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The Relationship between Maqasid Sharia and Profitability Ratio in Islamic Banking Industries Performance

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İslâmi Bankacılık Sektörünün Performansında Şeriat Hedefleri ve Kârlılık Oranı İlişkisi

Abstract

The study aims to analyse the moderating relationship between the return on assets (ROA) ratio with the Islamic maqasid ratio. This study uses several independent variables: financing to deposit ratio, labour cost ratio, promotions cost ratio, non-performing financing, and the ratio of financing distribution of micro, small and medium enterprises (MSMEs). The methodology used in this study is quantitative. The result of this study is that ROA significantly moderates the independent variables on ROA. Furthermore, the novelty of this research is to link the ratio of social and spiritual aspects with a balance of financial aspects.

Keywords : Maqasid Sharia Ratio, Financing to Deposit, Return on Asset, Labour Cost Ratio, Promotion Cost Ratio, Non-Performing Financing Ratio, MSMEs Financing Ratio.

JEL Classification Codes : F65, G15, G22.

Öz

Çalışmanın amacı, aktif kârlılığı (ROA) oranı ile İslami Şeriat Hedefi oranı arasındaki düzenleyici ilişkiyi analiz etmektir. Bu çalışmada birkaç bağımsız değişken kullanılmaktadır: finansmanın mevduata oranı, işgücü maliyeti oranı, promosyon maliyeti oranı, sorunlu finansman ve mikro küçük ve orta ölçekli işletmelerin (MSME) finansman dağılımının oranı. Çalışmada kullanılan metodoloji niceldir. Araştırma sonucunda, aktif kârlılığının kendi üzerindeki bağımsız değişkenleri önemli ölçüde etkilediği görülmüştür. Bankacılık sektörünün performansının belirlenmesinde konunun finansal yönünün yanı sıra sosyal ve manevi yönü de süreçle ilişkilendirilerek bilimsel alana yeni bir bakış açısı kazandırılmaya çalışılmıştır.

Anahtar Sözcükler : Şeriat Hedefi Oranı, Mevduat Finansmanı, Aktif Getirisi, İşgücü Maliyeti Oranı, Promosyon Maliyeti Oranı, Sorunlu Finansman Oranı, MKOBİ Finansman Oranı.

1. Introduction

Banking is a high regulation industry because the banking industry's principal capital is trust. Moreover, to maintain trust, the bank must be managed based on the principle of prudence (Muniarty et al., 2020; Tsionas, 2016). Therefore, the bank's good performance is one of the indicators that the bank has implemented regulations well and can maintain its business activities based on the principle of prudence (Nugroho & Malik, 2020; Talavera et al., 2018). Furthermore, the banking industry's growth in Indonesia in the last five years has been dominated by the Islamic banking industry. This is conveyed by Hastuti (2019), where the growth of Compounded Annual Growth Rate (CAGR) during 2014-2018 from the Islamic banking industry reached 15%, while the CAGR of the conventional banking industry only got 10%.

Nevertheless, the performance phenomenon of Islamic banks in 2019 still has not shown optimal performance. This is indicated by the Islamic bank industry's return on asset (ROA) as of December 2018, which only reached 1.28%, while the ROA from conventional banks was much higher at 2.55% as of December 2018. In addition, the ratio of non-performing financing (NPF) from the Islamic banking industry was higher, which was 3.44% as of March 2019. At the same time, the ratio of non-performing loans from the conventional banking industry (NPL) is better at 2.5% as of March 2019 (Hastuti, 2019b).

The Islamic banking industry has different characteristics compared to the conventional banking industry. According to Gunardi et al. (2021) and Nugroho et al. (2020), Islamic banks operate based on Sharia principles where the focus of Islamic banks is not only to achieve profit but also to realise the benefit of humanity and also the sustainability of the universe. Based on this, the performance of Islamic banks is not only measured by ROA as an indicator of profitability. However, it can use a ratio of aspects that reflect the objectives of sharia or maqasid sharia (Wan Ibrahim & Ismail, 2020). Therefore, to analyse the relationship between the achievement of performance from the aspect of Shariah maqasid with ROA, thus it takes factors that are estimated to affect the performance of Islamic banks both against ROA and the achievement of sharia maqasid performance.

