

THE EFFECT OF SOLVENCY AND LIQUIDITY ON THE PROFITABILITY OF INDONESIAN AND SAUDI ARABIAN ISLAMIC COMMERCIAL BANKS: AN EMPIRICAL ANALYSIS BASED ON STAKEHOLDER THEORY

Kartika Puspitasari¹ & Muhammad Muflih²

^{1,2}Accounting Department, Politeknik Negeri Bandung, Bandung, Indonesia
Corresponding author: kartikapspts@gmail.com

Abstract: Profitability in Islamic banking is currently less competitive compared to conventional banking, including in Indonesia and Saudi Arabia. This study aims to enhance the profitability of Islamic banking in Indonesia and Saudi Arabia during the period 2013–2022 by examining the role of solvency (DER), liquidity (CR), and company size (SIZE) as control variables based on stakeholder theory. The data for this study were derived from Islamic banking financial reports collected through purposive sampling and analyzed using SEM-PLS techniques. The study found that solvency and company size, as control variables, have a significant impact on the profitability of Islamic commercial banks in Indonesia and Saudi Arabia. However, liquidity in Islamic banking in both countries does not significantly affect profitability. These findings provide guidance for Islamic banking institutions in formulating strategic initiatives to enhance the profitability of Islamic commercial banks in Muslim-majority countries.

Keywords: Profitability, Stakeholder Theory, Islamic Commercial Bank, PLS-SEM

Abstrak: Profitabilitas pada perbankan syariah saat ini tidak kompetitif terhadap perbankan konvensional tidak terkecuali Indonesia dan Arab Saudi. Penelitian ini bertujuan meningkatkan profitabilitas profitabilitas perbankan syariah Indonesia dan Arab Saudi tahun 2013-2022 menggunakan peran solvabilitas (DER) dan likuiditas (CR) dan ukuran perusahaan (SIZE) sebagai variabel kontrol berdasarkan stakeholder theory. Data studi ini bersumber dari laporan keuangan perbankan syariah yang terhimpun melalui purposive sampling, dengan teknik analisis SEM-PLS. Studi ini menemukan bahwa solvabilitas dan ukuran perusahaan sebagai variabel kontrol berpengaruh signifikan terhadap profitabilitas bank umum syariah Indonesia dan Arab Saudi. Namun, likuiditas pada perbankan syariah kedua negara tersebut tidak berpengaruh signifikan terhadap profitabilitas. Hasil tersebut menjadi petunjuk bagi perbankan syariah dalam menciptakan langkah strategis untuk meningkatkan profitabilitas bank umum syariah di negara-negara muslim.

Kata Kunci: Profitabilitas, Stakeholder Theory, Bank Umum Syariah, PLS- SEM

1. INTRODUCTION

Global Islamic banking currently involves various stakeholders in its business operations, contributing to increased competitiveness (Etudaiye-Muhtar & Abdul-Baki, 2021). To date, the financial industry has successfully collected stakeholder funds amounting to US\$ 238 trillion, which play a crucial role in revitalizing the economic sectors of society (Masood & Ashraf, 2012). In fact, due to the support of these stakeholders, global Islamic banking assets grew from US\$ 2.170 trillion in 2015 to US\$ 3.958 trillion in 2021. This trend highlights the significant role of stakeholders in the world of Islamic banking, and for this reason, these financial institutions consistently strive to maintain positive relationships with their stakeholders.



Source: Islamic Finance Development Indicator Report 2022

Figure 1. The Growth of Global Islamic Financial

Despite receiving significant support from stakeholders, the Islamic banking industry continues to face competition in generating profitability, not only in Indonesia but also in Saudi Arabia (Mansoor Khan & Ishaq Bhatti, 2008). In this competition, conventional banking demonstrates superior profitability compared to Islamic banking. For instance, in the past year, Indonesian Islamic banking achieved an average ROA of only 1.90%, which was lower than conventional banking's average ROA of 2.47% (Indonesian Islamic Finance Development Report). Similarly, Saudi Arabian Islamic banking had an average ROA of 2.08%, compared to conventional banking's average ROA of 3.27% (Saudi Arabia Islamic Finance Report Excellence and Leadership). This situation underscores the importance of Islamic banks' ability to improve profitability, as stakeholder trust is closely tied to the professionalism of Islamic banks in addressing such challenges (Mollah & Zaman, 2015). Given this issue, research that specifically analyzes the determinants of Islamic banking profitability from a stakeholder perspective is crucial. Through such analysis, the performance of Islamic banking, particularly in Indonesia and Saudi Arabia, can be improved, leading to greater success in earning public trust.

The past studies have evaluated the profitability of Islamic banking in various countries using different predictor variables. In the Gulf Cooperation Council (GCC) countries, Hidayat et al. (2021) examined the profitability of the Islamic banking industry and conventional banks based on credit risk factors, efficiency, and financial

performance. Additionally, in the GCC countries, particularly in Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, Saif-Alyousfi and Saha assessed the profitability of Islamic and conventional banking in relation to the role of risk-taking behavior, bank-specific characteristics, bank stability, macroeconomic factors, and indicators of bank financial structure (Saif-Alyousfi & Saha, 2021). Finally, in the MENA (Middle East and North Africa) region, Ben Selma Mokni and Rachdi analyzed bank profitability in both Islamic and conventional banking based on bank-specific factors (such as bank capital, cost-to-income ratio, bank size, off-balance sheet activities in loan products, credit risk, liquidity risk, interest rate risk, bank age, mergers and acquisitions, and bank ownership) as well as macroeconomic factors (such as real GDP growth and inflation expectations) (Ben Selma Mokni & Rachdi, 2014). These studies demonstrate that profitability analysis has utilized a wide range of variables, both macroeconomic and microeconomic, leading to varied observations of these factors.

