating Islamic values into professional behaviour, customer service, financing decisions, and organizational culture. Previous studies have consistently demonstrated that employee competence contributes significantly to organizational performance. Nevertheless, the present findings suggest that competence alone is insufficient unless accompanied by Islamic ethical values such as ihsan, honesty, professionalism, and social responsibility. Through continuous learning, ethical leadership, and organizational commitment, Islamic human capital strengthens customer trust while improving service quality and institutional adaptability. In this sense, Living Islam transforms human resources into a strategic capability that competitors cannot easily replicate because it is embedded within organizational culture rather than individual technical skills alone.

The role of organizational assets further illustrates how Islamic values shape institutional performance. The steady increase in Islamic banking assets reflects expanding financing portfolios, stronger liquidity positions, and greater institutional capacity to support economic development. Yet, unlike conventional interpretations that regard asset growth primarily as an indicator of financial expansion, this study argues that assets constitute productive resources whose utilization should pursue maṣlaḥah, balancing commercial objectives with broader social welfare. Financing directed toward productive sectors, micro, small and medium enterprises, halal industries, and household economic resilience demonstrates that asset utilization can simultaneously strengthen profitability and generate wider socio-economic benefits. Accordingly, Living Islam encourages Islamic banks to evaluate asset management not solely through financial efficiency but also through its contribution to inclusive economic development.

Technological infrastructure, represented by ATM networks and branch offices, also assumes a broader institutional significance within the Living Islam framework. Conventional banking studies often interpret branch expansion and service networks as mechanisms for increasing market penetration and customer acquisition. However, the findings of this study indicate that these infrastructures also facilitate wider access to Sharia-compliant financial services, particularly for communities seeking financial products consistent with Islamic principles. Branch offices function as institutional spaces where Islamic financial ethics are communicated through customer interaction, consultation, and relationship building, while ATM networks improve accessibility and convenience without compromising Sharia compliance. Consequently, the expansion of banking infrastructure reflects not only operational efficiency but also the commitment of Islamic banks to extend ethical financial services to broader segments of society. Such accessibility strengthens public trust, reinforces customer loyalty, and indirectly supports sustainable profit growth.

The interaction among capital, human capital, assets, ATM networks, and branch offices

demonstrates that internal organizational resources operate as an integrated capability rather than as isolated organizational components. This finding supports the Resource-Based View, which argues that sustainable competitive advantage arises from the effective integration of valuable organizational resources rather than from individual resources alone (Barney, 1991). However, the present study extends this perspective by demonstrating that in Islamic banking, the integration of organizational resources is mediated by Living Islam. Ethical values provide the institutional logic that aligns resource allocation, organizational behaviour, and strategic objectives with both commercial sustainability and social responsibility. Consequently, organizational capability emerges not simply because Islamic banks possess financial and physical resources, but because these resources are coordinated through shared Islamic values embedded in governance and organizational culture.

These findings also reinforce the objectives of Maqāṣid al-Sharī'ah and Islamic Moral Economy, which emphasize that wealth and organizational resources should serve broader human welfare rather than private accumulation alone (Chapra, 2008; Dusuki & Abdullah, 2007). Internal resources therefore become instruments for achieving justice, public benefit, and sustainable institutional development when managed according to Islamic ethical principles. Rather than separating economic performance from religious values, Indonesian Islamic banks demonstrate that profitability and ethical responsibility can reinforce one another through organizational practices grounded in Living Islam. The findings thus challenge the dominant performance literature that evaluates internal resources primarily through financial efficiency, arguing instead that sustainable profit growth depends on the successful institutionalization of Islamic values within the management of organizational resources.

Overall, the Indonesian experience indicates that internal organizational resources contribute to sustainable profit growth not merely because of their quantity or financial value, but because they are governed through Living Islam as a value-based organizational capability. Capital strengthens institutional resilience when managed as amanah; human capital becomes a source of competitive advantage when guided by ihsan and ethical professionalism; assets create long-term value when directed toward maṣlaḥah; and ATM networks together with branch offices expand not only financial access but also the institutional presence of Islamic values in everyday economic life. This finding advances Islamic banking scholarship by demonstrating that organizational resources and Islamic values are not separate dimensions of performance but mutually reinforcing components of sustainable organizational capability.

