ISSN: 2338-8412 e-ISSN : 2716-4411

Ekombis Review – Jurnal Ilmiah Ekonomi dan Bisnis
Available online at : https://jurnal.unived.ac.id/index.php/er/index
DOI: https://doi.org/10.37676/ekombis.v14i3

The Effect Of Size And Capital Adequacy Ratio (CAR) On Return On Assets (ROA) With Maqasid Shariah Index (MSI) As A Moderating Variable In Islamic Commercial Banks In Indonesia 2020-2024

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How to Cite :

Fadli, A, A, Y., Priharta, A. (2026). The Effect of Size and Capital Adequacy Ratio (CAR) on Return on Assets (ROA) with Maqasid Shariah Index (MSI) as a Moderating Variable in Islamic Commercial Banks in Indonesia 2020-2024. EKOMBIS REVIEW: Jurnal Ilmiah Ekonomi Dan Bisnis, 14(3). DOI: https://doi.org/10.37676/ekombis.v14i3

ARTICLE HISTORY
Received [23 May 2026]
Revised [15 July 2026]
Accepted [19 July 2026]

KEYWORDS
ROA, ROE, NPM, EPS, Price Market.

ABSTRACT

This study examines the influence of firm size and capital adequacy on the profitability of Islamic commercial banks in Indonesia, with the Maqasid Shariah Index (MSI) serving as a moderating variable. Using panel data from leading Islamic banks over a recent multi-year period, the analysis applies the Common Effect Model and moderated regression to assess both direct and interaction effects. The findings reveal that firm size has no significant impact on profitability, while capital adequacy positively contributes to financial performance. The moderating analysis further shows that MSI does not alter the relationship between firm size and profitability; however, it significantly weakens the positive effect of capital adequacy on profitability, reflecting a shift in strategic priorities toward broader Sharia-based objectives. Overall, the study highlights the differing roles of financial and Sharia-compliance factors in shaping the performance of Islamic banks and provides insights for managers and policymakers in balancing profitability with Maqasid-driven responsibilities.

INTRODUCTION

Interest in Islamic commercial bank stocks in Indonesia has grown significantly over the past several years, reflecting broader expansion within the Islamic financial sector. Data from the Sharia Online Trading System (AB-SOTS) indicate that the number of Islamic stock investors increased from approximately 44,536 in 2018 to 151,560 in July 2024, marking a surge of about 240 percent in five years. At the same time, the national Islamic banking industry continued to expand, with total assets reaching IDR 980.30 trillion by the end of 2024, demonstrating sustained momentum and strengthening public confidence in Islamic financial institutions. This upward trend increases the relevance of evaluating the financial performance of Islamic commercial banks, particularly from the perspective of their profitability. Consequently, understanding the determinants of profitability becomes crucial for investors, regulators, and bank management.

Within Islamic banking performance measurement, Return on Assets (ROA) serves as one of the most widely used indicators to assess efficiency in utilizing total assets to generate profits. ROA is considered a comprehensive metric because it captures overall managerial effectiveness in mobilizing resources, making it relevant for internal decision-making as well as external financial assessments. The ratio is influenced by multiple internal and external factors, and prior literature suggests that operational efficiency, financing risk, funding structure, macroeconomic conditions, and inflation are among the variables that may affect bank profitability. Although these aspects contribute to ROA, their detailed discussion extends beyond the scope of this study. Instead, this research focuses on firm size and capital adequacy as key internal determinants of ROA in Islamic commercial banks.

Firm size and the Capital Adequacy Ratio (CAR) have been consistently examined in empirical studies as primary predictors of bank profitability. Recent studies show that both variables can significantly influence ROA; for instance, research on Islamic banks in Indonesia and Turkey reported that firm size and capital adequacy positively and significantly affect profitability (Muhammad, Sarı, Umarovich, Takidah, & Pertiwi, 2024). Other studies examining Indonesian Islamic banks also confirm that CAR and firm size remain relevant explanatory variables for ROA, although findings may vary depending on institutional characteristics and observation periods. These empirical results imply that understanding both variables is essential for explaining differences in performance across Islamic commercial banks. Consequently, they are used as the main independent variables in this study.