Although research on the profitability of Islamic banking varies, there has been no study specifically focusing on profitability in relation to the roles of solvency (Debt-to-Equity Ratio) and liquidity (Current Ratio), especially within Islamic banking in Indonesia and Saudi Arabia. Solvency is essential for explaining a company's ability to meet its obligations and the effectiveness with which it uses its assets, making predictions about profitability objective in relation to the company's debt (Dalci, 2018). On the other hand, liquidity is necessary to measure a bank's ability to pay off maturing obligations, ensuring that predictions about profitability are aligned with short-term financial burdens (Bukair, 2019). This explanation highlights the importance of considering both solvency and liquidity when predicting profitability, as they are crucial in revealing risks and burdens in the Islamic banking sector. Therefore, this study uses solvency (Debt-to-Equity Ratio) and liquidity (Current Ratio) to evaluate the profitability of Islamic banks, aiming to ensure greater stability in the future and more active engagement with stakeholders.

This study examines the Islamic banking industry in Indonesia and Saudi Arabia for several significant reasons. First, both countries are supported by the largest Muslim populations globally, creating substantial opportunities to increase demand and enhance the performance of the industry (M. Anwar et al., 2020). Second, stakeholders—including customers, investors, governments, society, employees, and the Islamic financial public—have a vested interest in profitability, which motivates the Islamic banking industry in both countries to manage this factor with greater caution (Jahja et al., 2021). Third, Islamic banks in Indonesia and Saudi Arabia face significant challenges in improving financial performance, particularly in enhancing profitability. Over the past six years, the performance of Islamic banking in both countries has fluctuated, particularly during the COVID-19 pandemic (2020–2022) (Indrawati et al., 2022; Rehman et al., 2021). These challenges highlight the urgent need for solutions to improve profitability in Islamic banking in both nations. Accordingly, this research offers potential solutions to address these issues.

2. LITERATURE REVIEW

2.1 Stakeholder Theory

Stakeholder theory defines that an organization can perform effectively if it receives full support from interested parties, both internal and external, that have relationships with the organization (Fontaine et al., 2006). Moreover, the theory emphasizes that a company operates not only for its own benefit but also for the interests of stakeholders, including customers, investors, governments, society, employees, and the financial public community (Landion, 2019). The primary goal of stakeholder theory is to assist company management in enhancing performance and productivity through creative and proactive measures that mitigate potential losses threatening stakeholders. It also guides management to operate the company in a way that ensures stakeholder satisfaction by providing a fair and equitable service system (Pahlevi, 2020).

Based on this framework, stakeholder theory is particularly relevant for understanding and enhancing the business performance of financial institutions, especially concerning profitability, as all stakeholders have a vested interest in this area. The applicability of stakeholder theory to Islamic banking is especially significant due to the industry's reliance on multiple parties within its business ecosystem (Mainardes et al., 2011). In fact, stakeholder theory is more comprehensive than agency theory, which limits its focus to two parties: the principal (shareholders) and the agent (managers or executives) (Pagalung, 2004). This limitation often results in the banking business being measured solely by shareholder expectations. Furthermore, if an Islamic bank encounters challenges, only the agents bear the consequences.

Conversely, stakeholder theory fosters collaboration between these parties while accommodating the expectations of diverse groups—including shareholders, executives, customers, governments, and the broader community—toward the success of Islamic banking, emphasizing the spirit of collective effort (Pahlevi, 2020). This alignment makes stakeholder theory highly compatible with Islamic principles, which prioritize (1) justice, (2) fairness, and (3) *ta'awuniyyah* (mutual assistance) (Pahlevi, 2020). These advantages strongly support the decision to use stakeholder theory as the conceptual foundation for this study. By applying this theory, the Islamic banking industry can strengthen its performance and better fulfill public satisfaction.

In practice, stakeholder theory fosters a spirit of partnership among stakeholders to make business activities more productive through Islamic *mu'amalah* contracts (Sapuan, 2016). These contracts include *musyarakah*, *mudharabah*, *murabahah*, *salam*, *istishna*, and *ijarah*. Additionally, external investors can participate in banking activities through *mudharabah al-muqayyadah*. The inclusivity of stakeholder theory in facilitating these contracts underscores its potential to advance Islamic banking significantly. Accordingly, this research views the performance of Islamic banking as a result of contributions from a wide range of stakeholders.

Stakeholder theory also assumes that stakeholders hold a significant position in a bank. This stakeholder group serves as a primary factor when deciding whether to disclose or withhold financial statement information (Ulum et al., 2017). Therefore, Islamic banks are obligated to report profitability, solvency, and liquidity to

stakeholders through financial statements. These statements form the foundation for evaluating a bank's performance and provide management with a tool to demonstrate their accountability and disclose financial information to stakeholders (Purba & Yadhnya, 2015). If an Islamic bank achieves high profitability, it attracts significant investment from stakeholders, leading to enhanced perceptions of the bank's performance. This is supported by research (Firza Alpi, 2018) showing that the financial satisfaction of Islamic banks and favorable stakeholder relations positively impact the overall relationship between banks and their stakeholders.

