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## Profitability of Sharia Banking in Southeast Asia: ICSR, IPI and Zakat

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**Abstract:**

Islamic banking has experienced rapid growth in Southeast Asia, driven by a large Muslim population and supportive government policies. However, challenges remain in implementing a standardized Islamic financial structure due to diverse cultural and economic landscapes. This study investigates the effects of Islamic Corporate Social Responsibility (ICSR), Islamicity Performance Index (IPI), and Zakat on the profitability of Islamic banks in Southeast Asia from 2019 to 2023. Using a sample of 12 Islamic banks, the study employs panel data regression analysis to examine the relationships between these variables. The findings reveal that ICSR and Zakat positively influence profitability, while the Profit-Sharing Ratio (PSR), the ratio of Islamic income to non-Islamic income, and the Equitable Distribution Ratio (EDR) do not have a significant effect. The study concludes that ICSR, PSR, EDR, Islamic income vs. non-Islamic income, and Zakat collectively influence profitability, contributing to the understanding of Islamic banking practices and their impact on financial performance in the region

**Keywords:** Islamic Banking, Profitability, ICSR, IPI, Zakat

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### 1. Introduction

Islamic banking has become a widely discussed subject in the world of finance. Islamic banks, defined as financial institutions operating in accordance with Islamic principles, aim to provide financial services free from interest-based or non-compliant transactions (Iska, 2018). Since its inception in the 1970s, the Islamic banking sector has experienced remarkable growth, with the combined balance sheet of Islamic banks increasing from \$150 million in 1990 to \$1 billion in 2010, encompassing approximately 300 institutions across 80 countries (Haribowo, 2015). By 2011, the global Islamic finance industry reached a noteworthy milestone, exceeding USD 1.357 trillion in assets, with a 77% increase in Sukuk issuance to USD 85 billion and a 16,04% growth in global Islamic banking (Islamic Finance Index Country, IFCI). Iran, Malaysia, Saudi Arabia, the United Arab Emirates, and Indonesia are now acknowledged as significant players in the

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dynamic expansion of Islamic banking and finance as a result of their rapid growth.

This growth is reflected in the positive trend of Return on Assets (ROA), a key indicator of Islamic banking performance. ROA is a metric that's used to evaluate and quantify how profitable a business is able to make its operations (Nada & Wardana, 2023). Data from the Islamic Financial Services Board (IFSB) indicates a consistent increase in ROA for Islamic banks in Indonesia, Malaysia, and Brunei Darussalam from 2019 to 2022 (Nata et al., 2023). The increase of ROA in Southeast Asian nations, particularly Indonesia, Malaysia, and Brunei, is seen below:

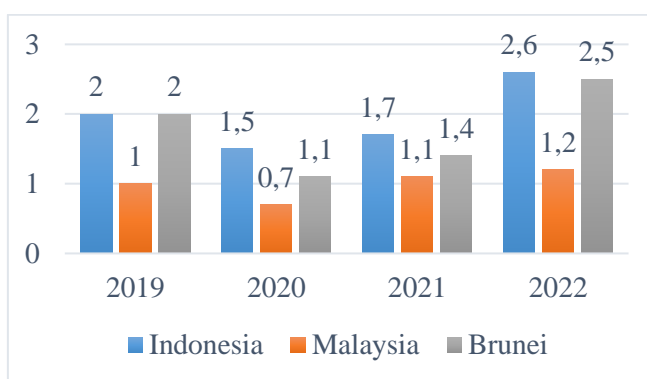


Figure 1. The profitability of Islamic banking in Brunei Darussalam, Indonesia and Malaysia for the years 2019-2023

Figure 1. illustrates how the rise of ROA in Islamic banking has increased in Indonesia, Malaysia, and Brunei Darussalam between 2019 - 2022. In terms of growth in ROA. Indonesia outperformed Brunei Darussalam and Malaysia. The Covid-19 pandemic resulted in a reduction in 2019 - 2020. But in 2021, ROA rose once more as a result of Islamic banking's in reaction to the pandemic's effects on the economy. The profitability of Islamic banks can be attributed not just to economic causes but also to the distinctive Islamic practices that set them apart from regular banks.

