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The relationship between profit sharing ratio and zakah performance ratio on return on assets: an empirical study of Sharia compliance and financial sustainability in Bank Pembiayaan Rakyat Syariah in Indonesia

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A B S T R A C T

The research aims to investigate and study the implementation of Sharia compliance and financial sustainability, especially at Bank Pembiayatan Rakyat Syariah (BPRS) or Sharia People's Financing Bank in Indonesia. For this reason, an empirical study is needed to determine the relationship between the Profit-Sharing Ratio and the Zakah Performance Ratio on Return on Assets in BPRS in Indonesia. The research method used is a quantitative approach using secondary data, and data analysis techniques using multiple regression. The research results show that partially the profit-sharing ratio has a significant effect on the return on assets of BPRS in Indonesia. On the other hand, the zakat performance ratio does not significantly influence the return on assets of BPRS in Indonesia. However, simultaneously or together the profit-sharing ratio and zakat profit ratio significantly affect the profitability of BPRS in Indonesia. Thus, the research is expected to provide a constructive contribution to the development of the world of science, for the government, for practitioners and others related to the implementation of Sharia compliance and financial sustainability of Sharia Financial Institutions in general, and of BPRS both globally and locally—Indonesia in particular. .

Introduction

Currently, the global Sharia banking sector has grown by 17% to US$2.8 trillion and makes the largest contribution holding 70% of its assets (ICD, 2022), according to ICD (2022). Governance indicators and financial sustainability indicators are the backbone of the growth of the global Sharia banking sector. In Indonesia, the banking structure consists of 2 (two) types of banks:(1). Commercial Banks, and (2). *Bank Pebiayaan Rakyat* or BPR (Undang-Undang Republik Indonesia Nomor 21 tahun 2008 tentang Perbankan or UU No.21/2008). Then, UU No.21/2008 Article 1 paragraph 7,8,9 and 10 specifically regulates the structure of Sharia banking in Indonesia, consisting of 2 types of banks, namely Sharia Commercial Banks and Bank Pembiayaan Rakyat Syariah (BPRS). Sharia Commercial Bank is a Sharia Bank whose activities provide services in payment traffic. Meanwhile, BPRSs are Sharia Banks whose activities do not provide services in payment traffic (UU No.21/2008 Article 1 paragraphs 8 and 9). The fundamental difference

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between these two types of banks is that there are limitations in the provision of products and services as well as the coverage of special operational areas for BPR and BPRS (Otoritas Jasa Keuangan, 2022a).

The driving factor behind the extraordinary growth of Islamic Financial Institutions-IFIs (in Indonesia are called *Lembaga Keuangan Syariah* - LKS) is the drive to capitalize on a highly profitable market where customers tend to pay more for Sharia compliance as a holistic business mode, for example be ethical, responsible and philanthropic (Ullah et.al, 2018). The Sharia banking sector is one of the highlights in the development of the Sharia financial industry (Indonesian Ministry of National Development Planning,2018). According to Indonesian Ministry of National Development Planning (2018),,the number of assets, capital adequacy ratio (CAR), potential returns (ROA), and reduction in non-performing loans (NPF Net), Islamic banking data from 2014 to 2018 shows a positive trend. As of July 2018, Sharia banking assets reached IDR 431.4 trillion with a CAR of 20.41%, ROA of 1.35%, and Net NPF of 3.92%. Meanwhile, if we look at total sharia banking assets, according to data from the Ministry of Finance as of April 2018, Indonesia's total sharia banking assets reached IDR 435 trillion or 5.79% of the total assets of the national banking industry (Indonesian Ministry of National Development Planning,2018). According to Ullah et.al. (2018), for IFIs to be accepted by the market, IFIs' financial instruments must receive approval from Sharia scholars, and the Sharia Supervisory Board (*Dewan Pengawas Syariah* or DPS) which are known for their integrity and expertise in the field of Sharia. Sharia compliance has an impact on the trust, credibility, and existence of BPRS in society (Fadillah, Rahmayanti, & Syifa, 2020).

Laldin & Furqani (2014) stated that the important role of Sharia scholars is to maintain the credibility and integrity of the industry by requiring IFIs to comply not only with the technical requirements of Sharia but also its values and principles which are fundamental aspects to differentiate sharia banking from conventional (Munifatussa 'iddah, 2021). However, the problem of Sharia governance practices in the Sharia banking sector is considered to be the weakest point because many financial institutions give weak reporting scores (ICD, 2022). According to Ullah (2014), in some cases, it is seen that Islamic banks cannot perfectly comply with Islamic Sharia due to the economic system, Government rules and regulations due to lack of knowledge and seriousness of Islamic banks. Research by Hekmatyar and Parkar (2018) found the importance of Sharia compliance standard guidelines in business practices in LKS. On the other hand, Ratnaputri (2013) emphasized that fulfilment of Sharia compliance aspects is still low in several Sharia banks in Indonesia, so the results of her research show that Sharia compliance does not affect the financial performance of Sharia banks.

Sharia principles is still low, and cannot improve the financial performance of Sharia banking, or financial sustainability. The research results of Siswanti, et.al. (2017) show that Sharia compliance has a significant and positive impact on Islamic financial performance, and Sharia compliance does not have a significant impact on sustainable business. Financial sustainability is considered an important control parameter that complements shareholder value and can be viewed by risk-averse investors as a secondary condition in investment decisions (Gleißner et.al.,2022). Regarding financial sustainability, Zabolotnyy & Wasilewski, M. (2018) define financial sustainability in two dimensions, namely value and continuity and one measure is the return on assets (ROA). Moenjak, (2017) stated that Islamic banks adopt a dual goal of balancing social welfare and financial performance efficiently. Financial performance is the main indicator of financial sustainability, and sustainable bank financial stability will reduce the possibility of a crisis, or reduce the level of losses if the crisis occurs (Gleißner, et.al., 2022). According to Gleißner, et.al., (2022), measuring the financial sustainability of a company includes, among other things, the company's growth and ability to survive, and an attractive income risk profile. According to the Financial Services Authority Regulation Number 13/POJK.03/2017 concerning

