

The Effect of Financial Ratios, Maqasid Sharia Index, and Index of Islamic Social Reporting to Profitability of Islamic Bank in Indonesia

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Abstract. *This study aims to analyze the performance of Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Net Income Margin (NIM), Operating Expenses Ratio (OER), Maqasid Sharia Index (MSI), and Index of Islamic Social Reporting (ISR) to influence the level of profitability. The main purpose of this study is to complete the previous research with try to add the variables MSI and Index of ISR to estimating the change of profitability of Islamic banks in Indonesia. The study conducted eight Islamic Banks to be analyzed in the period from 2010 to 2012. The tool of analysis is used multiple linear regression for predicting the level of profitability. The results of the study show that all of the independent variables are significantly affected simultaneously to the level of profitability. Partially, NIM and OER are significantly affected by the level of profitability. The low level of Maqasid Sharia Index and Islamic Social Reporting implementation of the Islamic banks in Indonesia in the period of the study proves that these two variables are not the main indicator or a major achievement of most Islamic banks, even though Islamic banks should refer to attain mashlalah (public interest).*

Keywords: CAR, FDR, NIM, OER, MSI, and Index of ISR

Abstrak. *Penelitian ini bertujuan untuk menganalisis kinerja yang ditunjukkan oleh rasio Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Net Income Marging (NIM), Biaya Operasional terhadap Pendapatan Operasional (BOPO), Indeks Maqasid Syariah (MSI), dan Indeks Islamic Social Reporting (ISR) terhadap profitabilitas bank syariah di Indonesia. Tujuan dari penelitian ini adalah melengkapi penelitian-penelitian sebelumnya dengan menambahkan variabel MSI dan ISR untuk mengestimasi profitabilitas bank syariah di Indonesia. Penelitian ini menggunakan data tahunan pada delapan bank syariah di periode antara 2010 hingga 2012 dimana penelitian ini menggunakan metode regresi linear berganda. Hasil penelitian ini menunjukkan bahwa secara simultan seluruh variabel independen mempengaruhi profitabilitas bank syariah secara signifikan. Secara parsial, hanya NIM dan BOPO yang berpengaruh signifikan terhadap profitabilitas. Lemahnya pengaruh Indeks Maqasid Syariah dan Indeks Islamic Social Reporting mengindikasikan bahwa kedua variabel tersebut bukanlah faktor utama dalam pencapaian bank syariah, meskipun bank syariah juga harus memperhatikan faktor mashlalah.*

Kata kunci: CAR, FDR, NIM, OER, MSI, and Index of ISR

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Introduction

Normatively, Islamic companies should be motivated by the willingness of every Muslim to gain success in the world and the hereafter commonly called *Falah*. The concept of *falah* should be implemented in the form of all the activities that aim to create individual and social benefit. In the teachings of Islam, there is a concept of *maqasid sharia* as a purpose of applicable Islamic law. *Maqasid sharia* emphasis on the protection of religion (*din*), intellect (*'aql*), life (*nafs*), lineage (*nasl*), and wealth (*māl*). To Express *Maqasid Sharia* in Economic Model, Mahmoud and Razak (2008) developed *Maqasid Sharia* Index (MSI) for Islamic banks, consists of the measurement of Educating Individual (Educating Individuals), Establishing Justice (Justice Enforce), and Public Interest (*Maslahah*).

Islamic Banks in its operations should consider *maqasid* in business activities, especially the protection and improvement of the quality of assets and all of the goods and services which have economic values. *Maqasid Sharia* also shows the Islamic banks in operation should have a social responsibility because Islamic banks have an obligation to create social benefit. For This purpose, there is Index to incorporate components consists of investment, finance, products, and services; what is called Islamic Social Reporting (ISR). Therefore, Islamic banks should incorporate ISR components to its annual report. The components are the assessment of investment and finance, products and services, labour incentive, social benefit, environmental benefit, and the good governance of the organization. The research method and data, on which the analysis is conducted, are presented in Section 3. Section 4 discusses the results and implications of the paper. Lastly, section 5 concludes the paper.

Literature Review

There are many studies to measure the performance of Islamic Banks in Indonesia consists of many aspects, such as aspect of efficiency by Rahmawati and Hosen (2012), Hosen and Sutisna (2012), Firdaus and Hosen (2013), Shafitranata and Hosen (2014), Muhari and Hosen (2015), Amalia et al. (2015), profitability by Hosen (2012), Hosen and Syukriyah (2012), Abdillah et al. (2016), Hosen and Rahmawati (2016), Solikhin et al. (2016), and liquidity by Abdillah et al. (2016), Solikhin et al. (2016), Hosen and Muhari (2017).