ICSR, IPI and Zakat are unique Islamic practices that can significantly influence the profitability of Islamic banks. ICSR, rooted in Islamic teachings, emphasizes a bank's ethical and social obligations, enhancing reputation and customer loyalty (Cahyaningtyas & Canggih, 2020). The IPI measures adherence to Islamic principles, attracting ethically conscious customers and investors, thereby boosting profitability (Wahyuni et al., 2023). Zakat, a mandatory charitable contribution, not only serves as a social responsibility tool but also contributes to economic growth and financial performance through investments and enhanced reputation (Amirah & Raharjo, 2014). Overall, these practices align financial performance with social and religious values.

However, there have been difficulties in implementing Islamic banking throughout Southeast Asia. The region's diverse cultural and economic landscape presents unique hurdles in implementing a standardized Islamic financial system (Marjuki, 2023). Variations in legal frameworks, regulatory standards, and interpretations of Shariah law across different countries pose significant challenges in ensuring consistency and

harmonization in Islamic banking practices (Firdaus et al., 2023). Moreover, with the demands of a modern and competitive financial market requires constant innovation and adaptation.

Studies on ICSR by Nasution et al (2022), Nurhayati & Rustiningrum (2021) and Romadhoni & Rusmita (2021) found that ICSR has a favorable influence on profitability, as proxied by ROA. However, research by Husna (2020) and Dewi (2014) found no significant relationship between ICSR and profitability. Regarding IPI, studies using PSR as an indicator by Indah et al (2023), Fajar et al (2022), Felani et al (2020), and Khasanah (2016) concluded that PSR positively affects profitability (ROA). In contrast, Aroof et al (2023) and Rahayu et al (2020) found no significant effect of PSR on profitability. Additionally, research on IPI using the Islamic income vs. non-Islamic income indicator by Listiani et al (2015) and Arafah & Wijayanti (2023) indicated a positive relationship with profitability, while Felani et al (2020) and Khasanah (2016) found no such effect. Studies on Zakat in Islamic banking by Hairul et al (2022), Eliana et al (2020), and Amirah & Raharjo (2014) revealed a positive influence of Zakat on profitability. Conversely, Nurhayati & Rustiningrum (2021) and Fathuddin (2019) found no significant relationship between Zakat and profitability.

This study's innovation is found in examination of the Islamic banks in Southeast Asia between 2019 and 2023. This focus contrasts with prior research Khasanah (2016), Mayasari (2020), Dewanata et al (2016) by utilizing a larger sample size than the previous research, incorporating data from diverse sources such as the IFSB, the Islamic Finance Development Indicator (IFDI), The Banker, and more. This expanded dataset allows for a more comprehensive analysis of the relationship in the context of Southeast Asian Islamic banks.

## **2. Theoretical Background**

### **ICSR**

ICSR is a concept rooted in Islamic teachings that emphasizes a holistic approach to corporate responsibility, encompassing economic, social, and environmental dimensions (Koleva, 2020). It is derived from the Quran and Hadith, which emphasize the importance of social justice, helping those in need, and environmental stewardship (Sulfati, 2022). In Islamic banking, ICSR is not merely a philanthropic endeavor; it is a fundamental aspect of fulfilling the bank's religious and ethical obligations.

Islamic Social Reporting (ISR) is a key component of ICSR, serving as a mechanism for transparency and accountability. It goes beyond traditional financial reporting by incorporating social and environmental impacts, aligning with Islamic precepts of societal responsibility and complete transparency (Farook, 2008). By providing comprehensive and transparent information about their social and environmental initiatives, Islamic banks can demonstrate their commitment to ICSR, thereby enhancing their reputation and building trust with stakeholders (Desiana, 2018).

### **IPI**

Legitimacy IPI it assesses a bank's adherence to principles of justice, halal compliance,

and purification (*tazkiyah*), enabling the institution to demonstrate its social responsibility (Putri & Gunawan, 2019). The Sharia Enterprise Theory outlines a company's responsibility towards its stakeholders through the application of values such as responsibility, fairness, honesty, trustworthiness, and reliability, which are guided by Islamic principles (Fatmala & Wirman, 2021).

