

# The Role of Corporate Social Responsibility and Sharia Compliance on Islamic Banks Performance in Indonesia and Malaysia

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## Abstract

This study aims to analyze the role of corporate social responsibility (CSR) as the moderation effect of sharia compliance on Islamic banks performance in Indonesia and Malaysia. The population in this study consists of 14 Islamic banks in Indonesia, and 17 local Islamic banks in Malaysia. The sample used in this study are the big five Islamic banks in Indonesia and Malaysia during the period from 2015 to 2019. This research used panel data regression with Eviews 10 software. From results of the Chow test, the model selected is fixed-effects, and from the Hausman test, the model selected is fixed-effects as well. The findings show the same results for both Islamic banks in Indonesia and Malaysia; the profit-sharing ratio has a significant effect on the financial performance of Islamic banks in Indonesia. Islamic income ratio has a significant effect on the financial performance of Islamic banks. Corporate social responsibility has a moderating effect of profit-sharing ratio on the financial performance of Islamic banks. And corporate social responsibility has a moderating effect of Islamic income ratio on the financial performance of Islamic banks. Corporate social responsibility can strengthen the effect of sharia compliance on the financial performance of Islamic banks in Indonesia and Malaysia.

**Keywords:** Profit-Sharing Ratio, Islamic Income Ratio, Financial Performance, Corporate Social Responsibility

**JEL Classification Code:** G21, G32

## 1. Introduction

The industrial globalization of Islamic banks in Indonesia is marked by the growing and developing Islamic banks industry in the era of industrial revolution 4.0. Development of Islamic banks in Indonesia based on data from the Financial

Services Authority (OJK) in January 2020 shows there are currently 14 Islamic banks in Indonesia. The development of Islamic banks in Indonesia is very significant, this is due to the passing of the 2008 Islamic banking law, which is a driving factor for the growth and development of Islamic banks in Indonesia (Siswanti & Cahaya, 2019). The development of Islamic banks in Malaysia is very fast, now there are more than 17 local Islamic banks, and five international Islamic banks that have operated in Malaysia. Fifteen banks have participated in developing Islamic banking scheme (Ghozali et al., 2019).

The goal of a company is to produce benefits for the welfare of shareholders (Pramana & Mustanda, 2016) where shareholders will see the company's financial performance in managing their finances to get maximum profit. Thus, if the company gets the maximum profit, it will be able to increase company value, which is reflected in company stock price. For that, we need business management and determination of the right strategy to increase the value and performance of a company. Several things need to be taken into consideration in fulfilling the sharia economy, and the

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primary strategy chosen must come from the inputs given by the stakeholders, including business actors, associations, regulators as well as experts, and academicians. The primary strategy in implementing the sharia economy also requires the support of various parties in order to develop sustainability (Arfah et al., 2020).

Indonesia and Malaysia have several common features; the majority of the population in Indonesia and Malaysia are Muslim, thus the conditions for the development of Islamic banks in Indonesia and Malaysia are expected to have commonalities, even though Islamic banks in Malaysia developed faster than in Indonesia. This is the rationale for researching this topic. Sharia compliance is a manifestation of fulfillment of all sharia principles in institutions that have a characteristic form. As a sharia financial institution, Islamic banks are required to comply with applicable sharia principles. To achieve this, Islamic banks always enhance values, behavior and all actions to support the creation of compliance with sharia principles. Bank is a financial institution that is carrying out its business operations based on sharia principles. Therefore, Islamic banks in Indonesia must always try to increase their income from financing based on profit sharing, which can be obtained from financing with *mudharabah* and *musyarakah* contracts. Mangan and Onge (2005) stated that the profit-sharing ratio (PSR) has a significant effect on company's financial performance. With the increase in income of Islamic banks from *mudharabah* and *musyarakah* financing, the performance of Islamic banks will increase. Income from Islamic banks is obtained from halal and non-halal income, but non-halal income must be excluded from income and only used for benevolence. Putri and Gunawan (2019) stated that the Islamicity performance index has a significant effect on the profitability of Islamic banks in Indonesia.