Moreover, Islamic banks rely heavily on the role of stakeholders in managing debt and profitability, both of which are closely monitored by these stakeholders. Any increase in debt, inability to repay obligations, or financial irregularities becomes a focal point for stakeholders. This highlights the critical role stakeholders play in aligning the efforts of various parties, as managing debt and ensuring financial stability cannot be accomplished in isolation. Islamic banks require partnerships and collaborative efforts from stakeholders to address solvency and liquidity challenges and maintain stability.

In times of liquidity difficulties, Islamic banks must engage in cooperative measures, whether with other Islamic banks, specialized personnel, or governmental bodies. Through such collaborations, governments can provide financial injections to resolve liquidity issues, thereby enabling Islamic banks to sustain profitability and ensure long-term growth.

2.2 Profitability

Experts define profitability as an indicator of a company's ability to generate net profits from various operational activities based on financial report information over a specific period (Suriani Seri, 2022). This ratio assists company management in evaluating the company's performance progress over time (Nurjayanti & Amin, 2022). Profitability is categorized into three types: (a) Return on Assets (ROA) – an indicator of the ability of assets to generate profits, Return on Equity (ROE) – an indicator of the ability of capital to generate profits, and Net Interest Margin (NIM) – an indicator of the bank's ability to generate interest from managing its productive assets (Rachmawati; Dwijono & Kristijanto, 2009). Among these ratios, this study focuses on ROA due to its ability to provide a comprehensive measure of profitability through the activities of productive assets. ROA is considered more holistic than capital-based measures such as equity, as equity only represents shareholder ownership, while assets reflect the ownership of all stakeholders. Moreover, ROA effectively illustrates the efficiency of Islamic banking through the implementation of effective business programs. A higher level of profitability indicates greater prosperity provided by the bank, which attracts investor interest, positively influences stock prices in the market, and reflects the bank's improved performance in generating profits.

2.3 Solvability

Scholars define solvency as a company's ability to meet both short-term and long-term debts, whether during regular operations or in liquidation (Munawir, 2019). A company is considered solvent if it possesses sufficient assets or wealth to cover all its debts. Conversely, if a company's assets are insufficient or less than its liabilities, it is

deemed insolvent (Febrianto & Rahayu, 2015). The solvency ratio also illustrates the extent to which debt finances assets. In other words, the more a company relies on debt to finance its assets, the higher the operational burden (J Lenas, 2022). As a result, the company may face constraints in generating optimal profits. However, solvency remains important for a company as long as debt is proportionally planned (Ningsih, 2021). For these reasons, this study incorporates solvency in predicting the profitability of Islamic banking. With proportional solvency, Islamic banks are better equipped to overcome low business performance and stabilize their operations against various external challenges.

Financial literature categorizes solvency ratios into five types: (1) Debt to Asset Ratio - an indicator of the ability of debt to finance company assets, (2) Debt to Equity Ratio (DER) - an indicator of the company's ability to finance assets with a combination of equity and debt, (3) Times Interest Earned - an indicator of the company's ability to pay interest on its debts, (4) Charge Coverage - an indicator of the company's ability to cover fixed costs, such as interest and other fixed expenses, with profit before interest and taxes, and (5) Cash Flow Coverage - an indicator of the company's ability to meet financial obligations with generated cash flow (Andreyani, 2019). Of these solvency measures, this study selects the Debt to Equity Ratio (DER) due to its effectiveness in explaining capital structure based on debt levels (Bukair, 2019). Additionally, DER serves as a guideline for minimizing risk, making investment decisions, and maintaining financial stability (Bukair, 2019). Therefore, the use of DER enhances the effectiveness and efficiency of Islamic banks in improving their business performance.

2.3.1 Debt to Equity Ratio (DER)

According to Gill and Mathur (2011), the term Debt to Equity Ratio (DER) refers to borrowing or taking loans to finance some of a company's expenses. DER is the ratio between debt and equity, which includes shares and other securities (Zeuspita & Yadhya, 2019). A high Debt to Equity Ratio (DER) can indicate that the bank is using more debt than equity, which increases financial risk, signals poor company performance, and raises the likelihood of bankruptcy. Conversely, a low Debt to Equity Ratio (DER) suggests that the bank relies more on equity than debt, making the company relatively safer due to the lower risk (Yunus & Simamora, 2021). In the context of Islamic banking, a low Debt to Equity Ratio (DER) can also reflect compliance with Islamic principles, which avoid the use of interest (usury). The Debt to Equity Ratio (DER) is thus a valuable tool for evaluating the financial health of Islamic banks, particularly in relation to their financial performance and policy decisions regarding profitability.

2.4 Liquidity

Experts define liquidity as a financial ratio used to assess a company's ability to meet its short-term obligations within an agreed timeframe (Bukair, 2019). This ratio helps determine the amount of liquid assets that can be converted into cash to settle unexpected liabilities. Banks must identify the funds necessary to maintain liquidity to repay loans to customers when they are due (Arif & Nauman Anees, 2012). Sufficient

liquidity can enhance a bank's profitability and help manage liquidity risk, which, if not handled properly, can negatively impact the bank's performance (Sultoni & Mardiana, 2021). In conventional banking, liquidity management relies on an interest-based financial system, while Islamic banks operate under Sharia principles. Islamic liquidity management utilizes wadiah contracts as the basis for agreements between banks and customers (Bani & Yaya, 2016).

