Islamic Banking Efficiency and Sharia Compliance: Comparative Insights from Indonesia and Malaysia

ABSTRACT - The rapid expansion of Islamic banking in Southeast Asia has positioned Indonesia and Malaysia as central actors in the global Islamic finance landscape. However, despite their shared religious and economic foundations, structural differences in regulatory frameworks, financial innovation, and market development have produced varying levels of institutional performance and sharia compliance. This study aims to compare the financial and sharia performance of Islamic commercial banks in both countries by employing the Sharia Conformity and Profitability Index (SCnPI), which integrates sharia compliance indicators—Zakat Performance Ratio (ZPR), Profit Sharing Ratio (PSR), and Islamic Income Ratio (IIR)—with profitability indicators—Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). Using a quantitative comparative design, the study analyzes secondary data from 25 Islamic commercial banks (12 from Indonesia and 13 from Malaysia) for the 2022–2023 period, selected through purposive sampling. Data were analyzed using the Shapiro–Wilk test for normality and either the independent sample *t*-test or Wilcoxon signed-rank test for mean comparison. The results indicate significant differences in PSR and NPM, with Indonesia showing higher PSR values due to dominant *musyarakah*-based financing, and Malaysia exhibiting higher NPM, reflecting stronger cost efficiency and profit management. Other indicators show no statistical difference. These findings emphasize the influence of governance systems and managerial focus on financial outcomes and suggest that improving transparency, risk-sharing mechanisms, and operational efficiency could enhance Islamic banking resilience across the region.

*ABSTRAK - **Efisiensi dan Kepatuhan Syariah dalam Perbankan Syariah: Analisis Komparatif dari Indonesia dan Malaysia.** Perkembangan pesat perbankan syariah di Asia Tenggara menempatkan Indonesia dan Malaysia sebagai dua negara utama dalam industri keuangan Islam global. Namun, meskipun memiliki dasar ekonomi dan religius yang serupa, perbedaan dalam kerangka regulasi, inovasi keuangan, dan tingkat kematangan pasar menyebabkan variasi dalam kinerja institusional dan kepatuhan terhadap prinsip syariah. Penelitian ini bertujuan membandingkan kinerja keuangan dan kepatuhan syariah bank umum syariah di kedua negara dengan menggunakan Sharia Conformity and Profitability Index (SCnPI), yang mengintegrasikan indikator kepatuhan syariah—Rasio Kinerja Zakat (ZPR), Rasio Bagi Hasil (PSR), dan Rasio Pendapatan Syariah (IIR)—dengan indikator profitabilitas— Return on Assets (ROA), Return on Equity (ROE), dan Net Profit Margin (NPM). Penelitian kuantitatif ini menggunakan data sekunder dari 25 bank umum syariah (12 dari Indonesia dan 13 dari Malaysia) periode 2022–2023 yang dipilih melalui metode purposive sampling. Analisis data dilakukan menggunakan uji normalitas Shapiro–Wilk dan uji komparatif t-test sampel independen atau uji peringkat bertanda Wilcoxon. Hasil penelitian menunjukkan perbedaan signifikan pada PSR dan NPM, di mana bank syariah Indonesia memiliki PSR lebih tinggi karena dominasi pembiayaan musyarakah, sedangkan Malaysia memiliki NPM lebih tinggi yang mencerminkan efisiensi biaya dan manajemen laba yang lebih baik. Indikator lainnya tidak menunjukkan perbedaan signifikan. Temuan ini menegaskan pengaruh sistem tata kelola dan orientasi manajerial terhadap kinerja keuangan serta pentingnya peningkatan transparansi, mekanisme bagi hasil, dan efisiensi operasional dalam memperkuat ketahanan perbankan syariah di kawasan.*

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INTRODUCTION

The Islamic finance industry has experienced rapid expansion globally, with Southeast Asia emerging as a key hub. Within this region, Malaysia and Indonesia are the principal drivers of Islamic banking development (Juhandi et al., 2019). According to the 2023 Islamic Finance Development Indicator (IFDI), Malaysia ranked first and Indonesia third among the leading global markets. The IFDI is a composite weighted index covering 136 countries, assessed across more than ten metrics, including knowledge, governance, sustainability, and awareness.

Banking institutions are critical to national economic stability, as stronger banking systems contribute directly to improved economic conditions (Berger et al., 2000). In this context, Islamic banking has become a central component of the financial architecture of both Indonesia and Malaysia. While Indonesia, as the world's most populous Muslim-majority country, possesses vast potential, Malaysia is recognized as a global pioneer, having established a robust regulatory framework and an advanced system that offers innovative sharia-compliant financial products.