However, the profitability of Islamic banks cannot be fully explained using conventional financial indicators alone, as their operations are guided by Sharia principles. For this reason, Sharia-compliant performance measures such as the Maqasid Shariah Index (MSI) have been increasingly adopted in recent research to assess how well Islamic banks fulfill their ethical and socio-economic objectives. Several studies highlight that Sharia governance or Islamicity indicators have the potential to moderate the relationship between financial structure variables and profitability, suggesting that compliance with Sharia principles may strengthen or weaken these relationships (Wahyudi, Sari, & Nabella, 2022). Accordingly, this study introduces MSI as a moderating variable to evaluate whether Sharia-oriented performance influences the effect of size and CAR on ROA.

Given the rapid development of Indonesia’s Islamic banking industry, this study aims to provide empirical evidence regarding the financial and Sharia-compliance factors that shape profitability in Islamic commercial banks. By integrating firm size, capital adequacy, and the Maqasid Shariah Index within a single analytical framework, the research contributes to a more holistic understanding of Islamic bank performance. Findings from this study are expected to offer practical implications for bank managers seeking to enhance efficiency, for investors making informed decisions, and for regulators designing policies that promote both financial stability and Sharia adherence. Ultimately, this research strengthens the existing literature by highlighting the intersection between financial performance and Sharia objectives in contemporary Islamic banking.

LITERATURE REVIEW

Profitability in Islamic banking is widely assessed using Return on Assets (ROA), which measures how effectively banks utilize their total assets to generate earnings. Recent studies affirm that ROA is shaped by internal and external factors, including capital structure, efficiency, liquidity, and macroeconomic conditions. Research on Indonesian Islamic banks shows that leverage, firm size, capital adequacy, and liquidity significantly influence profitability, indicating the importance of internal financial policies(Humairah, Andriansyah, & Badjie, 2023). Cross-country evidence likewise suggests that bank size, capital adequacy, liquidity, and financial stability remain crucial determinants of ROA in Islamic banking institutions (Hafizh & Abdani, 2025). Other studies also highlight operational efficiency, risk management, and financing quality as additional determinants of profitability, although these variables fall outside the scope of this study (Putri, Yulianto, & Alya, 2025)

Firm size has been consistently examined as a significant predictor of Islamic bank profitability. Theoretically, larger banks benefit from economies of scale, better market influence, and stronger funding capabilities, all of which may enhance ROA. Empirical studies across several Islamic finance jurisdictions show that bank size significantly and positively affects ROA, suggesting that larger institutions are more resilient and able to exploit broader income-generating opportunities (Muhammad et al., 2024). Evidence from Indonesian Islamic commercial banks also indicates that firm size contributes significantly to profitability when analyzed alongside capital adequacy, liquidity, and operational efficiency (Anugra, Fathihani, & Saputri, 2025). However, some studies report variability in the strength and direction of the firm size–profitability relationship depending on market conditions and business models, implying that size alone does not fully explain performance differences across Islamic banks (Abidillah, Kasanah, & Rusgianto, 2022).

The Capital Adequacy Ratio (CAR) is another key financial determinant strongly associated with profitability in Islamic banking. CAR ensures that banks maintain sufficient capital buffers to absorb losses, comply with regulatory requirements, and support asset expansion, thereby influencing their risk-taking capacity and income generation. Research covering Islamic banks globally finds that capital adequacy has a positive and significant effect on ROA, supporting the notion that well-capitalized banks operate more efficiently and profitably (Utomo, Prahutami, Shafira, & Al, 2022). Studies focused on Indonesian Islamic commercial banks similarly conclude that CAR is an important explanatory variable for ROA, validating the critical role of capital strength in sustaining financial performance(Arseto, Arfah, & Siregar, 2022). Nonetheless, some findings suggest that the magnitude of CAR's impact may shift depending on the banks' risk profiles and strategic priorities, indicating the need for more nuanced models incorporating potential interaction effects (Rachmawati & Utami, 2023).

