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Determinants of Financial Performance of Islamic Banking in Indonesia: the Role of Zakat, CSR, and CEI

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Keywords

CEI, CSR, ethical values, financial performance, zakat

Abstract

This study examines the effect of zakat, Corporate Social Responsibility, and Corporate Ethical Identity on the financial performance of Islamic banking as proxied by Return on Asset (ROA). This research helps the Financial Services Authority (OJK) policy on the importance of implementing ethical values in Islamic banking. Previous studies have different results from each other, so this study expands the sample from previous studies. Quantitative research is used in this study. The data source of this study is the annual financial statements of ten Islamic Commercial Banks registered with OJK between 2019 and 2023. Literature and documentation studies were used to collect data. The analysis method used is panel data regression analysis method. The results showed that partially the disclosure of zakat has a significant effect on financial performance. While the disclosure of CSR and CEI has no significant effect on financial performance. CSR is measured using Islamic Social Reporting (ISR) and CEI is measured using Ethical Identity Index (EII). In addition, simultaneously Zakat, CSR, and CEI affect financial performance. The findings of this study provide important implications and contributions as a reference for regulators, Islamic bank management, and other stakeholders in developing policies and strategies aimed at strengthening ethical identity and increasing transparency in the disclosure of zakat and CSR. This has led to an increase in stakeholder confidence and the financial performance of Islamic banking in Indonesia.

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INTRODUCTION

In recent years, the Islamic banking sector in Indonesia has experienced rapid growth. This is indicated by an increase in assets, financing, and collection of third party funds (DPK) (Faadilah & Ilham, 2024). Total Islamic banking assets in 2023 reached Rp892.17 trillion growing by 11.21% (yoy), financing of Rp585.56 trillion grew by 15.72% and DPK of Rp684.52 trillion grew by 10.49% compared to 2022 (OJK, 2023). The banking sector is crucial in providing financial support and driving the economic growth of country (Sulistyowati & Jaelani, 2021). The stability of the banking sector is a key factor in ensuring sustainable and stable economic growth (Fresno & Hanggraeni, 2020). Achieving stability within the banking sector, particularly in the context of sharia-based banking, necessitates the effective management of financial institutions to sustainable financial performance (Lestari et al., 2024).

In addition to financial performance, stakeholders also focus their attention on the ethical commitment of the company (Johari et al., 2022). The prevalence of ethical violations within the Indonesian corporate sector has led to concerns that frequently culminate in operational failures and subpar performance. For intances, within the context of Islamic banking, a case of theft involving customer accounts was prepetrated by employees of Bank Mandiri Syariah Luwuk Branch in Central Sulawesi. This incident led to customers incurring amounting to IDR 820 million (Pontoh, 2020). Furthermore, there are also cases of violation of business ethics, namely the case of theft of customer accounts totaling Rp1.3 billion. This theft was committed by employees of Bank Riau Kepri in Pekanbaru which occurred in 2015 but was revealed in 2021 (Charita et al., 2021).

Banks that do not have ethical practices are considered to have inadequate management, which can influence of customers' and investors' propensity to deposit or invest their funds in the bank (Tuan Ibrahim et al., 2020). The implementation of ethical values within a corporate framework has been demonstrade to enhance long-term organizational performance, thereby facilitating the realization of realize sustainable corporate goals (Lee, 2020). In Islamic teachings, ethical values are related to social care. Where ethical values encourage companies not only to pursue profits, but also to promote community welfare, protect the environment, and fulfill social responsibility. The concept of social care is in line with philanthropy (Auliyah & Basuki, 2021). Islamic banks are obliged to pay zakat every year because sharia principles include the imposition of zakat on Muslims, both individuals and companies (Al-Nasser Mohammed & Joriah Muhammed, 2017).