There is a gap in previous research. Umiyati et al. (2020) stated that sharia compliance affects Islamic banks performance; Pepis and Jong (2019) also stated that sharia compliance has an effect on financial performance. However, the results of this study are different from research by Karmina and Majidah (2020), which stated that sharia compliance has no effect on Islamic banks performance.

As a key stakeholder, banks are the main providers of corporate external financing. Therefore, determining whether banks can be in favor of borrowers' CSR performance is very important in supporting CSR initiatives (Chen et al., 2020). Islamic banks as financial institutions that are growing rapidly, are taking part in improving the function of CSR. The practice of CSR in Islamic banks is inseparable from the religious spirit, which is the guidance for the development Islamic banks themselves. This is an indication that there is a fundamental difference between practices and objectives of CSR in Islamic banks compared with conventional banks. Corporate social responsibility is very important for companies or business organizations because every

company must take responsibility for the environment or society through various activities aimed at developing the environment and improving people's lives in the process of economic development.

The implementation of CSR for companies will have a cost impact, therefore CSR implementation is expected to provide benefits and have a positive impact on business sustainability; if CSR implementation is considered as an investment, it is expected to provide optimal returns (Anggraini, 2014). According to signaling theory, *zakat* distributed as CRS from Islamic banks will be a signal or promotional tool for companies to attract sympathy and support from shareholders. Thus, sustainable and consistent CSR disclosure will give the public confidence in the company. Several studies have looked at the effect of CSR on company performance. Simaremare and Gaol (2018) stated that CSR has a significant effect on company performance in Indonesia. Cho et al. (2019) stated that CSR has a significant effect on the financial performance of companies listed on the Korean Stock Exchange.

## 2. Literature Review and Hypothesis Development

### 2.1. Islamic Banks Performance

Islamic bank is a banking system based on sharia principles. This is because Islam prohibits the interest system. After all, interest in Islam is *haram* or prohibited. This is under MUI fatwa number 1/2004, which prohibits interest in the Islamic banks system because interest contains an element *riba*. The prohibition on collecting *riba*, which is the main characteristic of Islamic banks, is not only found in Islamic banks, but also in non-Islamic religions (Herliansyah et al., 2020).

According to Chariri and Ghazali (2007), company performance is measured using financial or non-financial information. Non-financial information can be in the form customer satisfaction, however, most company performance is measured by financial ratio. Fahmi (2011) states that financial performance is a description of company success with results achieved from its activities. Bank stability becomes one of the crucial pillars in maintaining economic growth. Therefore, the segmentation strategy is needed because it aims to improve the financial stability of the bank (Nugroho et al., 2018). Thus, it can be concluded that the existing concept of financial performance is not always used to measure the quality of banking performance, but can also be used as a reference in analyzing the quality of performance of financial industry non-bank. It can be concluded from statements of experts and government regulations as well as the provisions of Majelis Ulama Indonesian (MUI) that the concept for assessing the financial performance of Islamic

financial industry non-bank is the same as Islamic banking by adopting the existing banking system.

## 2.2. Sharia Compliance

One of the important pillars in the development of Islamic financial institutions is sharia compliance. This pillar is the main differentiator between Islamic financial institutions and conventional financial institutions. Implementation of sharia principles at Islamic banks required the role of Sharia Supervisory Board (SSB). Operational Islamic banking must strictly be carried out based on principles of sharia. The breach of sharia compliance has an impact on risk management, such as reputational risk, which can impact displaced commercial risk, such as liquidity risk and other risks. If the role of SSB is not optimal in supervising sharia, it can lead to violations of sharia compliance, then the image and credibility of Islamic banks in the public are not good, therefore it is very important for Islamic banks to always maintain sharia compliance so the performance of Islamic banks can be sustainable.

Sharia compliance is compliance with sharia principles. Sharia compliance is needed to ensure whether Islamic banks comply with sharia principles. Compliance with sharia principles is the most important element, because it shows that Islamic banks have implemented Islamic law. Several indicators are used to measure sharia compliance, such as research by Djuwita et al. (2019) using Islamic investment ratio, profit-sharing ratio, Islamic income ratio, and director-employee welfare ratio. The basic concept of sharia compliance has an executing function as risk manager in coordination with the work unit in risk management. The compliance function is an important element in carrying out the operational activities of Islamic banks, capital markets, sharia insurance, sharia *gadai*, and Islamic financial institutions non-bank (Islamic financial services cooperatives). Based on previous research, the study formulates four research hypotheses.