Despite progress in both countries, challenges remain (Nadia et al., 2019). Indonesia lags behind Malaysia in Islamic banking market share, financial inclusion, and institutional infrastructure, despite its demographic advantage (Ariff & Rosly, 2011; Sari et al., 2024). Data from Indonesia Financial Services Authority *(Otoritas Jasa Keuangan-OJK)* revealed that as of 2023, Indonesia's Islamic banking assets stood at USD 46 billion, ranking 10th globally, compared to Malaysia's USD 278 billion and 7th position. Nevertheless, Indonesia's Islamic banking sector continues to grow, with total assets reaching IDR 892.16 trillion in 2023, reflecting an annual increase of 11.21% and a market share rise to 7.44% of the national banking industry.

Evaluating Islamic bank performance is essential for ensuring investment safety and guiding corrective measures by banks and regulators (Ibrahim et al., 2024). The Sharia Conformity and Profitability (SCnP) model offers a comprehensive approach by integrating sharia compliance with financial profitability, thereby capturing both social and economic dimensions of Islamic banking (Cakhyaneu et al., 2022; Mohammed et al., 2015). While prior studies have addressed Islamic banking performance (e.g., Wahyudi, 2020; Adalessossi, 2023; Tumewang et al., 2024; Tanin et al., 2025; Mamat et al., 2024; Rawashdeh et al., 2025), none have simultaneously incorporated SCnP with profitability nor compared Indonesia and Malaysia directly.

This study addresses this gap by comparing the performance of Islamic commercial banks in Indonesia and Malaysia using the Sharia Conformity and Profitability Index (SCnPI) for 2022–2023. The selected period captures post-COVID-19 developments, providing insights into how these two Muslim-majority economies adapt to ongoing challenges in sustaining Islamic finance. Malaysia's experience highlights the potential pathways for Indonesia to enhance inclusion, institutional strength, and human resource capacity.

LITERATURE REVIEW

Agency Theory

Agency theory, rooted in management and economics, explains the relationship between principals (shareholders or owners) and agents (managers or executives). It highlights the possibility of conflicts of interest and emphasizes the role of contractual arrangements,

incentives, monitoring, and governance in reducing such conflicts. Core elements of the theory include agency costs, incentive alignment, and appropriate decision-making structures.

In the context of Islamic commercial banking in Indonesia and Malaysia, agency theory provides a useful lens for analyzing how shareholder-manager dynamics influence institutional performance. Managers may pursue personal objectives, such as short-term profit targets to secure bonuses, which do not necessarily align with the long-term growth goals of shareholders or the welfare of depositors (Battal & Ibrahim, 2023). This misalignment can affect Islamic banks' sustainability and competitiveness (Nursabna et al., 2023).

Good governance mechanisms are therefore essential in Islamic banking to mitigate agency conflicts. One notable feature is the sharia supervisory board, which functions as an independent oversight body ensuring compliance with Islamic law in managerial decisions. Effective oversight, combined with well-designed incentive structures, encourages managers to act in ways consistent with shareholder and depositor interests. Comparative analysis of Indonesia and Malaysia can thus reveal how variations in governance frameworks, managerial incentives, and oversight practices influence bank performance.

Sharia Conformity and Profitability Index

The Sharia Conformity and Profitability Index (SCnPI) integrates two dimensions of Islamic bank performance: sharia compliance and financial profitability (Ramdhoni & Fauzi, 2020). Unlike conventional performance measures, SCnPI captures the dual objectives of Islamic banks: maximizing profitability while adhering to Islamic socio-economic obligations. Sharia conformity indicators in SCnPI include:

1. Zakat Performance Ratio (ZPR) – measuring the bank's effectiveness in fulfilling zakat obligations.
2. Profit Sharing Ratio (PSR) – assessing compliance with *mudharabah* and *musyarakah* principles.
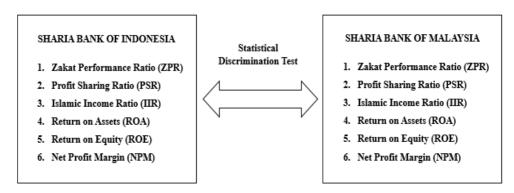3. Islamic Income Ratio (IIR) – reflecting the proportion of income derived from fully sharia-compliant activities.

Figure 1. Research Model

Profitability indicators include:

1. Return on Assets (ROA) – efficiency of asset utilization.
2. Return on Equity (ROE) – returns generated for shareholders.
3. Net Profit Margin (NPM) – the proportion of net profit relative to total revenue.

These six indicators collectively provide a structured basis for evaluating the financial performance and Sharia compliance of Islamic banks, forming the core of the research framework presented in Figure 1.