National Zakat collection in 2023 has only reached 10 percent or only IDR 33 trillion from Indonesia's Zakat potential of IDR 327 trillion (Baznas, 2024). In accordance with Article 22 of Law No.23/2011 and Article 23(2), zakat deducted at 2.5% of a company's balance sheet or profit can be an incentive to reduce corporate taxable income in Indonesia (Sagantha, 2024; Sidik & Reskino, 2016). However, Islamic banking in Indonesia is still not perfect in implementing corporate zakat (Anggraeni & Gultom, 2024). As an Islamic financial institution, Islamic banks must have the ability to carry out their functions by helping to distribute zakat to the community, both those who have micro businesses and other sectors. This is part of the company's mandatory program to fight poverty in Indonesia, namely corporate social responsibility (CSR) (Riani & Rusydiana, 2022).

Corporate Social Responsibility (CSR) is critical to the success of a company, as customers will prefer companies that are economically and socially responsible (Riani & Rusydiana, 2022). CSR is related to sustainable development, which is concerned with three policy issues: environmental protection, economic development, and society (Kelana & Ramdany, 2020). Islamic banks are becoming increasingly competitive due to their rapid growth. Consequently, each Islamic bank endeavors to excel by providing product and cultivating a positive reputation as a means of innovation (Ningsih et al., 2024). The company's annual report functions as a vehicle to convey the evolution of its reputation or Corporate Ethical Identity (CEI). Ethical Identity Index (EII) can be used to measure CEI. The EII was specifically designed to assess the value of CEI (Haniffa & Hudaib, 2007).

Research by Marito et al. (2021) demonstrated that zakat does not influence the financial performance of Bank Muamalat Indonesia, as assessed by Return On Assets (ROA). This parallels the study of Etika et al., (2024) which indicates that Zakat does not influence the financial performance or profitability of Islamic banks in Indonesia. However, research conducted by Al-Homaidi et al. (2021), Askandar et al. (2024), Sahara & Setiawan (2022) and Tuan Ibrahim et al. (2020) shows that the disclosure of Zakat has a positive influence on the financial performance of Islamic Banks.

Research by Fitriya & Setyorini (2019) and Mukarromah (2021) indicate that CSR does not influence the financial performance of Islamic Banks, corroborating findings by (Auliyah & Basuki, 2021), which is proxied by ROA and ROE. However, research conducted by (Anggraeni & Gultom, 2024) reveals that CSR affects financial performance. Ningsih et al. (2024) in their research revealed that CSR and CEI have a significant effect on the financial performance of Islamic banks. In another study by Cahya et al. (2022) shows that the disclosure of Islamic ethical identity (CEI) contributes positively to the financial performance of Islamic banking as measured by ROA. While research from Sumiyati & Vebtasvili (2021) reveals CEI unrelated to the financial performance of Islamic banks.

Based on various literature reviews, there are differences in research results regarding the effect of disclosure of Zakat, CSR, and CEI. Consequently, this undertaken to validate the findings of these investigations utilizing the most recent financial statement data. This assessment is significant for several reasons: 1) there are limited studies addressing Ethics as indicated by the disclosure of zakat, CSR, and CEI. 2) This study holds significance for financial institutions in Indonesia, given their substantial contribution to national income. This study's findings underscore the significance of transparent disclosure of ethical values, which have been shown to significantly influence the financial performance of banks. Ethical values are essential for banks to ensure long-term sustainability and to foster stakeholder trust. This study investigates the impact of ethical values, as indicated by the disclosure of Zakat, CSR, and CEI, on financial performance within the Islamic banking sector in Indonesia.

LITERATUR REVIEW

Stakeholder Theory

Stakeholder theory, a concept developed by Edward Freeman in 1984. Freeman (1984) characterizes stakeholders as any entity or individual capable of affecting or being affected by the attainment of organizational objectives. Well-functioning company management is a critical factor in a company's ability to manage relationships with all parties involved in the business.

Company annual reports can use financial and non-financial disclosures as a means to communicate between management and stakeholders (Septian et al., 2022).

Stakeholders demand special measures from companies to assess or evaluate the company's ethical behavior (Tuan Ibrahim et al., 2020). The implementation of ethics is evident i the company’s commitment to environmental responsibility, the well-being of the surrounding community, and its social responsibility towards its employees (Auliyah & Basuki, 2021). One of the ways to improve community welfare is by paying zakat. Zakat issued is channeled to those in need and it can help alleviate poverty.