The purpose of this study is to complete the previous research, which only uses common variables such as financial performance, macro-economic indicators, government policy, corporate structure, etc., for building a model of profitability.

This study is to demonstrate additional variables of MSI and ISR.

Antonio et al. (2012), Asutay and Harningtyas (2015), Al-Mubarak and Osmani (2010), and Soleh (2016) used MSI in their research to measure the level of performance of Islamic Banks in several countries and to rank the Islamic banks from the best to the worst. The same design of the research was conducted by Fauziah and Yudho (2013), which measure and rank the Islamic banks based on the Index of ISR. Another research by Sunarsih and Ferdiyansyah (2017) examined factors which affect the changes of Index on Islamic Social Reporting at Islamic Banks in Indonesia.

All previous studies stated that the measurement of the financial performance of Islamic banks should be based on the Islamic teaching and Islamic practice which represented by MSI and ISR. This study is to measure the effect of MSI and ISR on profitability, where MSI and ISR are independent variables which never used to previous studies for a model of profitability. Thus, the results of this study are expected to describe how the effect of Islamic variables to boost the financial performance of Islamic banks, especially to measure the level of profitability.

Methods

Data and Sample

This study measures the factors which affect the profitability of Islamic banks in regarding with aspects of *Maqasid Sharia* Index and Index of Islamic Social Reporting and various aspects of the financial indicators from 2010 to 2012. Islamic banks in this study are full-fledged Islamic banks. Currently, the numbers of full-fledged Islamic banks in Indonesia are thirteen. Based on the data completeness from annual financial statements, there are only eight Islamic banks to be analyzed. Nevertheless, the eighth of Islamic banks have sizable assets and represent 70% of the assets of all Islamic banks in Indonesia, both Islamic full-fledged and Islamic business unit.

The data used in this study was secondary data. The sources of the data were the annual report of each Islamic banks from 2010 to 2012, which obtained from the official website. There are eight banks can be examined in this research:

1. Bank Syariah Mandiri (BSM)
2. Bank Muamalat Indonesia (BMI)
3. Bank Rakyat Indonesia Syariah (BRIS)
4. Bank Negara Indonesia Syariah (BNIS)

5. Bank Mega Syariah (BMS)
6. Bank Syariah Bukopin (BSB)
7. Bank Central Asia Syariah (BCAS)
8. Panin Bank Syariah (PBS)

Maqasid Sharia Index (MSI)

The model of the study is to refer to MSI measurement model by Mohammed et al. (2008) which adjust from the concept of *maqasid sharia* described by Abu Zahrah, namely *Tahdīb al-Fard*, *Iqāmah al-'Adl*, and *Jalb al-Maslahah*. The model is as follows:

a. Concept (C)

The concept of *Maqasid Sharia* consists of three objectives of *sharia* which is derived from the maqasid syariah by Abu Zahra, namely *Tabzībul Fardi* (Educating Individuals), *Iqāmah al Adl* (Justice Enforce), and *Maslahah* (Public Interest).

b. Dimensions (D), Element (E) and Performance Ratio (R)

Dimensions are made to understand and to explain details of each *maqasid sharia* concepts. The dimensions for each maqasid *sharia* concept can be explained as follow:

1. *Tabzībul Fardi* (Educating Individuals), the dimensions are:

i. (D1) Advancement Knowledge

Islamic banks have a significant role in encouraging knowledge both for employees and society. This role can be measured by how far Islamic banks provide scholarships (E1.Education Grant) and conducted research and development (E2, Research). The ratio of the measurement can be measured by how much a scholarship fund to total revenue (R1. Education Grant/Total Expense) and the ratio of research costs to total costs (R2. Research Expense/ Total expense). Thus, to prove the attention of Advancement Knowledge from Islamic banks can be seen from the level of fund of scholarship and cost of research which spent by banks. The highest level of the ratio is the better one.

ii. (D2) Instilling New Skill and Improvement

Islamic banks have a duty to improve the skills and knowledge of its employees, which shown by the frequency of Islamic banks to training and educating their

employees (E3. Training). This can be measured by comparing the ratio of training and education to total cost (R3. Training Expense/Total expense). The greater the ratio of costs training implies that Islamic banks have more attention to educate their employees.

iii. (D3) Creating Awareness of Islamic Banking

The creating awareness of Islamic Banking is one of the main purposes of Islamic banks considering its role as a commercial entity. Islamic banks can increase the knowledge about Islamic banking to the public by disseminating and publish Islamic banking products, operational, and Islamic Economics System. (E4. Publicity). This can be measured by comparing the cost of publicity or promotion to the total cost (R4. Publicity Expense/Total expense). Islamic banks can increase more awareness if they spend more fund on promotion and publicity.

