



# The Effect of Company Size, Capital Adequacy, And Level of Funding on Financial Performance Moderated by The Sharia Supervisory Board

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## Abstract

*This study aims to find out whether the sharia supervisory board moderates the relationship between the variables of company size, capital adequacy, level of funding and financial performance. This study uses hypothesis testing with a quantitative approach. The unit of analysis used in this study is Islamic Commercial Banks in Indonesia (10 Islamic banks). The type of data used is secondary data, data sources from documents obtained through media such as publications or websites. In this study the data used is the Annual Report (Annual Report). Based on the time/time dimension of implementation, this study uses panel data, consisting of 10 Islamic banks in Indonesia, and uses annual data for 8 (eight) periods starting from 2014-2021. The study population was 80. The statistical tools used for panel data analysis were panel regression models, namely Common Effects (CE), Fixed Effects (FE) and Random Effects (RE). Data processing software using Eviews. The findings show that company size and DER have a sizeable impact on financial performance, even though the sharia supervisory board does not moderate the relationship, while the sharia supervisory board moderates the relationship between funding levels and firm performance. The results of this study can be a guideline for managers of sharia banks to provide financing through the most effective level of funding possible. The results of this study can provide a basis for recommending policies to Islamic banking authorities and Islamic banking supervisors in Indonesia.*

**Keywords:** *Financial Performance; Company's Size; Capital adequacy; Level of Funding; and Sharia Supervisory Board*

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## 1. Introduction

Sharia banking operates according to a financial system based on sharia principles by complying with the provisions of Islamic law that have been stipulated in the Al-Qur'an and Hadith. Islamic banking operational activities in Indonesia are based on a fatwa issued by the National Sharia Council of the Indonesian Ulama Council (DSN - MUI) and do not contain elements of usury, maisir, gharar, haram and tyrannical (Circular Letter to All Islamic People's Financing Banks in Indonesia, 2013). Likewise, the banking industry lives side by side with a society that demands to operate responsibly and ethically towards society ([Bose et al., 2018](#)). Organizations that react positively to people's requests can form goodwill and a positive image, which increases their competitiveness ([Chin et al., 2015](#)). A comparison of conventional banks focuses on competition and profitability, while the Islamic banking sector is based on Islamic teachings ([Lone & Bhat, 2019](#)). ([Shabbir & Rehman, 2019](#)) shows that Sharia law mainly focuses on the welfare of the Muslim community.

Islamic banks generate profits and meet expectations guided by Islamic principles ([Ali and Raza, 2017](#)). Islamic banking is still lacking and is not in favor of the community as is the case with conventional banking which still places profit as its main priority ([Ekawati & Anhar, 2020](#)). organizational capabilities to meet the demands of stakeholders in the various contexts in which they operate ([Guerrero-Villegas et al., 2018](#)). Likewise, stakeholders want to ensure that the companies in which they do business are responsible and sustainable ([Agudo-Valiente et al., 2015](#)).

Some of the things that will become a problem for Islamic banking in Indonesia in 2022 are that the market share is still low, namely around 6% - 7%, indicating the growth of Islamic banking is very slow, there is a lack of outreach to the community, the literacy level of Islamic banking is still low in society, namely new 8.93%, products that lack variety, (OJK, 2022). The success of an organization depends on its ability to retain its stakeholders by maintaining good relations with investors, customers, employees and the whole society. Institutional responsibilities must include all stakeholders ([Jaiyeoba et al., 2018](#)). Organizations have an important role in deciding investor decisions and protecting customers ([Jaiyeoba & Haron, 2016](#)). Investors tend to look for institutions that have growth potential and provide profitable investment returns.

Therefore companies need to improve financial performance. Positive financial performance will increase investor customer confidence. Companies established aim to seek profits to maintain survival, and must be able to maximize profits in the long term by using resources efficiently and effectively so as to be able to provide welfare to shareholders and other stakeholders. Some of the factors that affect the financial performance of Islamic banks include the size of the company. In Indonesia, it shows that the average national Islamic bank asset growth is 28.42% with an average increase in Return on Assets (ROA) of 5.20%, ([Mukhibad, 2019](#)). The bigger the company, the greater the company's ability to generate profits because it is supported by large company assets so that the company's obstacles can be overcome.