However, contemporary social responsibility measurements often prioritize materialistic aspects over spiritual values (Pratama, 2022). To address this, Hameed et al (2004) introduced the IPI as an alternative tool to assess both materialistic and Islamic values within Islamic banks. In this research, 3 ratios were used, namely Profit Sharing Ratio (PSR), Islamic income vs non Islamic income and Equitable Distribution Ratio (EDR).

The IPI's impact on bank profitability is multifaceted. A higher IPI score, reflecting stronger adherence to Islamic principles, can enhance a bank's reputation and attract customers who prioritize ethical and Shariah-compliant financial products. This can lead to increased deposits, investments, and overall profitability. Specifically, the PSR, which measures the percentage of total finance that goes toward profit-sharing (Kurniawansyah, 2016). A higher PSR can signal a stronger alignment with Islamic principles, potentially attracting customers who seek fair and ethical financial partnerships, thereby boosting profitability (Kurniawati & Nasution, 2021).

The Islamic income vs. non-Islamic income ratio assesses proportion of a bank's income derived from Shariah-compliant sources. A higher ratio indicates a greater focus on halal income generation, which can resonate with ethically conscious customers and investors, leading to increased financial inflows and profitability (Lenap et al., 2021).

The EDR measures the percentage of income distributed to stakeholders, reflecting a bank's commitment to social justice and fair treatment of all parties involved (Hayati & Ramadhani, 2021). A bank can draw in clients by projecting a stronger sense of social responsibility with a greater EDR (Fajar et al., 2022).

### **Zakat**

Furthermore, Zakat funds collected by Islamic banks can be invested in various sectors, creating a positive ripple effect on the economy. These investments can generate returns for the bank, while also supporting small businesses, creating employment opportunities, and contributing to overall economic growth. In Islamic banking, Zakat serves as an instrument for wealth redistribution and poverty alleviation, aligning with Islamic principles of social justice and economic equity (Nabila et al., 2021). It is not only a religious obligation but also a financial tool that can contribute to the profitability of Islamic banks. Zakat in Islamic bank is calculated as 2.5% of the bank's net profit after tax. This obligatory contribution, as mandated by Islamic law and supported by Quranic verses such as At-Taubah 9:103, is seen as a means of purifying wealth and fostering social welfare. The collection and distribution of Zakat funds by Islamic banks can enhance their reputation as socially responsible institutions, attracting customers who value ethical and Shariah-compliant financial services. This can lead to increased deposits, investments, and ultimately, improved profitability (Krisdiyanti et al., 2019).

Furthermore, Zakat funds collected by Islamic banks can be invested in various sectors, creating a positive ripple effect on the economy. These investments can generate returns for the bank, while also supporting small businesses, creating employment opportunities, and contributing to overall economic development (Nasir, 2015).

### **Profitability**

Profitability is a critical concept in Islamic banking, reflecting the ability of a bank to generate profit effectively and efficiently (Fatmawati & Hakim, 2020). It serves as a key indicator of financial performance and operational health, demonstrating a bank's capacity to create earnings through its investment and financing activities (Manan, 2020). High profitability not only ensures the sustainability of banking operations but also signals efficient asset utilization and quality of service (Yanti, 2021). ROA is a widely used profitability ratio in the banking sector (Ardimas & Wardoyo (2014) ; Erawati et al (2022). A higher ROA signifies a bank's effectiveness in utilizing its assets to generate returns, contributing to its overall financial strength.

In Islamic perspective, profitability is viewed as a legitimate and desirable goal in business activities, provided it is achieved through Shariah-compliant means (Malik & Anwar, 2021). The Quran emphasizes the need of striking a balance between worldly and spiritual aims in Surah As-Syura verse 20, where it exhorts Muslims to pursue wealth in both this life and the next. However, Islam also stresses that profit-seeking must adhere to ethical and just principles (Masruroh & Wardana, 2022).

### **3. Methodology**

This study employs a quantitative methodology with a descriptive approach. Quantitative research, entails using research devices to acquire numerical data, then statistical analysis is performed to test specified hypotheses (Sugiyono, 2015). The descriptive approach aims to depict the characteristics of a population or sample (Sugiyono, 2015). In this context, the study will describe the numerical data related to Islamic banking practices and profitability.

