Does sharia compliance affect Islamic Banks performance? Evidence from Islamic Banks in Indonesia

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ABSTRACT

Sharia compliance is essential for Islamic financial institutions. This study has two objectives, namely, to determine the level of sharia compliance in Islamic banks in Indonesia, as well as to prove whether sharia compliance affects the performance of Islamic banks in Indonesia. To prove this, the researcher observed the annual report of 11 Islamic banks in Indonesia for the period 2012 to 2016. Sharia compliance is measured through the level of sharia governance in Islamic banks. Sharia governance instruments used to refer to Hasan (2011). While ROA and ROE measure the performance of Islamic banks, content analysis is used to identify sharia governance disclosures in annual reports. The study revealed that on average, the level of sharia compliance of Islamic bank in Indonesia is at the level of best practice while the results of statistical tests prove that there is no significant effect sharia compliance on the performance of Islamic banks both measured by ROA and ROE.

1. Introduction

In recent decades Islamic banking has proliferated around the world. Data from IFSB (2017), global Islamic banking assets reached USD 1.493 trillion. In the last decade, the Islamic banking industry has grown at an incredible pace, reaching 20-30% per year, three times that of conventional banks (Srairi, 2015). In Indonesia, the same thing happened; there was an increase in total assets of Islamic banks from IDR 356,504 billion in 2016 to IDR 424,181 by the end of 2017 (OJK, 2017). Islamic finance institutions grew much faster than conventional banks due to increased consumer demand for products and services consistent with the sharia (Khan, Khan, & Tahir, 2017).
Several studies have shown that Islamic banks perform better when compared to conventional banks in terms of growth of deposits (Ahmad & Rahman, 2012), business development, profitability, liquidity and solvency (Safiuflah, 2010) asset quality, financial stability capitalization (Beck, Demirgüç-Kunt, & Merrouche, 2013); solvency, risk, cash, cash saving ratio (Čihák & Hesse, 2010).

Sharia is the basic principle to direct all operations of Islamic banks (Siddiqi, 1983) and (Hassan & Lewis, 2008). The primary purpose of Islamic banks is to offer banking services according to Islamic law. Sharia compliance is the essence of Islamic banking and the banking business (Ghayad, 2008). The findings (Al-Hunnayan & Al-Mutairi, 2016) show that sharia compliance is the single most crucial factor for choosing Islamic banks and ensuring the credibility of Islamic banks and inspiring confidence in shareholders and stakeholders.

According to (M. H. Ullah & Khanam, 2018), sharia is the basis of Islamic financial institutions, and sharia compliance is the primary responsibility for maintaining their status. Sharia compliance is the single most crucial factor that makes Islamic banks attract customers (Ullah, 2014), (Badara et al., 2013), (Najeeb, 2014), (Uddin, 2016), (Amin, Isa, & Fontaine, 2013).

However, according to (Ullah, 2014), the level of sharia compliance of all Islamic banks is not the same even though they are in the same regulatory and economic environment. Sometimes Islamic banks cannot comply with some sharia rules for economic reasons and external regulations. Sharia compliance will inevitably create some restrictions on Islamic business. For example, Islamic banks do not have an unlimited investment scope in stocks due to religious constraints. Islamic banks can only invest in sharia-approved projects (Hassan & Bashir, 2005). They cannot invest unless the Sharia Board approves the investment even though they can earn a higher rate of return. (Zarrouk, Ben Jedidia, & Moualhi, 2016) states that selling new products to Islamic banks cannot be done without the prior permission and approval of the sharia council.

Also, maintaining Islamic procedures is proven ineffectively (Beck et al., 2013). However, on the other hand, sharia compliance provides benefits that are not less great than obstacles. Although sharia compliance generates many benefits for Islamic banks, not all banks have proper sharia compliance. Studies (Ullah, 2014) against four Islamac in Bangladesh revealed that all Islamac do not follow sharia rules. Equally, management and bank executives have no knowledge of sharia at the same level and do not emphasize Sharia compliance equally. (Chong & Liu, 2009) found that only a small portion of Islamic financing in Malaysia is based on profit sharing and Islamic savings is not entirely interest-free, but almost the same as conventional deposits. Practitioners and academics have observed that most Islamic products, in fact, are not based on profit sharing but are very similar to debt instruments (Čihák & Hesse, 2010). Similarly, (Hasan, 2011b) notes that sharia review is found to be ineffectively implemented by the Sharia Council, and (Chong & Liu, 2009) assert that the model of Islamic banks that operate is similar to conventional banking.

