

Islamic ethics disclosure as determinant on Islamic banking performance: evidence from MENA countries

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Abstract

Purpose – This study aims to explore the relationship between Islamic ethical disclosure and the performance of Islamic banks in the countries located in the Middle East and North Africa (MENA) region. The primary focus is to understand how Islamic ethical disclosure affects financial indicators such as the loan to deposit ratio (LDR) and debt to asset ratio (DAR).

Design/methodology/approach – The study utilizes secondary data from 267 firm observations over the period 2010–2020. Data were collected from the annual reports of Islamic and conventional banks in the MENA region. The analysis techniques involve ordinary least squares (OLS) and robustness tests using a two-stage Heckman approach to address endogeneity issues.

Findings – The results indicate that Islamic ethical disclosure has a significant positive relationship with the performance of Islamic banks. Islamic ethics (IEs) contribute to improving LDR and DAR by applying principles of transparency and justice, which strengthen customer loyalty, enhance investor trust and improve bank liquidity and funding structures.

Practical implications – This study provides practical contributions by offering a MENA-based model that can be used to strengthen regulatory standards related to Islamic ethical disclosure. This is crucial for developing policies and business practices aligned with Islamic values, thereby improving the financial performance of Islamic banks.

Originality/value – The study adds to the literature by integrating a new empirical approach to measure the impact of Islamic ethical disclosure on Islamic banking performance. Additionally, it broadens the scope by including Islamic business units, which have been underexplored in previous research.

Keywords Islamic ethics, Islamic banking, Loan to deposit ratio (LDR), Debt to asset ratio (DAR), MENA region

Paper type Research article

1. Introduction

The increasing Muslim population in MENA countries has had a positive impact on the growth of the Islamic finance industry, especially in the banking sector. In fact, Islamic banking has also made a significant contribution to the global economy, on par with conventional banking. As mentioned by Ghozali *et al.* in 2019 (as cited in Nabila and Thamrin, 2022), the development of Islamic banking in MENA countries shows significant variations in each country within the region. Differences in the progress of Islamic banking in various MENA countries can be influenced by several factors, including government regulations, the level of public understanding of Sharia principles and varying market potential. Countries like Indonesia, Malaysia and Brunei have played vital roles in promoting the growth of Islamic banking, while other countries may have experienced slower development. The importance of

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Islamic banking in the global economic context continues to grow and a better understanding of the challenges and opportunities it faces in each MENA countries can help in planning more effective development strategies.

From [Figure 1](#), it is evident that the Islamic banking sector with the largest assets is located in the GCC region, totaling 1.188 trillion, followed by the MENA region at 1.100 trillion in the second position. Southeast Asia ranks third with 320 trillion, Europe with 64 trillion, Sub-Saharan Africa with 1 trillion, other Asian regions with 0.29 trillion and the lowest assets in Islamic banking are found in the South American and Caribbean region, totaling 0.02 trillion. Thus, the development of Islamic finance in MENA countries, with the presence of Islamic banking institutions, has significantly boosted the Islamic finance industry and contributed to the economic growth in MENA ([ICD Thompson Reuters, 2022](#)).

The expression of ethical identity (EI) in the Islamic banking industry is not only about moral and management aspects but is also closely related to the fundamental principles of Sharia that form the basis of the business. This has a significant impact on various aspects, including financial performance and relationships with stakeholders. Sharia principles serve as the primary guidance in Islamic banking, encompassing prohibitions on interest (usury), speculation and other prohibited activities according to Islamic law. Therefore, the disclosure of a strong ethical business identity is a way for companies to reaffirm their commitment to these Sharia principles. This can influence the perceptions and trust of various parties, including customers, investors and other stakeholders. Furthermore, a strong ethical business approach in Islamic banking can serve as a distinguishing feature of a strong religious identity. This is essential for attracting customers who choose financial products and services in line with their beliefs. It can also help companies build a good reputation within the community and the industry.