Living Islam in Responding to External Economic Dynamics

The findings indicate that the sustainability of profit growth in Islamic banks is influenced not only by the effective management of internal organizational resources but also by the institutions' ability to respond strategically to changes in the external economic environment. Unlike conventional banking studies that frequently examine macroeconomic variables as direct determinants of financial performance, this study interprets external economic conditions as the broader institutional context within which Islamic banks formulate strategic responses. Accordingly, nominal Gross Domestic Product (GDP), global oil prices, and the exchange rate (IDR/USD) are not viewed merely as external shocks affecting profitability; rather, they represent macroeconomic conditions that require adaptive organizational capabilities grounded in the ethical principles of Living Islam. Sustainable profit growth therefore depends not simply on favourable economic conditions but on how Islamic values guide institutional adaptation, strategic decision-making, and responsible risk management amid economic uncertainty.

Nominal Gross Domestic Product (GDP) provides the most comprehensive representation of Indonesia's overall economic capacity. As national income expands, household consumption, business investment, trade activities, and financial transactions generally increase, creating broader opportunities for Islamic banking to mobilize deposits, expand financing portfolios, and develop new financial services. In this study, GDP is interpreted not as an indicator of annual economic growth but as a reflection of the scale of national economic activity that shapes the institutional environment of Islamic banking. The increasing size of Indonesia's economy creates a wider market for Sharia-compliant financial services while simultaneously intensifying competition and stakeholder expectations. From the perspective of Living Islam, economic expansion should therefore be understood not merely as an opportunity for commercial growth but also as a responsibility to strengthen financial inclusion, support

productive economic sectors, and contribute to equitable national development. Islamic banks are consequently expected to align business expansion with the broader objectives of maṣlaḥah, ensuring that increasing economic capacity generates shared prosperity rather than narrow institutional gains.

Global oil prices constitute another important external factor affecting the operating environment of Islamic banking. As an open economy, Indonesia remains exposed to fluctuations in international commodity markets that influence inflationary pressures, production costs, fiscal policy, and household purchasing power. Rising oil prices often increase operational costs for businesses and households, potentially affecting financing demand and repayment capacity. Conversely, declining oil prices may stimulate economic activity by reducing production costs while simultaneously influencing government revenues and investment dynamics. Rather than treating oil price volatility solely as a financial risk, the present study argues that Islamic banks respond to such conditions through prudent financing policies, responsible liquidity management, and long-term customer relationships grounded in ethical commitment. Living Islam encourages organizational resilience by emphasizing prudence (*ḥikmah*), accountability (*amanah*), and fairness (*ʿadl*) (N, 2015) in balancing commercial objectives with customer sustainability during periods of economic volatility. Consequently, macroeconomic shocks become opportunities for ethical institutional adaptation rather than merely sources of financial uncertainty.

Exchange rate movements similarly influence the operational environment of Islamic banking through their effects on international trade, import prices, inflation, foreign investment, and business confidence. Depreciation of the Indonesian rupiah may increase production costs for import-dependent industries, affecting financing quality and corporate repayment capacity, whereas exchange rate appreciation may improve purchasing power while influencing export competitiveness. Nevertheless, exchange rate fluctuations should not automatically be interpreted as direct determinants of Islamic bank profitability. Instead, they represent external signals requiring adaptive governance, careful financing assessment, and balanced portfolio management. Living Islam strengthens this adaptive capacity by encouraging transparency, prudent risk evaluation, and responsible decision-making rather than speculative behaviour. In this regard, exchange rate dynamics become part of the institutional learning process through which Islamic banks maintain financial stability while preserving stakeholder trust.

The combined influence of GDP, oil prices, and exchange rates demonstrates that external economic dynamics operate as an interconnected macroeconomic environment rather than as isolated variables. Islamic banks therefore require organizational capabilities that enable them to interpret changing economic conditions while maintaining institutional consistency with Islamic ethical values. This finding extends the Resource-Based View by suggesting that sustainable competitive advantage does not arise solely from internal resources but also from the organization's ability to adapt strategically to external environmental changes. Such adaptive capability is not purely technical; it is value-driven. Organizational decisions regarding financing allocation, liquidity management, capital planning, and business expansion are continuously shaped by ethical considerations embedded within Living Islam. Consequently, Islamic values function as institutional guides that reduce uncertainty and support strategic flexibility under changing macroeconomic conditions.