Beyond traditional financial indicators, Islamic banks are expected to fulfill broader socio-economic and ethical objectives grounded in Maqasid al-Shariah. This has encouraged the development of Sharia-based performance metrics such as the Maqasid Shariah Index (MSI). Recent studies demonstrate that MSI provides a more comprehensive assessment of Islamic bank performance by capturing elements of education, justice, and public welfare alongside financial outcomes(Nafisah & Zaelina, 2025). Empirical evidence suggests that MSI can positively influence the financial performance of Islamic commercial banks, and that banks with stronger adherence to Maqasid principles tend to report higher profitability (Wahyudi et al., 2022). Other studies employing Islamicity and Maqasid-based performance indicators further reveal that Sharia compliance may interact with internal financial variables such as intellectual capital and operational efficiency, reinforcing the importance of integrating ethical dimensions into Islamic bank performance analysis(Harahap, Haji, Aziz, Syah, & Marlis, 2025). However, most existing studies position MSI as an independent variable, leaving a research gap concerning its role as a moderating factor between conventional financial ratios and profitability.

Overall, existing literature indicates that ROA in Islamic commercial banks is significantly affected by firm size, capital adequacy, and Sharia-compliant performance measures such as MSI. While prior empirical studies have established the importance of size and CAR in explaining profitability, and others have demonstrated the relevance of MSI to performance, limited research integrates these dimensions into a single moderating framework. This gap highlights the need to explore whether adherence to Maqasid principles strengthens or weakens the relationship between size, capital adequacy, and profitability. Therefore, the present study contributes to the literature by examining MSI as a moderating variable, offering a more holistic understanding of how financial and Sharia-based factors jointly influence the profitability of Islamic commercial banks.

METHODS

This study employs a quantitative research design using panel data regression to analyze the effect of firm size and capital adequacy on profitability, as measured by Return on Assets (ROA), with the Maqasid Shariah Index (MSI) serving as a moderating variable. The research focuses exclusively on Islamic commercial banks in Indonesia during the 2020–2024 period, reflecting a timeframe of regulatory stability and the availability of MSI-related disclosures. Secondary data were obtained from audited annual reports, financial statements submitted to the Financial Services Authority (OJK), and official publications used to construct the MSI components. Using secondary data ensures reliability, comparability, and the ability to perform multi-year analysis relevant for identifying performance trendsResults

This study adopts a quantitative research design using panel data regression to examine the effect of firm size and capital adequacy on profitability, as measured by Return on Assets (ROA), with the Maqasid Shariah Index (MSI) serving as a moderating variable. The research covers the period 2020–2024 to capture the most recent performance trends following regulatory adjustments and the consolidation of the Islamic banking sector in Indonesia. Secondary data were collected from audited annual reports, financial statements submitted to the Financial Services Authority (OJK), and official publications containing information needed to compute the Maqasid Shariah Index. The use of secondary data ensures objectivity, reliability, and the replicability of this study.