Another factor that can improve financial performance is the level of capital adequacy ratio. One way to increase the level of capital ratios is by increasing customers. The ownership structure in Islamic banking is sourced from customer funds, ([Archer et al., 1998](#)), therefore bank customers are important stakeholders ([Tang et al., 2014](#)) because an organization depends on its customers to generate income and consider business activities responsible company ([Sarkis et al., 2011](#)). There is a great desire for the growth of Islamic finance, but experts argue that this potential does not yet have great opportunities ([Truby et al., 2020](#)) due to inefficiencies in Islamic

bank operations and in the facilities used to carry out transactions, ([El-Gamal, 2007](#)) . Islamic finance has a lower financial efficiency value to differentiate it as a system that runs Islamic finance, ([Kuran, 2018](#)). In theory, the relationship between CAR and ROE and ROA is positive. However, based on statistical data on Islamic banking in Indonesia in 2022, it is evident that the theory that claims the capital adequacy ratio (CAR) has a favourable influence on ROE, (OJK, 2022) is not true. The example at Bank Aceh shows that Bank Aceh Syariah in 2018 the CAR ratio decreased but the ROA and ROE ratio increased, and the year when the Indonesian economy declined, the CAR ratio of Bank Aceh Syariah increased but ROA and ROE decreased. The fluctuating levels of CAR and ROA can be seen in table 1.1.

Tabel 1. CAR and ROA Rate

Percentage/ Year	2016	2017	2018	2019	2020	2021	2022
CAR%	15,98	19,26	22,07	20,59	21,64	24,64	22,74
ROA%	-2,36	-2,19	0,29	1,73	1,40	1,83	1,97

Source : OJK 2022

This phenomenon shows that Islamic banking in meeting the level of capital ratios still fluctuates which causes profit to fluctuate and financial performance seen from profitability looks fluctuating. This can cause investors and customers to hesitate in investing. In addition, the market share of Islamic banking is still relatively small, around 7% and is experiencing slow growth when viewed from the potential for Indonesia, which has the largest Muslim population in the world and the length of time the establishment of Islamic banks has entered 30 years, starting with the establishment of Muamalat bank in 1991. Much is still needed. promotion so that customers are interested in investing in Islamic banking, therefore it is necessary to promote and increase market share.

In addition, the level of funding (leverage), which is a ratio indicating the quantity of debt owned by a company to finance its operating activities ([Wardani & Khoiriyah, 2018](#)), affects financial performance. A high debt ratio causes a higher level of uncertainty to get the return expected by shareholders. However, when financial leverage is used correctly, shareholders can increase their returns ([Kartikasari & Merianti, 2016](#)).

Several cases have occurred concerning the purity of Islamic bank operational activities, namely Sharia Mega Bank with the alleged Money Game under the guise of a gold investment in 2014. Sharia Mega Bank provides financing for 60% of the investment value, but if the consumer has poor credit, the bank will auction off the investment. Then the money from the auction is controlled by Bank Mega Syariah. When an auction is conducted, the customer's funds must be returned in accordance with sharia principles. Here, the SSB plays a role by providing advice and suggestions to the directors and supervising so that the bank operates in accordance with sharia principles.. This sharia supervisory board controls all of these activities whether they are in accordance with maqashid sharia ([Mukhibad, 2019](#)).

According to Bank Indonesia regulation No.11/33/PBI/2009, the Sharia Supervisory Board (SSB) is a board tasked with providing advice and suggestions to the directors and supervising bank activities so that they comply with sharia principles. The number of members of the sharia supervisory board according to GCG provisions stipulated in Law Number 40 of 2007 concerning Limited Liability Companies is at least two people. SSB are appointed and dismissed by Islamic financial institutions through a GMS after receiving a recommendation from the National Sharia Council. According to research ([Adityawarman et al., 2021](#)), sharia supervisory board independence, cross-membership, and meeting frequency have a positive impact on company performance. The sharia board significantly and positively influences the

financial performance of Islamic banks ([Darwanto & Chariri, 2019](#)). This study aims to investigate the factors that influence financial performance as described above.