These findings also reinforce the principles of Islamic Moral Economy and Maqāṣid al-Sharīʿah (Mochamad, 2018), both of which emphasize that economic institutions should maintain social justice and public welfare regardless of changing market conditions. Economic expansion, commodity price fluctuations, and exchange rate volatility should not lead Islamic banks to prioritize profitability at the expense of social responsibility or equitable financing practices. Instead, Islamic financial institutions are expected to maintain balanced relationships between commercial sustainability and societal welfare by continuing to support productive sectors, small and medium enterprises, and financially vulnerable communities. This interpretation is consistent with the ethical foundations of Islamic finance, which reject excessive uncertainty (*gharar*), speculative behaviour (*maysir*), and exploitative financial practices while promoting stability, fairness, and long-term economic resilience.

The Indonesian experience therefore suggests that the external environment should not be conceptualized merely as a collection of macroeconomic variables influencing banking performance. Rather, it constitutes the institutional context within which Islamic banks continuously interpret, negotiate, and operationalize Islamic values through strategic organizational responses. Nominal GDP provides opportunities for inclusive business expansion; global oil prices test institutional resilience;

Vol. 16, No. 1, 2026, 208-224. | P-ISSN 2088-9445 || e-ISSN 2723-1135
DOI: https://doi.org/10.15408/jii.v16i1.51737

and exchange rate movements require prudent governance and responsible financial management. Living Islam enables Islamic banks to transform these external dynamics into opportunities for sustainable organizational development by aligning strategic adaptation with ethical governance and stakeholder responsibility.

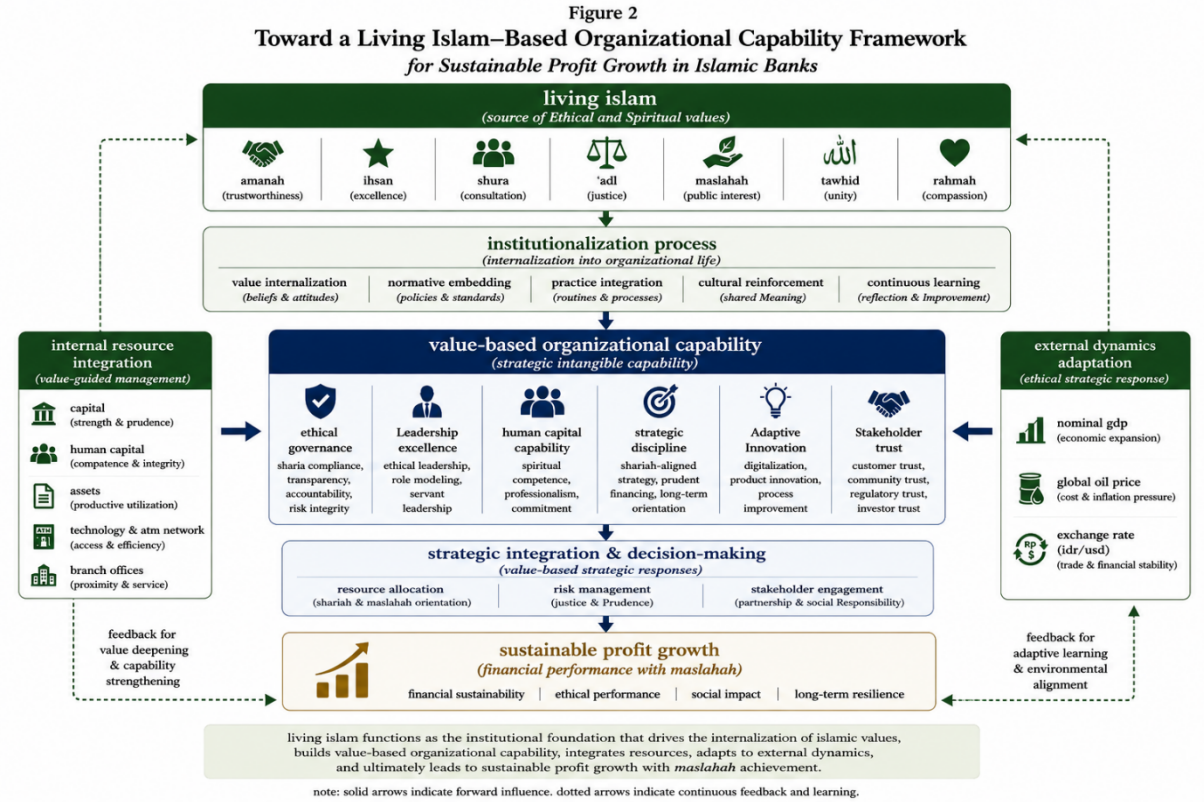
Overall, the findings demonstrate that Living Islam strengthens sustainable profit growth not by altering macroeconomic conditions but by shaping the organizational capability through which Islamic banks respond to those conditions. External economic dynamics therefore become part of a broader institutional process in which Islamic values guide strategic adaptation, reinforce organizational resilience, and maintain stakeholder trust amid economic uncertainty. This finding advances Islamic banking scholarship by proposing that macroeconomic variables should be interpreted not merely as external determinants of profitability but as contextual environments whose influence is mediated by value-based organizational capability grounded in Living Islam.