Ethical Values

Ethics constitutes a framework of moral concepts that differentiates between good and bad. Ethical values are described as the actions or behavior of individuals in making decisions, whether they are considered wrong or right (Tuan Ibrahim et al., 2020). In the corporate realm, ethics pertains to the examination of behavioural concerns among members of business entities and stakeholders engaged in commercial transactions (Sahara & Setiawan, 2022). Corporate ethics constitute the fundamental values of organisational culture. The alignment of organizational culture and ethical values has been demonstrated to positively influence profitability, market share, and stakeholder satisfaction (Lee, 2020).

The source of ethics in Islam is the Qur'an and As-Sunnah, while Islamic law and sharia principles are implemented to reglate moral condct and the implementation of good practices in life (Hasyim et al., 2012). The assessment of ethical values can be conducted through various means, including Zakat, CSR, and CEI. From an Islamic perspective, ethical principles are embodied in one of the pillars of Islam, namely the payment of Zakat. If the conditions are fulfilled, zakat becomes part of one of the assets that every Muslim must spend. Zakat is one of the ways to reduce poverty in a country and is even one of the best methods to do so. The main goal of Islam is the achievement of holistic welfare (Riani & Rusydiana, 2022), meaning that it covers all aspects of human life. CSR activities of companies to improve the welfare of society. Zakat is in accordance with the concept of CSR because it guides companies to prioritize corporate interests and social corporate interests (Anriani et al., 2021).

According to Berrone et al., (2007) the results of the study demonstrated that stakeholders expect companies to engage in a more specific range of activities when evaluating ethical corporate behavior. Ethical corporate identity (CEI) offers a complex and comprehensive approach that connects the internal and external parts of corporate identity (Powell, 2011). Companies with strong ethical commitments exhibit better governance (Fotaki et al., 2020). The application of Islamic norms and values within a corporate entity serves to elucidate its Islamic identity, such as an Islamic Bank.

Financial Performance

A primary measure of a company's operational success is financial performance, which may assess the company's financial condition. Financial performance denotes the extent to whichan economic entity effectively utilizes its resources to fulfill its objectives (Mushrif Rashid et al., 2021). Financial performance includes any economic results that are successfully achieved by a corporate over a specified timeframe through a series of activities carried out by the company to generate profits effectively and efficiently (Auliyah & Basuki, 2021).

The assessment of bank performance is of paramount importance to all banking stakeholders, particularly management, investors, and customers. In a an uncertain financial market, a bank's financial performance serves as a benchmark for customers and investors regarding the decision to invest in or withdraw funds from the institution (Sahara & Setiawan, 2022). Financial performance measurement constitutes a strategic management instrument that is utilized for the conceptualization and measurement of a company's performance (Al Farooque et al., 2020). In this study, researchers used the ROA proxy profitability ratio. A higher level of ROA signifies that the organization has utilized its assets efficiently and optimally to create profitability, thereby improving its financial performance.

Hypothesis Development

Impact of Zakat on Financial Performance

Zakat is included in the corporation (Riani & Rusydiana, 2022), which is an important part of corporate financial management. The company issues zakat as a form of fulfillment of obligations and social responsibility to society, thereby impacting its reputation. Corporate zakat refers to the obligation of zakat that must be paid by a company based on profits or profits obtained (Syurmita & Fircarina, 2020). This obligation only applies to companies that are owned or at least majority Muslim (Septian et al., 2022). Thus, Islamic banks are one of the companies that operate in accordance with Islamic principles by practicing corporate zakat.

The relationship between zakat and corporate performance is such that companies that disclose zakat in the annual report will demonstrate improved and more consistent financial performance (Auliyah & Basuki, 2021). Previous research by Tuan Ibrahim, Hashim & Ariff (2020), indicates a significant relationship between ethical values as measured by zakat disclosure and financial performance as proxied by ROA. Increased zakat transparency correlates with improved banking performance. This is in line with research from Anggraeni & Gultom (2024) Zakat affects financial performance. Furthermore, the researcher formulates the hypothesis as follows:

H_1: Zakat disclosure has a significant effect on financial performance.