The above description shows that sharia compliance creates profits and constraints of Islamac; not all banks adhere to sharia in the same way; Islamic banks, in different cases, perform better than traditional banks. (Ghayad, 2008) observes that sharia compliance generates sufficient profits. Therefore it becomes a dilemma whether the level of sharia compliance influences the financial performance of Islamic banks.

Based on empirical evidence above this study tries to prove whether the level of sharia compliance influences the financial performance of Islamic banks in Indonesia. Furthermore, this paper will discuss the following issues: a discussion of sharia compliance and sharia governance; the performance of Islamic banks; methodology; results and conclusions.
2. Sharia compliance and sharia governance

To ensure that sharia compliance is carried out by Islamic banks, governance is required concerning sharia compliance, which is known as sharia governance. Sharia governance as stated in (IFSB, 2009) is: "a set of institutional and organizational arrangements through which IFIs ensure that there is effective independent oversight of sharia compliance over the issuance of relevant sharia pronouncements, dissemination of information and an internal sharia compliance review."

This definition implies that the Sharia Board is significant for the sharia governance system to ensure sharia compliance within Islamic banks. (Muneeza & Hassan, 2014) said that the increasing number of sharia-compliant companies has led to sharia governance rules to be necessary.

(Mizushima, 2013) explains that the "sharia governance system" refers to a set of institutional and organizational arrangements in which Islamic financial institutions ensure that there is effective independent oversight of sharia compliance with each of the following structures and processes:

- Issuance of relevant sharia statements
- Disseminating information concerning such sharia statements to the operational personnel of the bank that monitors compliance with sharia statements at every level of operations and transactions
- Internal sharia compliance review/audits to verify that sharia compliance has been fulfilled, in which case any non-compliance will be recorded and reported, and as far as possible, handled and corrected.
- An annual sharia compliance audit to verify that internal sharia compliance review/audit has been adequately implemented and the Sharia Board has recorded its findings.

According to (Alnasser & Muhammed, 2012) (Alnasser & Muhammed, 2012), the Sharia Supervisory Board plays an essential role in influencing the performance of Islamics, while stakeholder theory provides a basis for determining whether Sharia Supervisory Board is a party that affects the performance of Islamic banks.

(Hasan, 2011a) Developed indicators for sharia governance derived from AAOIFI and IFSB. This Indicator consists of 30 items divided into six parts, namely commitment to sharia governance, sharia council information, sharia report, sharia statement, sharia review, and product and service information. (Hasan, 2011a) states that these thirty indicators represent best practices for disclosure of information related to sharia governance.

3. Performance of Islamic banks

Various studies have tried to assess the performance of Islamic banks and the factors that may affect it. (Nawaz & Haniffa, 2017) Link the performance of Islamic banks as measured by ROA with intellectual capital. The findings prove that there is a positive relationship between Value Added Intellectual Coefficient (VAIC) and ROA. (Zouari & Taktak, 2008) reviewed the structure of ownership and financial performance of Islamic banks by using return on assets and return on equity as performance measures, empirical evidence proves the absence of correlation between the concentration of ownership and performance of Islamics.

(Al-Kayed, Mohd Zain, & Duasa, 2014) Examine the effect of the capital structure on the performance of Islamic banks to guide managers to increase funding from the capital. The findings show that the performance of Islamic banks measured by (profitability) responds positively to the increase in equity (capital ratio). (Bukair & Abdul Rahman, 2015) examines the relationship between board structure (consisting of board size, board composition, the duality of CEO role and composition of chairman), investment account (IAH) and social contribution to the performance of Islamic banks in Gulf Cooperation Council (GCC). The results show that both the size and composition of the board of directors harm bank performance.
On the other hand, the separation of roles of CEO and chairman and IAH has no influence, while the independent Council has a positive influence.