A sample of 12 Islamic banks that were active in the area between 2019 and 2023 is the subject of the study. The selection of these banks was based on specific criteria, utilizing a purposive sampling approach. The criteria included:

1. Inclusion in the "The Strongest Islamic Banks in 2023" ranking published by The Asian Banker.
2. Geographical location within Southeast Asia.
3. Availability of published annual financial reports and Zakat data for the years 2019 to 2023.

There are 12 banks which met these criteria and were selected for the study, they are Bank Muamalat (Indonesia), Bank BTPN Syariah (Indonesia), Bank Panin Dubai Syariah (Indonesia), Bank Mega Syariah (Indonesia), Maybank Islamic Berhad (Malaysia), CIMB Islamic Bank Berhad (Malaysia), RHB Islamic Bank Berhad (Malaysia), Bank Islam Malaysia Berhad (Malaysia), Public Islamic Bank (Malaysia), Ambank Islamic Berhad (Malaysia), Islamic Bank Thailand (Thailand), and Bank Islam

Brunei Darussalam (Brunei).

A thorough examination of the annual financial reports and Zakat data that each of the chosen banks posted on their official websites provided the data for this research. The data collected includes information on the banks' profitability (measured by ROA), ICSR activities, IPI scores, and Zakat contributions.

In order to examine the gathered data, panel data regression analysis and descriptive statistics will be combined. Panel data regression, specifically the Common Effect (CEM), Fixed Effect (FEM), and Random Effect (REM) models. The Chow test, Hausman test, and Lagrange Multiplier (LM) test will be used to select the most appropriate model (Sakti, 2018).

To aking sure the regression results are valid and reliable, classical assumption tests, including normality, autocorrelation, heteroscedasticity, and multicollinearity, will be conducte. Hypothesis testing will be performed using t-tests (partial) and F-test (simultaneous). To find the percentage of profitability variance the coefficient of determination (R-squared) will be utilized (Sakti, 2018). The analysis will be conducted using Eviews 10.

#### 4. Empirical Findings/Result

##### Descriptive Analysis

This method can provide a comprehensive picture of the data by determining values for the variables under consideration, such as mean, standard deviation, maximum value, and minimum value (Hamid et al., 2020). Table 1. below displays the findings of the research data's descriptive statistical analysis.

Table 1. Descriptive analysis

	ROA	ICSR	PSR	Income	EDR	Zakat
Mean	1,606667	0,455125	45,94767	98,30000	0,162276	882083,8
Median	0,780000	0,442300	40,53000	99,00000	0,118710	22051,11
Maximum	9,360000	0,961500	99,53000	99,00000	0,911430	20452809
Minimum	0,000000	0,057700	7,780000	93,00000	0,000370	3202,900
Std Dev	2,261633	0,267936	29,79646	1,510416	0,189247	327716,7
Observations	60	60	60	60	60	60

Source: Author, 2024

**Selection Method of Panel Data**

Tabel 2. Chow Test Calculation

Effect Test	Statistics	df	Prob.
Cross-section F	9,036196	(11,43)	0,0000

Source : Author, 2024

Table 2. demonstrates that  $H_0$  is rejected and  $H_1$  is approved because the probability value of the cross-section  $F < \alpha (0,05)$ . This concludes that the FEM is better than the CEM because  $\text{prob.} = 0,0000 < \alpha (0,05)$ . The next step is to perform the Hausman test to choose between FEM and the REM for this research.