Impact of CSR on Financial Performance

Corporate Social Responsibility (CSR) is a disclosure activity that includes social responsibility towards everyone in need. CSR can be interpreted as an act of charity and the manner in which firms allocate their resources to promote ethical conduct (Sahara & Setiawan, 2022). Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued the Islamic Social Reporting (ISR) Index, which can be used to measure CSR disclosure in the context of sharia, so as to improve the reputation and public trust in Islamic companies. Islamic banks implement CSR to show their responsibility to stakeholders and stakeholders (Anggraeni & Gultom, 2024).

In the context of stakeholder theory, companies are expected not only to focus on financial gain, but also to provide benefits to society and the environment. Previous research by Marito, Mofianawati & Hardana (2021) The CSR variables exert a partial and simultaneous significant impact on the ROA of PT. Bank Muamalat Indonesia Tbk. In line with research Alfijri & Priyadi (2022) ICSR has a positive effect on financial performance proxied by ROA and ROE. The positive effect of ICSR can increase the financial performance of Islamic banking. In research Anggraeni & Gultom (2024) also statedthat CSR has a positive effect on financial performance, thus proving that CSR can improve the performance of Islamic Commercial Banks. So the researchers formulated the following hypothesis:

H_2: CSR disclosure has a significant effect on financial performance.

Impact of CEI on Financial Performance

Corporate Ethical Identity (CEI) is a concept that describes the company's ethical identity, which includes the values, principles, and norms held by a company in carrying out its operations. Business is synonymous with ethics and corporate identity, so the way a person sees a business is influenced by its management and its commodities (Sukardi & Wijaya, 2013). The ethical identity in Islam is elucidated through the net fair value method by contrasting haram (prohibited) and halal (permitted) elements (Ningsih et al., 2024). Financial institutions are responsible to their stakeholders. In Islamic banks, adherence to Sharia is a major stakeholder. Companies with good performance are more inclined to provide comprehensive financial information to differentiate themselves from companies that have poor performance (Khairany, 2018).

According to research Cahya et al., (2022), EII partially has a positive effect on the financial performance of Islamic banking as measured using ROA. This outcome aligns with the findings of Ningsih et al., (2024) indicating that the disclosure of CEI information can influence the financial performance of Islamic banking. This finding indicates that Islamic bank companies that are more transparent in disclosing CEI information tend to have better financial performance. Then the researcher formulates the hypothesis as follows:

H_3: CEI disclosure has a significant effect on financial performance.

METHODS

This study employs a quantitative methodology to evaluate the established hypothesis. The statistical data utilized in this analysis derive from the annual reports of Islamic banks. This study examines the Islamic banking industry in Indonesia, with the research population covering Islamic Commercial Banks registered with OJK from 2019-2023 period. Considering its position as the nation with the second largest Muslim demographic globally, it is anticipated that Islamic banking in Indonesia will undergo rapid development and demonstrate robust performance. The present study's sample comprised 10 Islamic Commercial Banks from 2019-2023.

This study utilized panel data regression to investigate the impact of ethical values, as indicated by the disclosure of Zakat, CSR, and CEI, on the financial performance of Islamic banking in Indonesia. This study incorporates three indepedent variables: Zakat disclosure (X1), CSR (X2), and CEI (X3). While the dependent variable is financial performance proxied by ROA (Y).