(Sanwari & Zakaria, 2013) The research analyses the performance of Islamic banks concerning the influence of internal conditions and external factors on the performance of Islamic banks. The global Islamic bank data is obtained from the annual report of Islamic banking from the Bank Scope database. Panel data from 74 Islamic banks from around the world were analyzed for the period 2000 to 2009. Their findings revealed that the performance of these banks relies more on specific bank characteristics such as capital, asset quality and liquidity, while macroeconomic factors have no significant effect on profitability. 

(Ibrahim, Mohammad, Hoque, & Aktaruzzaman Khan, 2014) Have used the financial data obtained from the bank's annual report. This study evaluates the performance of six Islamins listed on the Dhaka Stock Exchange and the Chittagong Exchange. They aim to evaluate the performance of these banks and to make comparisons between various Islamins of various variables. The results show that some banks are better than others by using different ratios. The overall performance of all Islamic banks is satisfactory.

(Setyawati, Suroso, Suryanto, & Nurjannah, 2017) Analyzed internal and external factors affecting the performance of Islamic bank in Indonesia. The data are taken from the publication of the quarterly report of Islamic in Indonesia, 2004 - 2012. The findings show that the capitalization rate (CS) and GDP have a positive effect on the profitability of Islamic banks in Indonesia. Also, Islamic banks in Indonesia have a relatively better performance after the crisis.

Other studies related to the performance of Islamic banks generally only measure or compare performance between Islamic banks and conventional banks, such as those done by (Rosly & Abu Bakar, 2003), (Marzuki & Worthington, 2015). Various studies above that analyze the performance of Islamic banks have not linked the performance of Islamic banks with sharia compliance applied in the bank. This study will provide additional evidence regarding the factors that allegedly affect the performance of Islamic banks from the aspects of sharia compliance. Considering that sharia compliance is an essential instrument in the operations of Islamic banks. Therefore the researcher formulates the hypothesis as follows:

Hₐ: Level of sharia compliance positively affects the financial performance of Islamic banks

4. Methodology

This study uses data from annual reports of 11 Islamic banks in Indonesia for the period 2012-2016. Content analysis is used to identify information about sharia compliance measured by seven dimensions and 31 items of sharia governance. (Krippendorff, 2004) Defines content analysis as a "research technique for making conclusions and data that can be replicated and valid" and Berelson (1952) as stated in (Baron, Bartle, Bays, & Besten, 2010) refers to it as "a research technique to describe objectively, systematically and quantitatively about the real content of communication". In the context of this study, content analysis is used because disclosure, especially non-financial disclosures such as in the case of sharia governance, is mostly qualitatively expressed. This method allows researchers to capture the size, nature, volume and size of data collected.

Table 1 shows the dimensions and items of the sharia governance used in this study which originated from (Hasan, 2011a). (Hasan, 2011a) developed seven dimensions and 30 sharia governance items which should be disclosed by Islamic banks as a commitment to sharia governance and responsibility to stakeholders.

Furthermore, based on the disclosure indicators, Islamic banks will be classified into five categories of sharia governance disclosure practices, underdeveloped practice, emerging practice, improved practice, good practice and best practice as shows at table 2.
Table 1. Dimension and items of sharia governance