The Use of Public Accountant and Auditing Firm in Financial Services, sustainable finance in Indonesia is defined as comprehensive support from the financial services industry to achieve sustainable development resulting from a harmonious relationship between economic, social and environmental interests. In this case, the Financial Services Authority Regulation Number 13/POJK.03/2017 issued technical guidelines for banks regarding the implementation of sustainable finance for Financial Services Institutions (LJK), issuers and public companies, including for BPRS in Indonesia. According to Ayayi & Sene (2010), the financial sustainability ratio (FSR) is the capacity to cover all costs using income and generate margins to finance growth. From an Islamic perspective, Bedoui and Mansour (2015) state that sustainability is called maqasid al-shari'ah. Maqasid al-shari'ah includes faith, human rights, self, thoughts, prosperity, social entities, wealth and the environment or ecology (Bedoui and Mansour, 2015). Mergaliyev et al. (2021) stated that the performance of maqasid al-shari'ah in Islamic banks increased, but macro indices such as gross domestic product (GDP), financial development and human development hurt maqasid performance. Mohammed et.al. (2015) stated that the maqasid al-shari'ah index is a comprehensive index that Sharia banks must comply with. Then, to get high profits, banks must try to carry out businesses or activities that support the bank's growth rate (Mohammed et.al., 2015). The bank's goal to generate large profits is to achieve its rate of return (Wahyuni & Fakhruddin, 2014).

According to Wahyuni & Fakhruddin (2014), a bank will operate more effectively and efficiently if it can maintain good performance and try to reduce existing risks. Rianasari & Pangestuti (2016) stated that to achieve a high Profit-Sharing Ratio (PSR), the total financial income must be higher than the financial burden. The greater the PSR of a bank, the greater the bank's ability to continue its operations (Rianasari & Pangestuti, 2016). The research results of Rianasari & Pangestuti (2016) show that the Return on Assets (ROA) in the previous year ($ROAt{-}1$) has a positive and significant effect on financial sustainability. Return on Assets (ROA) is a company's ability to generate returns on the total assets it owns (CFI, 2024). According to CFI (2024), return on assets (ROA) is a type of return on investment (ROI) metric that measures the profitability of a business compared to its total assets. This ratio shows how well a company is performing by comparing the profit (net profit) it generates with the capital invested in assets. Therefore, the higher the returns, the more productive and efficient management is in utilizing economic resources (CFI, 2024). Meanwhile, the profit-sharing ratio (PSR) index is interpreted as an effort towards the peak of obtaining something for customers at Islamic banks (Khasanah,2016).

Sharia compliance and financial sustainability are important things to know about the possibility of a bank's going concern in the future so that at least it can provide confidence in the continuity of Sharia banking. Therefore, sharia experts with integrity are needed to carry out supervision at IFIs. Sharia supervision is carried out by the *Dewan Pengawas Syariah* (DPS) or Sharia Supervisory Board established by the Financial Services Authority (*Otoritas Jasa Keuanga*n or OJK), and the DPS is at the forefront of supervising the implementation of Sharia compliance in Sharia banks (Abidin,2011). According to Basel III (2011), one of the main concerns of Islamic Banking is operational risk, namely the risk resulting from inadequate or failure of internal processes, people and systems, or external factors, includes legal risk and sharia risk into operational risk (Djojosugito (2008). In Islamic banks, bankers view operational risk as one of the most important risks (Khan & Ahmed,2001) because it plays an important role in bank profitability (Leippold and Vanini,2005). Amanat (2000) stated that several financial institutions experienced huge losses due to a lack of operational risk management, therefore legal risk and sharia risk are both operational risks. requires further attention in risk management.

Zulhelmy (2023) states that supervision related to Sharia compliance is carried out by the Sharia Supervisory Board (DPS), which is part of the National Sharia Council - Indonesian Ulema Council (DSN-MUI) which is placed in the IFIs. The existence of DPS in Sharia Financial Institutions (*Lembaga Keuangan Syariah* or LKS) both in Sharia Commercial Banks and Sharia Credit Banks (BPRS) is very necessary to ensure LKS governance related to Sharia Compliance. Sharia Compliance includes business activities, products and services. The implementation of Sharia principles in LKS is one of the key factors for Muslim consumers in choosing financial products and services (Ilhami, 2009; Awan and Bukhari, 2011).) to improve a culture of compliance (Maslihatin & Riduwan, 2020). According to Maslihatin & Riduwan (2020), compliance culture is the values, behaviour and actions that support Islamic banks to achieve all Bank Indonesia regulations to achieve financial sustainability. The research results of Awan and Bukhari (2011) show that Muslim consumers believe that using Sharia banks is part of an effort to implement their beliefs so sharia compliance is key in marketing Sharia banking products (Ilhami, 2009). In this case, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOFI) has created a series of legal frameworks to ensure that products and operations at Islamic Financial Institutions (IFIs) are required to comply with sharia principles (Hayes, 2023. However, Riduwan's (2019) research results show that Sharia compliance is still a formality or limited to the contract aspect. Meanwhile, research findings by Abbas and Ali (2019) show that Sharia compliance for new employees is only a requirement to become an employee of a Sharia bank in Pakistan.

Based on various previous descriptions, it can be interpreted that the profit-sharing ratio (PSR) and the zakat performance ratio (ZPR) variable as independent variables influence return on assets (ROA) as the dependent variable can be measured. According to Munifatussa'idah (2021), the relationship between the financial performance of Islamic banks can increase with the influence of corporate governance variables, namely Sharia compliance, and related earnings management related to financial sustainability, intellectual capital and others.