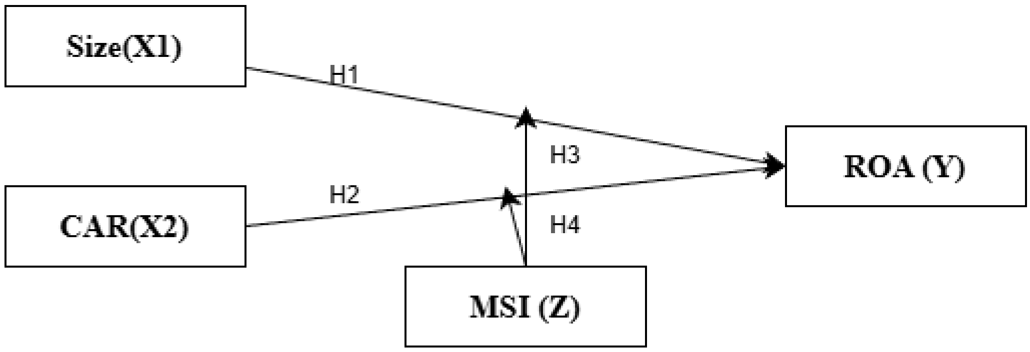
The sample was selected using a purposive sampling method based on the availability and completeness of data required to compute all research variables. Five Islamic commercial banks were selected: Bank Syariah Indonesia (BSI), Bank Muamalat, BCA Syariah, Bank Mega Syariah, and BTPN Syariah. These banks were chosen for three main reasons. First, they consistently publish full financial statements and annual reports during the 2020–2024 period, allowing complete measurement of ROA, CAR, and firm size. Second, these banks disclose sufficient qualitative and quantitative indicators to construct the Maqasid Shariah Index, making them more suitable for MSI-based studies than other institutions with limited disclosures. Third, they represent the largest and most established Islamic commercial banks in Indonesia in terms of assets, operational maturity, and market share, ensuring that the findings reflect the performance of institutions that significantly influence the Islamic banking landscape. Banks with missing variables or incomplete MSI components were excluded from the sample.

ROA is used as the dependent variable, calculated as net income after tax divided by total assets. Firm Size is measured using the natural logarithm of total assets, consistent with prior banking studies. The Capital Adequacy Ratio (CAR) represents the bank's regulatory capital strength relative to risk-weighted assets, indicating its buffer against financial shocks. MSI is used as the moderating variable and is constructed following the established Maqasid framework, incorporating three dimensions: the promotion of education, the establishment of justice, and the attainment of public welfare. Each dimension is quantified through a weighted scoring system to generate an overall MSI score for each bank and each year.

To test the moderation effect, the study employs Moderated Regression Analysis (MRA) by incorporating interaction terms between MSI and the independent variables (Size × MSI and CAR × MSI). The analytical process begins with descriptive statistics and classical assumption testing to ensure the reliability of the model. The panel regression model is then estimated using either fixed effects or random effects, depending on the results of the Hausman specification test. Additional diagnostic tests such as multicollinearity, heteroskedasticity, and autocorrelation were applied to ensure model robustness. All statistical procedures were conducted using EViews, ensuring precision and reproducibility.

This methodological approach allows a comprehensive assessment of whether Size and CAR influence ROA, while simultaneously determining the strengthening or weakening effect of MSI as a moderating variable. By integrating financial indicators and Sharia-compliance measures, the study provides a more holistic understanding of the drivers of profitability in Indonesian Islamic commercial banks during 2020–2024.

Figure 1. Conceptual Framework



a. H1: Firm Size has a significant effect on Return on Assets (ROA) in Islamic commercial banks in Indonesia.
b. H2: Capital Adequacy Ratio (CAR) has a significant effect on Return on Assets (ROA) in Islamic commercial banks in Indonesia.
c. H3 The Maqasid Shariah Index (MSI) moderates the effect of Firm Size on Return on Assets (ROA).
d. H4 : The Maqasid Shariah Index (MSI) moderates the effect of Capital Adequacy Ratio (CAR) on Return on Assets (ROA).