## 2. Literature review

### 2.1 Stakeholder Theory

([Freeman, 1994](#)) states that stakeholder theory is defined as "any group or individual who is affected by or can affect the achievement of an organization's objectives." ([Freeman, 1994](#)), argues that a manager's responsibility is not only limited to maximizing shareholder wealth, but also to satisfy all other stakeholders such as employees, customers, society. Sharia banking business is to provide financing that has an impact on the welfare of all parties. Not only can it be seen from the economic aspect but also seen from the social and environmental aspects, which not only benefit shareholders, but also share with the community, including through empowering the people's economy, and benefiting the surrounding environment ([Andrianto & Firmansyah, 2019](#)); ([Muljawan et al., 2020](#)). The activities of business companies aim to get the maximum possible profit, for the common welfare. According to stakeholder theory, a business's sustainability depends on the support of its stakeholders, and this support must be pursued, so the company's activity is to seek this support (Fauzi et al., 2016)..

### 2.3 Financial Performance

One of the ways to see an increase or decrease in financial performance is to look at financial ratios, and to assess good financial performance is to assess the achievement of the level of profitability, (Sakdiyah, 2022). Profitability is used to see a bank's ability to make a profit (Yuan, et al., 2022). High profits indicate that the Islamic bank has good performance while low profits indicate that the Islamic bank is not working well. The formula used:

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Equity}} \times 100\%$$

### 2.4 Company Size

Company size is a scale on which the magnitude of a business can be categorised in a variety of ways. Based on the number of employees, company size is divided into 3 categories, namely large companies (large firms), namely companies with more than 500 employees, medium size companies, namely companies with between 51 - 499 employees, and small companies (small firms). namely companies that have employees between 0 - 50 people (Haltiwanger et al., 2014). According to (Carvalho et al., 2022); (Hartono, 2017); (Hussain et al., 2020); (Rodoni & Ali, 2014), suggests that the measurement of company size variables is based on total assets. Large companies can more easily obtain funds to expand their business and have large profits. The total asset value is usually very large compared to other financial variables, for that the asset variable is refined:

$$\text{Company Size} = \ln \text{Total Assets.}$$

### 2.5 Capital Ratio

The level of capital ratios in banking is often measured using a formula known as the "Capital Adequacy Ratio" (CAR). Banks with relatively high capital ratios typically have a higher ROE because they are better able to withstand risks and instill public and shareholder confidence. CAR is a banking financial ratio that measures the capital available to banks to bear risky assets,



([Lukman Dendawijaya, 2009](#)). CAR is obtained from calculating a comparison between own capital and Risk Weighted Assets (RWA). According to Astuti, (2019), in Indonesia, the rules regarding CAR for Islamic banks are regulated by the Financial Services Authority (OJK), which fulfills 8%. In accordance with Bank Indonesia Regulation No. 10/15/PBI.2008, the minimum CAR value is 8%. A bank that is considered healthy is a bank that has a Capital Adequacy Ratio (CAR) above 8%, so the higher the CAR, the better the soundness of the bank and ROA and ROE.

## 2.6 Leverage

The level of funding is a ratio that shows the amount of debt owned by a company to finance activities ([Wardani & Khoiriyah, 2018](#)). Companies that have a high debt ratio mean that financial leverage is also high, ([Yuan, et al., 2022](#)). A high debt ratio causes a higher level of uncertainty to get the return expected by shareholders. However, when financial leverage is used correctly, shareholders can increase their returns ([Kartikasari & Merianti, 2016](#)). Calculating leverage can use the Debt to Equity Ratio (DER), with the formula being total liabilities/total debt divided by total capital/equity.

## Hypothesis Development

An Islamic bank that is able to make good use of its large assets will get opportunities to increase profits and will describe improved financial performance. The larger the size of a company as measured by the total assets owned, the more the total assets owned by the company will grow to get the opportunity to earn profits. Research conducted by ([Wahyuni & Aidah, 2022](#)); ([Belianti et al., 2022](#)); ([Dakić et al., 2019](#)) found that company size had a significant positive effect. on financial performance. This research is in contrast to that conducted by ([Azhar and Arifin, 2013](#)) which stated that company size has no effect on financial performance. Then research ([Cahyana, 2020](#)); (Yester et al., 2020) explains that Firm Size has no effect on Financial Performance.