Previous Research and Hypothesis Development

Empirical research comparing Indonesia and Malaysia has produced varied findings when applying SCnPI or related approaches. For example, Herviyani and Filianti (2019) found significant differences in ROA and PSR between Islamic commercial banks in both countries during 2013–2018, but not in ZPR, suggesting consistent management of zakat obligations across contexts. Conversely, Baihaqi et al. (2022) reported that during 2015–2020, there were no significant differences in the Islamic Investment Ratio, though other dimensions—such as Islamic Income, PSR, ROA, ROE, and NPM—showed variation.

These divergent results indicate that Islamic banking performance is shaped by multiple factors, including methodology, time period, and the regulatory or macroeconomic context. Given the profound disruptions caused by the COVID-19 pandemic, a post-pandemic assessment covering 2022–2023 is warranted. Such an analysis can capture the impact of policy shifts, regulatory reforms, and economic recovery strategies on Islamic banking performance in both countries.

The present study addresses this gap by employing SCnPI to evaluate Islamic commercial banks in Indonesia and Malaysia. By linking agency theory with SCnPI indicators, the study emphasizes that bank managers (agents) must balance shareholder interests with social responsibilities such as zakat management. Variations in ZPR, PSR, and IIR can thus highlight differences in the extent to which agency problems are mitigated across contexts. Similarly, profitability indicators (ROA, ROE, NPM) provide insights into managerial efficiency and the effectiveness of governance and incentive mechanisms in both systems.

Based on the theoretical framework and previous research, the following hypotheses are proposed:

H1: There are differences in the financial performance of Islamic commercial banks in Indonesia and Malaysia as reflected in the Zakat Performance Ratio (ZPR) during 2022–2023.

H2: There are differences in the financial performance of Islamic commercial banks in Indonesia and Malaysia as reflected in the Profit Sharing Ratio (PSR) during 2022–2023.

H3: There are differences in the financial performance of Islamic commercial banks in Indonesia and Malaysia as reflected in the Islamic Income Ratio (IIR) during 2022–2023.

H4: There are differences in the financial performance of Islamic commercial banks in Indonesia and Malaysia as reflected in Return on Assets (ROA) during 2022–2023.

H5: There are differences in the financial performance of Islamic commercial banks in Indonesia and Malaysia as reflected in Return on Equity (ROE) during 2022–2023.

H6: There are differences in the financial performance of Islamic commercial banks in Indonesia and Malaysia as reflected in Net Profit Margin (NPM) during 2022–2023.

METHODOLOGY

Research Design and Data Source

This study adopts a quantitative, comparative research design aimed at analyzing differences in the financial performance of Islamic commercial banks in Indonesia and Malaysia. Performance is measured using the Sharia Conformity and Profitability Index (SCnPI), which integrates both sharia compliance and profitability dimensions. The research relies on secondary data collected from the annual reports of Islamic commercial banks in Indonesia and Malaysia during the period 2022–2023. These reports provide comprehensive financial information needed to calculate SCnPI indicators.

Population and Sample

The research population comprises all Islamic commercial banks operating in Indonesia (13 banks) and Malaysia (16 banks). Sampling was conducted using a purposive sampling method, with the following inclusion and exclusion criteria applied:

Table 1. Sampling Determination Process

No	Criteria	Total	
		Indonesia	Malaysia
1	Islamic banks with complete annual financial reports (2022–2023)	13	16
2	Exclusion: banks with incomplete data on Islamic Income Ratio	(1)	(0)
3	Exclusion: banks with extreme data	(0)	(3)
	Sample Total	**12**	**13**

Based on these criteria, the final research sample consisted of 12 Indonesian Islamic commercial banks and 13 Malaysian Islamic commercial banks.

Table 2. Sampled Islamic Commercial Banks in Indonesia and Malaysia

Indonesia	Malaysia
PT. Bank Aceh Syariah	Affin Islamic Bank Berhad
PT. Bank Jabar Banten Syariah	Al Rajhi Banking & Investment Corporation Berhad
PT. Bank Mega Syariah	Asian Finance Bank Berhad
PT. Bank Muamalat Indonesia	Bank Islam Malaysia Berhad
PT. Bank Panin Dubai Syariah	Bank Muamalat Malaysia Berhad
PT. Bank Syariah Bukopin	CIMB Islamic Bank Berhad
PT. BCA Syariah	HSBC Amanah Malaysia Berhad
PT. BPD NTB Syariah	Hong Leong Islamic Bank Berhad
PT. Bank Victoria Syariah	Maybank Islamic Berhad
PT. BTPN Syariah	OCBC Al-Amin Bank Berhad
PT. Bank Syariah Indonesia	Public Islamic Bank Berhad
PT. Bank Aladin Syariah	RHB Islamic Bank Berhad
	Standard Chartered Saadiq Berhad

Variables and Measurement

The study evaluates bank performance using the Sharia Conformity and Profitability Index (SCnPI). This approach is employed because it provides a holistic measure of Islamic banking performance, combining profitability with adherence to Islamic principles (Ramdhoni & Fauzi, 2020). The operational definitions and measurements of variables are presented in Table 3.