Table 3. Hausman Test Calculation

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Random cross-sections	6,982539	5	0,2219

Source : Author, 2024

Table 3. indicates that  $H_0$  is accepted and  $H_1$  is rejected because the probability value of the cross-section  $F > \alpha (0,05)$ . In contrast to the FEM, the REM is selected to estimate the panel data regression. LM test is then used to evaluate which test—the CEM or the REM—is more suitable for this particular study :

Table 4. LM Test Calculation

LM Statistics	Prob
30,38635	(0,0000)

Source : Author, 2024

Given that the probability value in Table 4.  $< \alpha (0,05)$ ,  $H_0$  is rejected and  $H_1$  is accepted. Thus, the REM is the suitable model for this study based on the findings of the LM test. Table 5. below displays the chosen REM :

Table 5. REM Calculation

Variables	coefficient	std. Error	t-Statistics	Prob.
C	-2,423356	12,52734	-0,193445	0,8473
ICSR	1,698080	1,782723	0,952520	0,3451
PSR	0,018437	0,011005	1,675414	0,0996
Income	0,026144	0,127587	0,204910	0,2705
EDR	-2,155705	1,936264	-1,113333	0,8384
Zakat	2,15E-07	6,38E-08	3,372194	0,0014
R-squared	: 0,240938			
Adjusted R-squared	: 0,170655			
F-statistics	: 3,428093			
Prob(F-statistic)	: 0,009208			

Source : Author, 2024

The regression equation from the panel data regression analysis is as follows:

$$Y = -2,423356 + 1,698080X_{1,i,t} + 0,018437X_{2,i,t} + 0,026144X_{3,i,t} - 2,155705X_{4,i,t} + 2,15E-07X_{5,i,t} + e$$

1. Intercept (-2,423356): This is the constant value indicating that if all independent variables  $X_1$ ,  $X_2$ ,  $X_3$ ,  $X_4$ , and  $X_5$  are zero, then the value of  $Y$  will be -2,423356.
2. Coefficient of  $X_1$  (1,698080): This indicates that the value of  $Y$  will grow by 1,698080 for every unit increase in  $X_1$ , assuming other variables remain constant. This coefficient indicates a relatively strong positive relationship between  $X_1$  and  $Y$ .
3. Coefficient of  $X_2$  (0,018437): This indicates that the value  $Y$  will grow by 0,018437 for every unit increase in  $X_2$ , assuming other variables remain constant. This suggests that  $X_2$  and  $Y$  have an extremely slender positive association.
4. Coefficient of  $X_3$  (0,026144): This indicates that the value  $Y$  will grow by 0,026144 for every unit increase in  $X_3$ , assuming other variables remain constant. This also indicates a weak positive relationship between  $X_3$  and  $Y$ .
5. Coefficient of  $X_4$  (-2,155705): This indicates that the value  $Y$  will decrease by -2,155705 for every unit increase in  $X_4$ , assuming other variables remain constant. This coefficient indicates a strong negative relationship between  $X_4$  and  $Y$ .
6. Coefficient of  $X_5$  (2,15E-07): This indicates that the value  $Y$  will grow by 2,15E-07 or 0,000000215 for every unit increase in  $X_5$ , assuming other variables remain constant. This suggests a very slender positive correlation between  $Y$  and  $X_5$ .

### Classic Assumption Test

Tabel 6. Normality Test Calculation

Jaque-Bera	101,8472
Probability	0,000000

Source : Author, 2024

Table 6 indicates that the probability distribution of the data is normally distributed, with prob. = 0,000000 < alpha (0,05). The Gaussian central limit theorem and the rule of big numbers, which stipulate that data can be considered roughly normally distributed if  $n > 30$ , are in line with this. As demonstrated in Table 7, the skewness test on the residual data confirms this, with the value of prob. = 0,157 > alpha (0,05).

Tabel 7. Skewness Test Calculation

<i>Long-run Normality Test</i>		
	Statistic	Prob.
Skewness	1,922800	0,027253
Skewness 3/5	3,697255	0,000109
Kurtosis	2,392643	0,008364
Normality	3,697629	0,157424

Source : Author, 2024



Table 8. Multicollinearity Test Calculation

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	342,8578	4434,658	NA
X <sub>1</sub>	1,905486	6,845062	1,739856
X <sub>2</sub>	9,99E-05	3,856468	1,128207
X <sub>3</sub>	0,035501	4438,059	1,030099
X <sub>4</sub>	3,902948	3,107239	1,777856
X <sub>5</sub>	8,49E-15	1,245751	1,160267

Source : Author, 2024

All independent variables in Table 8. multicollinearity test had centered VIF values less than 10, indicating that there are no multicollinearity problems with the study's data. This means that the multicollinearity test's classical assumption is satisfied.