H1: Company size has a positive effect on financial performance

If the bank has an adequate capital ratio, the bank's operations can run smoothly so that at critical times the bank remains in a safe position with capital reserves. The higher the Capital Adequacy Ratio (CAR), the greater the financial resources that can be used for business development and anticipating potential losses caused by lending ([Wardiantika and Kusumatingtias, 2013](#)). Research ([Oktavionita et al., 2022](#)) demonstrates that adequate capital has a positive influence on profitability. According to additional research, CAR has no effect on ROE ([Khoirunnisa et al., 2016](#)). The higher the level of available capital ratio, the bank management has the opportunity to use capital as effectively as possible and has the opportunity to earn profits. The higher the ratio of available capital, the higher the profit that will be obtained. Based on this explanation, the hypothesis proposed is:

H2: The Capital Ratio Level has a positive effect on Financial Performance.

The level of funding as measured by the Debt to Equity Ratio (DER) has a significant positive effect on Return On Equity (ROE). Research ([K. D. Astuti et al., 2015](#)) ([Astuti et al., 2015](#)), found that the Debt to Equity Ratio (DER) has a significant positive effect on Return On Equity (ROE). Companies that have a high debt ratio mean that financial leverage is also high, ([Yuan, et al., 2022](#)). A high debt ratio causes a higher level of uncertainty to get the return expected by shareholders. However, when financial leverage is used correctly, shareholders can increase their returns ([Kartikasari & Merianti, 2016](#)). The research of ([Feorentin et al., 2020](#))

found that a high level of funding (leverage) has an effect on profitability, which shows an increase in financial performance. Research by ([Ousama et al., 2020](#)), states that the modal structure has no effect on performance. then the hypothesis proposed is:

H3: The level of funding has a positive effect on financial performance

The Sharia Supervisory Board, which carries out effective supervision, assists management in gaining public trust. If the duties and responsibilities of the sharia supervisory board have been correctly implemented, it can assist bank management in achieving maximum profits, because the public has confidence that the bank will conduct all of its activities in accordance with sharia guidelines. This public trust can increase transactions in Islamic banks and increase the number of customers. Furthermore, if customers and transactions increase, it will have an impact on increasing profitability and improving the performance of Islamic banks. Empirical research findings ([Darwanto & Chariri, 2019](#)), state that DPS significantly positively influences the financial performance of Islamic banks. This study contradicts the results of research conducted by ([Nurimani, et al., 2022](#)) which states that DPS has no effect on financial performance and research by ([Al-Homaidi, et al., 2020](#)) found that corporate governance information in Yemeni state Islamic banks has a relationship negative and significant with ROE.

H4: The Sharia Supervisory Board has a positive effect on financial performance

The Sharia Supervisory Board has the task of supervising the implementation of Sharia principles in carrying out operations. Large total assets can be used to grow assets through supervision and ideas from the Sharia Supervisory Board, as well as helping to increase public trust, customers and other stakeholders, so that DPS plays a role in helping improve the financial performance of Islamic banks. Research by ([Abdallah & Bahloul, 2021](#)), found that DPS had a significant positive effect on financial performance (ROE).

H5: The Sharia Supervisory Board moderates the effect of company size on financial performance.

The level of the capital ratio is crucial for Islamic banks to cover their operational expenses and the risks associated with extending credit to customers. This capital ratio high level can also provide opportunities to expand the business in order to increase profits. Management of the level of capital ratios that are on target, efficient and effective will moderate the effect of this level of capital ratios on improving financial performance. The Supervisory Board oversees the use of capital used based on the profit sharing principle stipulated by Islamic Sharia principles. So that the community, investors believe in the ability of Islamic banks to carry out their mandated responsibilities.

H6: The Sharia Supervisory Board moderates the effect of the capital ratio on financial performance

The level of funding (Leverage) is a ratio that shows the amount of debt owned by a company to finance its operating activities ([Wardani & Khoiriyah, 2018](#)). How much the company's assets are financed by the company's debt affects asset management. If this management is not supervised and given advice by the Sharia Supervisory Board, there may be many losses, such as bad loans, distribution of profit ratios that are outside of Sharia principles.

H7: The Sharia Supervisory Board moderates the influence of funding levels on financial performance.