ROA data is manually extracted from the annual reports of Islamic banks. ROA is a metric that demonstrates the company's efficiency in generating profits relative to its total assets. The ROA calculation formula is as follows:

$$ROA = \frac{Net\ Profit}{Total\ Asset} x100\%$$

This study quantifies zakat utilizing data on zakat remitted bythe company, typically reported in the income statement. Zakat is computed at a rate 2,5% on the pre-tax profit for the current year. Zakat assessment is measured by dummy variables, where companies that pay zakat will be coded one (1) and companies that do not pay zakat are coded zero (0) (Al-Homaidi et al., 2021). In this study, CSR is assessed by ISR (Islamic Social Reporting), a CSR metric particularly developed by AAOIFI to evaluate CSR within the framework of sharia (Ningsih et al., 2024). The assessment procedure entails the allocation of a score of one (1) to companies that disclose specific items, while those that do not disclose are assigned a score of zero (0). The CSR score calculation formula is as follows:

$$CSRI_j = \frac{\sum X_{ij}}{N_j}$$

Where $CSRI_j$ is the ISR index,X_{ij} is the company's total CSR disclosure and N_j is the total CSR disclosure. Calculation of CEI disclosure value using EII (Ethical Identity Index) developed by Haniffa and Hudaib (2007). The following EII formula is used:

$$EII_j = \frac{\sum_{t=1}^{nj} X_{ij}}{n_j}$$

Where EII_j is the ethical identity index, n_j is the number of items disclosed by the company, with $n_j <= 78$. $X_{ij} = 1$ if the item is disclosed and 0 if the item is not disclosed.

In line with previous research from (Auliyah & Basuki, 2021) this study uses the control variables of bank age, bank size, and leverage. Bank age is measured based on the length of time the bank has been operating by looking at the bank's record at OJK as a BUS. Company age can affect profitability and growth (Loderer & Waelchli, 2009) . Bank size is calculated based on the results of the natural logarithm of total assets (Maury, 2006). The company's external stakeholders consist of investors, governments, consumers, and socially responsible communities, which gradually put pressure on the company to adjust its operations to their expectations. Auliyah & Basuki (2021) posit that as the magnitude of a company's operations increases, its performance metrics tent to rise concomitantly. The last variable is leverage, namely the liability ratio. Financial leverage increases profitability for companies that can be managed effectively, and in the long run, a lower amount of debt can improve company performance. In this study, leverage is calculated using the percentage ratio between total liabilities and total equity (Tuan Ibrahim et al., 2020).

RESULT AND DISCUSSION

Descriptive Statistics

Descriptive statistics analysis plays a role in describing the samples in this study. Table 1 describes the statistical test.

Table 1. Descriptive Statistics Test

	ROA	ZKT	CSR	CEI	AGE	SIZE	LEV
Mean	0.0217	0.4200	0.5726	0.6705	14.3000	30.1649	1.2268
Median	0.0117	0.0000	0.6046	0.6859	13.000	30.2204	1.1338
Max	0.1358	1.0000	0.6977	0.7564	33.000	31.8350	3.2699
Min	-0.0713	0.0000	0.3256	0.5641	3.0000	28.1384	0.1923
Std. Dev	0.4986	0.0835	0.0596	6.9260	0.8357	0.8336	0.4986
Obs	50	50	50	50	50	50	50

Source: Data processed with Eviews 13, 2025

The data in this study used 50 samples from 10 Islamic Commercial Banks within 5 years. The dependent variable ROA has a maximum value of 0.1358 at BPD NTB Syariah in 2023, while the minimum value is minus 0.0713 at PT Bank Syariah Bukopin in 2023. ROA has a standard deviation of 0.4986, indicating its variability is quite high.

The independent variables zakat, CSR, and CEI each have a maximum value of 1.0000 zakat in banks that disclose corporate zakat, namely PT. Bank Muamalat Indonesia, PT. Bank Victoria Syariah, PT. Bank Mega Syariah, PT. Bank Panin Dubai Syariah, in 2023 PT. Bank Aceh Syariah and PT. BPD NTB Syariah. The maximum value of CSR is 0.6977 at PT. Bank Aceh Syariah in 2023. The maximum value of CEI is 0.7564 at PT. Bank Mega Syariah in 2023 and PT. Bank Muamalat Indonesia in 2021. The minimum value of zakat is 0.0000 in banks that do not disclose corporate zakat, namely PT. Bank Aceh Syariah, PT. Bank Jabar Banten Syariah, PT. Bank Syariah Bukopin, PT. BCA Syariah, and PT. BTPN Syariah. The minimum value of CSR is 0.3256 at PT. Bank Victoria Syariah in 2019-2020. The minimum value of CEI is 0.5641 at PT BTPN Syariah in 2019-2022. The standard deviations of zakat and CSR are 0.0835 and 0.0596, indicating relatively low variability. While the standard deviation of CEI is 6.9260, indicating relatively high variability.