## 2.3. Profit-Sharing Ratio (PSR) and Financial Performance

Islamic banking, also referred to as Islamic finance or shariah-compliant finance, refers to finance or banking activities that adhere to shariah (Islamic law). Two fundamental principles of Islamic banking are the sharing of profit and loss, and the prohibition of the collection and payment of interest by lenders and investors. This concept differentiates Islamic financial institutions from traditional financial institutions (Ryandono et al., 2021) Islamic banks are banks that operate their business using the principle of profit sharing. Income based on profit-sharing principle is obtained from the financing of *mudharabah* and *musyarakah* contracts. To find out how far Islamic banks go to sustain their

existence, it can be measured through the profit-sharing ratio (PSR). Profit-sharing ratio shows how far Islamic banking has reached its existence by obtaining profit sharing from providing financing to customers. Profit-sharing financing to be the core of Islamic bank financing, because profit sharing is the most important component in Islamic banking.

Several studies related to profit-sharing ratios; Jaurino and Wulandari (2017), Khasanah (2016), Pratama and Febriansyah (2020) state that financing with *mudharabah* and *musyarakah* contracts influences the financial performance of Islamic banks in Indonesia. Farooq and Alahkam (2016) stated that compliance with sharia principles affects financial performance in the MENA region. Rashid, et.al (2020) stated that sharia compliance affects the financial performance of Islamic banks in Bangladesh. Based on the description above, the authors propose the following hypothesis:

*H1: Profit-sharing ratio (PSR) has effect on financial performance.*

## 2.4. Islamic Income Ratio (IsIR) and Financial Performance

One way to measure company performance is through indexes. Aisjah and Hadianto (2013) developed an index called the Islamicity Index, so that Islamic financial institutions' performance can be measured. This means, not only from financial perspective but also non-financial, such as the principles of justice and halalness by Islamic financial institutions.

Islamic bank income, consisting of *halal* and non-*halal* income. As is well known, Islamic banks must only accept lawful income. If an Islamic bank gets non-*halal* income, it will be distributed into a benevolent fund. The increase in *halal* investment, indicating the higher halal income obtained, so will improve the financial performance of Islamic banks.

Rahma (2018); Dewanta and Hamidah (2016) stated that the Islamic income ratio (IsIR) has a significant effect on the financial performance of Islamic banks in Indonesia. Ullah and Khanam (2018) stated that sharia compliance has a significant effect on the financial performance of Islamic banks. Based on the description above, the authors propose the following hypothesis:

*H2: Islamic income ratio (IsIR) has an effect on financial performance.*

## 2.5. Corporate Social Responsibility (CSR) Mediates Profit-Sharing Ratio (PSR) on Financial Performance

Islamic Bank as a financial institution that is oriented toward the benefit of stakeholders and shareholders together,

thus this becomes a philosophical foundation for companies to apply environmental ethics with the principle of not only wanting to be served in the form of obtaining profit (profit margin) from business activities with consumers, but also serving environmental needs (society, stakeholders) and responsibility to the government in the form of implementing laws and regulations regarding corporate social responsibility to society.

Corporate social responsibility is a company's commitment as a form of responsibility to the environment and society as a sense of concern for the environment with contributing to sustainable development. Budiarti and Raharjo (2014) stated that CSR is an approach in which a company integrates social care in its business operations and interactions with stakeholders based on voluntary principle and partnership. CSR is very important concerning companies, because every company must have responsibility for environment through activities aimed at developing the environment and improving people's lives. Companies that do CSR have better performance than companies that do not do CSR (Isanzu & Fengju, 2016). The implementation of CSR has an effect on the company's financial performance. Pearce and Robinson (2005) stated that the implementation of social responsibility can create efficiency so that it can increase profits.