Thus, the application of good business financial management principles related to governance, Sharia compliance and financial sustainability are very important and strategic issues related to the financial performance of Sharia banks. The financial performance of Islamic banks is shown by Return on Assets (Munifatussa'idah, 2021). Therefore, a hypothesis for this research can be formulated which is thought to have a direct positive influence both partially and simultaneously on profit sharing ratio and zakat profit ratio on return on assets in Indonesian BPRS as follows.

H1: Profit sharing ratio partially has a significant effect on return on assets in Bank Pembiayaan Rakyat Syariah (BPRS) in Indonesia

According to Khasanah (2016), Islamic banks are to reach the top to obtain a profit share from distribution to their customers which can be known from the existing profit-sharing ratio (PSR) index. PSR is one of the most important variables in the Islamic banking sector because financing with profit sharing is a point of existence of financing in the Islamic bank (Khasanah, 2016). PSR can be found by adding up the financing from the *Mudharobah* contract and also the *Musyarakah* contract and then comparing it with the total existing financing (Dewanata et al., 2016). Referring to the research results of Khasanah (2016) concluded that partially there is a significant influence of PSR on financial performance,

H2: The zakah performance ratio has a partial and significant effect on return on assets in Bank Pembiayaan Rakyat Syariah (BPRS) in Indonesia

Zakah performance ratio (ZPR) in a bank is an indicator of the Islamicity Performance Index and is used to calculate zakat which is an indication of the performance of Sharia banking (Rahma, 2018; Hameed et al., 2004). The research results of Indrayani & Anwar (2022) show that the zakah performance ratio has an insignificant positive effect on ROA. Referring to the research results of Khasanah (2016) it is concluded that partially there is no significant effect of ZPR on financial performance,

H3: Profit sharing ratio and zakah performance ratio simultaneously have a significant effect on ROA in Bank Pembiayaan Rakyat Syariah (BPRS) in Indonesia

According to research by Aslam & Haron (2020), Sharia corporate governance has a significant effect on the performance of Sharia banks because effective governance will improve the quality of financial reports so that it can improve the financial performance of Sharia banks. Then, the research results of Sabila & Puspita (2022) and Hasanah et.al. (2022) show that simultaneously Sharia compliance and Sharia corporate governance have a significant effect on Sharia commercial banks, while the Profit-Sharing Ratio and Sharia Income Ratio have no effect on Bank Fraud in Sharia Commercial Banks (Sabila & Puspita, 2022). Referring to the research results of Khasanah (2016), it is concluded that simultaneously there is a significant influence of the profit - sharing ratio and zakat profit ratio on ROA at BPRS in Indonesia.

Literature Review

Sharia Compliance

Sharia is considered to be the foundation of Islamic banking and, therefore, no Islamic bank can function without compliance with Sharia because if a person or any bank does not follow Islamic Sharia, he cannot be recognized as a Muslim and the bank cannot be recognized as a Muslim. cannot be treated as an Islamic bank (Ullah,2014). Abbas et al. (2009) stated that the characteristic of sharia banking is the existence of a sharia board consisting of ulama. This board exerts influence on the operations of Islamic banks. Mohd Abbas et al. (2009) and Iqbal et al. (1998) argue that new products for Islamic banks cannot be introduced without prior permission and approval from the Sharia board. Sharia compliance is interpreted as compliance with Islamic law (Silvia et.al.,2017; Usman, 2012). Islamic banks are financial institutions that operate by Islamic sharia principles, meaning that banks in their operations follow the provisions of Islamic sharia (Yusuf, 2017).. Sharia compliance is needed to guarantee the application of sharia principles in banking institutions (Biyantoro & Ghoniyah, 2019). Sharia compliance guarantees for all BPRS activities are important for customers and the public. Several provisions that can be used as a qualitative measure to assess Sharia compliance in IFI are as follows:

i. The contracts used for the collection and distribution of funds are in accordance with applicable Sharia principles and Sharia regulations;
ii. All economic transactions and activities are reported fairly in accordance with the applicable Sharia accounting standards;
iii. The work environment and corporate culture are in accordance with Sharia;
iv. The business financed does not contradict Sharia;
v. There is a DPS as a Sharia supervisor for all operational activities of IFI; and
vi. Sources of funds come from legal and halal sources according to Sharia (Ghifari, 2021).

The superiority and uniqueness of banking companies necessitate the need for rational corporate governance practices, especially with the additional emphasis on the Basel Committee for Banking Supervision (Handa, 2018). Munifatussa'idah (2021) stated that an organization needs a good corporate governance mechanism because an optimal corporate governance system can increase trust. Trust in BPRS in Indonesia can be increased if Sharia Compliance is implemented consistently and continuously. In this case, the participation of Sharia scholars, namely DPS, in the governance of IFIs is very important for the development of this industry, especially in the implementation of Sharia compliance (Laldin & Furqani, 2014). Sharia Compliance is very important because Sharia compliance is a differentiator between Sharia banks that operate based on Sharia principles and companies in general with an orientation towards improving banking performance (Dewanata et al., 2016). According to research by Djuwita et.al. (2019) and Hamsyi (2019) Sharia compliance has a significant effect on the financial performance of Sharia banks. According to Abubakar &Handayan (2021), the implementation of Sharia governance is important in the Sharia banking industry because the principles of Sharia governance are also the ultimate goal of Sharia banking. Sharia governance can guarantee certainty and protection for Sharia banks and the public through the application of the principles of transparency, accountability, responsibility, independence and fairness (Abubakar (2021).