| Disclosure Indicators                                      |
|-----------------------------------------------------------|
| Disclosure of Commitment to Sharia Governance             |
| D1. The existence of guidelines/charter on sharia governance |
| D2. The existence of fit and proper criteria for the Sharia Board |
| D3. Statement of sharia compliance                          |
| Disclosure of Sharia Board Information                    |
| D4. Method of appointment                                   |
| D5. Organization chart of the Sharia Board structure on the website |
| D6. The list of Sharia Board members (names)               |
| D7. Details about Sharia Board members other than name and title |
| D8. Details about other employment and position             |
| D9. When each Sharia Board member joined the board         |
| D10. A named chairman of Sharia Board listed               |
| D11. Tenure of appointment                                  |
| D12. Details about the chairman, other than name and title |
| D13. Sharia board performs the sharia review               |
| D14. Board size is no fewer than three                      |
| D15. Sharia board members sit on more than three other IFIs |
| D16. Attendance record of Sharia Board meetings            |
| D17. Board meets more than four times a year.              |
| Disclosure of Sharia Board Remuneration                    |
| D19. Who determines the Sharia Board's remuneration         |
| D20. The specifics of the Sharia Board’s pay                |
| Disclosure of Sharia Report                                |
| D21. Sharia report published in the annual report          |
| D22. Information on duties and services                    |
| D23. Sharia board activities                               |
| D24. Declaration of sharia compliance                       |
| Disclosure of Sharia Pronouncements                       |
| D25. Sharia pronouncements are made known to the public via the website, etc. |
| D26. Sharia resolution only                                |
| D27. Sharia resolution with detailed sharia explanation    |
| Disclosure of Sharia Compliance Review                     |
| D28. IFIs undertake sharia review                           |
| Disclosure of Information on Products and Services         |
| D29. List of sharia-compliant products and services        |
| D30. Sharia concepts and principles of products and services |
| D31. Internal sharia review/audit unit                      |

Source: Hasan (2011)
Table 2. Level of sharia governance

| No | Level of practice       | Score | Explanation                                                                 |
|----|-------------------------|-------|-----------------------------------------------------------------------------|
| 1  | Underdeveloped practice | 1–5   | IFIs have a minimum score of sharia governance disclosure and need to be reformed soon. |
| 2  | Emerging practice       | 6-10  | IFIs that have a minimum sharia governance disclosure score but show positive developments. |
| 3  | Improved practice       | 11-15 | IFIs that have reasonable sharia level disclosure scores and show good improvement. |
| 4  | Good practice           | 16-23 | IFIs have good sharia governance disclosure scores and generally adhere to crucial elements of good disclosure practices. |
| 5  | Best practice           | 24-31 | Ideal IFIs who have best practices Disclosure of sharia governance.         |

Source: Hasan (2011b)

To measure the performance of Islamic banks used ROA and ROE. These two variables are used to measure bank performance for various reasons. First, ROE is a measure of internal performance of shareholder value. This is considered the most popular performance measure because it observes important indicators (profitability and equity). A good ROE level can reflect the right level of profitability or more limited equity capital.

Conversely, a weak ROE level reflects that banks are less profitable and are advised to strengthen the level of equity. Second, ROA is considered the primary measure of bank profitability. ROA is a measure that shows how well a bank manager manages assets. ROA also shows how well bank assets are used to generate profits. Third, ROA and ROE are the most popular and most widely used in previous and recent studies (Al-Kayed et al., 2014), (Olson & Zoubi, 2011), (Dietrich & Wanzenried, 2014), (Albertazzi & Gambacorta, 2010).

To identify the effect of sharia compliance on the performance of Islamic banks will be done by multiple linear regression analysis. The size of the bank proxies to total assets will be used as control variables. Several previous studies have shown that firm size is an important factor affecting company performance (Hassan & Bashir, 2005), (Wahyudin & Solikhah, 2017), (Foyeke, Odianonsen, & Aanu, 2015), (Meutia & Febrianti, 2017). The model of this research is as follows:

\[ Y_{it} = \beta_i + \beta_1 S_{Git} + \beta_2 S_{IZEit} + \epsilon_{it} \]

Where \( Y_{it} \) is a performance measured by ROA and ROE, \( S_{Git} \) is a variable of Sharia compliance as measured by sharia governance index; \( S_{IZEit} \) is a firm size variable measured by the natural log of total asset.