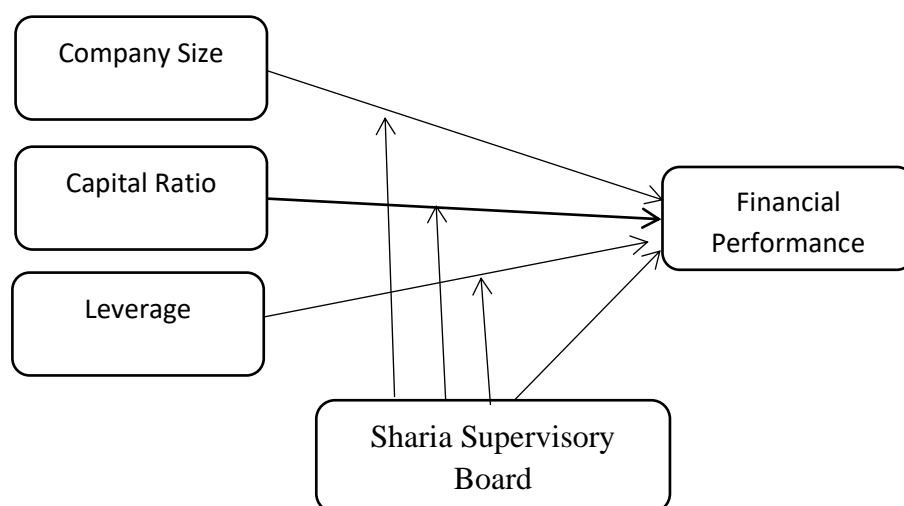


Figure 1. Thinking Framework

### 3. Methodology

This study uses hypothesis testing with a quantitative approach. This research uses causal studies, where causal research is research conducted when researchers want to describe the cause of a problem. Causality research examines the relationship between variables based on previous studies (Sekaran and Bougie, 2016). In connection with this research, the researcher wants to conduct an empirical test, which is research whose object is regarding symptoms, events and phenomena that occur and the process of testing research results based on observation or experience, to prove The Effect of Company Size, Capital Adequacy, And Level Of Funding On Financial Performance Moderated By The Sharia Supervisory Board.

The unit of analysis used in this study is Islamic Commercial Banks in Indonesia (10 Islamic banks). The type of data used is secondary data, data sources from documents obtained through media such as publications or websites. In this study the data used is the Annual Report (Annual Report). Based on the time/time dimension of implementation, this study uses panel data. Panel data is a combination of cross section and time series data, (Ariefianto, 2012). The cross section data used consists of 10 Islamic Banks in Indonesia, the time series data uses annual data with 8 (eight) periods starting from 2014-2021. The population of this study is 80. Statistical tools commonly used for panel data analysis are panel regression models. There are three models used for panel data analysis, namely panel regression models such as Common Effects (CE), Fixed Effects (FE) and Random Effects (RE). Common Effects (CE), Fixed Effects (FE) and Random Effects (RE). Data processing software using Eviews 12.00. is software in the form of a computer program used as a tool for statistical and econometric analysis on time-series data.

## 4. Results And Discussion

### a. Descriptive Statistics

**Table 2. Descriptive Statistics**

	ROE	DPS	FZ	CAR	DER
Mean	3.793425	3.050000	30.11452	0.241798	3.233838
Maximum	36.50000	4.000000	32.81018	1.229982	30.47119
Minimum	-94.01000	2.000000	27.11370	0.115117	0.192250
Std. Dev.	18.77723	0.417952	1.288430	0.143373	4.580246
Observations	80	80	80	80	80

Source: Processed Data, 2023

#### 1. Financial Performance (ROE)

The average financial performance of Islamic Commercial Banks in Indonesia is 3.793425. The maximum and minimum values are respectively 36.50 and -94.01. While the standard deviation is 18.77723.

#### 2. Sharia Supervisory Board

The average sharia supervisory board of Islamic Commercial Banks in Indonesia is 3.05. The maximum and minimum values are respectively 4.00 and 2.00. While the standard deviation is 0.417952.

#### 3. Company Size

The average size of Islamic Commercial Bank companies in Indonesia is 30.11452. The maximum and minimum values are respectively 32.81018 and 27.11370. While the standard deviation is 1.288430.

#### 4. Capital Adequate Ratio (CAR)

The average capital ratio for Islamic commercial banks in Indonesia is 0.241798. The maximum and minimum values are respectively 1.229982 and 0.115117. While the standard deviation is 0.143373.

#### 5. Debt to Equity Ratio (DER)

The average funding level (DER) of Islamic Commercial Banks in Indonesia is 3.233838. The maximum and minimum values are respectively 30.47119 and 0.192250. While the standard deviation is 4.580246.