Financial Sustainability

Financial sustainability is a company's capacity to earn income or obtain a return on investment that covers all costs and generates sufficient profits for investors (Banerjee, 2024). According to León (2001), financial sustainability is the capacity of an organization to obtain income (grants or other) to maintain productive processes (projects) at a stable or growing level to produce results (achieving the mission, goals or objectives). In other words, the main goal of financial sustainability is the results that an organization wants to achieve, and the means to achieve these results is the fundraising capacity that allows the implementation of projects and activities that bring an organization to these goals (León, 2001). According to Banerjee (2024), the components used to implement a financial sustainability plan in a business are as follows:

i. Every business requires capital investment and time to start and develop and ensure that there is no misuse or waste of funds;
ii. Planning is essential to encourage budgeting and create provisions for financial needs due to predictable and unexpected contingencies;
iii. Management's commitment to business operations, so that there is no tendency to gain personal profit, and this commitment will guarantee the financial sustainability of the business; and
iv. Good management and teamwork are the basic concepts related to successful financial sustainability.

Sustainability Report - According to Wijayanti (2016), a sustainability report is a report that contains not only financial performance information but also non-financial information consisting of information on social and environmental activities that enable a company to grow sustainably. Sustainability reporting is the practice of measuring, disclosing and accountability efforts for organizational performance in achieving goals for sustainable development to stakeholders, both internal and external (Aziz, 2014). Sustainability Report is a company's contribution to society as seen from general disclosures and special disclosures. General disclosures contain company strategy and analysis, company profile, indication of material aspects of the company, relationships with stakeholders, report profile and corporate governance. Meanwhile, special disclosures include disclosures regarding economic performance, environmental performance and social performance (Suharyani et al, 2019). Maharani & Soewarno (2018) stated that financial sustainability can be interpreted as optimizing the implementation of Sharia compliance in Sharia banking companies tends to increase the trust of stakeholders (customers, business people, government and others), and this will build a good image for the company. Therefore, BPRS management must strive to encourage the best use of resources and minimize waste.

Profit Sharing Ratio

Profit This profit-sharing system guarantees justice and no party is wronged (Ascarya,2000). Profit Sharing Ratio (PSR) in Sharia banks is the main goal which is often also called profit sharing. Because profit sharing is very important in efforts to find out how far Islamic banking has been successful in achieving the existence of Islamic banks from the existence of profit sharing through PSR (Hameed et al., 2004). used to measure the ability of Sharia banks to be involved in channelling funds and financing the productive sector to obtain income from profit-sharing schemes (Syaifullah,2020). The principle of profit sharing is applied through al - al-mudharabah and al - al-musharakah contracts in Sharia banking (Hameed et al.,2004). According to Muhammad (2014), *al - mudharabah* and *al-almusyarakah* contracts are what differentiate Sharia banks from conventional banks, namely:

i. The *Al-mudharabah* contract can be interpreted as a collaboration between two or more people in running a business with the knowledge that one party is the shohibul Maal (owner of funds) and the other party is the mudharib (manager of funds) to run a business, and regarding the distribution of profits. according to the portion that has become a mutual agreement. As Allah SWT says in the Al-Quran, Surah An-Nisa (4) verse 29: "*O you who believe, do not falsely devour each other's wealth, except using commerce that is valid between you. And do not kill yourselves; Indeed, Allah is Most Merciful to you*." In practice, the *Al Mudharabah* contract in Sharia Bank is a form of contract (agreement) between the owner of capital (shahibul maal) and the user of funds (*mudharib*) for use in productive activities where profits are shared by both parties between the capital and the fund manager. If a loss occurs, it is borne by the capital owner, if the loss occurs under normal circumstances, the investor (shahibul mail) may not intervene with the fund manager (mudharib) in running his business (Mardani,2014),

ii. The Al-musyarakah contract can be interpreted as a collaboration between two or more people in running a business where each person provides capital with several provisions regarding the profits while the risks are shared based on an agreement. This al-musyarakah has been permitted by Allah SWT, as stated in the Al-Quran surah As-Shad (38) verse 24: "*Daud said: indeed he has done wrong to you by asking for your goat to be added to his goats. And indeed, most of the people who join together do injustice to others, except those who believe and do righteous deeds; and these are very few." And Daud knew that we tested him; then ask forgiveness from his Lord then fall and repent*." In practice, an Al-musyarakah contract at a Sharia Bank is a business cooperation agreement between two or more parties in running a business, where each party includes capital by the agreement and the profit sharing from the joint business is given according to the contribution of funds or according to the agreement. Musyarakah, also called syirkah, is an associational activity like carrying out joint efforts between related parties (Ismail, 2011).

In Sharia banking, the measuring instrument for Sharia banking performance related to the amount of financing can be seen through a profit-sharing scheme (Profit Sharing Ratio - PSR) by utilizing two contracts, mudharabah and musyarakah contracts (Kuncoro & Anwar, 2021; ICD, 2022). The size of the profit-sharing portion between the two parties is determined according to mutual agreement and must occur with the willingness of each party without any element of coercion. This profit-sharing system guarantees justice and that no party is wronged (Ascarya, 2008). The amount of profit sharing carried out will influence the amount of profitability that Sharia banking has (Wiroso, 2007). From the research results of Indrayani & Anwar (2022), it is known that PSR can have a significant influence on the ROA of Islamic banking in Indonesia. In line with the results of Pudyastuti's research (2018) which shows that PSR in Sharia banks has a significant influence on the amount of ROA, where financing for profit sharing carried out through mudharabah and musyarakah contracts can help Sharia banking contribute profit sharing income, so that it will optimize the amount of profitability obtained by sharia banking. However, this view is not in line with Indrayani & Anwar (2022) who state that the profit-sharing ratio has a significant negative influence on ROA

Zakah Performance Ratio

Zakah is a main pillar of Islam and an obligation that should not be neglected. Islamic Banks are not exempt from zakat obligations – an obligation that is fulfilled with the approval of their Sharīʿah supervisory board (Mohammed and Muhammad, 2017). This means that investment sources such as savings and savings are subject to 2.5% zakat (Naser and Pendlebury, 1997). Of the five fundamentals of Islam, Zakah occupies the second positioin, the first being prayer (*shala*t) (Kitab Al-Zakat,N/D). Kitab Al-Zakat, (N/D) stated that the primary motive of zakat is religious and spiritual, while the social and economic aspects are subservient to it. Its social significance is that it awakens in man the sense of brotherhood with less fortunate members of society, and stirs his moral conscience to make sacrifice for their sake. From the economic point of view it discourages hoarding and concentration of wealth and helps its steady and constant flow from the rich to the poor. It is in fact a good means of providing purchasing power to the poor, for ameliorating their hard lot and enabling them to stand on their own legs. (Kitab Al-Zakat,N/D.