2. *Iqāmah al Adl* (Enforce Justice), the dimensions are:

i. (D4) Fair Returns

Islamic banks are required to be able to conduct transactions which fair and not disadvantage customers. Islamic banks can provide a fair and equitable return to customers using the method of Profit Equalization Reserve (PER). The ratio of PER is measured by comparing profit equalization fund to net investment or income (R5. Profit Equalization Reserves (PER)/Net Investment or income).

ii. (D5) Cheap Products and Services

The dimension of cheap products and services can be seen from the functional distribution, which measures by the ratio of profit sharing investment. The ratio is measured by comparing investment of profit-sharing aqd to total investment from all aqd (R6. *Mudaraba* or *Musharaka aqd*/Total Aqd). The high level of this ratio indicates that Islamic banks have properly used *aqd mudharaba* and *musharaka*, which show the role of Islamic banks to enhance socio-economic justice through profit-sharing transactions.

iii. (D6) Elimination of injustices

Riba (interest rate) is one of the forbidden instrument in Islamic finance system due to the impact of *riba*, which has an adverse impact on the economy and led to inequities in an economic transaction. *Riba* provides a big opportunity for the rich to exploit the poor. Islamic banks are required to free from *riba* on their activities, especially at financing. The elimination of injustice can be calculated

by comparing free *riba* income to total income (R7. Interest-Free Income/Total Income). The high level of this ratio is to affect the reduction of inequalities of income and wealth in society.

3. *Maslahah* (Public Interest), the dimensions are:

i. (D7) Profitability of Bank

Maximizing profits is one of the main purposes of every business entity. The high level of profitability can increase the welfare of owners and employees. Moreover, the high level of profitability can maximize the profit-sharing of funding to customers. The ratio of profitability can be measured by dividing net profit to total assets (R8. Net Income/Total Aset).

ii. (D8) Redistribution of Income and Wealth

Islamic banks have a role in redistributing wealth to all groups of society. Islamic banks can take the role by spending zakah from the business entity, owners, and employees. They can also maximize their function to distribute zakah. The role of this dimension can be measured by comparing the zakah spent by Islamic banks to total net income (R9. Zakah/Net Income).

iii. (D9) Investment in the Real Sector

The presence of Islamic banks is expected to drive the growth of the real sector, which has not balanced to the growth of the financial sector. The principles and Islamic contract are expected to be more appropriate to develop the real sector. Furthermore, financing of Islamic banks is the most spent to the real sector of agriculture, mining, constructions, manufacturing and micro-enterprises. The ratio of real sector investment can be seen from the financing to the real sector compared to the total financing by a bank (R10. Investment in Real Economic Sectors /Total Investment). If the financing to the real sectors is getting high, the economic activities in the real sector will be encouraged and provide benefit to the whole society. Mohammed et al. (2008) had chosen to finance in *mudharabah* and *musharakah* to measure the level of Islamic banks financing in real sectors.

The summaries model of *maqasid sharia* index (MSI) measurement can be seen from Table 1:

Table 1. Model of *Maqasid Sharia* Index (MSI) Measurement

Purposes	Dimension (D)	Element (E)	Performance Ratio (PR)	Sources of Data
1. <i>Tabdzīb al-Fard</i> (Educating Individual)	D1. Advancement Knowledge	E1. Education grant	R1. Education grant / Total Expenses	Annual Report
		E2. Research	R2. Research Expense / Total Expenses	Annual Report
	D2. Instilling new skill and improvement	E3. Training	R3. Training Expense / Total Expenses	Annual Report
		E4. Publicity	R4. Publicity Expense / Total Expenses	Annual Report
2. <i>Iqāmah al-'Adl</i> (Establishing Justice)	D4. Fair Returns	E5. Fair Returns	R5. Profit Equalization Reserves (PER) / Net or Investment Income	Annual Report
	D5. Cheap Products and Services	E6. Functional Distribution	R6. <i>Mudarabah</i> and <i>Musharakah</i> Modes / Total Investment Modes	Annual Report
	D6. Elimination of injustices	E7. Interest-free Product	R7. Interest-free income / Total Income	Annual Report
3. <i>Jalb al-Maslabah</i> (Public Interest)	D7. Profitability	E8. Profit ratios	R8. Net Income / Total Assets	Annual Report
	D8. Redistribution of income and wealth	E9. Personal Income	R9. <i>Zakat</i> / Net Income	Annual Report
	D9. Investment to the real sectors	E10. Investment ratios in the real sector	R10. Investment in the real economic sector / Total Investment	Annual Report

Source: Mohammed et al. (2008)

Islamic Disclosure Index (IDI)

In running its business, every company including bank has a social responsibility to the society related to the operations of business include economic aspects (profit), social (people), and environmental (planet) or so-called triple bottom line (3P), which are embodied in Corporate Social Responsibility (CSR).