Table 3. Operational Definition of Variables

Indicator	Variable	Measurement Formula
Sharia Conformity	Zakat Performance Ratio (ZPR)	ZPR = Zakat / Net Assets
	Profit Sharing Ratio (PSR)	PSR = (Mudharabah + Musyarakah) / Total Financing
	Islamic Income Ratio (IIR)	IIR = Halal Income / (Halal Income + Non-Halal Income)
Profitability	Return on Assets (ROA)	ROA = Net Profit / Total Assets
	Return on Equity (ROE)	ROE = Net Profit / Total Equity
	Net Profit Margin (NPM)	NPM = Net Profit / Total Revenue

Data Analysis Methods

The data analysis process consists of two main stages:

1. Normality Testing

   To determine whether the data is normally distributed, the Shapiro–Wilk test was applied, given its suitability for relatively small samples (<50) (Jogiyanto, 2018). Data is considered normally distributed if the significance value is ≥ 0.05; otherwise, it is classified as non-normal.

2. Hypothesis Testing

   To evaluate the research hypotheses, comparative statistical tests were conducted to examine performance differences between Islamic commercial banks in Indonesia and Malaysia. The independent sample t-test was applied when the data met normality assumptions, while the Wilcoxon signed-rank test was used for non-normally distributed data. This two-step approach ensures methodological rigor and enables valid cross-country comparisons of financial performance.

RESULTS AND DISCUSSION

Results

Descriptive Statistics

Descriptive statistical analysis was conducted to summarize the characteristics of the research data by examining the minimum, maximum, mean, and standard deviation values (Ghozali, 2017). This analysis provides an overview of the financial performance of Islamic banks in Indonesia and Malaysia, as measured by the Sharia Conformity and Profitability Index (SCnPI). The SCnPI utilizes six key indicators: Zakat Performance Ratio (ZPR), Profit Sharing Ratio (PSR), Islamic Income Ratio (IIR), Return on Assets (ROA), Return on Equity (ROE), and Net

Profit Margin (NPM). The descriptive statistics for Islamic commercial banks in Indonesia and Malaysia during the 2022 period are presented in Table 4.

Table 4. Descriptive Statistics Period 2022

Variable	Total	Maximum	Minimum	Mean	Std. Deviasi
ZPR Indo	12	0.1336	0.0000	0.0122	0.0383
PSR Indo	12	0.9480	0.0000	0.5899	0.3458
IIR Indo	12	1.0000	0.9599	0.9959	0.0115
ROA Indo	12	0.1085	-0.0127	0.0191	0.0302
ROE Indo	12	0.1684	-0.0634	0.0707	0.0702
NPM Indo	12	0.2408	-0.0179	0.0362	0.0732
ZPR Malay	13	0.0197	0.0000	0.0019	0.0054
PSR Malay	13	0.3608	0.0002	0.0610	0.1012
IIR Malay	13	1.0000	0.9721	0.9962	0.0077
ROA Malay	13	0.0290	0.0044	0.0120	0.0080
ROE Malay	13	0.2268	0.0076	0.0982	0.0545
NPM Malay	13	0.7260	0.1920	0.4205	0.1502

The descriptive results in Table 4 highlight several key patterns in the financial performance of Islamic banks in Indonesia and Malaysia. In Indonesia, the Zakat Performance Ratio (ZPR) ranges from 0.0000 to 0.1336 (mean 0.0122), showing variability in zakat distribution relative to assets. The Profit Sharing Ratio (PSR) varies widely between 0.0000 and 0.9480 (mean 0.5899), indicating that *mudharabah* and *musyarakah* financing play a significant yet uneven role across banks. The Islamic Income Ratio (IIR) averages 0.9959, confirming that nearly all income is derived from halal sources. Profitability indicators reveal modest performance: ROA averages 0.0191 and ROE 0.0707, both with some negative values, suggesting the presence of loss-making banks. The Net Profit Margin (NPM) averages 0.0362, reflecting relatively low profit efficiency.