RESULT AND DISCUSSION

Result Of Model Testing

The model specification tests were conducted using the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test to determine the most appropriate panel regression model. The Chow Test was applied to assess whether the Fixed Effects Model (FEM) was more suitable than the Pooled OLS model, while the Hausman Test was used to compare the Fixed Effects Model with the Random Effects Model (REM). Additionally, the LM Test evaluated whether the Random Effects Model provided improvements over the Pooled OLS approach. The combined results of these tests guided the selection of the optimal model to ensure accurate estimation and reliable interpretation of the relationships among the research variables

Uji Chow

Table 1 Result Chow Test

Effect Test	Statistic	d.f.	Prob
Cross Section F	2.082391	(4.17)	0.1280
Cross Section Chi Square	9.968973	4	0.0410

Source : Data Processed EVIEWS,2025

The Chow Test results show that the Cross-Section Chi-Square probability value is 0.0410, which is below the 0.05 significance level. This indicates that the Fixed Effects Model (FEM) is more appropriate than the Common Effect model. Therefore, the panel data analysis should proceed using the Fixed Effects specification.

Hausman Test

Table 2 Result Hausman Test

Test Summary	Chi-Sq Statistic	d.f.	Prob
Cross Section Random	2.114123	3	0.5491

Source : Data Processed EVIEWS,2025

The Hausman Test shows a probability value of 0.5491, which is greater than the 0.05 significance level. This indicates that the Random Effects Model (REM) is more appropriate than the Fixed Effects Model (FEM). Therefore, the subsequent analysis should be conducted using the Random Effects specification.

Lagrance Multiple Test

Table 3 Result Lagrance Multiple Test

Test Summary	Cross Section	Time	Both
Breusch Pagan	0.205330 (0.6505)	0.475646 (0.4904)	0.680976 (0.4093)

Source : Data Processed EVIEWS,2025

The Lagrange Multiplier (LM) Test shows that all probability values Cross-Section (0.6505), Time (0.4904), and Both (0.4093) are greater than the 0.05 significance level. These results indicate that the Random Effects Model is not significantly better than the Common Effect Model (CEM). Therefore, the LM Test suggests that the CEM is the most appropriate specification for this study.

ResultDesriptive

Table 4 Descriptive Statistic

Categorical	Y(ROA)	X1 (Size)	X2 (CAR)	Z (MSI)
Mean	0.015068	4.060236	0.177880	0.121244
Median	0.015400	3.996400	0.178000	0.118800
Maximum	0.022300	5.059700	0.221200	0.177500
Minimum	0.009100	3.164200	0.146500	0.092300
Std. Dev.	0.003363	0.572975	0.019049	0.016389
Skewness	0.016173	0.201977	0.357284	1.472008
Kurtosis	2.342708	2.045145	2.488270	6.796021
Jarque-Bera	0.451123	1.119716	0.804661	0.038550
Probability	0.798068	0.571290	0.668760	0.658754
Sum Of Observations	0.376700	101.5059	4.447000	3.031100

Source : Data Processed EVIEWS,2025

The descriptive statistics show that the average profitability (Y) of Islamic commercial banks during 2020–2024 is relatively low but stable, as indicated by a small standard deviation. Firm Size (X1) has a mean value of 4.06, reflecting substantial variation across banks, while Capital Adequacy Ratio (X2) appears stable with low dispersion, suggesting consistent capital strength. The Maqasid Shariah Index (Z) has a moderate mean value with noticeable skewness, indicating differences in the extent of Sharia compliance among banks. All variables exhibit normal distribution characteristics, as shown by Jarque–Bera probability values above 0.05.

Result Of Hypothesis

The results of the hypothesis testing are presented to examine the influence of firm size and capital adequacy on profitability, along with the moderating role of the Maqasid Shariah Index. The findings are first displayed through the regression output of the Common Effect Model (CEM), followed by the moderating analysis to determine whether MSI strengthens or weakens the relationships among the variables. This approach provides a comprehensive view of both direct and interaction effects within the model.