The primary source of bank income is the distribution of financing, where the bank must be able to channel its funds to the community so that entrepreneurs can use the funds to increase the emic growth (Hasan et al., 2022; Labetubun et al., 2021; Metanfanuan et al., 2021). The best distribution indicator is based on regulation from the Central Bank, where the optimum financing to deposit ratio (FDR) in banking industries is 85% (Nugroho et al., 2021). Therefore, the higher or closer to FDR by 85%, the Islamic bank can generate optimal income so that the performance of Islamic banks will also increase.

The principal capital of a commercial organisation is investment money from investors, including its workforce or employees (Black & Lynch, 1996; Hidayah et al., 2020). Therefore, the role of employees has shown their ability to innovate and develop products and provide services that follow the needs and desires of the community. Moreover, with good innovation and creativity in developing products and also the excellent quality of services to the community, the products and services of Islamic banks will be used by the community so that it will have an impact on the increasing income of Islamic banks (Hidayah et al., 2021; Prajogo & Oke, 2016). Nevertheless, the productivity indicator that efficiency indicators can mirror through the operating expense ratio of operating income (BOPO) of Islamic banks is still unable to compete with conventional banks. It is shown that the BOPO of the Islamic bank industry reached 86.87%, while the BOPO of the conventional bank was lower at 69.05% (Wiyanti, 2012). This shows that conventional banks have better productivity than Islamic banks, where the high costs incurred, namely labour costs, have not increased the profits received by Islamic banks.

Furthermore, the phenomenon related to low Islamic financial literacy in Indonesia is still a challenge to resolve by the government. Sharia literacy in Indonesia is still relatively low at 8.93%. Therefore, collaboration from all parties is needed to improve Islamic financial literacy so that people have adequate information on the products and services of Islamic banks. The better the information, the higher the opportunity for people to use Islamic bank products and services. According to Kim (2019) and Ryals (2003), promotion is an activity that can improve the information received by the public to be interested in using products and services from Islamic banks. The more precise the promotion target carried out by Islamic banks, it is expected that the majority of Indonesian people are Muslims can use the products and services of Islamic banks as their primary bank in financial transactions.

The quality of bank financing is also vital in maintaining the reputation of the Islamic bank industry to investors. The better the quality of problematic funding shows that the management of Islamic banks can control the risks in channelling financing to the community. In addition, investors become convinced that the management of Islamic banks can implement adequate governance so that the risks that will arise in the future can be estimated and appropriately mitigated (Drašković & Lojpur, 2013; Nugroho & Nezzim Bararah, 2018).

In addition, the identity of Islamic banks as banks that are pro-poverty, according to Jusoh & Shariff (2015) and Nugroho et al. (2018), should have focused on distributing financing to the micro, small and medium enterprises (MSMEs) segment. The MSMEs segment is a segment that provides large margins to the bank industry, such as Bank Rakyat Indonesia, which gets the most significant profit in Indonesia contributed by the MSMEs (Nugroho & Husnadi, 2014; Wijaya & Kesumawardhani, 2010) segment. Therefore, segmenting MSMEs as the identity of Islamic banks and the MSMEs segment can also provide large margins for Islamic banks to improve their performance.

Furthermore, based on the gap phenomenon and the above theory, the research questions in this study includes: (i) Does ROA moderate the influence of financing to deposit ratio on maqasid ratio; (ii) Does ROA moderate the influence of the labour cost ratio (LCR) to maqasid ratio (iii) Does ROA moderate the effect of the promotion cost ratio (PCR) to the maqasid ratio; (iv) Does ROA moderate the influence of non-performing financing ratio (NPF) on maqasid ratio (v) Does ROA moderate the influence of financing ratios to the MSME segment on the maqasid ratio.

Referring to the problem formulation in this study, this research aims to analyse the relationship of the maqasid ratio with ROA through factors that have the opportunity to terminate it. Therefore, the novelty of this study is that the object of the study is maqasid sharia, which is associated with profitability ratio and analyses factors that can influence maqasid sharia variables that have never been done by researchers before. The implication of this research is to provide knowledge to practitioners and academics in the field of Islamic banking, especially related to the implementation of maqasid sharia.