Since the launch of ISO 26000 in 2010 by International Organization for Standardization (ISO) about the Guidance on Social Responsibility, a component of the triple bottom line is added with the procedure as one aspect from 3P. This means that CSR is a concern to companies to set aside some of its profits for the benefit of human development (people) and the environment (planet) sustainably based on the appropriate procedure. The sustainability of a company can be realized when concerning with these fourth aspects.

Islamic banks as an Islamic company have a social responsibility to the society, these especially related to Islamic values associated with its activities. This can be seen through the disclosure of Islamic Social Reporting (ISR), which is shown from the annual report.

ISR value is obtained from the annual reports of companies using content analysis. Index of ISR used in this study refers to the Index of ISR conducted by Fauziah and Yudho (2013), Lestari (2013) and Asutay and Harningtyas (2016) with some adjustments.

Index of ISR in this study consists of 48 items of disclosure which are structured in six themes. Each item of disclosure contained in the annual report will be given a value of 1, Islamic banks get a maximum value of 100 if they have all of the disclosure items. The formula to get the index of ISR can be explained as follows:

$$\text{Islamic Disclosure} = \frac{\text{Disclosure Item}}{48} \times 100$$

Where the Disclosure Items are:

Table 2. Islamic Social Reporting Components (ISR)

No	Islamic Social Reporting Components
A	Finance and Investment
1	Containing usury activities (e.g., interest expense and interest income)
2	Activities that contain obscurity (gharat) includes the element of gambling
3	Zakat (the amount and the recipient of zakat)
4	Policy on late payment of receivables and the elimination of bad debts.
5	Investment activities (in general)
6	Project financing
B	Products and Services
7	<i>Sharia</i> Supervisory Board approval for a new product
8	Glossary/definitions of each product
9	Services on consumer complaints
C	Employee
10	Working hours of employees
11	Day off
12	Employee benefits
13	Remuneration of employees
14	Education and training of employees
15	Equality of rights between men and women
16	Employee engagement
17	Health and safety of employees
18	Work environment
19	Employees of special groups (e.g., physical disabilities or former drug users)
20	Adequate prayer places for employees
D	Society
21	<i>Alms, zakah</i> , or donations
22	Waqf
23	Loans for good (hasan qard)
24	Volunteers from among employees
25	Granting scholarships
26	Empowerment graduates work school/college
27	Youth development
28	Improving the quality of life
29	Concern for children
30	Supporting social activities (e.g., health, entertainment, sports, culture, education, and religion)

E	Environment
31	Environmental conservation
32	Activities that reduce the effects of global warming
33	Education about the environment
34	Awards / Certifications environment
35	The environmental management system
F	Corporate Governance
36	Status of compliance with <i>sharia</i>
37	Details of names of directors/management
38	Profile board of directors/management
39	Details of management responsibilities
40	The statement on the remuneration of management
41	Total implementation of management meetings
42	Details of the name of <i>sharia</i> supervisory board
43	Profile <i>sharia</i> supervisory board
44	Details of the responsibility of <i>sharia</i> supervisory board
45	The statement on the remuneration of the supervisory board of <i>sharia</i>
46	Total implementation of <i>sharia</i> supervisory board meeting
47	Ownership structure
48	Anti-corruption policy

Sources: Fauziah and Yudho (2013), Lestari (2013) dan Asutay and Harningtyas (2016)

Other Independent Variables

a. Capital Adequacy Ratio (CAR)

CAR is to measure how the capital owned by Islamic banks can back up every risky activity, for example, activity in working capital financing and investment financing. The formula to calculate CAR is:

$$\text{CAR} = \frac{\text{Capital}}{\text{Risk - Weighted Assets}}$$

b. Financing to Deposit Ratio (FDR)

FDR is one of the liquidity indicators of the Islamic Bank. The variable is measured by comparing the total financing to the total third-party funds. The formula to calculate FDR is:

$$\text{FDR} = \frac{\text{Total Financing}}{\text{Total Third Party Fund}}$$

c. Net Income Margin (NIM)

NIM is obtained from revenue sharing of financing subtract by customer profit sharing and then divided by total financing. The formula to calculate NIM is:

$$NIM = \frac{\text{Net Profit Sharing Income}}{\text{Total Financing}}$$

d. Operational Expenses Ratio (OER)

OER is used to measure the efficiency of banks. It is measurement the ability of the Islamic banks' management to obtain operating income by using several operating expenses. The formula to calculate OER is:

$$OER = \frac{\text{Total Operational Expenses}}{\text{Total Operational Income}}$$

Dependent Variables

The dependent variable in this study is a return on assets (ROA), which is one of the profitability indicators. ROA is used to measure the effectiveness of the Islamic Bank in generating profit from owned assets. The formula to calculate ROA is:

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Model of Analysis

This research used a quantitative approach which generally emphasis on experimentation, description, survey and correlation of two variables. The design of this study is Quantitative by descriptive a variety of condition and situation.

