Systematic Literature Review: Determinant of Islamic Bank Performance (IBP)

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Abstract:
This research aims to review literature regarding factors that influence Islamic banking performance (IBP), financial factors as measured by profitability, liquidity, and activity ratios, as well as other supporting factors. This study used a Systematic Literature Review (SLR) method combined with bibliometric analysis. The results of this research are that most of the proxies for IBP are measured using profitability, namely ROA. The better the company's asset management, the impact it will have on improving bank performance. NPF also has an impact on bank performance and is widely used to assess performance. The lower the NPF ratio, the more favourable it is. Apart from good performance, banks also carry out CSR activities, where in Sharia banking, zakat is distributed. This research provides updates regarding more varied methods and variables in assessing the relationship between each variable and bank performance, both based on the literature review carried out.

Keywords: Islamic Bank Performance; Systematic Literature Review; Bibliometric Analysis

Introduction

The banking financial industry is one of the drivers of the economy in Indonesia. The banking sector is divided into two, namely sharia banking and conventional banking. Sharia banking is a financial institution whose activities are guided by Islamic religious law. Indonesian sharia banking continues to show positive developments, because Indonesia is the country with the largest Muslim population with a share of 86.88 percent, so Indonesia has great potential in developing sharia finance. According to the Global Islamic Economy Indicator Report for 2021-2022, sharia-compliant financial assets worldwide have been on a consistent upward trajectory over the past five years. In 2019, these assets totalled USD 2.88 trillion and are expected to grow further, reaching an estimated USD 3.69 trillion by 2024. In this report, it was also recorded that Indonesia managed to rank 4th out of 81 countries. However, there are still many challenges faced by Islamic finance in order to play a significant role in national development so that it can continue to compete in the global economy.

This increase must of course be accompanied by research that continues to analyse sharia banking, especially performance. Many studies have examined banking performance using various aspects, one of which is the financial aspect which is the focus of performance. The most effective parameter for assessing the financial performance of Islamic banks is evaluated by their profitability, which is measured using the return on assets (ROA) metric, which is a main performance indicator for evaluating the financial performance of a bank (Herawati et al., 2019). The other ratios, namely liquidity, solvency, and activity ratios, are also an important part of assessing bank performance.

Performance itself is a benchmark for the efficiency, effectiveness, or productivity of an organisation (Amadi, 2024). The Islamic banking performance (IBP) is among the most crucial factors for evaluating companies, activities, and the environment of Islamic banks (Mulla et al., 2019). Because IBP is a benchmark for performance, of course it will have antecedents or causes that influence it. To be able to support the presence of sharia banks so that they can develop well in Indonesia, namely the presence of educated and professional human resources. However, these supporting factors are not sufficient, so this has become an obstacle for the development of sharia banking in Indonesia (Munawaroh et al., 2023). Human resources are the most valuable wealth and are the force that drives company activities and development (Zhou, 2021). The better the human resources a company has, the company value will be increased, and the company's performance will improve as well.

The NPF ratio is a measurement to measure credit quality or a bank's ability to manage credit risk. This ratio is calculated by dividing the total loans that the borrower cannot pay or that are overdue for more than 90 days by the total bank loans. A higher NPF ratio indicates an increased credit risk for the bank, because the more loans the borrower cannot repay. In the period before the COVID-19 pandemic, NPF ratio at most banks in Indonesia was relatively low, namely below 5%. However, in 2020, the effects of the COVID-19 pandemic caused an increase in the number of debtors who had difficulty repaying loans, resulting in an increase in the NPF ratio in banks in Indonesia. The Indonesian government then took action to reduce the impact of the pandemic, including by providing credit restructuring relaxation (Effendi et al., 2017).

This research aims to review literature regarding factors that influence Islamic banking performance (IBP), financial factors as measured by profitability, liquidity, and activity ratios, as well as other supporting factors. Different from previous research, this research uses a systematic literature review which aims to reorganise knowledge that has been collected from various sources of information, then compare, categorise, and evaluate the literature critically.