Several studies related effect of CSR on corporate financial performance (Chen & Wang, 2011; Su et al., 2016; Ahamed et al., 2014) stated that corporate social responsibility, not only can improve financial performance for this period, but also can improve financial performance for next period through more positive CSR actions. Even during the financial crisis, CSR activities have a positive effect on corporate financial performance. Based on the above description, the main income of Islamic banks is from revenue sharing, so if revenue sharing income increased, so Islamic banks performance will increase. Fadhila (2015) stated that the financing of *mudharabah* and *murabahah* contracts has a significant effect on Islamic banks profitability. Khasanah (2016) states that the profit-sharing ratio has a significant effect on Islamic banks performance in Indonesia. Based on the above description, the authors propose the following hypothesis:

**H3:** Corporate social responsibility (CSR) moderates the effect of profit-sharing ratio (PSR) on financial performance.

## 2.6. Corporate Social Responsibility (CSR) Mediates Islamic Income Ratio (Isir) on Financial Performance

Islamic bank makes an effort to change the paradigm of the business world (companies), which has been the capitalist mainstream. Namely, the company, whatever its scheme and

system, is aimed at generating profits for the interests of shareholders, does not run business with ethics and values (materialist), and ignores religious norms (hedonist). So, it is not wrong, if running a conventional business (bank) is aimed at being market-driven, which includes several main points, namely, target market, customer needs, integrated marketing, and profit through customer satisfaction. This is different from Islamic banks, which seek to find the value of worship that has an impact on the embodiment of the concept of *rahmatan Lil 'alamin*, to gain the pleasure of Allah. So that, in the goal of profit, satisfaction must be framed by hoping for the pleasure of Allah SWT.

Companies that follow and apply CSR principles to their business are companies that see opportunities during the financial crisis (Simionescu & Dumitrescu, 2014). Other research also stated that CSR activities in the field of employment and society have an effect on stock prices (Afiff & Anantadjaya, 2013). Memon et al. (2019) stated that CSR has a significant effect on the financial performance of commercial banks in Pakistan. Ho et al. (2019) stated that CSR has a significant effect on the financial performance of commercial banks in Mongolia. Kim et al. (2015) stated that CSR has a significant effect on the financial performance of software industry companies in America. Kamatra and Kartikaningdyah (2015) stated that CSR has a significant effect on the financial performance of chemical industry companies in Indonesia. Basuony et al. (2014) stated that CSR has a significant effect on the financial performance of companies in Mena.

Several studies documented the effect of Islamic income ratio (IsIR) on financial performance. Khasanah (2016) and Rahma (2018) stated that Islamic income ratio (IsIR) has a significant effect on Islamic banks performance in Indonesia. Based on the above description, the authors propose the following hypothesis:

**H4:** Corporate social responsibility (CSR) moderates the effect of Islamic income ratio (IsIR) on financial performance.

Figure 1 shows the relationships between variables. The framework comprises interrelated variables of profit-sharing ratio (PSR), Islamic income ratio (IsIR), corporate social responsibility (CSR), and financial performance.

## 3. Methodology

This study uses secondary data in the form of annual reports and financial statements of all the Islamic banks in Indonesia and Malaysia for the period from 2015 to 2019. The population used in this study is 14 Islamic banks in Indonesia and 15 Islamic banks in Malaysia. The research sample was taken using the purposive sampling method, where the sample banks were the big five Islamic banks in Indonesia