The use of ethical principles in business serves as one of the indicators that determine a bank's performance development, as the ability to enhance the company's value can be assessed based on evidence in financial reports, particularly profitability, thus minimizing the risk of losses. In line with research conducted by [Doman and Sitorus \(2023\)](#), it is concluded that business ethics can help reduce business risks and enhance overall business performance. Businesses that have practiced business ethics can experience better long-term economic performance due to factors such as higher customer satisfaction and competitive advantages.

The relationship between Islamic business ethics and financial performance has become an interesting focus for both academics and business practitioners. This is relevant to research conducted by [Basheer et al. \(2019\)](#). Using a sample of Islamic banks in Malaysia, they found that the disclosure of Islamic business ethics has a positive influence on the financial performance of banks. Similar results were also obtained from a study by [Ariyanto \(2014\)](#), which found that the disclosure of Islamic EI has a significant impact on the financial

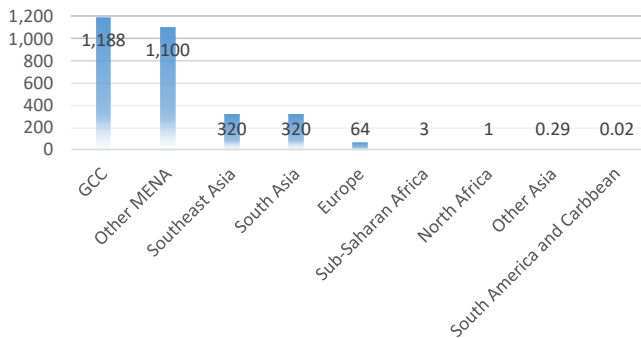


Figure 1. Islamic banking assets by region. source: World Bank

performance of Sharia banks in Asia, as measured by both return on assets (ROA) and return on equity (ROE). In contrast to previous research, the findings of a study by Marka and Serly (2020) indicate that the disclosure of Islamic EI in Indonesian Sharia banks in 2020 did not have a significant impact on financial performance as proxied by ROA and ROE. Business ethics from an Islamic perspective can also reduce business risks (Darmawati, 2022). This research examines the relationship between Islamic ethical disclosure in relation to Islamic banking performance in MENA countries which can be used as a model to develop and improve Islamic banking performance in other countries that have not implemented Islamic ethical disclosure in their Islamic banking regulatory standards.

The data analysis involving MENA countries also adds an international dimension to this research. Furthermore, this study goes beyond the limitations of previous research that solely focused on Islamic commercial banks by including Islamic business units in its analysis. In this way, the findings of this research have the potential to serve as a broader reference, applicable to various companies implementing Islamic banking services. This opens up opportunities for a more comprehensive understanding of the relationship between business ethics implementation and performance in the context of Islamic banking.

This research is highly interesting to conduct because research on Islamic ethics (IEs) regarding Sharia banking performance is still rarely undertaken by previous researchers. The use of different bank performance indicators, such as the loan to deposit ratio (LDR) and the debt to asset ratio (DAR), can be considered more relevant because they provide a more comprehensive and relevant picture of a bank's liquidity, solvency and financial risk, which are crucial for better decision-making and more effective financial management. Therefore, the researchers aims to focus on MENA countries because the MENA region is predominantly Muslim, meaning that the majority of stakeholders are Muslim and thus all banks (Islamic and conventional) adhere to ethics disclosure. The term "MENA countries" refers to the group of countries located in the Middle East and North Africa region. This term is often used in economic, political and social contexts because the region shares interconnected characteristics and dynamics. By using the term "MENA countries," analysts, researchers and policymakers can more effectively communicate and understand issues relevant to this region in various contexts.

In this context, this research is expected to make a significant contribution to filling the knowledge gap in the literature on IEs and Sharia banking. Therefore, the results of this research are anticipated to provide a deeper insight into how Sharia banks can enhance their business practices in line with Islamic ethical principles and how they can fulfill their role in creating better public accountability. This research can also offer practical guidance for Sharia banks in developing policies and business practices that align with Islamic ethical values, thus enabling them to be more effective in meeting stakeholder demands and achieving sustainable economic goals. Consequently, this research has the potential to have a significant positive impact on the development of the Sharia banking industry and promote a better understanding of the relationship between IEs and Sharia business performance.