### b. Panel Data Regression Estimation Technique Model Selection Results

To determine the best model using the Chow Test, Hausman Test and Lagrange Multiplier Test. While the model chosen in this study is as follows:

**Table 3. The Best Model for Panel Data Regression Estimation**

	Estimation Regression Model			
	Data panel	Moderasi 1	Moderasi 2	Moderasi 3
Model	Random Effect	Random Effect	Fixed Effect	Fixed Effect

Source: Processed Data, 2023



**Table 4. Predictive Match and Relevance Test**

	R-square	Adjusted R-square
-Estimasi Regresi Data Panel	0.327937	0.292094
-Moderating 1 (FZ*DPS)	0.014306	-0.024603
-Moderating 2 (CAR*DPS)	0.430135	0.328070
-Moderating 3 (DER*DPS)	0.637797	0.572925

Source: Processed Data, 2023

The interpretation of the R-square value is the same as the interpretation of the R-square value of the linear regression R, namely the magnitude of the variability of the endogenous variables that can be explained by exogenous variables. According to Chin (1998), the R-square criterion consists of three classifications, namely a value of 0.67 and above means substantial, 0.33 and above means moderate, and 0.19 means weak. The R-square results in Table 3 show that the panel data regression estimates show weak approaching moderate, for moderated regression 1 estimates very weak, for moderated regression 2 estimates show moderate and for moderated regression 3 estimates moderate close to substantial..

**c. Hypotheses Result**

The results of hypothesis testing for estimated panel data regression and estimated moderating regression can be shown in Table 4 below:

**Table 5. Hypothesis Test of Panel Data Regression Estimation and Moderation**

Hipotesis	Koefisien	t-statistik	p-value	Hasil
FZ → ROE	5.176151	2.109105	0.0383(**)	H <sub>1</sub> Accepted
CAR → ROE	4.685934	0.396876	0.6926	H <sub>2</sub> Rejected
DER → ROE	2.331579	-5.840160	0.0000(*)	H <sub>3</sub> Accepted
DPS → ROE	4.205759	0.936207	0.3522	H <sub>4</sub> Rejected
(FZ * DPS)	1.101471	0.243146	0.8085	H <sub>5</sub> Rejected
(CAR * DPS)	5.590028	0.133175	0.8945	H <sub>6</sub> Rejected
(DER * DPS)	1.702673	1.976165	0.0523(***)	H <sub>7</sub> Accepted
Significance Level: 1% (*), 5%(**) dan 10%(***)				

Source: Processed Data, 2023

Information:

ROE : *Return On Equity*

FZ : *Company Size*

CAR : *Capital Adequate Ratio*

DER : *Debt to Equity Ratio*

SSB : *Sharia Supervisory Board*

The partial test of Table 4 is used to determine the effect of the Sharia Supervisory Board variables, Company Size, Capital Ratio Level and Funding Level on Financial Performance, the results of the partial test can be explained as follows :

**1. Effect of Company Size on Financial Performance (H<sub>1</sub>)**

The result of data processing is that the coefficient of firm size is 5.176151, meaning that there is a negative influence between firm size and financial performance. From the statistical test results,

it was obtained that the p-value was  $0.0383 < 0.05$ . It can be concluded that  $H_0$  is rejected and  $H_2$  is accepted, meaning that company size affects financial performance.

## 2. Effect of Capital Ratio Level on Financial Performance ( $H_2$ )

The result of data processing is the coefficient of the Capital Ratio Level of 4.685934, meaning that there is no influence between the Capital Ratio Level on Financial Performance. From the statistical test results, it was obtained that the p-value was  $0.6926 > 0.05$ . It can be concluded that  $H_0$  is accepted and  $H_3$  is rejected, meaning that the level of the capital ratio does not affect financial performance.

## 3. Effect of DER on Financial Performance ( $H_3$ )

The result of data processing is the coefficient of the Funding Level of 2.331579, meaning that there is a positive influence between the Funding Level on Financial Performance. From the statistical test results, it was obtained that the p-value was  $0.0000 < 0.05$ . It can be concluded that  $H_0$  is rejected and  $H_4$  is accepted, meaning that the higher the company's funding level, the better the financial performance.

## 4. The Influence of the Sharia Supervisory Board on Financial Performance ( $H_4$ )

The results of the data processing of the Sharia Supervisory Board (SSB) coefficient of 4.205759 means that there is no negative influence between the Sharia Supervisory Board on Financial Performance. From the statistical test results, it was obtained that the p-value was  $0.3522 > 0.05$ . It can be concluded that  $H_0$  is accepted and  $H_1$  is rejected, meaning that the fulfillment of the Sharia Supervisory Board by Islamic Banks does not necessarily improve financial performance.