The maximum value of the bank age and bank size control variables is 33.0000 and 31.8350 at PT. Bank Muamalat Indonesia in 2023. While leverage is 3.2699 at PT Bank Mega Syariah in 2020. The minimum value of bank age is 3.0000 at PT BPD NTB Syariah, bank size is 28.1384 at PT Bank Victoria Syariah, and leverage is 0.1923 at PT Bank Victoria Syariah in 2021. The standard deviations of bank age and bank size are 0.8357 and 0.8338, indicating relatively low variability. Meanwhile, the standard deviation of leverage is 0.4986, indicating relatively high variability.

Panel Data Regression Model Selection

The selection of panel data regression models in this study was carried out through three types of tests, namely the Chow test, Hausman test, and Lagrange Multiplier test to determine the most appropriate model among the Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). The results of each test are as follows:

Table 2. Chow Test

Effect Test	Statistic	d.f	Prob.
Cross-section F	3.3124	(9,34)	0.0053
Cross-section Chi-square	31.4789	9	0.0002

Source: Data processed with Eviews 13, 2025

Table 3. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq d.f	Prob.
Random Cross-section	7.4072	6	0.2848

Source: Data processed with Eviews 13, 2025

The Chow test requirement in selecting a model is to use the cross-section F probability value. If the cross-section F probability value > 0.05, then H0 is accepted. Conversely, if the cross-section F probability value < 0.05, then H1 is accepted. The Chow test results on this research data show a cross-section F probability value of 0.0053 < 0.05, then H1 is accepted and H0 is rejected. So that the most appropriate model to use is the Fixed Effect Model (FEM).

The Hausman test requirement in choosing a model is to use a probability value, where if the probability value > 0.05 H0 is accepted and vice versa, if the probability value < 0.05 H1 is accepted. The results of the Hausman test that have been carried out show a probability value of 0.2848 > 0.05, so H0 is accepted and H1 is rejected. So that the most appropriate model to use is the Random Effect Model (REM).

The LM test requirement in choosing a model is to use the Breusch-Pagan cross-section value, where if the Breusch-Pagan cross-section value > 0.05 H0 is accepted and vice versa, if the Breusch-Pagan cross-section value < 0.05 H1 is accepted. The LM test results that have been carried out show the Breusch-Pagan cross-section value of 0.03553 < 0.05, so H1 is accepted and H0 is rejected. So that the most appropriate model used in this study is the Random Effect Model (REM). Table 4 are the result of panel data regression test with REM model.

Table 4. LM Test

	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	4.4306	0.4451	4.8757
	(0.0353)	(0.5046)	(0.0272)

Source: Data processed with Eviews 13, 2025

Table 5. Panel Data Regression Test

Variables	Coefficient	Std. Error	t-statistic	Prob
C	-1.1106	0.3493	-3.1799	0.0027
ZKT	0.0431	0.0139	3.0953	0.0035
CSR	-0.0396	0.0798	-0.4956	0.6227
CEI	-0.1383	0.1384	-0.9994	0.3232
AGE	-0.0058	0.0016	-3.7297	0.0006
SIZE	0.0436	0.0125	3.4768	0.0012
LEV	-0.0016	0.0072	-0.2260	0.8223

Source: Data processed with Eviews 13, 2025

Based on these results, the regression equation can be obtained as follows:

ROA = -1.1106 + 0.0431 ZKT - 0.0396 CSR - 0.1383 CEI 0.0058 AGE + 0.0436 SIZE - 0.0016 LEV + ε

Where:
ROA = Return of Asset Variable
ZKT = Zakat Variable
CSR = Corporate Social Reporting Variable
CEI = Corporate Ethical Identity Variable
AGE = Bank Age Variable
SIZE = Bank Size Variable
LEV = Leverage Variable
ε = Error term of the company