5. Results and discussion

5.1 Data description

This study targets 121 out of 13 Islamic banks operating in Indonesia, the reason for not using two Islamic banks namely Bank Aceh and Bank Panin Sharia because the bank was recently converted after 2013 so the data is not yet available. This study uses secondary data collected from the website of each bank. Secondary data, in this case, are annual reports, governance reports and financial statements for the period 2012 to 2016. Data on sharia governance are obtained from governance reports or annual reports, while data on corporate performance, i.e. return on assets (ROA) is obtained by dividing a firm's annual earnings by its total assets. On the other hand, return on equity (ROE) refers to earnings generated by shareholders' equity over a year.
Table 3. Level score of sharia compliance each banks for 5 years

| No | Banks                        | Mean  | Min  | Max  |
|----|------------------------------|-------|------|------|
| 1  | PT.Bank Muamalat Indonesia   | 0.9677| 0.9677| 0.9677|
| 2  | PT. Mandiri Sharia           | 0.9677| 0.9677| 0.9677|
| 3  | PT. Mega Sharia              | 0.8710| 0.8710| 0.8710|
| 4  | PT. BRI Sharia               | 0.8710| 0.8710| 0.8710|
| 5  | PT. Bukopin Sharia           | 0.8452| 0.8387| 0.8710|
| 6  | PT. BNI Sharia               | 0.9355| 0.9355| 0.9355|
| 7  | PT. Bank Jabar Banten Sharia | 0.9032| 0.9032| 0.9032|
| 8  | PT. BCA Sharia               | 0.8387| 0.8387| 0.8387|
| 9  | PT. Bank Victoria Sharia     | 0.8710| 0.8710| 0.8710|
| 10 | PT. Maybank Sharia           | 0.9032| 0.9032| 0.9032|
| 11 | PT. Bank Panin Sharia        | 0.8710| 0.8710| 0.8710|

Table 3 above presents the sharia compliance index of each Islamic bank in Indonesia. The maximum score obtained by Muamalat bank and Sharia Mandiri bank that is equal to 0.9677. Meanwhile, the lowest score obtained by BCA Sharia and Bukopin Sharia is 0.8367. Overall sharia compliance, as measured by the index of disclosure of Islamic governance in Islamic banks in Indonesia, is at the best practice level based on indicators developed by (Hasan, 2011b).

Table 4. Level mean of ROA, ROE dan Asset (in a million) for five years

| No  | Banks                              | ROA   | ROE   | Asset   |
|-----|------------------------------------|-------|-------|---------|
| 1   | PT.Bank Muamalat Indonesia         | 0.526 | 9.71  | 54661.2 |
| 2   | PT. Mandiri Sharia                 | 0.978 | 10.236| 61881.6 |
| 3   | PT. Mega Sharia                    | 1.872 | 21.022| 7204.4  |
| 4   | PT. BRI Sharia                     | 0.828 | 6.956 | 20750.06|
| 5   | PT. Bukopin Sharia                 | 0.612 | 5.568 | 5193.2  |
| 6   | PT. BNI Sharia                     | 1.398 | 10.624| 19235.6 |
| 7   | PT. Bank Jabar Banten Sharia       | -1.36 | -8.602| 5781.94 |
| 8   | PT. BCA Sharia                     | 0.94  | 3.32  | 3196.64 |
| 9   | PT. Bank Victoria Sharia           | -4.056| -8.57 | 1980.03 |
| 10  | PT. Maybank Sharia                 | 1.602 | 5.27  | 5658.34 |
| 11  | PT. Bank Panin Sharia              | 0.8710| 0.8710| 0.8710  |

Table 4 presents the average value of ROA, ROE and assets of 11 Islamic banks in Indonesia over five years. The data shows that the highest average ROA is found in Bank Mega Sharia, while ROA minus occurred in Maybank Sharia Indonesia. The highest ROE also occurs in Bank Mega Sharia while ROE minus the lowest occurred in the bank Jabar Banten Sharia. Meanwhile, the most significant asset is owned by Bank Sharia Mandiri worth Rp 54,661.2 (billion). The lowest average asset is owned by Bank Victoria Sharia of Rp 1,340.9 (billion).
5.2 Frequency distribution of each variable