According to Rahma (2018), zakah is one of the aims or purposes of Islamic economics, to find or find out whether a Sharia bank can be said to be good in terms of distributing zakat. The main principle of Islamic business should emphasize social welfare, but in practice, profit maximization remains the main motive (Safiullah and Shamsuddin, 2019). In this context, Alhammadi et.al.. (2022) stated that Islamic Banks theoretically operate to achieve the goal of meeting socio-economic goals; however, in current practice, Islamic Banks' priority is to maximize profits. Mohammed and Muhammed (2017) believe that Islamic Banks emphasize Islamic values, especially justice in society, rather than profits. According to Sharia enterprise theory in Kalbarini (2018), the company's responsibility is not only to the company owner, but we as Muslims are responsible to the one who created the universe, namely Allah. Subhanahu Wa Ta'ala. Zakath himself is the excess wealth issued to every follower of the Islamic religion. Meanwhile, for companies, paying zakat is based on the assets they own, and if the company is profitable, then the zakat that will be issued will also be high.

Return On Assets

In principle, strong financial performance in a company can be measured by Return on Assets or ROA (ICD, 2022; Zabolotnyy, S., & Wasilewski, M., 2018).). In general, Return on Assets (ROA) is one of the profitability ratios that is used to be a benchmark for the level of a bank's ability to earn profits and run it efficiently. According to Frianto (2012), Return on Assets is a profitability ratio that describes a company's financial performance. This ratio shows a company's ability for all its assets to generate profits after tax. This ratio is also an indicator of a bank's ability to earn profits using several assets owned by the bank. Return on Assets (ROA) is a type of return on investment (ROI) metric that measures the profitability of a business compared to its total assets (CFI, 2024). CFI (2024) concludes that ROA shows how well a company performs by comparing the profit (net profit) it produces with the capital invested in assets. This means that the higher the yield, the more productive and efficient management is in utilizing economic resources (CFI, 2024)

Profitability in Sharia banking can be known through calculating ROA. ROA is an indicator that can show the success of an agency or company to gain a profit (Rahmawati & Muid, 2012). Rahmawati & Muid (2012) state that the higher the value of profitability obtained, the higher the level of a company's ability to obtain high profits. According to Yantiningsih et al., (2016), ROA is more focused on the level of a company's capabilities to obtain earnings and profits as well as measure effectiveness within the company by maximizing its assets. If the value of the bank's ROA is greater, the higher the level of profit obtained by a bank and the better its position in the asset management aspect (Hameed et al., 2004). A bank's success is based on a quantitative assessment of the value of a bank's profitability as measured by ROA (Kesuma & Nafis, 2021).

Research Methodology

The research method used is a quantitative approach, using secondary data. The object of the research is the Sharia Banking Institution, namely the (BPRS) in Indonesia. According to data from the Financial Services Authority (OJK) until 2021, there are 160 BPRS in Indonesia. However, the data obtained to be processed only amounts to 153 BPRS, because 7 BPRS do not contain their financial reports. The number of years sampled was 5 years from 2017 to 2021, so the data processed was 765. The data analysis technique used multiple regression. The dependent variable is Return On Assets (ROA). This research aims to investigate and test the relationship between the profit-sharing ratio and zakat profit ratio on return on assets, which is an empirical study related to Sharia compliance and financial sustainability in Islamic credit banks in Indonesia. Meanwhile, the independent variables are Profit Sharing Ratio (PSR) and Zakat Profit Ratio (ZPR).

i. First, the Profit-Sharing Ratio (PSR) is one of the most important elements in Islamic banking, namely it is related to profit-sharing financing. This ratio is used to see that Islamic banks use profit-sharing activities in their activities with total financing, calculated using the formula:
    a. *PSR= (Mudharabah+musyarakah financing)/ (Total Financing)*
ii. Second, the Zakat Performance Ratio (ZPR) is one of the commandments in Islam. Therefore, the performance of Islamic banks must be based on the zakat paid by commercial banks to replace conventional performance indicators, namely earnings per share, which can be calculated using the formula:
    a. *ZPR= Zakat/ (Profit before tax)*
iii. Third, Return on Assets (ROA) is a ratio used to measure a bank's ability to earn profits. The ways to calculate profitability (ROA) are:
    a. ROA= (Net Profit after tax) / (Total Assets)

Therefore, the hypothesis of this research is as follows

i. H1: Profit-Sharing Ratio (PSR) has a significant effect on Return on Assets (ROA) in Bank Pembiayaan Rakyat Syariah (BPRS) in Indonesia

ii. H2: Zakat Performance Ratio ZPR has a significant effect on Return on Assets (ROA) in Bank Pembiayaan Rakyat Syariah (BPRS) in Indonesia

iii. H3: Profit-Sharing Ratio (PSR) and Zakat Performance Ratio (ZPR) simultaneously influence Return on Assets (ROA) in Bank Pembiayaan

Rakyat Syariah (BPRS) in Indonesia

Therefore, this study also identifies a new theme, namely the relationship of PSR and ZPR to ROA as an empirical study of Sharia Compliance and Financial Sustainability in Sharia Rural Banks in Indonesia, and sustainable competitive advantage. Figure 1 shows the relationship model of the Profit Sharing Ratio (PSR) and Zakah Performance Ratio (ZPR) on Return on Assets (ROA) both partially and simultaneously used in this research as follows:

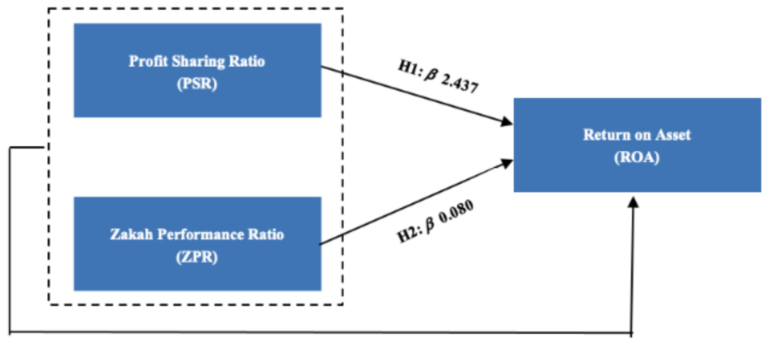

Figure 1: Relationship Model of PSR and ZPR to ROA both partially and simultaneously; Source: Developed by the Author.

Analysis and Findings

Hypothesis testing is carried out by testing requirements, including normality and linearity test analysis. Path coefficients are used to see the significance and strength of the relationship and also to test the hypothesis. The path coefficient value ranges from -1 to +1. The closer the value is to +1, the stronger the relationship between the two constructs. A relationship that is closer to -1 indicates that the relationship is negative (Sarstedt et.al., 2017). This test was carried out to test the research hypothesis regarding the partial influence of each independent variable on the dependent variable. The T-test (T-Test) is a statistical test used to test the truth or falsity of a hypothesis which states that between two sample means taken randomly from the same population, there is no significant difference (Sudjiono, 2010). T-statistics is a value used to see the level of significance in hypothesis testing by finding the T-statistics value through a bootstrapping procedure. In hypothesis testing it can be said to be significant when the T-statistics value is greater than 1.96, whereas if the T-statistics value is less than 1.96 then it is considered not significant (Ghozali, 2016).

Therefore, decision-making is done by looking at the significance value in the Coefficient table. Ghozali (2016) states that usually the basis for testing regression results is carried out with a confidence level of 95% or with a significance level of 5% ($\alpha = 0.05$). In this research, hypothesis testing is used to find multiple linear regression between the independent variable and the dependent variable together. Multiple linear regression analysis is an extension of simple linear regression analysis with two or more independent variables that function as predictors for the dependent variable predictor. By using the SPSS Statistics Base 23 program, the calculation results are obtained in Table 1 below:

Table 1: Coefficients[a] - Summary of Hypothesis Testing Results (a=0.05)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
1	**(Constant)**	1.738	.389		4.466	.000
	PSR	2.437	.822	.107	2.966	.003
	ZPR	-.080	2.168	-.001	-.037	.971

a. Dependent Variable: ROA

Source: SPSS 23 Data Processing Results

From the results of the multiple linear regression analysis above, the regression equation model developed in this research is as follows:

ROA= 1.738 + 2.437PSR - 0.080ZPR

Then, the conclusions that can be drawn from the results of the regression equation model in Table 1 are as follows:

i. The constant coefficient is $\boldsymbol{\beta}$ 1.738 with a positive value, meaning that the dependent variable, Return on Assets (ROA) will have a value of $\boldsymbol{\beta}$ 1.738 if the independent variables Profit Sharing Ratio (PSR) and Zakah Performance Ratio (ZPR) each have a value of 0.

ii. The PSR Ratio variable has a regression coefficient of $\boldsymbol{\beta}$ 2.437. If it is assumed that the other independent variables (ZPR) are constant, then every 1 unit increase in PSR will have an impact on increasing the ROA value by $\boldsymbol{\beta}$ 2.437. Therefore, referring to the theory that the higher the ROA value, the higher the PSR, assuming the other independent variables are constant (ZPR). Thus, it can be said that Hypothesis 1 which states that the profit-sharing ratio (PSR) has a significant effect on financial sustainability as proxied by return on assets (ROA), is accepted. or. can be supported

iii. The Zakah Performance Ratio (ZPR) variable has a negative regression coefficient of $\boldsymbol{\beta}$ 0.080. If it is assumed that the other independent variables (PSR) are constant, then every decrease in ZPR will result in a decrease in the ROA value of $\boldsymbol{\beta}$ 0.080. Based on theory, the lower the ZPR value, the lower the ROA. Therefore, it can be concluded that every 1 unit decrease in ZPR will have an impact on decreasing the ROA variable by $\boldsymbol{\beta}$ 0.080 assuming the other independent variables (PSR) are constant. Thus, the second hypothesis (H2) which states that ZPR has a significant effect on ROA which is proxied by return on assets (ROA) cannot be accepted or cannot be supported. In other words, the ZPR variable is not yet acceptable or cannot be supported by ROA which has implications for financial sustainability empirically based on statistical tests.

Furthermore, the regression linearity test was carried out using the Table 2 Anovaa procedure. The results of the analysis show that Ho is accepted or the relationship pattern of the independent and dependent variables is linear. The relationship between related variables is significant and all correlation coefficients between variables show a positive and significant relationship at a = 0.05, and the steps taken are calculating the path coefficient using the SPSS for Windows version 23 application. The simultaneous F-statistics test shows whether all the independent variables included in the model have a joint influence on the dependent variable. The F test is carried out by comparing the calculated F value with the F table or by comparing the significance value. If the calculated F value > F table and the F test significance value < 5% then all independent variables simultaneously influence the dependent variable and are suitable.