### MRA Test (*Moderated Regression Analysis*)

The MRA (Moderated Regression Analysis) test is a test model to find out whether moderating variables can strengthen or weaken the influence of the independent variable on the dependent variable. The following are the results of the moderation test:

#### 1. The effect of FZ on ROE is moderated by SSB (Moderated 1)

Based on the results of the Moderation Test with the moderating variable (FZ\*SSB) it shows that the t-statistical value of the moderating variable is 0.243146 and the moderation probability is 0.8085, this value is greater than the expected significant level ( $0.8085 > 0.05$ ). These results indicate that the Sharia Supervisory Board variable (Moderation Variable) does not interact with the FZ variable (independent variable) nor is it related to Financial Performance (the dependent variable). So it can be seen that the Sharia Supervisory Board variable is not a moderating variable. The R-square value of 0.014306 is smaller than the previous 0.327939 which means that the Sharia Supervisory Board variable weakens the relationship between Firm Size (FZ) and Financial Performance (ROE).

#### 2. The effect of CAR on ROE is moderated by SSB (Moderated 2)

Based on the results of the Moderation Test with the moderating variable (CAR\*SSB) it shows that the t-statistical value of the moderating variable is 0.133175 and the moderation probability is 0.8945, this value is greater than the expected significant level ( $0.8945 > 0.05$ ). These results indicate that the Sharia Supervisory Board variable (Moderation Variable) does not interact with the Capital Ratio/CAR variable (independent variable) and is also not related to Financial Performance (the dependent variable). So it can be seen that the Sharia Supervisory Board variable is not a moderating variable. The R-square value of 0.430135 is greater than the previous 0.327937 which means that the Sharia Supervisory Board variable weakens the relationship between the level of funding (CAR) and financial performance (ROE).

### 3. The effect of DER on ROE is moderated by SSB (Moderated 3)

Based on the results of the Moderation Test with the moderating variable (DER\*SSB) it shows that the t-statistical value of the moderating variable is 1.976165 and the moderation probability is 0.0523, this value is smaller than the expected significant level ( $0.0523 < 0.10$ ). These results indicate that the variable of the Sharia Supervisory Board (moderation variable) interacts with the funding level variable (DER) and has a significant effect on the Financial Performance variable (the dependent variable). So it can be seen that the Sharia Supervisory Board variable is a moderator variable. The R-square value of 0.637797 is greater than the previous 0.327937 which means that the Sharia Supervisory Board variable can strengthen the relationship between the Level of Funding (DER) and Company Performance.

Table 4 shows that company size has a positive effect on financial performance, this indicates that Islamic banks with large assets have more diverse business ventures in terms of the products and services offered. This diversity of business ventures helps banks reduce risk and increase revenue. This research is in line with [Wahyuni's research, \(2022\)](#); [Belianti, \(2022\)](#); who found that firm size had a significant positive effect.

With a variety of products and services available, Islamic banks can attract various market segments and increase the number of customers and revenue generated. The level of capital ratios proxied by CAR in table 4 shows the results have no effect on financial performance. This is because one of the main roles of capital in Islamic banks is as a buffer to cover losses and risks that may arise in their operations. By maintaining an adequate level of capital, Islamic banks can maintain stability and security, which in turn can affect customer confidence and their credibility in the market. This research is in line with research by ([Yanti & Masdjojo, 2018](#)) explaining that there is no effect between CAR and ROA. ([Khoirunnisa, et al., 2016](#)); ([Rahman & Saif, 2021](#)) shows that CAR has no effect on ROE.

In table 4, it shows that the level of funding proxied by the Debt on Equity Ratio has a significant effect, this is because the right leverage can affect the financial efficiency of Islamic banks. By using careful leverage, Islamic banks can increase the use of capital and optimize returns. Proper use of leverage can help Islamic banks to allocate resources efficiently and increase their productivity. However, if the use of leverage is not careful can increase financial risk, especially if market conditions change or if there is economic turmoil. This research is in line with research conducted by ([Feorentin et al., 2020](#)) which found that a high level of leverage has an effect on profitability, which indicates increased financial performance.