Table 5 Regression Results Effect of Firm Size and Capital Adequacy Ratio on ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	-0.001449	0.006513	-0.222465	0.8260
Fim Size(X1)	6.83E-05	0.001101	0.062000	0.9511
CAR(X2)	0.091296	0.033121	2.756439	0.0115

Source : Data Processed EVIEWS,2025

The regression results indicate that firm size (X1) has no significant effect on ROA, as reflected by its very high probability value (0.9511), meaning that variations in bank size do not substantially influence profitability in this sample. Conversely, the Capital Adequacy Ratio (X2) shows a significant positive effect on ROA, with a probability value of 0.0115, implying that higher capital strength improves the ability of Islamic commercial banks to generate returns. The adjusted R-squared value of 0.204064 indicates that approximately 20.4% of the variation in ROA can be explained by the independent variables in the model. This suggests that the model has a modest explanatory power, where increases in CAR tend to strengthen profitability, while changes in firm size do not meaningfully alter the direction of ROA.The estimated regression model is expressed as:

Model Of Regression

$$Y = -0.00144891061214 + 6.8269365588e\text{-}05*X1 + 0.0912959347666*X2$$

This equation shows that an increase in CAR leads to a meaningful rise in ROA, while changes in firm size contribute minimally. The insignificant constant term further indicates that ROA cannot be predicted accurately when independent variables are held at zero. Overall, the findings demonstrate that capital strength plays a more crucial role than bank size in determining profitability during the 2020–2024 observation period.

Table 7 Regression Result for Moderating Variable (Z)

Variable	Coefficient	Std. Error	t-Statistic	Prob
Maqasid Syariah(Z)	0.088682	0.056830	1.560469	0.1336

Source : Data Processed EVIEWS,2025

The Maqasid Shariah Index (Z) shows an insignificant effect on ROA, as indicated by its probability value of 0.1336, which is above the 0.05 significance threshold. This result suggests that variations in MSI do not significantly influence the profitability of Islamic commercial banks within the study period. However, the positive coefficient (0.088682) indicates that, although not statistically significant, the direction of the relationship remains positive meaning that higher Sharia compliance tends to be associated with higher ROA. The adjusted R-squared value of 0.204064 further shows that the model explains around 20.4% of the variation in ROA, implying that MSI contributes to the model but does not serve as a strong determinant of profitability in its direct form.

Table 7 Moderating Effect of MSI (Z) on Size and CAR Toward ROARegression Results Effect of Firm Size and Capital Adequacy Ratio on ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob
Firm Size → MSI →ROA	-0.053677	0.067772	-0.792019	0.5472
CAR →MSI →ROA	-3.019266	1.395408	-2.163715	0.0434

Source : Data Processed EVIEWS,2025

The interaction term between firm size and MSI (X1Z) shows an insignificant probability value (0.5472), indicating that the Maqasid Shariah Index does not significantly moderate the relationship between firm size and ROA. Although the coefficient is negative, this effect is statistically weak, meaning that Sharia compliance does not meaningfully strengthen or weaken the influence of firm size on bank profitability.

In contrast, the interaction term between CAR and MSI (X2Z) shows a significant probability value (0.0434), demonstrating that MSI does moderate the relationship between capital adequacy and ROA. The negative coefficient (-3.019266) indicates that MSI weakens the positive impact of CAR on profitability. Thus, as Sharia compliance increases, the ability of strong capital buffers to generate higher ROA becomes reduced.

The adjusted R-squared value of 0.342908 indicates that approximately 34.29% of the variation in ROA can be explained by the combined effect of size, CAR, MSI, and their interaction terms. This shows that the moderating model has a stronger explanatory power than the earlier direct-effect model. However, the significance pattern reveals that MSI acts as a meaningful moderator only in the CAR–ROA relationship, and its moderating influence is negative.