2. Literature Review and Research Framework

The implementation of measurement of the performance of Islamic banks must be in harmony with the objectives and principles of sharia. Furthermore, according to Diantanti et al. (2021) and Nugroho et al. (2021), the purpose of sharia or commonly called maqasid sharia based on the theory of the Tawhid String Relationship, which Islamic banks must be able to implement as follows: (i) products and services based on agreements that are under the teachings of Islamic justice; (ii) Provide services to the community based on the needs and desires of the community to improve the benefit of the community; (iii) Develop contemporary products and services developed based on innovation and creativity; (iv) Provide financial services to all level society based on the principles of fairness, gender equality and equality of treatment; (v) Provide services and finances to the community intending to maintain the survival of their descendants; (vi) Providing services not only in financial form but also having concern for the next generation and maintaining environmental sustainability.

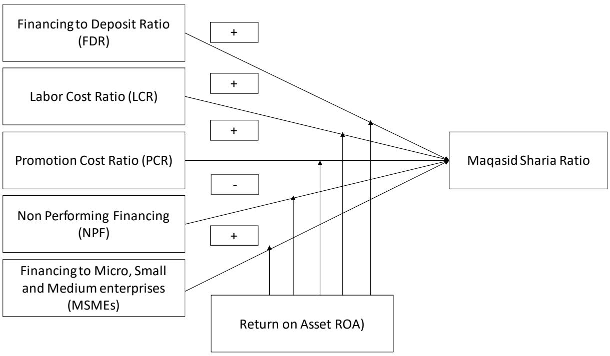
The existence of Islamic banks can be used as a solution because Islamic banking aims to improve the community's welfare. In other words, Islamic banking aims to seek profit and care for social problems. Furthermore, Islamic banks have Islamic values that conventional banks do not own. The foundation of Islamic banking is sharia maqasid which consists of six elements, according to Fitrotulloh (2013) and Masruri & Rossidy (2007), namely: (i) Maintaining Religion; (ii) Guarding the Soul; (iii) Maintain Intellect; (iv) Maintaining Assets; (v) Maintaining Descendant and (vi) Maintaining Environment. Maqasid sharia is implemented in everyday human life, namely, meeting basic, secondary, and tertiary needs. Islamic banking services supporting human life in business and financial transactions need to have the same vision and mission.

The vision and mission must be based on maqasid sharia, which aims to achieve Maslahah (beneficiaries to each other) and Falah (hereafter focus). In addition, Islamic banking, with its pillars (prophet, profit, people, and planet), is to maintain a balance between the benefits of a business that has moral and spiritual responsibilities and has an impact on reducing social problems such as poverty, unemployment, and social inequality

(Arafah & Nugroho, 2016; Cebeci, 2012). Furthermore, Islamic banks must also contribute to preserving the environment for the next generation's survival. Therefore, the entire Islamic banking ecosystem, both internal and external, is significant in realising the Sustainable Finance of Islamic Banking, such as the application of sharia principles in business activities; focus on the needs of society and the ummah; operational implementation based on Islamic values (products contract); risk management implementation; appreciation of human resources by Islamic values; application of the principle of benefit to community welfare and environmental sustainability. Therefore, Islamic banks must be able to provide benefits for all the ummah following the Qur'an Al-Anbya Verses 107: "*We have sent you ˹O Prophet˺ only as a mercy for the whole world.*"

Nevertheless, the conceptual research framework can be established according to the phenomenon and the literature review.

Figure: 1
Research Framework



Moreover, related to Figure 1, the hypothesis in this research is as follows:

- ROA as the moderating variable affected FDR, to the Maqasid Sharia Ratio has strengthened impact,
- ROA as the moderating variable affected LCR, to the Maqasid Sharia Ratio has strengthened impact,
- ROA as the moderating variable affected PCR, to the Maqasid Sharia Ratio has strengthened impact,
- ROA as the moderating variable affected NPF, to the Maqasid Sharia Ratio has strengthened impact,
- ROA as the moderating variable affected MSMEs, to the Maqasid Sharia Ratio has strengthened impact.

Furthermore, based on the hypotheses of this study above, the development of research hypotheses includes the following:

The Effect of Financing to Deposit Ratio (FDR) to Maqasid Sharia Ratio (MSR)

The performance indicator of the banking function in channelling funds collected to the public in the form of loans is the financing to deposit ratio (FDR). This ratio shows the bank's ability to channel loans from third-party funds or funds from the public that the bank has collected (Hakiim & Rafsanjani, 2016; Widyaningrum & Septiarini, 2015). So, the higher the ratio of the FDR reflects, the better the intermediary function of the Islamic bank. Moreover, the excellent role of Islamic banks in channelling their funds to the community will impact the excellent distribution of profit sharing from these banks to all stakeholders of Islamic banks (Bashir et al., 1993; Sukmadilaga & Nugroho, 2017). Nevertheless, the optimum allocation of profit sharing of Islamic banks to the customer will also contribute to the increase of ROA and the maqasid sharia ratio (MSR).