High liquidity is crucial for Islamic banks as it ensures their ability to meet financial obligations, maintain customer trust, and effectively manage liquidity risk. Financial literature classifies liquidity ratios into five types: (1) Current Ratio – an indicator of a company's ability to pay short-term debts using current assets, (2) Quick Ratio – an indicator of a company's ability to pay short-term debts using the most liquid current assets, (3) Cash Ratio – an indicator of a company's ability to pay short-term debts using cash and cash equivalents, (4) Loan to Deposit Ratio – an indicator of a company's ability to pay short-term debts using third-party funds, such as customer deposits. This ratio shows how much loan is given relative to the deposits received, and (5) Loan to Assets Ratio – an indicator of the company's ability to use its assets to provide loans (Suciati, 2015). Among these liquidity measures, this study selects the Current Ratio (CR) due to its effectiveness in assessing the balance between assets and liabilities, helping to mitigate credit risk, and ensuring financial stability.

2.4.1 Current Ratio (CR)

The current ratio is a financial metric used to measure a bank's ability to pay off short-term debts or liabilities that are due immediately upon full collection (Kasmir, 2016). The current ratio (CR) is calculated by dividing current assets by current liabilities. The higher the ratio of current assets to current liabilities, the greater the bank's ability to cover its short-term debts. According to Evans and Jovanovic (1989), a high current ratio does not necessarily guarantee that debts due can be paid, which can impact the company's operations and income (Samo & Murad, 2019). A high current ratio (CR) indicates an excess of cash or other current assets relative to what is needed. Therefore, this ratio is important for evaluating a bank's liquidity and its ability to meet short-term obligations (Kaaba et al., 2022).

2.5 Hypotheses Development

2.5.1 The Influence of Solvency on the Profitability of the Islamic Commercial Banking Industry in Indonesia and Saudi Arabia

Solvency or leverage is the ratio of debt to equity in Islamic banks, reflecting the ability of these banks to carry out their operational activities using their own capital. This means that the obligation to pay interest expenses can be minimized by maximizing the capital used for operational activities, which reduces the reliance on loans. A higher debt-to-equity ratio suggests lower profitability because it indicates greater risk for the bank (Ayyub Pratama & Wahyudi, 2021). This also negatively impacts the profitability (ROA) of Islamic banks, as they will incur additional obligations, which must be met within a certain period along with the interest arising from the debt. Therefore, the relationship between solvency (debt-to-equity ratio) and ROA is negative. Research conducted by Samo & Murad (2019) in Pakistan and

Kontuš & Mihanović (2019) in European countries indicates that solvency has a negative effect on profitability. Based on these findings, the following hypotheses can be proposed:

H1a: Solvency has a negative effect on the profitability of the Islamic banking industry in Indonesia.

H1b: Solvency has a negative effect on the profitability of the Islamic banking industry in Saudi Arabia.

2.5.2 The Influence of Liquidity on the Profitability of the Islamic Commercial Banking Industry in Indonesia and Saudi Arabia

According to Horne and John (2012), the liquidity ratio highlights the crucial role of debt financing for Islamic banks by showing the percentage of bank assets supported by debt financing (Ayyub Pratama & Wahyudi, 2021). High liquidity (current ratio) indicates that Islamic banks have a strong ability to meet their short-term financial obligations when due. Therefore, it can be concluded that liquidity (current ratio) has a positive effect on profitability (ROA), because a high liquidity ratio enhances the credibility of Islamic banks, leading to a positive reaction from investors (Azzahra & Djoko Sampurno, 2023). A higher liquidity ratio means that Islamic banks are better able to meet their short-term obligations. This also suggests that Islamic banks have sufficient current assets to finance their liquidity, thereby avoiding liquidity problems that could disrupt bank performance (Kasmir, 2016). This ratio is important for evaluating the liquidity of Islamic banks, providing useful information for stakeholders, and enabling comparisons within the Islamic banking industry. Research conducted by Irman et al. (2020) in Indonesia and Samo & Murad (2019) in Pakistan shows that liquidity positively impacts profitability. Therefore, the following hypotheses can be proposed:

H2a: Liquidity has a positive effect on the profitability of the Islamic banking industry in Indonesia.

H2b: Liquidity has a positive effect on the profitability of the Islamic banking industry in Saudi Arabia.

Based on the explanation above, this study formulates the ROA model for Islamic banking in Indonesia and Saudi Arabia as follows:

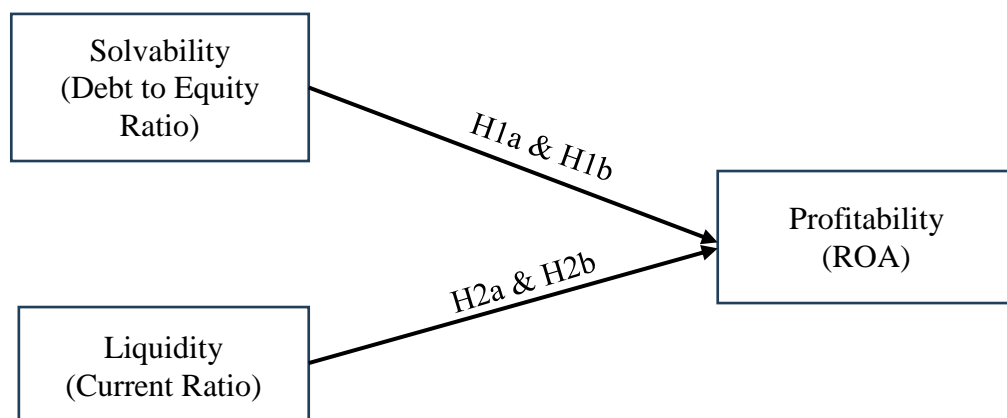


Figure 1. Profitability Improvement Model of Islamic Banking of Indonesia and Saudi Arabia

3. RESEARCH METHODS

This study employs a quantitative method with an explanatory approach, aiming to explain the effect of solvency and liquidity on the profitability of Islamic banking based on the financial performance reports of the banks. The type of data used in this study is panel data, which combines time series data and cross-sectional data. Panel data integrates information from various variables observed at different points in time. The advantages of panel data include providing more comprehensive information, offering more complete datasets, and enabling a greater degree of freedom in analysis.