DISCUSSION

Firm Size effect on Return on Assets (ROA) in Islamic commercial banks in Indonesia

The descriptive analysis shows that the size of Islamic commercial banks in Indonesia exhibits noticeable variation, reflecting differences in asset ownership and operational capacity across institutions. Larger banks tend to hold broader asset bases and engage in more diversified financial activities, while smaller banks maintain more limited operational scopes. Despite this diversity, profitability levels remain relatively stable across institutions, indicating that size alone does not necessarily translate into superior performance. This condition suggests that operational efficiency and managerial effectiveness may play more meaningful roles in shaping profitability than the mere scale of assets.

The hypothesis testing confirms that firm size does not have a significant effect on ROA. The statistical results indicate that changes in total assets do not produce substantial shifts in profitability, implying that increases in scale do not automatically lead to improved financial outcomes. This finding highlights that larger banks may face structural complexities, higher operational costs, or risk management challenges that offset the potential benefits of scale. Conversely, smaller banks may be able to maintain profitability through focused operations and efficient resource allocation, thereby neutralizing the expected advantage of larger institutions.

This result aligns with theoretical perspectives suggesting that economies of scale in banking are not always linear, as external conditions, regulatory environments, and internal management practices can influence the effectiveness of asset utilization. Recent studies also support this view; research (Lasabuda & Mangantar, 2022) suggests that bank size does not consistently enhance profitability in Islamic financial institutions due to variations in operational strategies and market competition. These findings reinforce the conclusion that size is not a dominant determinant of ROA and that Islamic commercial banks must rely on strategic efficiency, service quality, and risk management rather than asset expansion alone to strengthen financial performance.

Capital Adequacy Ratio (CAR) effect on Return on Assets (ROA) in Islamic commercial banks in Indonesia

The descriptive analysis indicates that the capital adequacy levels of Islamic commercial banks in Indonesia remain relatively stable throughout the observation period. This stability reflects the consistent regulatory compliance of banks in maintaining strong capital buffers to support their operational activities. Adequate capital allows banks to absorb potential losses, sustain financial resilience, and promote confidence among depositors and stakeholders. The variation across banks also illustrates differences in risk management strategies and capital planning frameworks, showing how each institution positions itself to meet both regulatory and operational needs.

The hypothesis testing demonstrates that capital adequacy has a significant positive effect on profitability. The results show that higher capital strength contributes to better financial performance, indicating that banks with stronger capital positions are more capable of managing risks and generating returns from their asset portfolios. This suggests that capital buffers not only serve as a protective mechanism but also enhance the bank's ability to pursue productive financing activities. The outcome reflects that capital management plays a crucial role in supporting sustainable profitability, reinforcing the importance of maintaining an optimal capital structure in Islamic banking operations.

This finding is consistent with theoretical arguments stating that well-capitalized banks operate more efficiently due to greater flexibility in absorbing shocks and supporting asset growth. Empirical evidence also supports this relationship; a recent study (Febiana, Febriyanti, & Dhea Parlina, 2024) that capital adequacy positively influences profitability in Islamic commercial banks, emphasizing that strong capital foundations contribute to enhanced stability and performance. These results reaffirm that capital adequacy is a key determinant of ROA and highlight the strategic importance of maintaining a robust capital position to ensure the long-term sustainability of Islamic banking institutions.

The Maqasid Shariah Index (MSI) moderates the effect of Firm Size on Return on Assets (ROA)

The descriptive results show that the Maqasid Shariah Index varies across Islamic commercial banks, reflecting differences in how each institution implements Sharia principles related to education, justice, and public welfare. While some banks demonstrate strong alignment with Maqasid objectives, others show more moderate levels of Sharia-driven performance. These variations influence broader organizational behavior, including ethical decision-making, stakeholder engagement, and social value creation. Meanwhile, firm size across banks also differs considerably, indicating distinctions in operational scale, resource availability, and market presence. Together, these conditions provide a diverse landscape for assessing whether Sharia-based performance influences the link between size and profitability.