The Effect of the Ratio of Labour Costs Ratio (LCR) to the Maqasid Sharia Ratio (MSR)

The globalisation condition pushes Muslims to have a diligent work ethic, disciplined, and toughness but always balances Islamic values such as honesty and justice following sharia values. Therefore, the excellent work ethic, where they are also employees of an Islamic bank, can directly increase income (ROA) and improve MSR's performance. In addition, the issue of productivity is crucial for Islamic banking to compete with competitors and meet customers’ needs (Fujii et al., 2014).

The Effect of Promotion Cost Ratio (PCR) on the Maqasid Sharia Ratio (MSR)

The effectiveness of promotion will increase the wider community's use of products and services from Islamic banks. Effective promotion of Islamic banks will increase the market share of Islamic banks in Indonesia (Lestari, 2009; Patriana & Nurismalatri, 2018). Promotion is vital for a company or organisation that introduces a new product and service. In addition, promotion can also be defined as costs or incentives given to customers by companies in conducting trials or introducing a product or service it has (Blattberg & Neslin, 1989; Sudirman et al., 2020). Furthermore, the effectiveness of the promotion of Islamic banks will impact increasing the performance of ROA and also align with the increasing of MSR.

The Effect of Non-Performing Financing (NPF) on Maqasid Sharia Ratio (MSR)

The quality of credit or financing ratio (NPF) is an essential financial indicator in maintaining a bank's reputation (Bernstein, 1996; Budiman, 2016). This indicator has vital significance for investors and depositors, where the higher the NPF, the more problematic financing for the bank. It informs investors and customers that the bank is at risk of bankruptcy. Thus, investors and customers can make the right decisions on the investments and funds placed by the bank. Moreover, to maintain reputation and profitability (ROA), the bank tries to maintain a low NPF ratio, which means the assets owned by the bank can generate optimal profits and increase Islamic Bank MSR (Rahman & Rochmanika, 2012; Setiawati et al., 2017).

The Effect of Financing on Micro, Small and Medium Enterprises Segment (MSMEs) to Maqasid Sharia Ratio (MSR)

Another internal capability of Islamic banks that can improve company performance is the distribution of financing to micro, small and medium enterprises (MSMEs). The existence of MSMEs in Indonesia is the backbone of the economy, so the sustainability of MSMEs is essential. In addition, Islamic banks that develop duties as banks based on sharia principles should prioritise financing to the MSME sector. Previous researchers argued that Islamic bank financial products and services should prioritise MSMEs (Dhumale & Sapcanin, 1998; Khan, 2010; Shahinpoor, 2009). Therefore, if the distribution of financing to the MSME sector increases, it will positively impact ROA, which will also have the potential to increase MSR.

3. Methodology

The methodology used in this study is a quantitative method using a panel data moderating regression model. The mechanism for taking the number of samples of Islamic banks in this study is as follows:

Table: 1
Research Sample Method

No	Criteria	Number
1	The number of Islamic Commercial Banks in Indonesia which operated during 2012-2018	13
2	Islamic commercial banks that do not have the data needed for research during 2012-2018	(6)
The number of Islamic Commercial Banks used as a research sample		7
The total sample used in the 2012-2018 study (7x6 years)		42

In addition, the sample selection method is a purposive sampling method with a period from 2012 to 2018, where the cut-off in 2018 is used to avoid 2019. At the end of 2019, there has been a covid-19 pandemic that impacts all business sectors, including Islamic banks. Furthermore, the sample used is a Sharia Commercial Bank operating full-fledged. Therefore, the results of this study can be used in other countries that do not know the sharia banks window (UUS) system as in Indonesia. Furthermore, based on the research framework, there is two models' equation in this study as follows:

$$MSR = \alpha + \beta 1FDR*ROA - \beta 2LCR*ROA + \beta 3PCR*ROA - \beta 4NPF*ROA + \beta 6MSMEs*ROA + e \quad (1)$$

Remarks:

FDR: Financing to Deposit Ratio,

LCR: Labour Cost Ratio,

PCR: Promotion Cost Ratio,

NPF: Non-Performing Financing,

MSMEs: Micro, Small, Medium Enterprises Financing Ratio,

MSR: Maqasid Sharia Ratio.