In table 4, the results show that SSB has no significant effect on financial performance. This means that SSB has limited power in making decisions and implementing actions. The SSB generally acts as an advisor and supervisor, but does not have the same powers as management or the board of directors. Therefore, SSB may not be able to impose certain decisions or actions on management that may affect financial performance. This research is in line with the research of ([Nurimani, et al., 2022](#)) which states that SSB has no effect on financial performance and research by ([Al-Homaidi, et al., 2020](#)) found that corporate governance information in Yemeni state Islamic banks has a negative and significant relationship with ROE.

Table 4 shows that the Sharia Supervisory Board does not moderate the effect of company size and the level of capital ratios on financial performance, because the bigger the company, the more complex its operations. It is normal for SSB to face difficulties in effectively overseeing all the financial and operational aspects of a large company. This is due to the high number of transactions, the complexity of the organizational structure, and the need to understand the

different business units. SSB generally has limited authority in making decisions related to the level of capital adequacy. Decisions regarding company capital often rest with management or the board of directors. The SSB may only have an advisory role, and the final decision rests with those who have the authority to make such decisions. In this case, SSB may not have a direct influence on the company's capital adequacy. Meanwhile SSB moderates the effect of DER on financial performance. This means that SSB has the responsibility to ensure that the company carries out financial activities in accordance with sharia principles. In the context of leverage, SSB can ensure that companies do not use forbidden debt or violate the principle of fairness in financial transactions. A high level of leverage can increase a company's financial risk, especially if debt management is not appropriate. SSB can monitor and moderate the use of leverage by considering the level of risk that is in accordance with the company's tolerance.

### ***Theory Implication***

This research is in accordance with the stakeholder theory where if Islamic banks earn high profits, they will provide welfare to stakeholders, for example to customers, the public, shareholders. This high profit will have an impact on higher returns on investment and increase public and investor confidence.

### ***Managerial and Practical Implications***

The results of this study can serve as a guideline for Islamic bank managers to provide financing through the most effective funding levels possible. In addition, caution is needed in making the size of the loan with the intention of growing more assets because large assets give confidence to the community and other stakeholders. To increase profits through the level of funding required by Islamic banks. It is important to socialize attractive products so that customers will increase, because financing can be done through collecting funds from customers. Funds from customers are managed effectively so that the level of funding from customers is prioritized compared to loans to creditors because they have to share with other than customers and also share with creditors, causing smaller profits. If the funding comes from customer funds, then if mudharabah or musyarakah financing is carried out in accordance with the agreement and sharia principles, it will be more profitable for both parties. The strategy to attract people to become customers needs to be done by providing soothing services, providing a sense of security, halal products reassuring, as well as introducing creative and innovative Islamic bank products, for example by providing financing for public education to tertiary institutions, business development, providing business skills, after being proficient, you can open a business venture in collaboration with Islamic banks. This helps government programs improve the intelligence and welfare of society. The growth of Islamic banking in Indonesia can be increased by utilizing Indonesia's potential, namely Indonesia is a country with the largest Muslim population, as well as government support. Indonesia has experienced quite good growth in Islamic banking. This support should be able to improve the financial performance of Islamic banking in Indonesia.

## **5. Conclusion**

This study describes the condition of Islamic banking in Indonesia regarding the condition of financial performance which is influenced by company size, the level of capital ratios and the level of funding moderated by the Islamic supervisory board. The sample taken consisted of 10 Islamic banks with a research year period from 2014 – 2021. This study concluded that company size and level of funding had a positive effect on financial performance, while the level of capital ratios and the Sharia Supervisory Board had no effect on financial performance.

The Sharia Supervisory Board only moderates the level of funding on financial performance. Meanwhile, the size of the company on financial performance and the ratio of capital to financial performance cannot be moderated by the sharia supervisory board. There are some research limitations. First, due to the limitations of the research sample, financial performance with a loss is included as the research sample. For further research, loss-making financial performance can be excluded from the sample. Second, the sample size is only 80. This research will further improve research on Islamic banking in the Southeast Asian region. Third, other variables that affect financial performance are suggested to be investigated, for example Shariah compliance, Islamic corporate governance or Islamic social reporting.

#### **Author contribution statement**

Author 1 did the development of variables, introduction and theoretical framework, as well as statistical analysis. Author 2 assisted with statistical data analysis, article formatting and translation.

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