Linear regression model of this study can be used to describe the relationship between two or more variables for quantitative variables. The regression equation is:

$$ROA = a + b_1CAR_1 + b_2FDR_2 + b_3NIM_3 + b_4OER_4 + b_5MSI_5 + b_6ISR_6 + e$$

Where:

ROA = Profitability

a = Intercept

b = Coefficient

CAR₁ = Capital Adequacy Ratio

FDR₂ = Financing to Deposit Ratio

NIM_3 = Net Income Margin

OER_4 = Operational Expenses Ratio

MSI_5 = Index of *Maqasid Sharia*

ISR_6 = Index of Islamic Social Reporting

e = Error term

Results and Discussion

Results of Islamic Social Reporting (ISR) Index

The Content Analysis result of Index of Islamic Social Reporting (ISR) in Islamic banks in Indonesia from 2010 to 2012 can be seen in Table 3:

Table 3. Islamic Social Reporting Index Score

BANKs	Years			Average
	2010	2011	2012	
BSM	34	36	36	35.3
BMI	32	36	34	34.0
BRIS	19	21	28	22.7
BNIS	30	30	31	30.3
BMS	24	26	26	25.3
BSB	21	23	26	23.3
BCAS	25	25	26	25.3
PBS	12	13	22	15.7

Table 3 shows the results of ISR Index of each sample during the 2010 to 2012 period. In overall, the score of the ISR index has increased in the past two years, except for Bank Muamalat Indonesia in 2012. Bank Syariah Mandiri is the highest ISR index score with the average score at 35.3.

Results of *Maqasid Sharia* Index

The Results of *Maqasid Sharia* Index of Islamic banks in Indonesia during 2010 to 2012 periods can be seen in Table 4:

Table 4. *Maqasid Sharia* Index (MSI) of Islamic Banks

BANK	1 st Goal (Educating Individual)				2 nd Goal (Establishing Justice)		3 rd Goal (Public Interest)		MSI	RANK
	IK ₁₁	IK ₂₁	IK ₃₁	IK ₄₁	IK ₂₂	IK ₁₃	IK ₂₃	IK ₃₃		
BSM	0.0001	0.0001	0.0017	0.0032	0.0368	0.0012	0.0030	0.0482	0.0945	4
BMI	0.0001	0.0002	0.0009	0.0030	0.0587	0.0008	0.0012	0.0509	0.1159	2
BRIS	-	-	0.0016	0.0028	0.0285	0.0003	0.0071	0.0462	0.0865	5
BNIS	-	-	0.0010	0.0038	0.0234	0.0007	0.0016	0.0256	0.0562	7
BMS	-	-	0.0007	0.0006	0.0031	0.0015	0.0029	0.0059	0.0147	8
BSB	-	-	0.0006	0.0010	0.0429	0.0004	-	0.0393	0.0843	6
BCAS	-	-	0.0017	0.0011	0.0483	0.0005	-	0.0617	0.1134	3
PBS	-	-	0.0012	0.0005	0.0755	0.0003	-	0.0441	0.1216	1

The indicator of performance for the first goal (to educate individuals) from Table 4 can be seen that BSM and BMI have the same value in the subsection of providing educational assistance (IK₁₁). In the subsection of research and development (IK₂₁), BMI is better than BSM. In the subsection of employee training (IK₃₁), BSM is better than BMI and other Islamic banks. BNIS is the best grades than other Islamic banks in the subsection of promotion (IK₄₁). From the overall section at educating individual, which is the first goal of *Maqasid Sharia* Index, BSM is the best Islamic bank on goal to educate the public.

The indicator of performance for the second goal (to establish justice) from Table 4 can be seen that PBS is the best for channel financing based on mudharabah and musharakah contract (IK₂₂) than another Islamic bank in Indonesia during the period of study. Thus, PBS is the best Islamic bank on goal to establish justice.