Table 9. Heteroscedasticity Test Calculation

Variable	Coefficient	Std.Error	t-Statistic	Prob.
C	6,959653	11,56549	0,601760	0,5499
X <sub>1</sub>	3,685102	0,862204	4,274051	0,0001
X <sub>2</sub>	0,008662	0,006243	1,387367	0,1710
X <sub>3</sub>	-0,079014	0,117686	-0,671398	0,5048
X <sub>4</sub>	0,225387	1,233966	0,182652	0,8558
X <sub>5</sub>	-1,06E-07	5,76E-08	-1,838594	0,0715

The results shown in Table 9. demonstrate heteroscedasticity, with the independent variable ICSR having a probability value less than 0,05. In order to find heteroscedasticity in the regression model, this can be addressed using the White test. The process of doing the White test involves regressing the square of the errors, or residuals, against the independent variables. Table 10. displays the findings from the White exam.

Table 10. White Test Calculation

Heteroskedasticity Test: White			
F-statistic	0,914614	Prob. F(20,39)	0,5731
Obs*R-squared	19,15680	Prob. Chi-Square(20)	0,5117
Scaled explained	53,98906	Prob. Chi-Square(20)	0,0001

Source : Author, 2024

Table 11. Autocorrelation Test Calculation

Test	DW
Durbin- Watson Test	0,7446801

Source : Author, 2024

In the autocorrelation test, the Durbin-Watson (DW) value is 0,7446801 based on Table 11. The DW table displays a dL value of 1,4083 and a Du value of 1,7671 when this number is compared to the table value using a 5% confidence level (0,05), a sample size (n) of 60, and 5 independent variables (k). Positive autocorrelation and an autocorrelation problem are present since the DW value of 0,7446 is less than the dL value of 1,4083,

indicating that the autocorrelation coefficient is less than zero. However, this can be addressed using the White cross-section test. Therefore, the selected REM model is transformed using GLS with White cross-section. The panel data regression model's autocorrelation issue can be resolved by applying the White cross-section correction method, which improves the validity and reliability of the regression coefficient estimation. The results of the autocorrelation test using White cross-section are shown in Table 12.

Table 12. Autocorrelation (GLS White Cross-Section) Test Calculation

Test	DW
Durbin-Watson stat	1,545338

Source : Author, 2024

### Hypothesis Test

Tabel 13. T-test Calculation

Variable	Coefficient	t-Statistic	Prob.
C	-2,423356	-0,445533	0,6577
ICSR	1,698080	2,180426	0,0336
PSR	0,018437	0,973230	0,3348
Income	0,026144	0,430271	0,6687
EDR	-2,155705	-1,043790	0,3012
Zakat	2,15E-07	7,608946	0,0000

Source : Author, 2024

The interpretations based on Table 13. are as follows:

1. ICSR: Based on the probability value of ICSR being  $0,0336 < (0,05)$ , it can be stated that ICSR has a significant partial effect on bank profitability and that  $H_1$ , the statement that ICSR effects profitability is accepted.
2. PSR: Based on PSR's probability value is  $0,3348 > (0,05)$ , the hypothesis that PSR influences profitability is rejected ( $H_2$ ). Finally, it may be said that PSR has no appreciable impact on bank profitability.
3. Islamic Income vs. Non-Islamic Income: Based on the probability value of Islamic income vs non Islamic income being  $0,6687 > (0,05)$ , the hypothesis that Islamic income vs non Islamic income influences profitability is rejected ( $H_3$ ). Finally, it may be said has no appreciable impact on bank profitability.
4. EDR: Based on EDR's probability value is  $0,3012 > (0,05)$ , the hypothesis that EDR influences profitability is rejected ( $H_4$ ). Finally, it may be said that EDR has no appreciable impact on bank profitability.
5. Zakat Bank Syariah: Based on the probability value of zakat being  $0,0000 < (0,05)$ , it can be stated that zakat has a significant partial effect on bank profitability and that  $H_5$ , the statement that zakat effects profitability is accepted.