In contrast, Malaysian Islamic banks show greater stability and higher profitability. The ZPR is lower (mean 0.0019), while the PSR averages 0.0610, indicating limited reliance on profit-sharing financing. The IIR is 0.9962, signifying consistent sharia compliance. Profitability ratios are stronger than in Indonesia: ROA averages 0.0120, ROE 0.0982, and NPM 0.4205, suggesting more effective cost management and higher returns. Overall, Indonesian banks exhibit greater variability in sharia conformity and profitability, reflecting uneven efficiency and risk management. Malaysian banks, meanwhile, demonstrate higher and more stable profitability, indicating mature operational structures and stronger performance. Both countries maintain high IIR values, confirming strong adherence to sharia-compliant income generation.

Table 5 presents the descriptive statistics of Islamic banks in Indonesia and Malaysia for 2023, based on the Sharia Conformity and Profitability Index (SCnPI), which includes the Zakat Performance Ratio (ZPR), Profit Sharing Ratio (PSR), Islamic Income Ratio (IIR), Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). In 2023, Indonesian Islamic banks exhibited considerable variability in performance. The ZPR averaged 0.0109, while the PSR averaged 0.6318, showing continued reliance on profit-sharing financing. The IIR (0.9958) indicates that income was largely halal. Profitability remained modest, with ROA

(0.0083) and ROE (0.0295) showing wide dispersion and negative outliers, while NPM averaged only 0.0205, reflecting weak profit efficiency.

Table 5. Descriptive Statistics Period 2023

Variables	Total	Maximum	Minimum	Mean	Std. Deviasi
ZPR Indo	12	0.1183	0.0000	0.0109	0.0339
PSR Indo	12	0.9446	0.0017	0.6318	0.2740
IIR Indo	12	1.0000	0.9583	0.9958	0.0120
ROA Indo	12	0.0422	-0.0713	0.0083	0.0276
ROE Indo	12	0.1688	-0.4710	0.0295	0.1669
NPM Indo	12	0.2000	-0.0871	0.0205	0.0646
ZPR Malay	13	0.0179	0.0000	0.0019	0.0049
PSR Malay	13	0.4330	0.0002	0.0624	0.1210
IIR Malay	13	1.0000	0.9807	0.9968	0.0056
ROA Malay	13	0.0520	0.0030	0.0122	0.0131
ROE Malay	13	0.1935	0.0250	0.0911	0.0422
NPM Malay	13	0.9570	0.1660	0.3983	0.2018

In contrast, Malaysian Islamic banks demonstrated higher stability and profitability. The ZPR (0.0019) and PSR (0.0624) were lower, suggesting limited zakat and profit-sharing activity. However, IIR remained high (0.9968), confirming strong sharia compliance. Profitability indicators were stronger and more consistent, with ROA (0.0122), ROE (0.0911), and NPM (0.3983) showing better returns and cost efficiency compared to Indonesia. Overall, the 2023 results indicate that Indonesian banks experienced greater volatility and uneven profitability, while Malaysian banks achieved more stable and higher returns. Both countries maintained high IIR values, reflecting strong adherence to sharia principles in income generation.

Normality Test

To assess whether the data are normally distributed, the Shapiro-Wilk test was employed. Table 6 presents the results for each variable. A significance value greater than 0.05 indicates normal distribution.

Table 6. Shapiro-Wilk Normality Test Results

Data	*Sig.*	Description
ZPR Indo	0,000	Not Normally
PSR Indo	0,007	Not Normally
IIR Indo	0,000	Not Normally
ROA Indo	0,000	Not Normally
ROE Indo	0,000	Not Normally
NPM Indo	0,000	Not Normally
ZPR Malay	0,000	Not Normally
PSR Malay	0,000	Not Normally
IIR Malay	0,000	Not Normally
ROA Malay	0,000	Not Normally
ROE Malay	0,213	Normal
NPM Malay	0,033	Not Normally

The results show that only the Return on Equity (ROE) for Malaysian Islamic banks meets the criteria for normality (Sig. = 0.213). All other variables, both in Indonesia and Malaysia, have significance values below 0.05 and are therefore considered not normally distributed.

Hypothesis Testing

This study employs hypothesis testing to examine differences in financial and Sharia-compliance indicators—Zakat Performance Ratio (ZPR), Profit Sharing Ratio (PSR), Islamic Income Ratio (IIR), Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM)—between Islamic banks in Indonesia and Malaysia. Based on the Shapiro-Wilk normality test, only the ROE data for Malaysian banks were normally distributed. Consequently, the fifth hypothesis (ROE) was tested using the independent sample t-test, while all other variables were analyzed using the Wilcoxon signed-rank test due to non-normal distribution.