The indicator of performance for the third goal (public interest) from Table 4 can be seen that BMS is the best than other Islamic banks to gain profitability (IK₁₃), BRIS is the largest bank to pay zakat based on profit (IK₂₃), and BCAS is the best to channel financing to the real sector (IK₃₃). From the overall section at public interest, which is the second goal of *Maqasid Sharia* Index, BCAS is the best.

From the eight of Islamic banks, Panin Bank Syariah (PBS) is the highest of MSI Index with score 0.1216, Bank Muamalat Indonesia (BMI) is the second highest with score 0.1169, following by Bank BCA Syariah (BCAS) as the third highest with a score of 0.1134.

Results of Data Analysis

a. Test of Classical Assumption

Classical assumption test is used in this study before estimate the regression model. The tests of classical assumption are used to test data normality, multicollinearity, heteroscedasticity, and autocorrelation. The result of data normality in this study can be seen in figure 1 and 2:

Figure 1. Histogram Graph for Normality Test

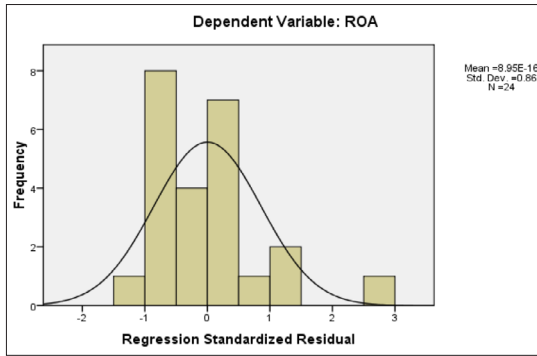
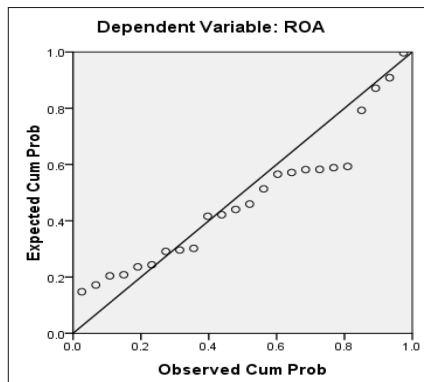


Figure 2. Normal Probability Plot Graph for Normality Test



Test for data normality in this study is used histogram graph method and normal probability plot graph. The distribution of data from the histogram graph method in this study does not deviate to the left and/or right. Similarly, in the normal probability plot graph, it could be seen that the dot of data in the graph is spread around the diagonal line. Therefore this could be concluded the data used in this study is normal.

The result of multicollinearity test in this study can be seen in Table 5:

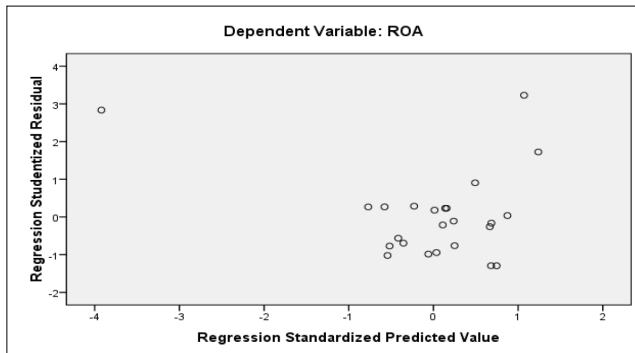
Table 5. Multicollinearity Test

Variable		CAR	FDR	NIM	OER	MSI	ISR
Collinearity Statistic	Tolerance	0.464	0.314	0.456	0.270	0.360	0.269
	VIF	2.155	3.184	2.195	3.707	2.778	3.715

Multicollinearity test in this study is conducted by observing the VIF score of each independent variable. Based on these tests, all of the independent variables are free of multicollinearity because the tolerance score is more than 0.1 and VIF are less than 10.

The result of heteroscedasticity test in this study can be seen in figure 3:

Figure 3. Scatterplot for Heteroscedasticity Test



Heteroscedasticity test in this study is estimated by using a graph method. Based on graph test, there is no heteroscedasticity in the regression model because of the dot spread above or below number 0 on the Y-axis.