The Living Islam-Based Organizational Capability Framework for Sustainable Profit Growth

The findings of this study demonstrate that sustainable profit growth in Islamic banks cannot be adequately explained through financial resources or macroeconomic conditions alone. Instead, profitability emerges through a multidimensional organizational process in which Islamic values are institutionalized into organizational capabilities that shape managerial behaviour, governance systems, strategic adaptation, and stakeholder relationships. This study therefore proposes the Living Islam-Based Organizational Capability Framework, a conceptual model that integrates Islamic values, organizational capability, internal organizational resources, and external economic dynamics into a unified explanation of sustainable profit growth. Rather than functioning as an independent explanatory variable, Living Islam operates as the foundational value system that continuously guides how Islamic banks mobilize organizational resources and respond to changing economic environments.

Building upon the preceding findings, this study proposes that Living Islam operates through the continuous institutionalization of Islamic values into governance structures, organizational culture, managerial behaviour, and strategic decision-making. This institutionalization transforms religious values into value-based organizational capabilities that enable Islamic banks to integrate internal resources and adapt responsibly to external economic dynamics.

Figure 2
Toward a Living Islam–Based Organizational Capability Framework
for Sustainable Profit Growth in Islamic Banks



Vol. 16, No. 1, 2026, 208-224. | P-ISSN 2088-9445 || e-ISSN 2723-1135
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Figure 2 presents the Living Islam-Based Organizational Capability Framework, which synthesizes the empirical findings and theoretical discussions of this study into an integrated conceptual model explaining sustainable profit growth in Islamic banks. Unlike Figure 1, which illustrates the initial conceptual position of the research, Figure 2 represents the theoretical framework emerging from the findings. The framework demonstrates that sustainable profit growth is not generated directly by financial resources or favorable macroeconomic conditions, but through a continuous process in which Islamic values are institutionalized into organizational capabilities that guide strategic behavior and organizational adaptation.

At the highest level of the framework, Living Islam functions as the foundational value system comprising the core Islamic principles of *amanah* (trustworthiness), *ihsan* (excellence), *shūrā* (consultation), *ʿadl* (justice), *maṣlaḥah* (public interest), ethical leadership, and Sharia governance. These values do not operate merely as normative ideals but become organizationally meaningful through the institutionalization process, whereby Islamic principles are continuously internalized into organizational beliefs, managerial attitudes, governance structures, and everyday organizational practices.

The institutionalization process subsequently produces value-based organizational capability, which represents the central theoretical contribution of this study. This capability is reflected in ethical governance, value-driven leadership, organizational culture, and strategic decision-making that collectively enable Islamic banks to align commercial objectives with Islamic ethical principles. Rather than functioning as isolated managerial competencies, these organizational capabilities constitute an integrated strategic resource embedded within the institution and continuously reinforced through organizational learning and ethical practice.