Table 5. The level mean of ROA, ROE, LN ASET dan SG

|       | ROA     | ROE     | LN_ASET | SG      |
|-------|---------|---------|---------|---------|
| Mean  | 0.222000| 4.276000| 9.278662| 0.888563|
| Median| 0.800000| 4.940000| 8.914895| 0.870968|
| Maximum| 3.810000| 57.980000| 11.42269| 0.935484|
| Minimum| -20.13000| -49.05000| 7.187952| 0.838710|
| Std. Dev. | 3.556070| 14.70058 | 1.296013| 0.035018|
| Skewness | -4.052761 | -0.391648 | 0.137671| 0.101419|
| Kurtosis | 21.94072 | 8.324187 | 1.823952| 1.716531|
| Jarque-Bera | 972.6984 | 66.36787 | 3.34321| 3.869334|
| Probability | 0.000000 | 0.000000 | 0.187935| 0.144472|
| Sum | 12.21000 | 235.1800 | 510.3374| 48.87097|
| Sum Sq. Dev. | 682.8643 | 11669.79 | 90.70114| 0.066219|

The data in table 5 above shows that the mean of ROA is 0.22; ROE of 4.27; Ln Assets of 9.27 and SG of 0.88. The above data show that the average ability of Islamic banks in Indonesia to generate profits based on assets owned by 0.22%, while when viewed from the amount of equity, the average ability to generate profits is 4.27%. The average Ln of Assets is 9.27. The average index of Islamic governance reached 88%. This means that the average level of Islamic banking sharia compliance in Indonesia is at the best practices level when measured by the standards of governance developed by (Hasan, 2011b).

Based on the findings, the disclosure index has not reached as expected (100%) because Islamic banks in Indonesia have not fully implemented some sharia disclosure points. These points are D14. Board size is no fewer than three; D15. Sharia Board members sit on more than three other IFIs; D27. Sharia resolution with detailed sharia explanation; D31. Internal sharia review/audit unit.

Table 6. Disclosure of sharia board information

| Disclosure of | Percentage |
|---------------|------------|
| D14. Board size is no fewer than three | 36.4% |
| D15. Sharia board members sit on more than three other IFIs | 90% |
| D27. Sharia resolution with detailed sharia explanation | 92.7% |
| D31. Sharia Internal Audit/Review Unit | 0% |

For point D14, only 36.4% of Islamic banks in Indonesia have Sharia Supervisory Board not less than three persons. This shows that most Islamic banks in Indonesia have fewer than three members of DPS, i.e. only two members of the Sharia Supervisory Board (63.6%). Although this means that the Islamic Bank in Indonesia has complied with the minimum number of DPS according to Bank Indonesia Regulation no 11/3/2009, but the minimal amount of DPS (less than 3) makes the DPS possess more significant responsibility. Meanwhile, most DPS members also hold DPS in other Islamic financial institutions, as OJK rules allow DPS to concurrently in four other Islamic financial institutions. This is shown in point D15. At point D15, 90% of the Sharia Supervisory Board is also a Supervisory Board in more than three other Islamic financial institutions. This shows that the time allocated by the DPS for the bank is reduced because it has to be shared with other banks. This can affect the performance of the DPS. As stated by (Andriana, Muhamad, Meutia, & Natalia, 2015) that Islamic financial institutions establish their own Sharia Board to ensure sharia compliance of their business and to protect the rights of depositors and other stakeholders.
Point D27, as many as 92.7% of Bank Islam in Indonesia has provided a detailed explanation regarding Sharia statement. This shows that there are still Islamic banks that do not provide sharia statement in detail. A detailed sharia statement is needed by stakeholders to find out which part of the Islamic bank is in compliance with sharia principles and which parts have not. Considering that sharia compliance is an important element that differentiates Islamic banks from conventional banks, Islamic banks should provide transparent information to their stakeholders regarding Sharia compliance.

Point D31, this point is an additional point of what has been developed by (Hasan, 2011b). The governance guidance issued by AAOIFI stipulates that the internal sharia review should be a stand-alone unit, separate from the internal controls owned by the bank. The data shows that there are no (0%) Islamic banks in Indonesia that have their own internal sharia audit unit reviews separate from internal controls owned by banks.

5.3 Sharia Compliance and Bank Performance

To examine the relationship between sharia compliance and bank performance, we estimated a regression equation linking the two variables, after controlling for bank size.