The result of the autocorrelation test in this study can be seen in Table 6:

Table 6. Autocorrelation Test

N	K	dL	dU	4-dL	4-dU	DW
24	6	0.8371	2.0352	3.1629	1.9648	2.248

Autocorrelation test in this study is conducted by using the Durbin-Watson Table. Based on the DW test, the autocorrelation test cannot be concluded anything because DW score is between 4-dU and 4-dL or located in the grey area.

b. Summary of Regression Result

The result of the regression model in this study can be seen in Table 7:

Table 7. Summary of Regression Result

Regressors	C	CAR	FDR	NIM	OER	MSI	ISR
Coefficient	1.067	-0.002	0.014	0.114	-0.033	-0.013	0.020
Sig.	0.647	0.782	0.155	0.020*	0.002*	0.749	0.172
Model Diagnostic (Dependent Variable = ROA)							
	R ² = 0.830	F = 19.709		Sig. = 0.000		F = 19.709	

CAR variable has a coefficient value at -0.002. If the CAR increases by 1%, ROA decreases 0.002%, *ceteris paribus*. A negative coefficient indicates there is a negative correlation between the variables of CAR and ROA, the higher the value of CAR, the lower the value of ROA, and vice versa.

FDR variable has a coefficient value at 0.014. If the FDR increase 1%, ROA increases by 0.014%, *ceteris paribus*. A positive coefficient indicates there is a positive correlation between the variables of FDR and ROA, the higher the value of FDR, the higher the value of ROA, and vice versa.

NIM variable has a coefficient value at 0.114. If the NIM increase 1%, ROA increases by 0.114%, *ceteris paribus*. A positive coefficient indicates there is a positive correlation between the variables of NIM and ROA, the higher the value of NIM, the higher the value of ROA, and vice versa.

OER variable has a coefficient value at -0.033. If the OER increase 1%, ROA decreases 0.033%, *ceteris paribus*. A negative coefficient indicates there is a negative correlation between the variables of OER and ROA, the higher the value of OER, the lower the value of ROA, and vice versa.

MSI variable has a coefficient value at -0.013. If the OER increase 1%, ROA decreases 0.033%, *ceteris paribus*. A negative coefficient indicates there is a negative correlation between the variables of MSI and ROA, the higher the value of MSI, the lower the value of ROA, and vice versa.

ISR score variable has a coefficient value at 0.02. If the ISR score increases by 1%, ROA increase by 0.02%, *ceteris paribus*. A positive coefficient indicates there is a positive correlation between the variables of ISR score and ROA, the higher the value of ISR Score, the higher the value of ROA, and vice versa.

c. Summary of t-test

The probability value of CAR is 0.782 or more than 0.05. The result shows that CAR is not statistically significantly affected to the level ROA, then H_0 accepted, and H_1 rejected. This study is in line with the study by Hutagalung et al. (2013), Sabir et al. (2012) and Musyarofatun (2013) and not in line with a study by Sudiyatno (2010) and Sukarno and Syaichu (2006).

Bank Indonesia has set a minimum CAR of Islamic bank by 8%, but in reality, most Islamic banks have a greater CAR more than 8%, some of those are reached to 40%. Nevertheless, the ratio of CAR does not affect ROA because capital injections from shareholders are used to purchase of securities assets such as treasury bills, Bank Indonesia Certificates (SBI), bonds, etc. where the Risk-Weighted Assets (RWA) is 0. Islamic banks need to minimise RW because the main capital of banking is trust. Meanwhile, the CAR is used to measure risk refers to RWA.

The probability value of FDR is 0.155 or more than 0.05. The result showed that FDR is not statistically significantly affected to the level ROA, then H_0 accepted, and H_1 rejected. This study is in line with the study by Suryani (2011) and not in line with the study by Pramuka (2010) and Sabir et al. (2012).

FDR cannot be separated from NPF. If a high level of FDR ratio is followed by a high level of NPF ratio, the Islamic banks can not generate profit from funds which have distributed to the customers. Data from the Financial Services Authority (FSA) of Indonesia (2017) stated that the level of NPF from Islamic banks is higher than the average of the national banking system. The level of NPF of Islamic banking is 3.32% compared to 2.29 of national banking average in March 2017. Therefore Islamic banks should be more strict in channelling the financing to the customers in order to maintain the level of profitability.

The probability value of NIM is 0.020 or less than 0.05. The result showed that NIM is statistically significant affected to the level ROA, then H_0 rejected, and H_1 accepted. This study is in line with the study by Hutagalung et al. (2013) and Sabir et al. (2012) and not in line with the study by Arimi (2012). The results are also in line with the research suggested by Hosen (2012), Hosen and Syukriyah (2012), Abdillah et al. (2016), Hosen and Rahmawati (2016), and Solikhin et al.

(2016). It explains that the customer will save more fund if Islamic banks grant greater profit-sharing nisbah or ratio.

Efficiency has become a major concern for Islamic banks in Indonesia because the average level of OER was higher compared to conventional banks in Indonesia, whereas if compared to other countries in the ASEAN region, the efficiency of banks in Indonesia is among the lowest. It can be concluded that Islamic banks pay much attention to efficiency to maximize profit as proved from the results of this study.