The Maqasid sharia ratio for performance measurement is carried out to test whether Islamic banks can disclose helpful information to stakeholders. Maqasid sharia ratio is a method that evaluates the performance of Islamic banks from a financial aspect and is also used to evaluate the principles of justice, halals, and purification practised by Islamic commercial banks. Furthermore, the operational variables in this study are as follows:

Table: 2
Operational Variables

Variable	Measurement	Scale	References
Return On Assets (ROA)	$\frac{\text{Net Profit}}{\text{Total Assets}}$	Ratio	(Margaretha & Letty, 2017; Nugroho & Bararah, 2018)
Maqasid Sharia Ratio (MSR)	Average (PSR + ZPR + EDR)	Ratio	(Makruflis, 2019)
Profit-Sharing Ratio (PSR)	$\frac{\text{Mudharabah} + \text{Musyarakah}}{\text{Total Financing}}$	Ratio	(Makruflis, 2019)
Zakat Performing Ratio (ZPR)	$\frac{\text{Zakat}}{\text{Net Assets}}$	Ratio	(Makruflis, 2019)
Equitable Distribution Ratio (EDR)	$\frac{(\text{Qard \& Donation}) + (\text{Wages}) + (\text{dividend}) + (\text{Net Profit})}{\text{Total Revenue} - (\text{Zakat} + \text{tax})}$	Ratio	(Makruflis, 2019; Nugroho, Nugraha, & Badawi, 2020)
Financing Deposit Ratio (FDR)	$\frac{\text{Total Financing}}{\text{Total Deposits}}$	Ratio	(Nugroho, Utami, Doktorlina, Soeharjoto, & Husnadi, 2017; Soekapdjo, Tribudhi, & Nugroho, 2019)
Labour Cost Ratio (LCR)	$\frac{\text{Labour Cost}}{\text{Total Income}}$	Ratio	(Adab & Rokhman, 2015; Farida, 2016)
Promotion Cost Ratio (PCR)	$\frac{\text{Promotion Cost}}{\text{Total Income}}$	Ratio	(Acar & Temiz, 2017; Capon et al., 1990; Hakim et al., 2011; Peterson & Jeong, 2010)
Financing to Micro, Small and Medium Enterprises (MSMEs)	$\frac{\text{MSMEs Financing Outstanding}}{\text{Total Financing Oustanding}}$	Ratio	(Dhumale & Sapcanin, 1998; Dusuki, 2008; Shahinpoor, 2009)
Non-Performing Financing (NPF)	$\frac{\text{Non Performing Financing}}{\text{Total Oustanding}}$	Ratio	(Firmansyah, 2014; Mawaddah, 2015; Soekapdjo, Nugroho, Badawi, & Utami, 2018)

4. Results and Discussion

Before conducting the hypothesis test, this study did a classical assumption test. The results of the classical assumption test found no problems related to the variables used in this study. Therefore, the next stage is to perform a regression test with the following results:

Table: 3
Regression Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.005472	0.488178	8.204942	0.0000
FDR_ROA	0.039497	0.014362	2.750102	0.0075
LCR_ROA	-0.349883	0.126735	-2.760745	0.0073
PCR_ROA	0.025011	0.009685	2.582381	0.0118
NPF_ROA	-0.593443	0.204243	-2.905568	0.0048
MSMEs_ROA	0.153998	0.033476	4.600262	0.0000
R-squared	0.643750	Mean dependent var		3.842625
Adjusted R-squared	0.619679	S.D. dependent var		1.253928
S.E. of regression	0.773300	Akaike info criterion		2.395739
Sum squared resid	44.25148	Schwarz criterion		2.574391
Log likelihood	-89.82957	Hannan-Quinn criteria.		2.467366
F-statistic	26.74382	Durbin-Watson stat		2.495213
Prob(F-statistic)	0.000000			