Literature Review

Islamic Bank Performance (IBP)

Profitability shows a bank's performance and its growth prospects. Banks that perform well possess strong financial positions and solvency (Dsouza et al., 2022). For Islamic banks, profitability is derived from productive assets through various methods such as profit-sharing, purchasing, selling, and renting contracts. Savings collected from third parties utilise profit-sharing contracts, including *mudharabah* (deposits) and *wadiah* (savings and current accounts) (Zuhroh, 2022). Return on assets (ROA) is a financial ratio that measures how efficiently a bank uses its assets to generate profits. It is calculated by dividing the bank's net profit by its total assets. ROA is a key indicator used to assess a bank's financial performance (Herawati et al., 2019). In the context of Islamic banking, ROA is calculated by considering sharia principles which prohibit *riba* (interest) and promote risk sharing between the parties involved. Therefore, ROA in Islamic banking does not only include interest income, but also profits generated from investment or financing activities based on profit and loss sharing (profit sharing). In practice, Islamic banking usually has a lower ROA compared to conventional banks, because they do not offer interest products such as term deposits and interest-bearing loans. However, low ROA does not always indicate poor performance, because Islamic banking can choose to prioritise sustainable growth as well as social and environmental responsibility above high profits (Tiala et al., 2019).

NPF Financial Ratio

NPF is a term used in sharia banking to describe credit or financing that has matured and its payment obligations cannot be fulfilled by the customer or borrowing party. In another sense, NPF is financing that cannot be repaid on time and has passed the predetermined payment deadline. If a customer experiences NPF, sharia banking will experience losses, because the funds provided cannot be returned properly. Therefore, Islamic banks have strict policies and procedures in evaluating credit risk and minimising NPF risk. One of the efforts made by Islamic banks is to monitor and supervise customers so that they can take appropriate action if an NPF risk occurs (Arbi, 2019).

Research Methodology

This study employed the systematic literature review (SLR) methodology with bibliometric analysis. SLR is a method for reviewing articles in a structured and planned manner to increase the depth of research to make it more comprehensive and balanced. The steps in this research method consist of: (i) selecting keywords; (ii) determining the eligibility criteria (inclusion and exclusion) of literature studies; (iii) conducting a search and screening of literature studies; (iv) carrying out bibliometric analysis; (v) carrying out analysis and synthesis of results and discussions; as well as (vi) reporting research results. The selection protocol begins with a literature study search process that produces 100 data from google scholar and scopus, then filtered based on predetermined inclusion and exclusion criteria. The selection process based on inclusion and exclusion criteria was first carried out by screening titles and abstracts which produced 30 data, then through full text screening the data was obtained to be reviewed and analysed as relevant studies.

This research used bibliometric analysis to determine the graphical representation of bibliometric maps used to search for research opportunities and the most widely used research references. Bibliometric analysis was assisted by VOSviewer software to view co-authorship, co-occurrence, and citation. Co-authorship was used to analyse the direction of the author's collaboration with other authors based on the author's name, institution, country of origin. Co-occurrence was used to visualise relationships and networks between keywords. Citations were used to visualise various literature studies which present the name of the author, journal, institution, or country.

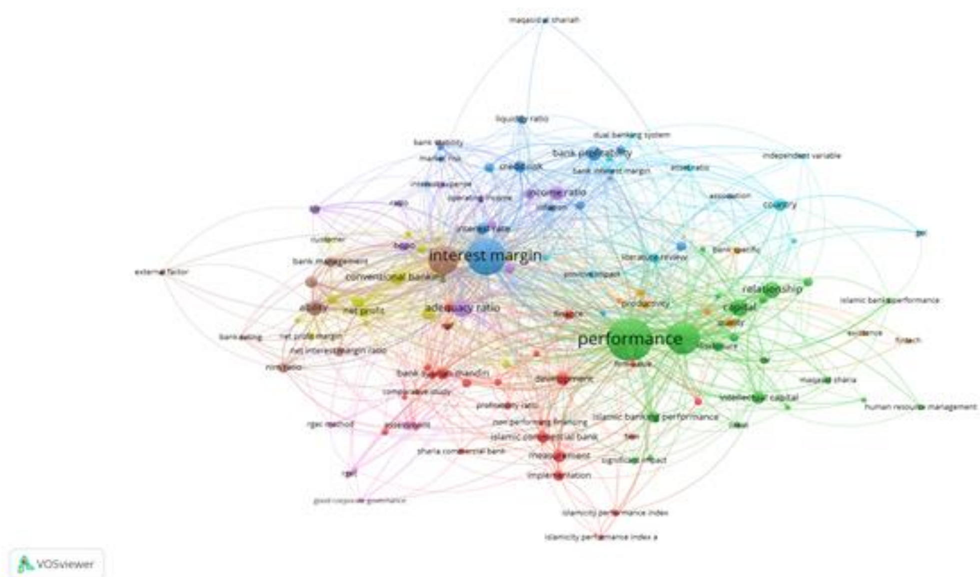

Figure 1. Islamic Bank Performance Network
Source: Processed Data (2023)

Figure 1 provides further explanation of the connection and development of critical keywords used in the literature. So, based on this bibliometric analysis, this research used three additional indicators to look at the relationship between financial ratios and human resources. Thus, the results obtained show that this research needs to add several things, including CSR, capital adequacy ratio, and bank stability.