Table 14. F-test Calculation

F-statistic	3,428093
Prob(F-statistic)	0,009208

Source : Author, 2024

A F-calculated value of 3,428093 with a probability value of 0,009208 is the outcome of the F-test, as Table 14 demonstrates. It is clear from these findings

that  $3,428093 > 0,009208$ , or  $F$  computed,  $> F$  table. It follows that the variables ICSR, PSR, Islamic income vs. non-Islamic income, EDR, and Zakat simultaneously have a significant impact on profitability because probability is  $< \alpha (0,05)$  or  $0,009208 < 0,05$ .

### Coefficient of Determination Test

Table 15. Coefficient of Determination ( $R^2$ ) Calculation

R-Squared	0,240938
Adjusted R-squared	0,170655

Source : Author, 2024

Table 15 shows that the adjusted R-squared value is more than 15%. Consequently, it is thought that the model is adequate. The adjusted R-squared value is 0,1706% based on the results of the coefficient of determination. This indicates that a total of 17,0% of the variation and a contribution to the dependent variable/ROA may be explained by the independent variables; the remaining portion is explained by variables that are not included in the model.

## 5 Discussion

### The Influence of ICSR on profitability of Islamic bank in Southeast Asia

The findings shows that with a probability value of 0,0336 ( $< 0,05$ ) and a t-statistic of 2,180426 (greater than the critical value of 1,671), confirm that ICSR significantly and positively influences profitability. The regression coefficient of 1,698080 indicates that a one-unit increase in ICSR leads to a 1,698080 increase in profitability, assuming other variables remain constant. In essence, a strong ICSR focus on the environment, society, and adherence to Islamic principles can enhance financial performance, particularly profitability, for Islamic banks in Southeast Asia. The more effectively a bank communicates its social activities, the higher its profitability tends to be. This positive impact of ICSR disclosure on financial performance aligns with findings from previous studies by Adisaputra & Kurnia (2021), Iqbal et al (2013) and Nasution et al (2022).

### The Influence of PSR on Profitability of Islamic bank in Southeast Asia

Based on the partial regression coefficient of PSR ( $X_2$ ), the results indicate a probability value of 0,3348 ( $> 0,05$ ) and a t-statistic of 0,973230 (smaller than the crucial value of 1,671). Consequently, it may be concluded that PSR has no discernible impact on profitability and the alternative hypothesis ( $H_2$ ) is rejected. According to the PSR regression coefficient ( $X_2$ ) of 0,018437, Y would decrease by 0,018437 with every unit increase in  $X_2$ . This suggests that  $X_2$  and Y have an extremely slender positive association.

This research demonstrates that PSR does not affect the profitability of Islamic banks in Southeast Asia during the 2019-2023 period. The volume of financing in profit-sharing schemes is below the standard target compared to other fee-based transactions, resulting in no effect of PSR on financial performance (Rahma, 2018). This finding is inconsistent with the Sharia enterprise theory because profit-sharing subsidies or profit margins from

fee-based transactions do not increase the profitability of Islamic commercial banks (Fatmala & Wirman, 2021). Thus, this finding provides a new perspective regarding PSR in Islamic banks, emphasizing the importance of considering factors that contribute to increased profitability. This research aligns with studies by Aroof et al (2023), Felani et al (2020), Indah et al (2023) and Rahayu et al (2020).

### **The Influence of Islamic income vs non Islamic income on Profitability of Islamic bank in Southeast Asia**

Based on the partial regression coefficient of Islamic income vs. non-Islamic income (X3), the results show a probability value 0,6687 ( $> 0,05$ ) and a t-statistic of 0,430271 (less than the critical value of 1,671). As a result, the alternative hypothesis (H3) is rejected, suggesting that the ratio of Islamic to non-Islamic income has no discernible impact on profitability. There is a weak negative association between the two variables, as indicated by the regression coefficient of -0.026144, which indicates that a one-unit increase in X3 would decrease Y by 0,026144. This study shows that the profitability of Islamic banks in Southeast Asia is unaffected by the ratio of Islamic to non-Islamic income during the 2019-2023 period. This finding aligns with those of Khasanah (2016), Dewanata et al (2016) and Arafah & Wijayanti (2023), who stated that changes in the value of Islamic income vs non-Islamic income do not influence the ROA. This is because, in practice, non-halal funds or income are an unavoidable part of operations. Notes to financial statements indicate that charitable funds in Islamic banks originate from late payment fees from financing customers and checking account services from non-Shariah or conventional banks.