The data sources for this study are financial reports with annual time series data for the period 2013-2022, obtained from the websites of the Financial Services Authority (OJK) in Indonesia and the Saudi Arabian Monetary Authority (SAMA) in Saudi Arabia. The data is derived from 12 research objects, consisting of 6 Islamic banks in Indonesia and 6 Islamic banks in Saudi Arabia. The reasons for selecting these research objects are as follows: First, both countries have the largest Muslim populations in the world, with around 87.2% of the population being Muslim, which creates opportunities to increase demand and improve the performance of the Islamic banking industry. Second, Indonesia and Saudi Arabia are both ranked in the top 3 of the Islamic Finance Index Country (IFCI), which ranks the performance and conditions of Islamic banking and finance across various countries, making them important on both national and international levels. Lastly, both countries are included in the Islamic Finance Development Indicator (IFDI), which tracks the growth of financial assets and overall Islamic economic development, including knowledge, governance, and awareness of Islamic finance.

The sample of this study consists of six Islamic banks in Indonesia and six Islamic banks in Saudi Arabia, all of which operated during the period 2013-2022, resulting in a total of twelve Islamic banks.

Table 1. The Selected Samples

No.	Indonesian Islamic Banks	Saudi Arabian Islamic Banks
1.	Bank Muamalat Indonesia	Al Bilad Bank
2.	Bank BCA Syariah	Al Jazira Bank
3.	Bank Jabar Banten Syariah	Riyad Bank
4.	Bank Panin Dubai Syariah	Al-Rajhi Bank
5.	Bank Victoria Syariah	Bank Arabia British Bank (SABB)
6.	Bank Mega Syariah	Arab National Bank (ANB)

Sources: OJK & SAMA

This study uses a non-parametric statistical approach to explain the causality model or relationship between research variables. The model employed in this study is Partial Least Squares Structural Equation Modeling (PLS-SEM). PLS-SEM is an analytical method used to model the relationship between latent variables (variables that cannot be directly measured) and observed variables (variables that can be directly measured) (F. Hair Jr et al., 2021).

The advantages of the PLS-SEM are as follows: (1) this procedure is able to use non-normally distributed data, (2) this method is effective to analyze relatively small

sample sizes, (3) this method can evaluate a variety of variable types, such as nominal, ordinal, and interval scales, (4) this metode is capable of conducting the predictive and explorative studies, and (5) this methods can analyze path models with higher levels of significance (F. Hair Jr et al., 2021). The PLS-SEM method is chosen because this study has a limited number of observations, specifically six Islamic banks in Saudi Arabia and six Islamic banks in Indonesia, and requires a method capable of effectively addressing the limitations of small sample sizes. Additionally, the non-normal distribution of research data makes PLS-SEM an appropriate choice compared to other methods that rely on the assumption of data normality. Therefore, the PLS-SEM method is well-suited for this study, as it can overcome these challenges and enable accurate data analysis.

In this study, the data analysis includes descriptive explanatory statistical analysis, evaluation of the measurement model (outer model), evaluation of the structural model (goodness of fit/inner model), and multiple linear regression analysis with path analysis tools using WarpPLS 7.0 software.

4. RESULTS AND DISCUSSION

4.1 The Analysis of Descriptive Statistic

Through descriptive statistics, this study presents the mean, standard deviation, maximum, minimum, median, mode, skewness, and excess kurtosis values, which are fully displayed as follows.

Table 2. The Results of Descriptive Statistical Analysis

Variable	Mean	Std. Dev	Max	Min	Median	Mode	Skewness	Exc. kurtosis
Dependent Variables								
ROA	0.017	0.030	0.136	-0.108	0.015	0.011	0.672	7.559
Independent Variables								
DER	6.442	3.497	30.471	0.769	5.939	0.769	3.126	17.504
CR	0.992	1.064	10.775	0.091	0.835	0.091	6.734	58.250

Source: WarpPLS 7.0 data processing results by the author, 2024

Table 2 presents the descriptive statistics for the dependent variable (Y), Return on Assets (ROA), the independent variables (X1 and X2), namely Debt to Equity Ratio (DER) and Current Ratio (CR), and the control variable, Company Size (SIZE), used in this study. The analysis includes 120 observations from 12 Islamic Commercial Banks in Indonesia and Saudi Arabia over a 10-year period, from 2013 to 2022, with data processed simultaneously in both countries.

For ROA, the maximum value is 0.136 and the minimum value is -0.108. The average is 0.017, with a standard deviation of 0.030. This indicates that the standard deviation (0.030) is greater than the mean (0.017), suggesting that the data for ROA is more dispersed or has a relatively large variation. The highest ROA was recorded by Bank BTPN Syariah in 2019, while the lowest was recorded by Bank Muamalat Syariah in 2021.

For DER, the maximum value is 30.471 and the minimum value is 0.769. The average value is 6.442, with a standard deviation of 3.497. Since the standard deviation

(3.497) is smaller than the average (6.442), this indicates that the data for DER is relatively consistent, with a lower degree of variation. There is not a significant gap between the maximum and minimum values for DER throughout the study period. The highest DER was recorded by Bank Panin Dubai Syariah in 2017, while the lowest DER was recorded by the Saudi British Bank (SABB) in 2021.