Table 7. Hypothesis Testing Results

Variable	Method	*Sig. (2-tailed)*	Description
ZPRINDO-ZPRMALAY	One sample Wilcoxon	0,306	There is no difference
PSRINDO-PSRMALAY	One sample Wilcoxon	0,000	There is a difference
IIRINDO-IIRMALAY	One sample Wilcoxon	0,909	There is no difference
ROAINDO-ROAMALAY	One sample Wilcoxon	0,715	There is no difference
ROEINDO-ROEMALAY	Independent Sample t-test	0,102	There is no difference
NPMINDO-NPMMALAY	One sample Wilcoxon	0,000	There is a difference

The results indicate significant differences in PSR and NPM (Sig. = 0.000), supporting hypotheses H2 and H6. These findings suggest that Islamic banks in Indonesia and Malaysia differ in their use of profit-sharing financing and in their net profit margins. In contrast, no significant differences were found in ZPR, IIR, ROA, and ROE (Sig. > 0.05), leading to the rejection of hypotheses H1, H3, H4, and H5.

Discussion

Performance Ratio (ZPR)

Hypothesis testing indicates no significant difference in the Zakat Performance Ratio (ZPR) between Islamic commercial banks in Indonesia and Malaysia during the 2022–2023 period (Sig. = 0.306 > 0.05). ZPR reflects the proportion of zakat disbursed relative to net assets, serving as a measure of Sharia compliance and social responsibility. The absence of a significant difference may be attributed to the fact that several Islamic banks in both countries did not report zakat payments in their financial statements, with some institutions recording a zakat value of zero. This finding aligns with Abojeib et al. (2025), which also observed no significant variation in ZPR between the two banking systems.

From an agency theory perspective, this lack of zakat reporting may indicate potential agency problems, where bank management (agents) fails to fulfill its obligations to stakeholders (principals). Information asymmetry and weak internal oversight—particularly by Sharia Supervisory Boards—may contribute to non-compliance or limited transparency in zakat distribution. Consequently, the uniformity in ZPR and the presence of zero zakat values suggest

shortcomings in accountability and transparency, which are fundamental principles in Islamic finance.

It underscores the need to strengthen Sharia governance and internal supervisory mechanisms in Islamic banks to ensure consistent zakat reporting and compliance. Regulators and financial authorities should consider enhancing the role and effectiveness of Sharia Supervisory Boards through standardized guidelines, training, and performance evaluations. Additionally, future research could investigate the impact of Sharia governance quality on zakat disclosure practices and explore the relationship between transparency, stakeholder trust, and financial performance. Comparative studies across jurisdictions may also provide insights into best practices for improving zakat accountability in Islamic banking.

Profit Sharing Ratio (PSR)

Statistical testing reveals a significant difference in the Profit Sharing Ratio (PSR) between Islamic commercial banks in Indonesia and Malaysia during the 2022–2023 period (Sig. = 0.000 < 0.05). PSR measures the proportion of profit-sharing-based financing, primarily *mudharabah* and *musyarakah*, relative to total financing. Research data show that Indonesian banks recorded a substantially higher average PSR (63.18%) compared to Malaysian banks (6.24%). This disparity is largely attributed to the greater prevalence of *musyarakah* financing in Indonesia, where banks and customers jointly contribute capital and share business risks and returns. This structure promotes risk-sharing and reduces exposure to agency problems. From the perspective of agency theory, profit-sharing contracts involve a principal-agent relationship, where the bank (principal) relies on the customer (agent) to manage funds effectively. In this context, the bank provides financing with the expectation that the customer will manage the funds responsibly and generate optimal returns. However, agency conflicts can occur when customers possess more accurate knowledge of their business conditions than the bank, which relies solely on the information provided by the customer.

Musyarakah financing, which is more prevalent in Indonesia, offers a mechanism to reduce agency problems by jointly contributing capital and sharing both risks and profits based on agreed proportions, thus, banks and customers are more aligned in their interests. This structure helps mitigate moral hazard, as customers are more likely to act diligently when they share in the risk. The higher Profit Sharing Ratio (PSR) observed in Indonesia reflects the success of this approach in minimizing agency conflicts and promoting shared accountability. Conversely, the lower PSR in Malaysia (6.24%) suggests that profit-sharing financing is less widely adopted, or that existing control and incentive mechanisms may not sufficiently support balanced risk-sharing between banks and customers. This could lead to greater agency problems, where customers may not be incentivized to act in the bank's best interest. These findings are consistent with Baihaqi et al. (2022), who reported significant differences in PSR between Islamic commercial banks in Indonesia and Malaysia during the 2015–2020 period.

The result emphasizes the importance of promoting profit-sharing financing models, particularly *musyarakah*, as a means of reducing agency conflicts in Islamic banking. Policymakers and regulators should consider enhancing frameworks that support risk-sharing and transparency between banks and customers. Strengthening monitoring mechanisms and improving the quality

of information disclosure can help mitigate information asymmetry and moral hazard. Future research could explore the effectiveness of various financing contracts in different regulatory environments, and assess how governance structures and incentive systems influence the adoption and success of profit-sharing models in Islamic financial institutions.