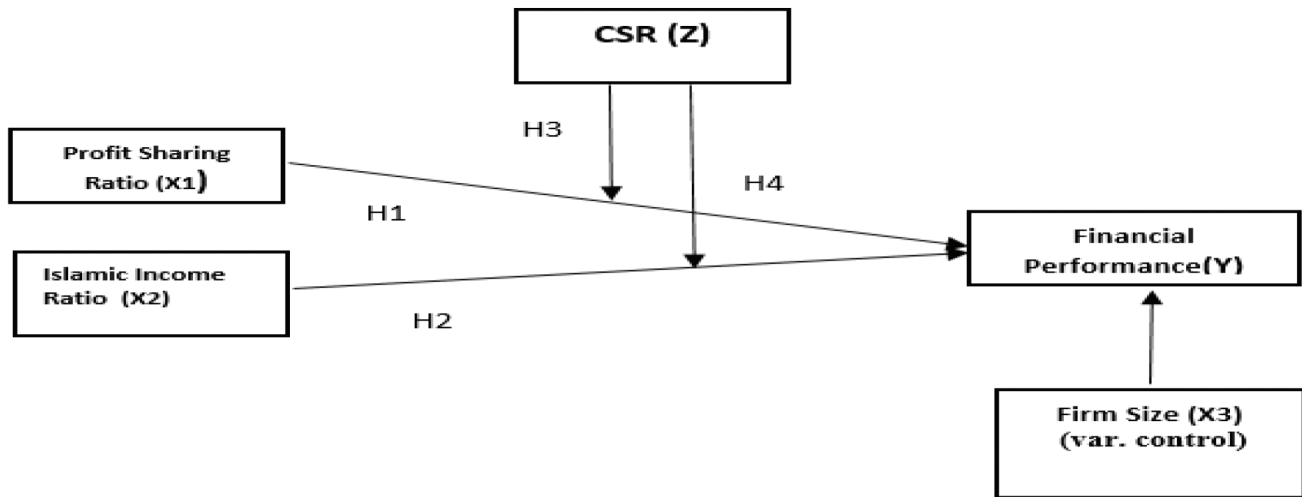


Figure 1: Research Framework

Table 1: Operational Definition and Measurement Variables

Variable	Operational Definition	Measurement
Profit-sharing ratio (PSR)	Profit-sharing from total financing that distributes to customers.	$PSR = \frac{Mudharabah + Musyarakah}{Total\ Financing}$
Islamic income ratio (IsIR)	Measurement income from halal income.	$IsIR = \frac{Halal\ income}{Halal\ income + non\ halal\ income}$
Corporate Social Responsibility (CSR)	A company commitment as a responsibility to environment and society and care for the environment with contribute to sustainable development.	$CSR = \frac{Sum\ of\ items\ disclosure}{Sum\ of\ expected\ items}$
Firm Size	Total assets owned by company.	Firm Size = Ln (total Asset)
Financial Performance	A measure of how well a firm can use assets from its primary business and generate revenues.	$ROA = \frac{Earnings\ before\ tax}{Total\ asset}$

and Malaysia based on total assets. This research used panel data regression with Eviews 10 as the primary analytical tool because the model is a regression with panel data.

The variables used in this research are profit-sharing ratio (PSR), Islamic income ratio (IsIR) as an independent variable, corporate social responsibility (CSR) as a moderating variable, financial performance as dependent variable, and firms size as the control variable. The measurement of each variable is shown in Table 1.

#### 4. Results and Discussion

In this study, several elements can be explained through hypothesis testing via Eviews 10 analysis, as shown in Figure 2, which examines the hypothesis for Islamic banks in Indonesia. The data processing using Eviews 10 is carrying

out the Chow test, Hausman test and Lagrange multiplier test. The Chow test, which test fixed-effects model with common effect, stated a Cross-Section  $\chi^2 < 0.05$ . Thus, it can be stated that the model used is a fixed-effects model. Furthermore, Hausman test is carried out to test fixed-effects model with random effect, the result shows a Cross-Section  $\chi^2 < 0.05$ . Thus, it can be stated that the model used is fixed-effects model, thus, the Lagrange multiplier test is not required.

From Table 2, it can be seen that the significant value of profit-sharing ratio (PSR) on the financial performance of Islamic banks in Indonesia is  $0.000 < 0.05$ , thus it can be stated that the profit-sharing ratio (PSR) has a significant effect on the financial performance of Islamic banks in Indonesia. This shows that increasing revenue-sharing financing can increase income and profit of Islamic banks,

**Table 2: t-test**

Variables	Coefficient	Std. Error	t-statistic	Prob.
C	0.667895	0.106605	6.265129	0.0000
PSR	0.320434	0.049428	6.482877	0.0000
IsIR	0.341542	0.049411	6.912203	0.0000
CSR1	0.165776	0.065210	2.542176	0.0164
CSR2	0.299129	0.052452	5.702906	0.0000
FS	2.20E-07	2.54E-06	0.086760	0.9314

which in turn will improve financial performance of Islamic banks in Indonesia (Dinaroe et al., 2019). This research is in line with Jaurino and Wulandari (2017), Khasanah (2016), Pratama and Febriansyah (2020) stating that the financing of *mudharabah* and *musyarakah* contracts has a significant effect on financial performance of Islamic banks in Indonesia.