The regression analysis shows that MSI does not significantly moderate the relationship between firm size and ROA. Although the interaction direction suggests a negative influence, the effect is statistically weak, meaning that changes in Sharia adherence do not alter the impact of firm size on profitability. This result implies that whether a bank is large or small, its level of Sharia compliance does not meaningfully strengthen or weaken its ability to generate returns. The finding further suggests that size-related advantages or limitations such as operational efficiency, cost structures, or market reach operate independently from the bank's performance in fulfilling Maqasid Shariah principles.

From a theoretical perspective, the Maqasid Shariah framework emphasizes ethical value creation, social welfare, and responsible financial practices, which may not directly influence structural factors such as size. Previous studies also support this interpretation. Research (Maulida & Firdaus, 2025)indicates that Sharia-based performance measures do not always interact with internal financial characteristics, particularly when the financial variable relates to scale rather than managerial policy. These findings reinforce the conclusion that MSI does not function as an effective moderator in the size–profitability relationship and that Sharia compliance contributes more meaningfully through operational and ethical pathways rather than through modifying the advantages associated with firm size.

The Maqasid Shariah Index (MSI) moderates the effect of Capital Adequacy Ratio (CAR) on Return on Assets (ROA)

The descriptive findings show that Islamic commercial banks display varying levels of capital adequacy and Maqasid Shariah Index performance. While capital adequacy levels tend to remain stable due to regulatory requirements, the degree of alignment with Maqasid principles differs substantially between institutions. Some banks exhibit strong commitment to Sharia objectives such as education, justice, and social welfare, while others demonstrate more moderate performance. These differences reflect how banks integrate ethical and socio-economic responsibilities into their financial operations, shaping the context in which moderation effects may emerge.

The results of the moderating analysis indicate that MSI significantly influences the relationship between CAR and ROA. The interaction term shows a weakening effect, meaning that as Sharia compliance increases, the positive impact of capital adequacy on profitability becomes smaller. This suggests that banks with higher adherence to Maqasid principles may prioritize social welfare, fairness, and ethical outcomes over maximizing short-term returns, thereby reducing the extent to which capital buffers translate directly into higher profitability. The findings imply that the pursuit of Sharia-driven goals can shift the bank's operational focus toward broader socio-economic objectives rather than purely financial outcomes.

This conclusion aligns with theoretical perspectives in Islamic finance, which emphasize that adherence to Maqasid al-Shariah guides institutions to prioritize justice, welfare, and ethical considerations over profit maximization. Empirical evidence supports this interpretation; a study (Malik, Akmaludin, & Asayesh, 2024) found that Sharia-based performance measures can alter the influence of internal financial ratios by redirecting managerial priorities toward values-driven practices. These findings confirm that MSI functions as an effective moderator in the CAR–ROA relationship and highlight that stronger Sharia compliance may reduce the direct profitability benefits derived from capital strength, as banks pursue a more holistic balance between financial performance and Maqasid-oriented responsibilities.

CONCLUSION

The study concludes that firm size does not significantly influence the profitability of Islamic commercial banks in Indonesia, indicating that variations in scale do not directly translate into higher returns. In contrast, capital adequacy demonstrates a positive and significant effect on profitability, emphasizing the importance of strong capital buffers in supporting financial performance. Furthermore, the Maqasid Shariah Index is found to moderate only the relationship between capital adequacy and profitability, suggesting that greater Sharia compliance can weaken the direct financial benefits of capital strength as banks shift toward broader socio-economic objectives.

SUGGESTION

Future studies are encouraged to incorporate additional financial and non-financial variables to better capture the multidimensional factors influencing profitability in Islamic commercial banks. Bank managers should strengthen capital management strategies while ensuring that Sharia compliance is aligned with both ethical objectives and financial sustainability. Regulators may also refine guidelines to support balanced growth, enabling banks to maintain strong capital positions without compromising their Maqasid-oriented responsibilities. Further research may explore broader moderating factors to provide a more comprehensive understanding of profitability dynamics in the Islamic banking sector

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