For CR, the maximum value is 10.775 and the minimum value is 0.091. The average value is 0.992, with a standard deviation of 1.064. This shows that the standard deviation (1.064) is greater than the mean (0.992), indicating a high level of variation in the CR data. The highest CR was recorded by Bank Al-Bilad in 2020, while the lowest CR was recorded by Bank Mega Syariah in the same year.

Company size, measured based on the natural logarithm of assets, shows a maximum value of 30,170 and a minimum value of 12,613. The average is 21,054, with a standard deviation of 3,566. Since the standard deviation (3,566) is smaller than the average (21,054), this indicates that the data for company size is relatively consistent, with a lower degree of variation. Therefore, there is no large gap between the minimum and maximum values of the company size variable during the study period. The largest company size was recorded by Bank BCA Syariah in 2022, while the smallest company size was recorded by Bank BTPN Syariah in 2013.

4.2 Data Analysis

4.2.1 Evaluation of Measurement Model (Outer Model)

The evaluation stage of the measurement model is conducted to test the validity and reliability of each variable indicator using three criteria: convergent validity, discriminant validity, and composite reliability.

1. Convergent Validity

Table 3. Convergent Validity Evaluation Results of Islamic Banking of Indonesia and Saudi Arabia

Indonesia				Saudi Arabia			
Variable	SE	PValue	Loading	Variabel	SE	P Value	Loading
ROA	0.091	<0.001	1.000	ROA	0.091	<0.001	1.000
DER	0.091	<0.001	1.000	DER	0.091	<0.001	1.000
CR	0.091	<0.001	1.000	CR	0.091	<0.001	1.000

Source: WarpPLS 7.0 data processing results by the author, 2024

According to Sholihin and Ratmono (2020), there are two criteria for assessing the outer model that meet the convergent validity requirements for relative constructs: a loading value greater than 0.7 and a significant p-value of less than 0.05. Based on Table 3, the loading value for all variables is 1.000, which exceeds 0.7, and the p-value for all variables is less than 0.001, which is also below 0.05. Therefore, convergent validity is met, confirming that the variables are valid measures.

2. Discriminant Validity

Table 4. Discriminant Validity Analysis Results of Islamic Banking of Indonesia and Saudi Arabia (Using the Fornell-Larcker Approach)

INDONESIA				SAUDI ARABIA			
VAR	ROA	DER	CR	VAR	ROA	DER	CR
ROA	(1.000)	-0.557	0.470	ROA	(1.000)	-0.066	-0.005
DER	-0.557	(1.000)	-0.579	DER	-0.066	(1.000)	0.122
CR	0.470	-0.579	(1.000)	CR	-0.005	0.122	(1.000)

Source: WarpPLS 7.0 data processing results by the author (2024)

Discriminant validity testing (Fornell-Larcker) for the data from Indonesia and Saudi Arabia in this study was conducted by examining the square root value of the Average Variance Extracted (AVE). The criteria used are that the square root of the AVE must be higher than the correlation between latent variables within the same column. If this condition is not met, it indicates low discriminant validity, meaning that some indicators may have strong loadings on more than one latent variable. In such cases, a re-examination of the loading and cross-loading tables must be conducted to remove problematic indicators (Sholihin & Ratmono, 2020). Based on Table 4, the AVE value for each variable is shown in parentheses, with a value of (1.000). This value exceeds the correlation between the latent variable and other latent variables. Table 4 demonstrates that the AVE values for all variables in both Indonesia and Saudi Arabia meet the criteria, confirming the presence of discriminant validity based on the Fornell-Larcker approach. Thus, this discriminant validity analysis is satisfactory.

3. Composite Reliability

Table 5. Composite Reliability Analysis Results of Islamic Banking of Indonesia and Saudi Arabia

INDONESIA		SAUDI ARABIA	
DER	1.000	DER	1.000
CR	1.000	CR	1.000
ROA	1.000	ROA	1.000

Source: WarpPLS 7.0 data processing results by the author, 2024

Reliability is assessed using the composite reliability and Cronbach's alpha values. A composite reliability value greater than 0.70 indicates high reliability, while a value above 0.60 is considered moderately reliable (Rahadi, 2023). Based on Table 5, the composite reliability and Cronbach's alpha values for all variables in both Indonesia and Saudi Arabia exceed the 0.70 threshold, confirming that the measurement instruments for the variables in each country are reliable.

4.2.2 Structural Model Evaluation (Goodness of Fit/Inner Model)

The evaluation of the structural model includes a goodness-of-fit test, which assesses the level of suitability of the research model. The model's suitability can be evaluated using several indicators, including the Average Path Coefficient (APC), Average R-Squared (ARS), Average Adjusted R-Squared (AARS), Average Block VIF (AVIF), Average Full Collinearity VIF (AFVIF), Tenenhaus GoF (GoF), Simpson's Paradox Ratio (SPR), R-Squared Contribution Ratio (RSCR), Statistical Suppression Ratio (SSR), and Nonlinear Bivariate Causality Direction Ratio (NLBCDR). This test

is conducted on all internal and external variables, both individually and in relation to the value of Islamic banking in Indonesia and Saudi Arabia.