Based on *t*-test it can be seen that the significant value of Islamic income ratio (IsIR) to financial performance is  $0.000 < 0.05$ , thus it can be stated that Islamic income ratio (IsIR) has a significant effect on the financial performance of Islamic banks in Indonesia. This shows that the increase in Islamic investment made by Islamic banks indicates the higher Islamic income earned by Islamic banks. Thus, the increase in Islamic income can improve financial performance of Islamic banks in Indonesia (Bimantoro & Ardiansah, 2018). The results of this study are in line with Rahma (2018) and Dewanta et al. (2016) stating that Islamic income ratio (IsIR) has a significant effect on the financial performance of Islamic banks in Indonesia.

Based on *t*-test, it can be stated that the significance level of corporate social responsibility (CSR1) on financial performance of Islamic banks in Indonesia is  $0.0164 < 0.05$ , thus, CSR 1 can moderate the effect of PSR on financial performance Islamic banks in Indonesia. Likewise, significant level of corporate social responsibility (CSR 2) on financial performance of Islamic banks in Indonesia is  $0.000 < 0.05$ , thus, CSR 2 can moderate the effect of Islamic income ratio (IsIR) on financial performance of Islamic banks in Indonesia. Some motivations and benefits of companies that carry out CSR activities are that companies can avoid a negative reputation as environmental destroyers and only looking for profits without attention to environment. This shows that Islamic banks that disclose wider CSR will increase company's profitability, which ends up improving the financial performance of Islamic banks. The results of this study are in line with Memon et al. (2019), which stated that CSR has a significant effect on the financial performance of commercial banks in Pakistan. Ho et al. (2019) stated that CSR has a significant effect on the financial performance of

commercial banks in Mongolia. Kim et al. (2015) stated that CSR has a significant effect on the financial performance of software industry companies in America. Kamatra and Kartikaningdyah (2015) stated that CSR has a significant effect on the financial performance of chemical industry companies in Indonesia. Basuony et al. (2014) stated that CRS has a significant effect on the financial performance of companies in Mena.

Based on *t*-test, firms size as a control variable shows a significant value of  $0.9314 > 0.05$ , this shows that firms size as reflected by total assets does not affect the financial performance of Islamic banks in Indonesia. This research is in line with Surjandari and Minanari (2019), which stated that firm size has no effect on the financial performance property companies in Indonesia. This research is also in line with Sumarauw et al. (2015) stated firms size has no effect on firm value sub-sector plastic and packaging companies listed on Indonesia Stock Exchange. Herdinis (2019) stated that firms size has no significant effect on the financial performance on mining sector companies listed on IDX. This means that firm size has no effect on financial performance. This research is not following the signaling theory that the bigger companies show they are progressing; the size of the big company shows stable condition and higher investor return rate, it can be positively responded by the investor which make the stock price increase so the company value increase. These findings means that the greater the total assets owned by the company may not be able to convince investors that the management of the company can increase the value of the company because large companies may not dare to make new investments associated with expansion before the obligations (debt) has been paid, (Astuti et al., 2018).

From Table 3, it can be seen that value of profitability *F* is  $< 0.05$ . Thus, it can be stated that the model proposed in this study is acceptable. From Table 3, it can be stated that adjusted *R*-squared value is 83.50%, this means that profit-sharing ratio (PSR) and Islamic Income Ratio (IsIR) can affect financial performance of Islamic banks in Indonesia by 83, 50%, while remaining 16.50% is affected by other factors. This shows that profit-sharing ratio (PSR) and Islamic Income Ratio (IsIR) have a big effect on the performance of Islamic banks in Indonesia.