The conclusion is that by looking at the sig α (5%) value in the following table, a summary of the coefficients can be seen in Table 2 below:

Tabel 2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	**Regression**	824.004	2	412.002	4.403	.013[b]
	Residual	71308.656	762	93.581		
	Total	72132.660	764			

a. Dependent Variable: ROA; b. Predictors: (Constant), ZPR, PSR

Source: SPSS 23 Data Processing Results

Based on Table 2, a decision can be obtained that H0 is rejected and H1 is accepted. This can be seen from the calculated F value, which is 4.403. Meanwhile, the resulting significance value is .013, which is smaller than 0.05. Thus, it can be concluded that this multiple regression model is suitable for use, and the independent variables which include Profit Sharing Ratio (PSR) and Zakah Performance Ratio (ZPR) have a simultaneous influence on the dependent variable Return on Assets (ROA). It is concluded that the PSR and ZPR simultaneously influence Profitability, so that this research equation falls into the suitable category.

Thus, the third hypothesis (H3) states that Profit Sharing Ratio and Return on Assets simultaneously or together have a significant effect on return on assets (ROA) in BPRS in Indonesia. can be accepted or can be supported by ROA which has implications for financial sustainability empirically based on statistical hypothesis tests.

Discussion

H1 - Effect of Partial Profit-Sharing Ratio on Return on Assets

In the t-test results table, Table 1. Coefficients - Summary of Hypothesis Testing Results (a=0.05) shows that the significance value of the independent profit-sharing ratio (PSR) variable is 0.003 < 0.05 (p-value) which means that the independent profi-sharing ratio has a significant influence on return on assets. A high Return on Assets (ROA) will indicate that the company's performance is good, so bank customers will be interested in investing their funds in the form of deposits or mutual funds (Feri, 2014). In the t-test results table, it is also known that the independent profit-sharing ratio regression coefficient value is 2.437, meaning that the independent profit-sharing ratio has a positive effect on ROA. Based on the theory that the higher the profit-sharing ratio, the higher the level of return on assets the independent profit-sharing ratio regression coefficient value becomes 2.437, which means that the independent profit-sharing ratio has a positive effect on return on assets, so hypothesis H1 is accepted.

This research is in line with research conducted by Muttaqin (2020) and Khasanah (2016) which concluded that partially there is a significant influence of PS on financial performance, but there is no significant influence of ZPR on financial performance. The results of the regression test show that the profit-sharing financing variable has a positive and significant effect on financial performance, and ROA (Yulia, 2021). According to Muttaqin (2020), the profit-sharing ratio (PSR) is a ratio used to find information on the advantages of Islamic banks in achieving their existence using income over profit-sharing based on financing to customers. In this case, PSR can be interpreted as an effort to reflect how much profit-sharing income a Sharia bank achieves. Referring to the research results of Rianasari & Pangestuti (2016), CFI (2024), Rahmawati et al., (2020), Nurdin & Suyudi (2019), Pudyastuti (2018), Aminah et al. (2019) and Lestari (2022). According to Lestari (2022)., the influence of profit-sharing ratio, zakat performance ratio, Islamic income ratio, fee-based income, and financing to deposit ratio on the profitability of Islamic commercial banks in Indonesia: 2016-2020 period. proves that PSR has a positive and significant effect on the ROA of Islamic banks.

Thus, if the PSR increases, it will determine the income and profits generated by banks and BPRS in Indonesia. Therefore, the third hypothesis (H3) which states that Profit Sharing Ratio and Return on Assets have a significant effect on ROA can be accepted and supported. With the PSR value still low in Sharia banking, this shows that Sharia banking's ability to optimize profitability is still weak (Rahma, 2018). Furthermore, the relationship between Partial Profit-Sharing Ratio and Return on Assets in BPRS in Indonesia is very important because PSR aims to find out the extent to which Islamic banking has succeeded in achieving its existence in profit sharing through the profit-sharing ratio (Hameed et.al., 2004). The profit-sharing ratio can be calculated by adding up the financing from mudharabah and musyarakah contracts which is then compared with the total financing.

H2 - Partial Influence of Zakah Performance Ratio on Return on Assets

IIn general, Return On Assets (ROA) is known as a ratio that shows the level of return on a business from all investments that have been made (CFI, 2024). Meanwhile, the Zakah Profit Ratio (ZPR) is interpreted as. In this case, the relationship between ZPR and ROA is. In the t-test table, Table 1. Coefficients- Summary of Hypothesis Testing Results (a=0.05) shows the significance value of the zakat profit (ZPR) ratio variable is 0.971 > 0.05 (p-value) which means that the zakah profit ratio (ZPR) does not have a significant influence on return on assets (ROA) so that hypothesis H2 is rejected. Referring to Table 1, the results of the t-test also show that the regression coefficient value of the zakah performing ratio is -0.080. This means that the Zakah Performance Ratio (ZPR) has a negative and insignificant effect on ROA. Therefore, the findings of this research show different results from the theory of previous researchers which stated that the higher the ZPR, the higher the ROA (Dewanata et al., 2016) (Rosyidah, 2020).

Meanwhile, the results of research conducted by Khasanah (2016) and Lestari (2022). concluded that partially there is a significant influence of PSR on financial performance, but there is no significant influence of ZPR on financial performance. However, this view is not in line with the research results of Sulaeman et.al (2022) which state that it is proven that zakat makes a significant contribution to increasing the profitability of Islamic banks, namely ROA (Sulaeman et.al., 2022), and zakat has a significant positive effect. on firm value (Triana et.al., 2019). Research conducted by Rahmawati et al (2020) shows that the Zakat Performance Ratio (ZPR) is a ratio used to describe the development of Sharia bank performance by issuing zakat that is paid and does not have a significant influence. Furthermore, the partial relationship between ZPR and ROA of BPRS in Indonesia is very important because ZPR is one of the main objectives of Sharia banking. Zakat is one of the commandments in Islam so it must be one of the goals of Islamic accounting. Therefore, Sharia banking performance must be based on zakat issued by the bank to replace conventional performance indicators. Bank assets must be based on net assets and not just net profit. If Sharia Financial Institutions such as Sharia Commercial Banks and BPRSs in Indonesia have high net assets, this will have implications for higher zakat that must be paid.