Table 6. Estimation Results of Goodness of Fit and Quality Indices of Islamic Banking of Indonesia and Saudi Arabia

Index	INDONESIA			SAUDI ARABIA		
	Criteria	Value	Results	Criteria	Value	Results
<i>Average path coefficient (APC)</i>	$P < 0.05$	0.296	Not Accepted	$P < 0.05$	0.220	Not Accepted
<i>Average R-Squared (ARS)</i>	$P < 0.05$	0.630	Not Accepted	$P < 0.05$	0.083	Not Accepted
<i>Average Adjusted R-Squared (AARS)</i>	$P < 0.05$	0.610	Not Accepted	$P < 0.05$	0.034	Accepted
<i>Average block VIF (AVIF)</i>	Accepted if ≤ 5 , ideal ≤ 3.3	1.917	Accepted	Accepted if ≤ 5 , ideal ≤ 3.3	1.097	Accepted
<i>Average Full Collinearity VIF (AFVIF)</i>	Accepted if ≤ 5 , ideal ≤ 3.3	1.667	Accepted	Accepted if ≤ 5 , ideal ≤ 3.3	1.194	Accepted
<i>Tenenhaus GoF (GoF)</i>	Accepted: Small ≥ 0.1 , moderate ≥ 0.25 , Substantial ≥ 0.36	0.794	Accepted; Substantial	Accepted: Small ≥ 0.1 , moderate ≥ 0.25 , Substantial ≥ 0.36	0.288	Accepted; Substantial
<i>Sympson's Paradox Ratio (SPR)</i>	Accepted if ≥ 0.7 , ideal ≥ 1	0.667	Not Accepted	Accepted if ≥ 0.7 , ideal ≥ 1	0.667	Not Accepted
<i>R-Squared Contribution Ratio (RSCR)</i>	Accepted if ≥ 0.9 , ideal ≥ 1	0.998	Accepted	Accepted if ≥ 0.9 , ideal ≥ 1	0.693	Not Accepted
<i>Statistical Suppression Ratio (SSR)</i>	Accepted if ≥ 0.7	1.000	Not Accepted	Accepted if ≥ 0.7	1.000	Accepted
<i>Nonlinear Bivariate Causality Direction Ratio (NLBCDR)</i>	Accepted if ≥ 0.7	1.000	Not Accepted	Accepted if ≥ 0.7	0.667	Not Accepted

Source: WarpPLS 7.0 data processing results by the author, 2024

The evaluation of the structural model includes a goodness-of-fit test, which assesses the level of suitability of the research model. The model's suitability can be evaluated using several indicators, including the Average Path Coefficient (APC), Average R-Squared (ARS), Average Adjusted R-Squared (AARS), Average Block VIF (AVIF), Average Full Collinearity VIF (AFVIF), Tenenhaus GoF (GoF), Sympson's Paradox Ratio (SPR), R-Squared Contribution Ratio (RSCR), Statistical Suppression Ratio (SSR), and Nonlinear Bivariate Causality Direction Ratio (NLBCDR). This test is conducted on all internal and external variables, both individually and in relation to the value of Islamic banking in Indonesia and Saudi Arabia.

4.2.3 Path Analysis

Path analysis is employed to examine the direct effects of the research variables—solvency (DER), liquidity (CR), and company size (SIZE)—on profitability (ROA) in

Islamic commercial banks in Indonesia and Saudi Arabia. The direct effects are assessed by testing each hypothesis, focusing on the relationships between independent variables, control variables, and the dependent variable, with the significance determined by the p-value. The results of the path analysis for Islamic banking in Indonesia are as follows:

Table 7. Path Analysis Results of Islamic Banking of Indonesia

Xn -> ROA	Coefficient	P-Value	Results
DER	-0.365	<0.001	Negative; Influential and Significant
CR	-0.002	0.494	Negative; No Effect and Not Significant

Source: WarpPLS 7.0 data processing results by the author, 2024

Through the path analysis, this research reveals a significant relationship between solvency (Debt to Equity Ratio, DER) and profitability (ROA) in Islamic banking. The level of significance in this study is 5%, with the p-value for the DER variable being 0.001 (<0.05), indicating statistical significance. Therefore, hypothesis H1a is accepted.

Table 8. Path Analysis Results of Islamic Banking of Saudi Arabia

Xn ->ROA	Coefficient	P-Value	Results
DER	0.217	0.037	Positive; Influential and Significant
CR	-0.172	0.081	Negative; No Effect and Not Significant

Source: WarpPLS 7.0 data processing results by the author, 2024

In contrast, in Saudi Arabia, none of the hypotheses were supported, as the direction of the influence of DER on ROA and CR on ROA did not align with the hypotheses. Additionally, the significance of the influence of these two variables on Islamic banking ROA was not consistent with the expectations of the hypotheses.

4.3 Evaluation of Coefficient Determinations (R²)

The coefficient of determination (R²) measures the extent to which the independent variables influence the dependent variable in the regression model. The coefficient of determination for this research model is presented in Table 9 below:

Table 9. Determination Coefficient Test Results of Islamic Banking of Indonesia and Saudi Arabi

	Indonesia	Saudi Arabia
R-Squared	0.630 (63%)	0.083 (8,3%)
Adj. R-Squared	0.610 (61%)	0.034 (3,4%)

Source: WarpPLS 7.0 data processing results by the author, 2024

The adjusted R-squared value for the Indonesian research subjects is 0.630, or 63%. This indicates that the independent variables—Solvency (DER), Liquidity (CR), and Company Size (SIZE) as control variables—are able to explain 63% of the Profitability (ROA) variable for Islamic Commercial Banks in Indonesia. The remaining 37% (100% - adjusted R-squared value) is explained by other variables not included in this research model.