From results of Eviews 10 test, it can be stated that Chow test, to test the fixed-effects model with common effect, shows a cross-section  $\chi^2 < 0.05$ . Thus, it can be stated that the model used is a fixed-effects model. Furthermore, Hausman test is carried out to test the fixed-effects model with random effect, which produces a cross-section  $\chi^2 < 0.05$ . Thus, it can be stated that the model used is fixed-effects model, thus, the Lagrange multiplier test is not required.

From Table 4, it can be seen the value of significant PSR on the financial performance of Islamic banks in Malaysia is

**Table 3:** F-statistics and R-square

R-squared	0.887502	Mean dependent variable	1.156000
Adjusted R-squared	0.835003	S.D. dependent variable	0.588032
S.E. of regression	0.238857	Akaike info criterion	0.235301
Sum squared resid	1.711585	Schwarz criterion	0.837522
Log-likelihood	9.705721	Hannan-Quinn criterion	0.459803
F-statistic	16.90512	Durbin-Watson statistic	2.357846
Prob. (F-statistic)	0.000000		

**Table 4:** t-test

Variables	Coefficient	Std. Error	t-statistic	Prob.
C	0.469125	0.069300	6.769488	0.0000
PSR	0.179354	0.022370	8.017574	0.0000
ISIR	0.119628	0.029882	4.003360	0.0013
CSR1	0.260078	0.033521	7.758686	0.0000
CSR2	0.099394	0.035046	2.836083	0.0132
FS	7.88E-07	1.27E-06	0.619344	0.5456

0.000 < 0.05. Thus, PSR has a significant effect on financial performance of Islamic banks in Malaysia. This shows that an increase in profit-sharing financing for Islamic banks in Malaysia can increase revenue, which will increase the profitability of Islamic banks in Malaysia, which ends up improving the financial performance of Islamic banks in Malaysia. The results of this study are in line with Jaurino and Wulandari (2017), Khasanah (2016), Pratama and Febriansyah (2020) stated that financing of *mudharabah* and *musyarakah* contracts has a significant effect on financial performance of Islamic banks.

Furthermore, significant value of Islamic income ratio (IsIR) on the financial performance of Islamic banks in Malaysia is 0.000 < 0.05. Thus, it can be said that Islamic income ratio (IsIR) has a significant effect on the financial performance of Islamic banks in Malaysia. Through Islamic investment ratio, the amount of Islamic bank funds placed in sharia or non-sharia securities from all securities owned by Islamic banks can be seen (Bimantoro & Ardiansah, 2018). Therefore, the Islamic investment ratio can be used as an indicator of the fulfillment by Islamic banks of the principles of Islamic finance, namely, avoiding *riba*. Income from Islamic investment will be included in sharia income, while income from non-sharia investment will be converted into benevolence funds. The increase in Islamic investment by Islamic banks indicates higher income. This shows that increase in Islamic income will improve the financial performance of Islamic banks. Thus, it can be stated that

Islamic income ratio (IsIR) has a significant positive effect on financial performance Islamic Banks (Bimantoro & Ardiansah, 2018). The results of this study are in line with Rahma (2018) and Dewanta et al. (2016) stating that Islamic income ratio (IsIR) has a significant effect on the financial performance of Islamic banks in Indonesia.

Based on *t*-test, It can be stated that significant level corporate social responsibility (CSR1) on financial performance Islamic banks in Malaysia is 0.000 < 0.05, thus, CSR 1 can moderate the effect of profit sharing ratio (PSR) on financial performance Islamic banks in Malaysia. Likewise, significant level of corporate social responsibility (CSR2) on financial performance Islamic banks in Malaysia is 0.0132 < 0.05, thus, CSR2 can moderate the effect of Islamic income ratio (IsIR) on the financial performance Islamic banks in Malaysia. Awareness of Islamic banks in Malaysia in expressing CSR) is very high, this proves that Islamic banks in Malaysia, not only prioritize profit in their business, but also think about the planet (environmental factors). Thus, it can be stated that the higher company disclosure of CSR will increase profitability, which ends up improving company performance. The results of this study are in line with Memon et al. (2019) stating that CSR has a significant effect on the financial performance of commercial banks in Pakistan. Ho et al. (2019) stated that CSR has a significant effect on the financial performance of commercial banks in Mongolia. Khan and Tariq (2017) stated that CSR has a significant effect on the financial performance Islamic and