Islamic Income Ratio (IIR)

The hypothesis test results show no significant difference in the Islamic Income Ratio (IIR) between Islamic commercial banks in Indonesia and Malaysia during the 2022–2023 period (Sig. = 0.909 > 0.05). IIR reflects the proportion of income derived from halal sources, serving as a key indicator of Sharia compliance in asset management. Despite the similarity in IIR values, concerns remain regarding transparency in reporting non-halal income. In practice, some banks in both countries have been found to omit disclosures of non-halal income, which contradicts Sharia principles and raises potential agency issues.

Within the framework of agency theory, such omissions suggest information asymmetry between bank management (agents) and stakeholders (principals), undermining trust and accountability. Although Islamic banks are expected to earn income exclusively from halal sources, evidence shows that several banks in both Indonesia and Malaysia have failed to disclose non-halal income in their financial statements, despite Sharia requirements for such disclosures. This lack of transparency reflects an agency problem, where management may not fully prioritize the interests of stakeholders, namely customers and the broader community, in upholding Sharia compliance.

The ambiguity or incompleteness in income reporting indicates the presence of information asymmetry, which can be detrimental to principals who rely on banks to manage funds in accordance with Islamic principles. Therefore, while the Islamic Income Ratio (IIR) does not show a statistically significant difference between the two countries, the issue of disclosure and transparency remains critical. Addressing these gaps is essential to minimizing agency conflicts and reinforcing Sharia governance in Islamic banking practices. These findings differ from those of Azzahra et al. (2023), who reported significant differences in IIR between Islamic commercial banks in Indonesia and Malaysia during the 2018–2021 period, suggesting that reporting practices and compliance levels may have evolved over time.

This result highlights the urgent need for improved transparency and standardized reporting of halal and non-halal income in Islamic banks. Regulators and Sharia supervisory boards should strengthen oversight mechanisms to ensure full disclosure and adherence to ethical standards. Enhancing the role of Sharia governance and internal audit functions can help mitigate agency risks and promote greater accountability. Future research could examine the effectiveness of Sharia supervisory boards, explore cross-country regulatory differences, and assess the impact of disclosure practices on stakeholder trust and financial performance in Islamic banking.

Return on Assets (ROA)

The hypothesis test shows no significant difference in Return on Assets (ROA) between Islamic commercial banks in Indonesia and Malaysia during the 2022–2023 period (Sig. = 0.715 > 0.05). ROA measures a bank's ability to generate profits from its total assets and serves as a key

indicator of operational efficiency. From the perspective of agency theory, ROA reflects the relationship between bank owners (principals) and management (agents), where conflicts may arise if managers prioritize personal gains over shareholder interests. The similarity in ROA values suggests that, despite differences in regulatory environments, both banking systems demonstrate comparable efficiency in asset utilization.

However, consistent ROA figures do not eliminate the potential for agency problems. Transparency, accountability, and adherence to Sharia principles remain critical, as moral hazard and information asymmetry may still occur if management pursues short-term profits at the expense of long-term stability or compliance. These findings align with Herviyani & Filianti (2019), who also found no significant differences in ROA between Islamic banks in Indonesia and Malaysia during the 2013–2018 period.

The finding underscores the importance of strengthening governance and internal control mechanisms in Islamic banks to ensure that asset management practices align with both financial and ethical objectives. Regulators and policymakers should promote greater transparency and accountability in asset utilization, particularly in relation to Sharia compliance. Future research could explore the effectiveness of Sharia Supervisory Boards, risk management frameworks, and incentive structures in mitigating agency conflicts and enhancing asset performance. Comparative studies across different regulatory environments may also provide deeper insights into how institutional factors influence ROA outcomes in Islamic banking.

Return on Equity (ROE)

The statistical test results indicate no significant difference in Return on Equity (ROE) between Islamic commercial banks in Indonesia and Malaysia during the 2022–2023 period (Sig. = 0.102 > 0.05). ROE measures a bank's efficiency in utilizing equity capital to generate net profit, serving as a key indicator of shareholder value. In the context of agency theory, the relationship between the bank as the principal and investors as agents centers on the effective management of equity capital to generate optimal returns. Agency conflicts may arise when bank management prioritizes personal interests, such as increasing bonuses or compensation, over the goal of maximizing shareholder value.