Hipothesis Test Result

T test

The partial test (T test) tests the regression findings for each independent variable individually. Table 5 presents panel data regression testing. The hypothesis test results of the Zakat variable on ROA show the P value is smaller than alpha (0.0035 < 0.05). So that Zakat has a significant effect on financial performance. CSR and CEI variables on ROA show a P value greater than alpha, namely 0.6227 > 0.05 and 0.3232 > 0.05. So that CSR and CEI have no significant effect on ROA. In testing the ROA variable, it shows that the bank age and bank size variables have a significant effect with a P value of 0.0006 < 0.05 and 0.0012 < 0.05. While the leverage variable shows a P value of 0.8223 > 0.05, so it has no significant effect on ROA.

F test

The simultaneous Test (F Test) is a method to determining the effect of the independent variable on the dependent variable, which is tested concurrently. Table 6 are the results of the F test in panel data processing:

According to table 6, the P value is 0.0072, indicating it is less than 0.05, hence H1 is accepted. This indicates that the independent variables and control variables (zakat, CSR, CEI, bank age, bank size, and leverage) have a simultaneous on the dependent variable ROA.

Table 6 . F Test Results

Effect Specification	
Prob (F-statistic)	0.0072

Source: Data processed with Eviews 13, 2025

Table 7. Determination Coefficient Test Results

R-squared	0.3250	Mean dependent var	0.0113
Adjusted R-Squared	0.2308	S.D. dependent var	0.0306

Source: Data processed with Eviews 13, 2025

Coefficient of Determination

The coefficient of determination (R2) is the outcome of an inductive statistical analysis used to assess the link between independent variables and their explanatory power regarding the dependent variable. Testing the coefficient of determination usually has two test results, namely the value of R2 and adjusted R2. The results of the coefficient of determination test in this study are as follows:

The coefficient of determination (R2) in this study shows a value of 0.2308 or 23.08%. This result can be interpreted that the independent variables and control variables, namely Zakat, CSR, CEI, bank age, bank size and leverage are able to explain the ROA variable by 23.08%, while the remaining 76.92% is explained by other variables.

Discussion

Impact of Zakat Disclosure on Financial Performance

The results of hypothesis testing regarding the zakat variable on the ROA variable prove that zakat disclosure has a significant effect on financial performance. This finding contradicts the research of Marito et al., (2021) and Etika et al., (2024), which states that zakat has no effect on financial performance. However, the results of this study aligh with those of previous research, including those by Tuan Ibrahim et al., (2020), Auliyah & Basuki (2021), Al-Homaidi et al., (2021), and Anggraeni & Gultom (2024), which also indicate a significant impact of zakat on financial performance. In research Auliyah & Basuki (2021) and Al-Homaidi et al., (2021) studied using ROA and ROE ratios. Testing zakat using ROA has a positive effect on financial performance, while testing using ROE has no effect.

The findings of this study reinforce stakeholder theory, which provides an explanation that to fulfill stakeholder desires, especially in the scope of sharia, it is imperative to engage in activities in accordance with principles of sharia and follow the practices ordered by Allah SWT. One of them is by fulfilling the mandate to manage resources based on sharia. Corporate zakat issued reflects the adherence of Islamic banks to social responsibility. The effectiveness of zakat management and disclosure can improve financial performance. By optimizing zakat expenditure based on profit and ensuring transparency of financial statements, banks can improve corporate reputation among stakeholders.

Impact of CSR Disclosure on Financial Performance

The results of the CSR variable hypothesis test on the ROA variable prove that CSR disclosure does not have a significant effect on financial performance. This finding contradicts the research of Marito et al., (2021), Alfijri & Priyadi (2022), and Anggraeni & Gultom (2024), which states that CSR has a significant effect on financial performance as measured by ROA. However, the findings of this study are consistent with those previous research by Fitriya & Setyorini (2019) and Auliyah & Basuki (2021), which concluded that CSR does not have a significant effect on financial performance.