This study aims to explore the relationship between Islamic ethical disclosure and the performance of Islamic banks in MENA countries. The central question it seeks to answer is as follows: How does Islamic ethical disclosure influence the financial performance of Islamic banking? This study endeavors to address a critical challenge in understanding the role of Islamic ethical principles, not merely as a tool for religious compliance but also as a factor influencing financial success.

The background of this study is rooted in the significant growth of the Islamic finance industry in the MENA region, driven by the increasing Muslim population and the demand for Sharia-compliant financial services. However, the development of Islamic banking in the region shows considerable variation among countries, particularly regarding regulations, public awareness and market potential. While previous research has demonstrated that Islamic business ethics positively impact banking performance, there remains a gap in understanding how explicit Islamic ethical disclosure influences financial metrics such as the LDR and DAR.

This study contributes to the literature in the following ways: First, it expands the research on Islamic business ethics by incorporating empirical analysis using data from 267 firm observations over the period 2010–2020. Second, it integrates analyses of Islamic banks and Islamic business units, providing a more comprehensive perspective compared to prior studies focused on Islamic commercial banks. Third, it highlights the importance of novel variables, such as LDR and DAR, in measuring the performance of Islamic banks, which have been underexplored in previous research. Fourth, it offers a MENA-based model that can be used to enhance the performance of Islamic banks in other countries that have not yet implemented Islamic ethical disclosure standards.

This study aims to fill the literature gap by presenting new empirical evidence on the importance of IEs as a key element in strategies to improve the performance of Islamic banking. The research background is relevant as it links the critical issue of Islamic ethical disclosure to the performance of Islamic banks in MENA countries. This study contributes to addressing practical and theoretical challenges related to the application of Islamic ethical values in the banking sector. By considering developments in regulations, market potential and policies related to IEs, this study provides deeper insights into how Islamic ethical values can be applied to enhance public trust and financial performance in the banking sector.

2. Theoretical literature review

2.1 Stakeholder theory

The importance of ethics in companies has become an increasingly important subject in today's business world. This is mainly due to the recognition that companies do not only exist to seek profit, but must also consider various parties who have an interest in their operations, in accordance with stakeholder theory. This theory states that companies have obligations to all parties involved in their activities, such as employees, customers, suppliers, society and shareholders. In this research, the focus is on the company's commitment to ethics as a key aspect in applying stakeholder theory. Research conducted by [Karim and Thomas \(2016\)](#) highlights the relationship between a company's commitment to ethics and the financial benefits that the company can obtain. This is a very important aspect because ethics in business not only impacts a company's reputation, but can also have significant financial implications.

Stakeholder theory, as explained by [Wicks and Harrison \(2017\)](#), highlights the importance of ethical behavior and environmental sensitivity for companies in building trust and loyalty from various parties who have an interest in the company. In this context, [Fuadah and Hakimi \(2020\)](#) emphasize that the utility expected by stakeholders is influenced by the concrete actions taken by the company to meet the needs and satisfaction of these stakeholders. In other words, company efforts to promote ethical behavior and care for the environment will increase stakeholder trust and loyalty, along with providing them with satisfaction. This means that companies that act ethically and care about the environment tend to gain stronger support from their stakeholders, which can ultimately have a positive impact on the performance and sustainability of the company itself.

A company is an entity that aims to achieve certain targets and has responsibilities toward various stakeholders, including investors, employees, society and consumers. The business actions taken by companies are often influenced by these various stakeholders. Therefore, it is important for companies to transparently disclose information regarding the corporate governance they have implemented ([Abidun, 2017](#)). In the context of sustainable company economic performance, social and environmental factors play an important role in supporting company development. [Utami and Yusniar \(2020\)](#) noted that the increase in the number of companies registered with the Financial Services Authority each year can be considered an indicator of increasing social responsibility activities. This can have a positive impact on the long-term sustainability of these companies. However, it should be noted that to better understand the relationship between social, environmental factors and corporate sustainability, further research is necessary.