Table 7. ROA dependent variable estimation results

| Variable   | Coefficient | Std. Error | t-Statistic | Prob. |
|------------|-------------|------------|-------------|-------|
| LN_ASET    | -0.266111   | 0.379260   | -0.701660   | 0.4860|
| SG         | -6.870026   | 14.03628   | -0.489448   | 0.6266|
| C          | 8.795660    | 13.23703   | 0.664474    | 0.5093|
| R-squared  | 0.012930    | Mean dependent var | 0.222000 |
| Adjusted R-squared | -0.025035 | S.D. dependent var | 3.556070 |
| S.E. of regression | 3.600308 | Akaike info criterion | 5.452917 |
| Sum squared resid | 674.0351   | Schwarz criterion | 5.562408 |
| Log-likelihood | -146.9552   | Hannan-Quinn criter. | 5.495258 |
| F-statistic | 0.340572    | Durbin-Watson stat | 1.595842 |
| Prob(F-statistic) | 0.712938 |                             |         |

Based on the results of data processing in table 7 shows that the value of R squared of 0.013. This shows that the SG and Ln Asset variables can only explain the effect on the sharia compliance variable of 0.013%; the rest is explained by other variables. The estimation results show that with the t test at the 0.05 significance level, the constant coefficient has an insignificant probability value of 0.5> 0.05. The regression coefficient of the SG score also shows an insignificant probability value of 0.6> 0.05. Similarly, the asset regression coefficient also shows an insignificant probability value, that is 0.48> 0.05. So it can be concluded that based on the estimation result, the regression coefficient of SG does not significantly affect the ROA, as well as the control variable Ln Asset.
Table 8. Estimation of dependent variables ROE

| Variable  | Coefficient | Std. Error | t-Statistic | Prob.  |
|-----------|-------------|------------|-------------|--------|
| LN_ASET   | 1.318888    | 1.565061   | 0.842707    | 0.4033 |
| SG        | 26.87193    | 57.92240   | 0.463930    | 0.6446 |
| C         | -31.83918   | 54.62422   | -0.582877   | 0.5625 |
| R-squared | 0.016422    | Mean dependent var | 4.276000 |
| Adjusted R-squared | -0.021408 | S.D. dependent var | 14.70058 |
| S.E. of regression | 14.85710 | Akaike info criterion | 8.287835 |
| Sum squared resid | 11478.14 | Schwarz criterion | 8.397326 |
| Log-likelihood | -224.9155 | Hannan-Quinn criter. | 8.330176 |
| F-statistic | 0.434111 | Durbin-Watson stat | 1.344645 |
| Prob(F-statistic) | 0.650167 |                      |         |

Based on the results of data processing obtained value adjusted R2 of 0.018. This means that the SG variable, Ln Asset together, can explain the ROE is only 1.8%. The remaining 98.1% is explained by other variables that are not included in the model. The estimation results show that the coefficient of the constant has an insignificant probability value, that is 0.76> 0.05. The regression coefficient of SG also shows an insignificant value of 0.9> 0.05. While the LN ASET regression coefficient shows a non-significant probability value of 0.09> 0.05, thus it can be concluded that neither SG nor LN ASET significantly affect the ROE.

The results of statistical tests show that sharia compliance does not significantly affect bank performance when measured by ROA or ROE. These findings prove that the level of sharia compliance does not influence the performance of Islamic banks. It also indicates that sharia compliance is not the main factor determining the performance of Islamic banks. Although according to (M. H. Ullah & Khanam, 2018) sharia is the basic principle that should direct all the activities of Islamic banks the research findings show that sharia compliance does not significantly affect the financial performance of Islamic banks.

6. Conclusion

The study investigates the effect of sharia compliance on the performance of Islamic banks in Indonesia, based on a survey of 11 Islamic banks in Indonesia over the period 2012-2016. The main findings of the study are as follows:

- Sharia compliance level of Islamic banks in Indonesia is on average at best practices level.
- There is no evidence that Sharia compliance and bank size has an impact on the performance of Islamic banks in Indonesia.

This study has limitations; the limited number of samples may be the cause of the absence of evidence of the influence of sharia compliance with the performance of Islamic banks. Therefore, subsequent research needs to expand the number of samples in order to find more valid evidence of the influence of both research variables on the performance of Islamic banks, given that sharia compliance should be the main factor affecting the activity of Islamic banks.
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