In contrast, for the Saudi Arabian research subjects, the coefficient of determination shows that the independent variables—Solvency (DER), Liquidity (CR), and Company Size (SIZE) as control variables—can explain 8.3% of the Profitability (ROA) variable for Islamic Commercial Banks in Saudi Arabia, while the remaining

91.7% (100% - adjusted R-squared value) is explained by other variables not included in the model.

4.4 Discussions

The empirical testing of this study shows that in Indonesia the Solvency variable (Debt to Equity Ratio) has a negative and significant effect on Profitability (Return on Asset). The arguments for this finding are as follows:

1) The Influence of Solvency (Debt to Equity Ratio) on the Profitability of Islamic Banks in Indonesia and Saudi Arabia

This study shows that Solvency (DER) has a significant negative effect on profitability (ROA) ($p < 0.05$) in Indonesia. The findings suggest that Islamic banks in Indonesia prefer to use internal sources of funds rather than relying on external sources. By doing so, these banks can minimize risk, improve business performance, and stabilize themselves against various external disruptions. As a result, a higher DER enables Islamic banks in Indonesia to operate more effectively and efficiently, improving their business performance (Bukair, 2019). However, when banks rely more on external sources of funds, it can increase financial risk, indicate poor company performance, and hinder the ability to generate high profits (Samo & Murad, 2019). Additionally, with a lower debt-to-equity ratio, Islamic banks are better able to manage their finances, leading to improved profitability.

Meanwhile, in Saudi Arabia, although the analysis shows significance, the effect of DER on ROA is positive. This finding contradicts theoretical expectations, suggesting that the increase in ROA in Saudi Arabian Islamic banks is not influenced by the emphasis on DER.

2) The Influence of Liquidity (Current Ratio) on the Profitability of Islamic Banks in Indonesia and Saudi Arabia

This study shows that Liquidity (Current Ratio) has an insignificant effect on profitability (ROA) in the Islamic banking industries of both Indonesia and Saudi Arabia ($p > 0.05$). This finding suggests that the change in Liquidity (Current Ratio) from period to period is minimal. As a result, the Liquidity (Current Ratio) in a given year may be similar to or smaller than the previous year, which does not influence profitability (Febrianto & Rahayu, 2015). Therefore, Liquidity (Current Ratio) primarily measures the ability to meet short-term obligations and does not account for long-term liquidity, operational costs, asset quality, or business strategies in Islamic banking.

3) Differences in Profitability between Islamic Commercial Banks in Indonesia and Saudi Arabia

The differences in profitability between Islamic commercial banks in Indonesia and Saudi Arabia can be attributed to several factors, including variations in economic structure, regulation, consumer preferences, and profit ratios. According to Adzhani (2016), the key factors contributing to these differences are as follows: (1) Economic Structure: Indonesia has a highly diverse economy, encompassing sectors such as agriculture, manufacturing, and services. In contrast, Saudi Arabia is heavily reliant on the oil and gas sector. This sectoral dependence influences both the sources of income

and the risks faced by banks, ultimately affecting profitability. (2) Regulatory Differences: The regulations governing Islamic banks in Indonesia and Saudi Arabia can influence the business and operational strategies of banks. For example, capital requirements and supervision differ: Indonesia's Islamic banks are supervised by the OJK, while Saudi Arabia's banks are overseen by SAMA, which enforces stronger and more consistent regulations that foster the development of the Islamic banking sector. Additionally, differences in regulations concerning Islamic financial products can also impact bank profitability. (3) Consumer Preferences: Consumer attitudes toward Islamic financial products can vary between Indonesia and Saudi Arabia. The level of penetration and adoption of Islamic financial products, as well as the awareness of Islamic finance, can influence the performance and profitability of Islamic banks in each country. (4) Profit Ratios: The profit ratios of Islamic banks in Saudi Arabia are generally higher. For instance, Al Rajhi Bank has a profit ratio of 2.38%, indicating that Islamic banks in Saudi Arabia are more effective at managing assets to generate high profits. In contrast, Islamic banks in Indonesia tend to have lower profit ratios.

5. CONCLUSION

This research reveals that solvency (DER) has a partial negative effect on the profitability of Islamic banks in Indonesia, while in Saudi Arabia, it has no effect. Liquidity (CR), on the other hand, has no partial effect on the profitability of Islamic banks in either Indonesia or Saudi Arabia.

Theoretically, this empirical study enriches the understanding of the profitability of Islamic banks, particularly in Indonesia and Saudi Arabia. The active role of solvency in influencing profitability demonstrates that the Debt to Equity Ratio (DER) plays a significant role in Islamic banking. Islamic banks with a strong solvency ratio are better able to meet their long-term obligations, which in turn increases stakeholder confidence, particularly among investors, and enhances the banks' ability to expand. Strengthening the partial role of solvency (DER) and company size (SIZE), as well as the simultaneous role of solvency (DER), liquidity (CR), and company size (SIZE) as control variables, can improve the performance of Islamic banks in both Indonesia and Saudi Arabia in the future.

This research also offers managerial implications. First, since solvency (DER) and company size (SIZE) are significant factors in predicting the ROA of Islamic banks in Indonesia, it is crucial for Islamic bank management to focus on financial performance. By prioritizing effective management in decision-making, Islamic banks can improve their financial health, thereby encouraging stakeholders, particularly investors, to invest in banks with a strong market reputation and stable financial circulation. This study also demonstrates that the combined influence of DER, CR, and SIZE as control variables can significantly increase the ROA of Islamic banks in both Indonesia and Saudi Arabia, ensuring consistent profitability and enabling banks to strengthen their positions in the market.

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