Although the statistical test results show no significant difference in Return on Equity (ROE) between Islamic commercial banks in Indonesia and Malaysia during the 2022–2023 period, agency theory underscores the importance of transparency and accountability in fund management. Bank management must act in alignment with investor interests to ensure efficient capital utilization. These findings differ from Herviyani & Filianti (2019), who reported significant differences in ROE between Indonesian and Malaysian Islamic banks during the 2013–2018 period. The contrast suggests that changes in market dynamics, regulatory frameworks, or governance practices may have influenced more recent performance outcomes.

This output highlights the need for Islamic banks to strengthen governance structures and enhance transparency in equity management. Regulators should consider implementing more rigorous oversight mechanisms to ensure that management decisions are consistently aligned with investor interests. Additionally, future research could explore the role of board composition, incentive systems, and Sharia governance in mitigating agency conflicts and improving ROE

performance. Comparative studies across different time periods may also help identify evolving trends and the impact of policy reforms on capital efficiency in Islamic banking.

Net Profit Margin (NPM)

The statistical test results reveal a significant difference in Net Profit Margin (NPM) between Islamic commercial banks in Indonesia and Malaysia during the 2022–2023 period (Sig. = 0.000 < 0.05). NPM measures the proportion of net profit relative to total income, indicating the bank's efficiency in managing costs and generating earnings. Research data show that Malaysian Islamic banks achieved a substantially higher average NPM (95.70%) compared to their Indonesian counterparts (20%), suggesting superior cost management and profitability. This reflects the effectiveness of Malaysian bank management in maintaining stable earnings and operational efficiency.

From an agency theory perspective, NPM highlights the principal-agent relationship between shareholders and bank management. The bank, as the principal, is accountable to shareholders and customers for managing funds effectively, while management acts as the agent, expected to act in the best interests of the principal. The observed difference in Net Profit Margin (NPM) performance suggests that Islamic bank management in Malaysia may be more efficient in controlling costs and maximizing profits compared to their counterparts in Indonesia. This disparity also points to potential agency issues, where management in Indonesia may not fully prioritize cost efficiency or optimal resource utilization, thereby limiting the bank's ability to achieve higher profitability.

Factors such as moral hazard and information asymmetry could influence managerial decisions in Indonesian banks, leading to actions that are not entirely aligned with the interests of the principal. As a result, financial performance may be lower than that of Malaysian banks. These findings are consistent with Lestari (2020), who reported significant differences in the performance of Islamic banking in Indonesia and Malaysia. These findings highlight the importance of strengthening internal governance mechanisms and enhancing transparency in financial reporting within Islamic banks, particularly in Indonesia. Regulators and policymakers should consider implementing stricter oversight and accountability frameworks to mitigate agency conflicts and improve cost management practices. Furthermore, Islamic banks should reinforce their commitment to Sharia-based ethical standards, ensuring that managerial decisions are consistently aligned with stakeholder interests.

CONCLUSION

This study finds that while Islamic Commercial Banks (BUS) in Indonesia and Malaysia share similar structural foundations, their financial performances during 2022–2023 differ in several key areas. Statistical analysis reveals no significant differences in the Zakat Performance Ratio (ZPR), Islamic Income Ratio (IIR), Return on Assets (ROA), and Return on Equity (ROE), suggesting comparable levels of profitability and sharia compliance between the two countries. However, significant differences emerge in the Profit Sharing Ratio (PSR) and Net Profit Margin (NPM). Indonesian banks exhibit higher PSR values, reflecting a greater reliance on musyarakah financing, which facilitates more balanced risk-sharing. Conversely, Malaysian banks demonstrate higher NPM, indicating superior efficiency in cost management and profit

generation. These findings highlight that while Indonesian banks exhibit a stronger commitment to profit-sharing principles, Malaysian banks outperform in operational and financial efficiency.

Theoretically, this research reinforces the applicability of agency theory in understanding performance variations within Islamic banking. The observed differences stem partly from information asymmetry, limited transparency, and differing governance mechanisms between the two countries. Malaysia's more mature regulatory and supervisory framework appears to mitigate agency problems more effectively, leading to greater operational stability and profitability. The findings underscore the importance of robust monitoring, transparent reporting, particularly regarding zakat and halal income, and incentive alignment between management and stakeholders to enhance both accountability and performance in Islamic financial institutions.

Despite its contributions, this study is constrained by its reliance on secondary data and the limited observation period of 2022–2023, which may not fully capture long-term trends in Islamic banking performance. Future studies could extend the temporal scope, incorporate additional countries with emerging Islamic banking sectors, and employ qualitative methods to explore managerial practices and governance mechanisms in greater depth. Further investigation into the impact of regulatory innovation, digital transformation, and sustainability initiatives would also provide valuable insights into the evolving dynamics of Islamic banking performance in Southeast Asia.

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