### **The Influence of EDR on Profitability of Islamic bank in Southeast Asia**

The findings indicate that the probability value for the EDR (X4) partial regression coefficient is 0,3012 ( $> 0,05$ ). Furthermore, the computed t-value of -1,043790 is lower than the 1,671 crucial t-value. Thus, it appears that EDR has no discernible impact on profitability, with the alternative hypothesis (H4) rejected. A one-unit rise in X4 would result in a 2,155705 drop in the dependent variable (Y), profitability, according to the EDR regression coefficient (X4) of -2,155705, providing all other variables stay constant. This suggests that EDR and profitability have a very strong negative relationship. The data reveals that EDR does not influence the profitability of Islamic banks in Southeast Asia. This suggests that the allocation of funds to stakeholders has not been carried out efficiently, as evidenced by the substantial funds spent on donations, qardh (loans), employee expenses, and other expenditures. Therefore, EDR does not appear to have a substantial impact on the profitability of Islamic banks in Southeast Asia. This research aligns with the findings of Khasanah (2016), Pudyastuti (2018) and Indah et al (2023), which indicate that the EDR ratio suggests banks often prioritize allocating funds to their primary stakeholders.

### **The Influence of Zakat on Profitability of Islamic bank in Southeast Asia**

Based on statistical analysis, the study's findings show that zakat positively affects Islamic banks' profitability in Southeast Asia (t-statistic = 7,608946, p-value  $< \$0,05$ ).

According to the regression coefficient of  $2,15E-07$ , profitability rises by 0,000000215 for each unit increase in Zakat while keeping other factors unchanged. The statistical significance emphasizes how important Zakat is in impacting profitability even if this shows a very modest positive association. These results are consistent with earlier studies by Desmiyawati et al (2016), who found that Zakat does not negatively impact assets when associated with profitability as measured by ROA. Additionally, this study supports the findings of Lestari (2020) and Amirah & Raharjo (2014), further emphasizing the positive role of Zakat in enhancing the financial performance of Islamic banks. The results suggest that higher Zakat payments, or consistent implementation and reporting of Zakat, can lead to increased profitability, potentially due to the positive impact of Zakat on a bank's reputation and value creation.

### **The Influence of ICSR, PSR, Islamic income vs non Islamic income, EDR and Zakat simultaneously on Profitability of Islamic bank in Southeast Asia**

The F-test results, with a probability value of 0,009208, indicate that ICSR, PSR, Islamic income vs. non-Islamic income, EDR, and Zakat collectively and significantly influence the profitability of Islamic banks in Southeast Asia. These variables explain 17,06% of the variation in profitability, with the remaining variance attributed to other factors not included in this study. These results are consistent with previous research. Listiani et al (2015) found that PSR and EDR simultaneously affect profitability, while Pratama (2022) reported a simultaneous effect of PSR, Islamic income vs. non-Islamic income, and ICSR on profitability. Additionally, Nabillah & Oktaviana (2020) concluded that ICSR and Zakat have a simultaneous impact on profitability. In summary, a simultaneous increase in ICSR, PSR, Islamic income vs. non-Islamic income, EDR, and Zakat leads to increased profitability in Islamic banks in Southeast Asia.

## **6. Conclusion**

The study's findings reveal a nuanced relationship between Islamic practices and profitability in Southeast Asian Islamic banks. While ICSR and Zakat positively influence profitability, PSR, Islamic income vs. non-Islamic income, and EDR do not have an effect. This suggests that while social responsibility and Zakat play a crucial role in enhancing financial performance, other factors like profit-sharing mechanisms, income diversification, and equitable distribution may not directly translate to increased profitability. The collective influence of these variables on profitability underscores the need for a holistic approach in Islamic banking, where social, ethical, and financial considerations are integrated to achieve sustainable growth and development. The study's findings have implications for Islamic banking experts and scholars alike, providing valuable insights into the factors that drive profitability in the Islamic financial sector.

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