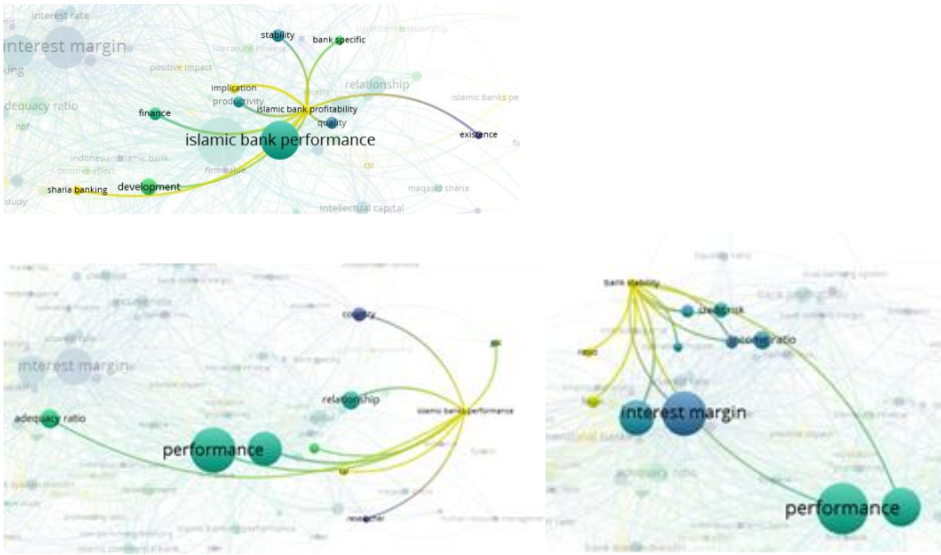

Figure 2. Network of Three Indicators Related to Islamic Bank Performance
Source: Processed Data (2023)

Analysis, synthesis, and reporting of results at this stage aim to analyse and synthesise the literature studies that have been identified as well as report the results.

Results and Discussions

The research results from 30 articles were analysed differently. After carrying out the analysis, the research results from the articles that have been analysed were grouped into 5 categories, namely results related to the relationship between NPF, human resources, CSR, capital adequacy ratio, and bank stability on Islamic bank performance.

Table 1. Categories of Research Findings

Research Results Category	Number of Articles	Percentage
NPF	7	23%
Human Resource	5	17%
CSR	4	13%
Bank Stability	3	10%
Islamic Bank Performance	11	37%
Total	30	100%

Source: Analysis Results (2023)

This research classified the findings of data collection methods into 5 groups consisting of regression analysis, partial least squares (PLS), vector autoregression (VAR), literature review, and other methods.

Table 2. Data Collection Categories

Research Method Category	Number of Articles	Percentage
Regression Analysis	16	53%
Partial Least Squares (PLS)	2	7%
Vector Autoregression (VAR)	4	13%
Literature Review	6	20%
Other Methods	2	7%
Total	30	100%

Source: Analysis Results (2023)

Some researchers make recommendations or suggestions that can be used as a basis for further research, because every research has inherent limitations. The recommendations or suggestions given by the authors of the 30 articles reviewed were divided into 4 categories, namely recommendations to increase or expand the sample size, recommendations to conduct additional research, recommendations to make comparisons, and no recommendations.

Table 3. Research Recommendations

Research Method Category	Number of Articles	Percentage
Increase Samples	8	27%
Further Research	5	17%
Making Comparisons	6	20%
No Recommendations	11	37%
Total	30	100%

Source: Analysis Results (2023)