**Table 5:** *F*-statistics and *R*-square

<i>R</i> -squared	0.972083		
Adjusted <i>R</i> -squared	0.952141	S.D. dependent variable	0.408932
S.E. of regression	0.089460	Akaike info criterion	1.689861
Sum squared resid	0.112044	Schwarz criterion	1.153555
Log likelihood	32.12326	Hannan-Quinn criterion	1.541112
<i>F</i> -statistic	48.74782	Durbin-Watson statistic	2.212294
Prob ( <i>F</i> -statistic)	0.000000		

conventional banks of various Asian countries. Cho et al. (2019) stated that CSR performance has a partially positive correlation with profitability and firm value in the Korean stock market.

Based on *t*-test, it shows that firms size as a control variable has a significant value of  $0.5456 > 0.05$ , this shows that firms size as reflected by total assets does not affect the financial performance of Islamic banks in Malaysia. Company scale is a measure used to reflect the size of the company on which company's total assets are based. The results of this study indicate that the size of a company, both large and small companies, is not able to impact firm value. Likewise, an investor, if he wants to judge a company, does not see the size of a company as reflected by total assets company, but investors will see company performance from financial and non-financial performance. The results of this study are in line with Herdinis (2019), who stated that company size has no effect on financial performance.

From Table 5, it can be seen that value of profitability *F* statistic is  $< 0.05$ . Thus, it can be stated that the model proposed in this study is acceptable. From Table 5, it can be stated that adjusted *R*-squared value is 0.952 or 95.20%, this means that PSR and Islamic income ratio (IsIR) can affect financial performance of Islamic banks in Malaysia by 95.20%, while the remaining 4.80% is affected by other factors. This shows that (PSR and Islamic income ratio (IsIR) have a big effect on the performance of Islamic banks in Malaysia.

## 5. Conclusion and Implications

Based on the results of the study, it can be concluded that important Islamic banks in Indonesia and Malaysia always comply with sharia principles, because compliance with sharia principles is a reflection of the Islamic bank itself. From the results it can be stated that compliance with sharia principles is reflected in the effects of profit-sharing ratio (PSR) and Islamic income ratio (IsIR) on the financial performance of Islamic banks in Indonesia and Malaysia. This proves that Islamic banks in Indonesia and Malaysia have been able to convince customers that products and

services provided by the banks are *halal* and avoid *ribawi* elements. Financing with profit-sharing contracts as a characteristic of Islamic banks can improve performance of Islamic banks, which is reflected by return on assets. Likewise, the element of Islamic income ratio (IsIR) shows that Islamic banks in Indonesia and Malaysia can increase *halal* income through Islamic investment, which is the benchmark for Islamic banks in complying with sharia principles in their operations.

Sharia compliance is the main requirement that sharia banks or financial institutions that carry out their operations based on sharia principles must comply with. This is because compliance with sharia principles is an embodiment of Islamic banks in carrying out all activities and fulfilling sharia principles. This is a pillar that distinguishes Islamic banks from conventional banks (Ilhami, 2009).

From the above explanation, it can be understood that the role and social responsibility of Islamic bank in the social community are an integral part of the business operation by Islamic banks as a business institution that provides financial services, bound by the philosophy of Islamic banks itself, both theologically and economically. Thus, it can be explained that Islamic banks have obligations to realize social security in their business environment. It can be said that there are similarities in results between Islamic banks in Indonesia and Malaysia because Indonesia and Malaysia have the same Islamic characteristics and culture. Likewise, implementation of corporate social responsibility (CSR) at Islamic banks in Indonesia and Malaysia can increase public trust and reputation of Islamic banks, which in turn will improve the financial performance of Islamic banks in Indonesia and Malaysia. Thus, the existence of corporate social responsibility (CSR) can strengthen the effect of sharia compliance on the financial performance of Islamic banks in Indonesia and Malaysia.

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