The findings of this study demonstrate that, thus far, the adoption and disclosure of CSR by Islamic banks have not exerted an influence on the company's financial performance. Although CSR disclosure uses ISR measurement tools, the influence on financial performance is still small. This is due to the lack of understanding of stakeholders, especially the public on the importance of CSR, so that it has not fully made CSR a major factor in choosing Islamic banking services.

Impact of CEI Disclosure on Financial Performance

The results of the CEI variable hypothesis test on ROA prove that CEI disclosure does not have a significant effect on financial performance. This finding contradicts the research of Cahya et al., (2022) and Ningsih et al., (2024) which states that CEI has a significant effect on financial performance. However, the findings of this study are concistent with those previous research by Sumiyati & Vebtasvili (2021), which revealed that CEI has no significant effect on financial performance measured using ROA.

The findings of this study prove that the level of corporate ethics disclosure in annual financial reports has not been a major factor in influencing the financial performance of Islamic banks. Although CEI plays an important role in strengthening sharia principles and ethical values, stakeholders' understanding and appreciation is still low. The disclosure of information in the financial statements is not consistent or standardized even though CEI is measured using EII.

CONCLUSIONS

Based on the research that has been conducted, it can be concluded that ethical value proxied by zakat disclosure has a significant influence on financial performance measured using ROA. However, ethical values proxied by CSR and CEI do not show significant influence on financial performance measured by ROA. In addition, the three independent variables, namely Zakat, CSR, and CEI tested simultaneously or simultaneously have a significant influence on ROA financial performance. It is important for Islamic banks to improve the practice and disclosure of zakat to continue to improve public trust and financial performance. In addition, Islamic banks must continue to improve the quality and substance of CSR and CEI disclosures to better suit the needs and desires of stakeholders.

The findings of this study provide important implications and contributions as a reference for regulators, Islamic bank management, and other stakeholders in developing policies and strategies aimed at strengthening ethical identity and improving transparency of zakat and CSR disclosures. The findings suggest that the integration of ethical and social values into operational strategies is not only in line with sharia principles, but can also enhance public trust and customer loyalty. For regulators, the results of this study can serve as a basis for drafting regulations that encourage transparency and accountability in the management of zakat and CSR programs. Meanwhile, for Islamic bank management, the findings confirm the importance of optimally allocating resources for zakat and CSR activities as part of efforts to build a positive image and strong ethical identity.

Limitation

The main limitation of this study is its limited scope to 10 Islamic Commercial Banks. While such focus contributes significantly to understanding the specific operations and performance of these institutions, this study has not covered other entities that play an important role in the Islamic financial ecosystem, such as Islamic Business Units (UUS) and Islamic Rural Banks (BPRS). The differences in operational structure, business scale, and market segments served by UUS and BPRS could potentially result in different characteristics and performance indicators, thus limiting the generalizability of this study's findings to the entire Islamic banking industry.

Furthermore, the present study is subject to certain limitations with regard to the number and types of variables that were analyzed. The independent variables in this study include zakat, CSR, and CEI, while the control variables consist of bank age, bank size, and leverage, with ROA serving as the dependent variable. While these variables offer a significant overview of the factors influencing bank performance, it is possible that other influential factors have not been thoroughly addressed in this study.

Suggestions

To address the identified limitations, future research should expand the scope of the study to include Islamic Business Units and Islamic Rural Banks. This will provide a more comprehensive understanding of the Islamic financial sector as a whole. In addition, including additional ethical value variables, such as Corporate Social Performance (CSP), may enrich the analysis. CSP, as a strategic business approach, not only improves financial performance but also contributes to sustainable development. By integrating CSP into the research framework, future research can explore how ethical practices affect financial and non-financial outcomes in Islamic financial institutions. In addition, future research in the use of bank age control variable can be transformed using natural logarithm to overcome the significant difference between very young banks and very old banks.

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