The probability value of OER is 0.002 or less than 0.05. The result showed that OER is statistically significant affected to the level ROA, then H_0 rejected, and H_1 accepted. This study is in line with a study by Sudiyatno (2010), Sukarno and Syaichu (2006), Musyarofatun (2013), and Hutagalung et al. (2013) and not in line with a study by Arimi (2012). OER has a negative relationship with RO; it shows that if Islamic banks decrease the ratio of OER, Islamic banks are more profitable in doing business. Therefore the efficient Islamic bank can improve profitability.

The probability value of MSI is 0.794 or more than 0.05. The result showed that MSI is not statistically significantly affected to the level ROA, then H_0 accepted, and H_1 rejected. The result is inconsistent with the theory that there is a positive and statistically significant correlation between *maqasid sharia* index to the profitability of Islamic banks, i.e. the greater the value of the *maqasid sharia* index will increase profitability. This could be caused from several factors like most of the Islamic banks is always use *murabahah* contract, less of financing to the real sector, lack of bank attention to the welfare of society, and lack of education and training of employees.

The probability value of ISR Index is 0.172 or more than 0.05. The result showed that the ISR Index is not statistically significantly affected to the level ROA, then H_0 is accepted, and H_6 rejected. It could happen because most of the stakeholder of Islamic banks was the least concern about Islamic Social Reporting, even though the ISR has covered all aspects such as spiritual, material, moral, and social responsibility information. Responses from stakeholders on the disclosure of ISR in Islamic Bank were still small as indicated by the small value of ISR.

d. The Coefficient of Determination (Adjusted R²)

Based on the summary of the model in Table 7 can be seen the coefficient of determination of the regression model in this study is 0.830 or 83%. This indicates that the ROA could be explained by the variables of CAR, FDR, NIM, OER, MI, and ISR by 83% simultaneously, while the remaining 17% is explained by other variables outside the model.

With the $df_1 = 6$ and $df_2 = 17$, F-table value is 2.70, then F-statistic (19.709) > F-table (2.70). The probability value of F-statistic is 0.000 or less than 0.05. This can be concluded that the independent variables in this study consist of CAR, FDR, NIM, OER, MI, and ISR are significantly affected by the level of ROA simultaneously. Thus H_0 rejected, and H_1 accepted. Thus the regression model in this study is representative to explain changes in the profitability of Islamic banks.

It should be noted from the results above that *Maqasid Sharia* Index (MSI), and Islamic Social Reporting (ISR) were not statistically significantly affected by the profitability of Islamic banks. The results also concluded that people in Indonesia, which is predominantly Muslim, were materialistic society. Customers preferred to choose Islamic banks that provide high-profit sharing ratio or *nisbah* rather than the Islamic banks that had a high level of *sharia* compliance.

During in Indonesia are still sensible materialism, they will not care about the value of *maqasid sharia* and Islamic Social Reporting. However, this case could be understandable because Islamic bank in Indonesia is still emerging.

Conclusion

The Efficiency variables have a significant effect on the profitability of Islamic banks in Indonesia. Efficiency gets special attention to the Islamic Banks and the regulator because of the important role to minimise costs and to maximise the availability of operating funds. Meanwhile, MSI and ISR variables have not a significant effect on the profitability of Islamic banks in Indonesia.

The lack of the application of *sharia* in Islamic banks shows that some Islamic banks are less concerned with the application of the principle of *mashlahah*. Another cause is the lack of standardization in reporting of *Maqasid Sharia* Index and Islamic Social Reporting, thus reporting in annual reports tend to inconsistent among Islamic banks. Therefore, the annual report is needed to be standardized in writing report related with *Maqasid Sharia* Index and Islamic Social Reporting in order to empower Islamic banks to disclose all activities which can provide social benefits for the community.

The low level of *Maqasid Sharia* Index and Islamic Social Reporting implementation of the Islamic banks in Indonesia in the period of the study approves that these two variables are not main indicators or major achievements for most Islamic banks, even though Islamic banks should refer to attain *maslahah*. Thus, this can be concluded that the implementation of *Maqasid Sharia* Index and the Islamic Social Reporting are just complemented goals of Islamic banks in Indonesia.

As the Islamic banks, the application of *Sharia* and *Maslahah* on financial institutions is not only always related to the high level of profit, but also promote social welfare and protect the needy peoples. Nevertheless, the high level of profitability can encourage the growth of the level of Masalahah in the activities of Islamic banks. The high profitability, the bank has a lot of excess funds to fund social welfare activities, so *Maslahah* in Islamic financial institutions can be achieved optimally.

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