The F test aims to test the independent variables together or simultaneously on the dependent variable. Based on Table 3., it is known that the Prob value. (F-statistics), which is 0.000000 < 0.05, it can be concluded that all independent variables with ROA moderation, namely FDR*ROA, LCR*ROA, PCR*ROA, NPF*ROA, MSMEs*ROA simultaneously, have a significant effect on variables MSR. Furthermore, according to Table 3, the multiple linear regression equation is obtained as follows:

$$MSR=4.005+0.039FDR*ROA-0.349LCR*ROA+0.025PCR*ROA-0.593NPF*ROA+0.153MSMEs*ROA+e \quad (2)$$

Furthermore, based on table 3 and equation 2 above, it can be analysed the variable relationship between ROA and MSR moderation with the following independent variables:

- It is known that the regression coefficient value of FDR*ROA is 0.039 with a Prob value of 0.007, which is < a significance level of 0.05, so Ho is rejected, which means that FDR*ROA strengthens the relationship between FDR and MSR, which is positive and significant,
- It is known that the regression coefficient value of LCR*ROA is -0.349 with a Prob value of 0.007, which is < 0.05 significance level, so Ho is rejected, which means LCR*ROA strengthens the relationship between LCR and MSR, which is negative and significant,
- It is known that the regression coefficient value of PCR*ROA is 0.083 with a Prob value of 0.011, which is < a significance level of 0.05, so Ho is rejected, which means that PRO*ROA strengthens the relationship between PCR and MSR, which is positive and significant,
- It is known that the value of the regression coefficient of NPF*ROA is -0.593 with a Prob value of 0.004, which is < a significance level of 0.05, so Ho is rejected, which means that NPF*ROA strengthens the relationship between NPF and MSR, which is negative and significant,

- It is known that the regression coefficient value of MSMEs*ROA is 0.153 with a Prob value of 0.000, which is < 0.05 significance level, so Ho is rejected, which means MSMEs*ROA strengthens the relationship between MSMEs and MSR, which is positive and significant.

Effect of FDR on MSR with ROA as Moderation Variable

According to the results of this study, it is known that ROA moderates the effect of FDR on MSR so that the direction of the impact is positive and significant. ROA as a moderating variable strengthens the effects of FDR on ROA so that the better the FDR, the better ROA will have implications for increasing the MSR. According to Nugroho et al. (2021), The distribution of financing as one of the main activities of Islamic banks will have implications for the profit of Islamic banks. Therefore, based on the results of this study, the financial performance of ROA strengthens the effect of FDR on the MSR.

Effect of LCR on MSR with ROA as a Moderation Variable

The ROA variable as a moderating variable, the effect of LCR on MSR, has a negative and significant impact. Therefore, an increase in LCR will accompany a decrease in ROA. It will also impact the reduction in MSR. Therefore, to maintain financial and social performance, a bank must maintain employee productivity and have an adequate competition to adapt innovations to market needs and desires. (Khasanah, 2016). This is also in line with previous research conducted by Faslah & Savitri (2013), which states that employee productivity impacts improving the company's financial performance, so in this study, if labour costs increase and are not accompanied by innovation and service quality, it will contribute to the decline in the performance of the Islamic bank. This is in line with the cost leadership principle that Islamic banks must carry out their business activities by having products and services of equal quality to large conventional banks and even foreign banks, but labour costs must be lower.

Furthermore, by referring to the results of this study, the higher the LCR, the lower the financial performance and social performance of Islamic banks. This is in line with previous research conducted by Waterman (2006), Das et al. (2009), and Bhatti & Qureshi (2007) stated that the company must manage the productivity of its employees so that the output produced can compete with the company's competitors. Therefore, according to the results of this study, Islamic bank employees must have better productivity than conventional banks. This is because the phenomenon of the performance of Islamic banks is still not better than conventional banks. Opportunities to improve the performance of Islamic banks can be through product innovation that is by the needs and desires of the community and products that are different from conventional banks, such as pawn financing products (Bahari et al., 2021).

Effect of PCR on MSR with ROA as Moderation Variable

The low level of Islamic financial literacy in Indonesia requires the socialisation and dissemination of information related to Islamic financial products and services to increase Islamic financial literacy, which has implications for increasing market share. Therefore, this study shows that ROA as a moderating variable strengthens the effect of PCR on MSR, where PCR has a positive and significant impact on MSR. Therefore, the higher the promotional costs, ROA strengthens, which will impact MSR. Therefore, promotional activities for Islamic banks are vital because the implication is to increase profits and the social performance of Islamic banks. This aligns with previous research that promotion effectiveness can improve performance (Ailawadi et al., 2006; Ductor & Grechyna, 2015).