H3 - Simultaneous Influence of Profit-Sharing Ratio & Zakah Performance Ratio on Return on Assets

From the test results in Table 2. Anovaa, the output results of the F test show that the prob (f-statistic) value is 0.000430 < 0.05, so it is known that the independent variables in this study are Profit Sharing Ratio (PSR) and Zakah Performance Ratio (ZPR) has a simultaneous and significant influence on the dependent variable (ROA) at *Bank Pembiayaan Rakyat Syariah* (BPRS) in Indonesia. Based on the theory that the increase in Sharia Bank wealth should follow the increase in zakat payments made by Sharia Banks. However, in reality, there are still Sharia banks that have not distributed their zakat funds (Yusnita, 2019). The research results of Indrayani & Anwar (2022) and Lestari (2022) show that simultaneously the Profit-Sharing Ratio and Zakah Performance Ratio variables have a positive and significant effect on ROA. Furthermore, the relationship between Simultaneous Profit-Sharing Ratio & Zakah Performance Ratio on Return on Assets at BPRS in Indonesia is very important. For users of financial reports when making decisions to invest, investors can look at PSR and ZPR because these two variables provide an idea of how the company's condition can be profitable or not as an investment medium so that investors will be increasingly interested in investing in BPRS in Indonesia. Compliance with laws, norms and regulations helps any bank maintain its reputation, enabling it to meet the expectations of customers, the market and society as a whole. Banks that are negligent in carrying out their compliance roles and functions will face compliance risks, which are defined by the Basel Committee on Banking Supervision as legal risks, material losses and damage to the bank's reputation due to violations of laws and regulations, and rules related to norms (Novita,2019).

In the banking industry, reputation is very important because it guarantees continuous performance improvement (Rahmany,2017). If a bank can carry out the role and function of Sharia compliance well, then the bank has a complete and comprehensive concept, namely morals and devotion to *Allah SWT*. Sharia compliance can be implemented effectively in a protective, constructive and consultative manner (Waluyo,2016). Meanwhile, compliance management ensures that Sharia bank business activities are by applicable laws and regulations, as well as Sharia principles. Compliance risk arises when banks fail to comply with or implement applicable laws and regulations, including sharia principles in sharia banking. Therefore, compliance risk management is very important to avoid the risk of raising and distributing funds, as well as other service activities (Nengsih et al.,2021). According to Nengsih et al. (2021), it can increase public trust and credibility become a major challenge for the banking industry (Riadi et.al.,2023) as well as the existence of sharia banks. Trust is acquired by achieving several objectives over time (Carstens,2023) and credibility. Thus, the implementation of sharia compliance in BPRS in Indonesia has characteristics, namely that it is in the mandatory category so it must be taken into consideration in evaluating BPRS business steps or strategies to determine the level of success in its business operations.

Implications, Theoretical and Practical Contribution

The results of this research show that the Zakah Performance Ratio (ZPR) does not have a significant influence on Return On Assets (ROA). However, zakat should be counted as a major factor because Sharia banking must be able to provide several dimensions in disclosing corporate responsibility based on Sharia compliance. This shows that BPRS efforts have fulfilled vertical accountability both towards God (Allah Subhanahu Wa Ta'ala), as well as horizontal accountability towards direct stakeholders, indirect stakeholders and the universe. In this context, BPRS management in Indonesia is expected to consistently and sustainably be able to provide profit sharing to each customer. , as well as providing optimal attention to the management of zakat according to maqashid sharia. The main aim of maqashid sharia is to realize the benefit of humanity (mashâlih al-ibâd) both in world affairs and in the affairs of the afterlife. Then, an important consideration factor for investors, both Muslim and non-Muslim, to invest in BPRS is related to financial sustainability and the distribution of zakat performance as a basis for rational considerations and beliefs. Thus, it is hoped that this research can provide a significant contribution to further research to determine other factors such as intellectual capital, capital adequacy ratio, non-performing financing, financing-to-deposit ratio, operational costs and operational income, which will have an influence. related influences. with financial sustainability and zakat profit sharing at other Sharia Financial Institutions in Indonesia as regulated by the Financial Services Authority (*Otoritas Jas Keuangan* or OJK).

Conclusion

The profit-sharing ratio and zakat performance ratio are measures related to the implementation of sharia compliance, while return on assets is a measure of financial sustainability. Referring to the research results, the partial relationship related to the application of Sharia Compliance to ROA does not have a significant relationship to ROA. This indicates that the implementation of zakat tends to still be considered to have not provided an optimal contribution to financial sustainability at Sharia People's Financing Banks (BPRS) in Indonesia in 2017. On the other hand, this research found that providing profit sharing to partners has the most significant influence. Thus, it is hoped that the results of this research will provide important insights for all parties (practitioners in BPRS, the government as a policy and supervisory authority, Ulama and Academics, as well as observers of Sharia economics), especially regarding the impact of PSR and ZPR on ROA in BPRS in Indonesia. This is very important because banking institutions in principle have responsibilities both horizontally and vertically in their operations. Therefore, implementing Sharia compliance is the first and main obligation that differentiates Sharia banking institutions from conventional banking institutions in their business operations. Furthermore, the agenda that must be carried out by Sharia banking institutions in general and BPRS in Indonesia, in particular, is to consistently implement Sharia principles in total (*kaffah*) to achieve corporate financial sustainability. In the end, future research directions are expected to explore the longitudinal relationship of PSR and ZPR on ROA in Islamic financial institutions. This can be done by considering changes in economic conditions or regulatory frameworks as well as investigating the impact of digital transformation and advances in Islamic financial technology to become more competitive in providing services and products both globally and regionally.

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