Most of the research analysed is research with quantitative methods using regression analysis, partial least squares (PLS), vector autoregression (VAR), literature reviews, and other methods. Most of this research discusses the influence of financial performance as measured by ROA as a proxy for research to assess the extent of company profitability. The influence of NPF on financial performance in sharia banking is very significant, because problematic financing can worsen the quality of bank assets and reduce financial performance. Therefore, banks must manage credit risk well, including tightening credit granting criteria and carrying out strict monitoring of the financing provided. Banks must also have loss reserves to overcome the risk of problematic financing that may occur (Rohmandika et al., 2023). This was also conveyed by Iqbal and Anwar (2022) that, the lower the NPF level, the lower the financing risk assumed by the bank, and vice versa. NPF can also reduce the stability of Islamic banks, because banks have to hold reserves to cover losses caused by bad loans. This can reduce the bank's ability to provide new financing and worsen the bank's financial condition if not handled properly. Apart from that, NPF can also affect public confidence in sharia banking as a whole which can have a negative impact on the stability of the sharia banking sector. The margin level in *murabahah* type financing can affect the NPF in banking. If the margin offered is too low, it can cause a decline in credit quality and increase NPF risk.

The capital adequacy ratio (CAR) on financial bank performance in sharia banking can vary depending on the bank's business strategy and applicable regulatory policies. In general, a higher CAR can increase investor and customer confidence, thereby increasing demand for credit and strengthening the bank's ability to provide better credit. However, a CAR that is too high can also hamper the bank's business growth and reduce the ROA that can be achieved (Rohmandika et al., 2023).

The least amount of research discusses CSR. In sharia banking, zakat is one component of corporate social responsibility (CSR) carried out by sharia banks. When Islamic banks pay zakat, this can affect Islamic bank performance. In this case, the proxy used is ROA, because zakat expenditure reduces the profits earned by the bank. However, paying zakat can also provide long-term benefits for Islamic banks, such as increasing the positive image and public trust in the bank (Rohmandika et al., 2023). This aligns with research conducted by Iqbal and Anwar (2022). The research results show that zakat has no effect on ROA. This happens because, based on the annual report, the source of zakat funds consists of zakat from within and outside sharia banking. Zakat within a sharia banking entity refers to the expenditure of zakat on assets owned by the bank, whereas zakat from outside the entity originates from customers and the general public. Currently, the amount of zakat disbursed by sharia banking remains minimal, indicating that sharia banks do not fully allocate all zakat funds for distribution to eligible recipients. Instead, the majority of funds used for zakat payments are sourced from outside banking entities. Consequently, the level of zakat payments has little impact on the performance of sharia banking.

Human resources are the most valuable wealth and are the force that drives company activities and development (Zhou, 2021). How the company manages HR will certainly affect the company's performance. HR management can be carried out by providing knowledge and ability development training programs that can support the achievement of company goals (Hatta et al., 2022). Enhanced quality in a company's human resources corresponds to improved performance in the bank, given that the bank operates as a service-oriented entity, where customer service is the main thing. Bankers who excel in their skills and business acumen can enhance the performance of the bank (Johnson, 2024).

Conclusion

The analysis of financial performance in sharia banking reveals several key insights. Quantitative research methods such as regression analysis, partial least squares (PLS), and vector autoregression (VAR) are extensively used to measure and understand the dynamics of financial performance, often with Return on Assets (ROA) serving as a common proxy for profitability. NPF significantly impacts financial performance by deteriorating the quality of bank assets and requiring higher loss reserves. Effective credit risk management, including stringent credit granting criteria and rigorous monitoring, is essential to mitigate these risks. Lower NPF levels correlate with reduced financing risk and enhanced stability of sharia banks, while higher NPF levels can destabilize financial conditions and erode public confidence.

The CAR's effect on financial performance varies based on the bank's strategy and regulatory environment. A higher CAR generally boosts investor and customer confidence, enhancing credit demand and lending capacity. However, excessively high CAR levels may impede business growth and reduce ROA, indicating a need for a balanced approach to capital management. CSR activities, including zakat payments, play a role in shaping the public image and trust in sharia banks. While zakat reduces immediate profits (ROA), it can yield long-term benefits by enhancing the bank's reputation and public confidence. Human resources are a critical asset in the banking sector. Effective HR management, through training and development programs, significantly enhances bank performance. Skilled and knowledgeable bankers contribute to high-quality customer service, directly improving the bank's operational performance.

In conclusion, the financial performance of sharia banks is influenced by a complex interplay of factors including NPF management, CAR optimization, CSR activities, and robust HR practices. Strategic management of these elements is essential for enhancing profitability, maintaining stability, and fostering public trust. Sharia banks must balance these factors to achieve sustainable growth and fulfill their social responsibilities effectively. The analysis is based on a limited selection of research studies and may not fully represent the entire body of literature on sharia banking. Additional studies with broader data sets and diverse methodologies could provide a more comprehensive understanding.

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