Effect of NPF on MSR with ROA as Moderation Variable

The effect of financing quality (NPF) on MSR, moderated by the ROA variable, has a negative and significant impact. Therefore, the higher the level of financing quality will impact the decline in the performance of Islamic banks (MSR), which is also caused by a decrease in ROA. Furthermore, the increase in the ratio of non-performing financing impacts the increased risk of loss in the future. The riskier the Islamic bank is, the savers will feel insecure about saving or investing in the Islamic bank. Therefore, low public trust can impact the decline in the financial performance of Islamic banks, which also has implications for the decline in the social performance of Islamic banks. This study's results align with the research conducted by Nugroho et al. (2020). In contrast, the quality of Islamic bank financing is essential in determining its performance.

Effect MSMEs on MSR with ROA as Moderation Variable

The distribution of financing to MSMEs should be the identity of Islamic banks' as superior products and services. Furthermore, this study shows that the ROA variable strengthens the relationship between the MSMEs financing ratio and MSR. The effect of the ratio of MSMEs financing to MSR is positive and significant. Therefore, financial performance positively impacts the increase in the funding distribution to the MSMEs segment. The performance of Islamic banks, both in financial and social aspects, also increases. Based on this study's results, Islamic banks' financial and social aspects as performance indicators (MSR) are embedded in previous performance indicators (Return on Assets-ROA). This is in line with previous research that Islamic banks focus on four aspects: financial aspects, social aspects, environmental aspects, and spiritual aspects (Nugraha et al., 2020).

Islamic Bank Strategies Implementation Based on This Research

Islamic banks need to improve their strategies to have more advantages over conventional banks through:

- Increase the distribution of financing focused on the retail segment and MSEs (Micro and Small Enterprises),
- Increase employee productivity through the development of creativity and innovation,
- Strengthen Marketing Communication and collaborate with all stakeholders (such as government and educational institutions) in socialising Islamic financial literacy,
- Maintain the quality of financing through the implementation of portfolio guidelines and also Risk Acceptance Criteria under the focus segment.

5. Conclusion

This research was conducted to answer the research objective about the relationship between MSR and ROA. Furthermore, the results and discussion in this study, the maqasid sharia ratio (MSR), can be used as a complement to measure the performance of Islamic banks in addition to return on assets (ROA). The moderating variable ROA strengthens the relationship of all determinant’s variables and significant influence MSR, namely, ROA moderates the positive and significant effect of FDR on MSR, ROA moderates the negative and significant impact of the LCR ratio, ROA moderates the positive and significant impact of PCR on MSR, ROA moderates the negative and significant effect NPF on MSR. Moreover, ROA positively and significantly moderates MSMEs on MSR.

Moreover, the Implications of this research for the Islamic banking industries are as follows:

- Islamic banks should have the advantages of conventional banks, namely the concern of Islamic banks for social aspects. Therefore, stakeholders of Islamic banks should socialise and disseminate performance ratios such as Maqasid Sharia Ratio (MSR) as a complement to the Return on Assets (ROA) ratio,
- Islamic banks must perform their intermediation functions well, especially in channelling financing, especially for products different from conventional banks, such as gold pawn financing and gold instalments. Good quality distribution of funding (financing to deposit ratio) will have implications for the increase in MSR,
- The productivity of Islamic bank employees becomes the principal capital for Islamic banks in improving their performance. Therefore, Islamic bank employees need innovation and professionalism to carry out their duties and responsibilities. Thus, to enhance the performance of Islamic banks, intellectual capital, spiritual capital, and also capital is needed,
- Limited information related to Islamic financial products and services impacts the limited number of people choosing Islamic bank products and services. Therefore, Islamic banks must improve the function of marketing or promotion to the public so that the public gets positive information about products and services from Islamic banks,

- The quality of Islamic bank financing becomes vital in maintaining the reputation of Islamic banks in the community. The results of this study state that the quality of problematic funding has a negative and significant impact on MSR. Therefore, the management of Islamic banks must be able to manage the distribution of the financing properly, following the principles of prudent policy,
- The advantage of Islamic banks over conventional banks is that Islamic banks have concern for social aspects such as poverty eradication. Therefore, based on the results of this research, the management of Islamic banks must focus on channelling financing in the MSME segment to impact the increasing performance of Islamic banks.

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