The framework further illustrates that value-based organizational capability simultaneously integrates internal organizational resources and facilitates adaptation to the external economic environment. Internal resources—including capital, human capital, assets, technological infrastructure, and branch networks—generate sustainable value only when managed through Islamic ethical principles (N, 2015). Likewise, external economic dynamics, represented by nominal GDP, global oil prices, and exchange rate movements, are interpreted not merely as external determinants of profitability but as contextual conditions requiring adaptive organizational responses guided by Islamic values.

These interactions ultimately culminate in sustainable profit growth, which is conceptualized not only as continuous financial performance but also as the achievement of *maṣlaḥah* through ethical governance, social responsibility, stakeholder trust, institutional resilience, and long-term organizational sustainability. The feedback loops incorporated within the framework further indicate that sustainable organizational performance continuously reinforces the institutionalization of Islamic values, creating an ongoing cycle of organizational learning and capability development.

Accordingly, Figure 2 demonstrates that the contribution of this study extends beyond identifying determinants of profitability. Instead, it proposes a new theoretical explanation in which Living Islam serves as the institutional foundation through which Islamic values are transformed into organizational capability, enabling Islamic banks to integrate internal resources, respond strategically to external economic dynamics, and achieve sustainable profit growth while fulfilling the broader objectives of Islamic finance.

The framework therefore repositions Living Islam from a socio-religious phenomenon into an institutional mechanism through which Islamic values are transformed into value-based organizational capability that strengthens sustainable profit growth in Islamic banks.

CONCLUSION

This study concludes that sustainable profit growth in Islamic banks cannot be adequately explained solely by financial resources or macroeconomic conditions. Rather, sustainable profitability emerges through the continuous institutionalization of Islamic values into organizational governance, leadership, culture, and strategic decision-making. Within this process, Living Islam functions as the foundational value system through which Islamic ethical principles are translated into everyday organizational practices, enabling Islamic banks to manage internal organizational resources effectively while responding adaptively to external economic dynamics. Consequently, sustainable profit growth should be understood not merely as a financial outcome but as the result of value-based organizational capability grounded in Islamic ethics.

The principal theoretical contribution of this study is the development of the Living Islam-Based Organizational Capability Framework, which explains how Living Islam operates as the institutional foundation for transforming Islamic values into value-based organizational capability. This framework extends the application of Living Islam into the organizational context of Islamic banking by demonstrating that Islamic values constitute strategic organizational resources that strengthen institutional resilience, stakeholder trust, ethical governance, and long-term financial sustainability. In doing so, the study also enriches the Resource-Based View by integrating Living Islam, Islamic Moral Economy, and *Maqāṣid al-Sharīʿah* into a unified explanation of sustainable organizational performance.

From a practical perspective, the findings suggest that Islamic banks, regulators, and policymakers should strengthen the institutionalization of Islamic values within governance systems, organizational culture, leadership, and strategic management to enhance long-term sustainability and public legitimacy. While this study is based on institutional and macroeconomic data, future research is encouraged to employ qualitative or mixed-method approaches to examine how Living Islam is experienced and enacted by organizational members in everyday banking practices. Such studies will further validate and refine the proposed framework across different organizational and socio-cultural contexts.

Declarations

N contributed to research conceptualization, documentary analysis, and manuscript preparation. SS provided methodological guidance and theoretical evaluation. IH contributed to literature synthesis and analytical interpretation. AMN examined Islamic banking governance and institutional practices. AM supported the analysis of financial and regulatory documents, while SA assisted with data organization and manuscript refinement. All authors approved the final manuscript and accepted responsibility for its scholarly integrity. The authors report no competing interests. ChatGPT by OpenAI was employed exclusively for linguistic refinement and reference consistency, without generating research data or determining analytical findings. All AI-assisted edits were verified by the authors. As the research relied entirely on publicly available documents without involving human participants, ethical approval and informed consent were not required. The supporting materials are identified in the manuscript and its references.

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