2.2 Islamic ethic

Islamic ethic (IE) is important for creating organizational commitment and job satisfaction. Implementing justice, honesty, generosity, trust and other IE components will bring motivation and rewards in the workplace, which are related to employee commitment to the organization and satisfaction in their work. For Islamic banks, there is no other reason not to implement IE components as taught by the Prophet Muhammad SAW and mentioned in the Al-Qur'an. With IE, job security problems can be overcome while still emphasizing social responsibility. Similar studies on conventional banks also need to be carried out. However, the findings in this study need to be interpreted carefully and understood comprehensively by stakeholders (Rafiki and Nasution, 2019). Every organization must apply rules containing ethics to regulate the behavior of its employees within the organization. These rules or ethics aim to enable employees to achieve organizational goals within predetermined limits (Putro, 2018).

Islamic work ethics are comprehensive, realistic and moderate. Ethics in Islam is not only religious morality in certain actions but includes all aspects of life whether physically, spiritually, morally or even in worldly forms such as intellectual, emotional, individual and collective (Nizham, IE2). Basically, IEs refer to moral principles and behaviors derived from Islamic teachings. In countries that enforce mandatory standards related to Islam, such as those with Sharia law in place, IEs are reflected in the laws and policies of the state. The standards of IEs applied in these countries include several aspects, including: First, honesty and justice: principles such as honesty, justice and equality are valued and implemented in the laws and policies. This includes aspects such as a fair judicial system and equal treatment among citizens. Second, compliance with the law of Allah: Sharia law is the basis for making laws and policies and citizens are expected to adhere to religious teachings in their daily lives. Third, honor and respect: respect for individuals, institutions and values considered important in Islam, such as respect for knowledge, scholars and work that benefits society. Fourth, simplicity and obedience to spiritual values: values of simplicity, humility and obedience to Allah are highly esteemed. Extravagance, excessive luxury or behavior contrary to religious teachings are avoided. Fifth, virtue and good social behavior: encouraging good behavior in society, such as helping others, caring for others and contributing positively to the common good. Sixth, education and self-development: education and self-development are aimed at strengthening understanding of Islamic values, including religious knowledge, morality and skills that can be beneficial for individuals and society.

Countries in the region (MENA) apply IEs in various aspects of life, including government, law, economy, education and social life. The application of IEs varies between countries, depending on the interpretation and implementation of different Islamic laws (Sharia). Many countries in MENA, such as Malaysia and Bahrain, implement Islamic banking that follows Islamic principles. These banks do not charge interest (riba) and carry out their operations on a partnership and profit-sharing basis. IEs encourage the giving of zakat (the obligation to give part of the property to those in need) and alms (voluntary donations), which are applied in fiscal and social policies in several countries.

3. Empirical literature review and hypotheses development

3.1 Islamic ethic and financial performance

In the Islamic context, ethics are teachings obtained from two main sources, namely the Al-Qur'an and the Sunnah. Ethics in the Qur'an is often used with the term *Khuluq* (good qualities). This refers to good behavior in one's personal actions for Allah SWT or in actions involving other people (Wahyuni-TD *et al.*, 2018). In discussing economics and Muamalah, business ethics can be explained as the company's attitudes and behavior toward employees, customers, communities and shareholders and so on. Thus, business ethics in Islam is the company's attitude in running its business based on Islamic principles (Santoso *et al.*, 2023).

IEs play a significant role in influencing various financial metrics, including the load to deposit ratio (LDR) in Islamic banking. The load to deposit ratio is a key indicator of a bank's

liquidity and measures the proportion of a bank's loans (or financing) to its deposits. Etika Islam membentuk operasi bank syariah secara signifikan, mempengaruhi rasio beban terhadap simpanan mereka melalui prinsip-prinsip yang memastikan pembagian risiko, investasi etis, keadilan sosial, pembiayaan beragam aset, transparansi, dan penghindaran bunga. Prinsip-prinsip ini biasanya mengarah pada praktik pemberian pinjaman yang lebih bijaksana dan bertanggung jawab secara sosial, berkontribusi pada rasio beban terhadap simpanan yang seimbang dan stabil (Saori, 2019).

This is in accordance with stakeholder theory that stakeholders have an important role in building the company's EI. Stakeholder theory recognizes the importance of ethical and social considerations in business. Companies that follow this approach strive to operate in an ethical manner, respect human rights, safeguard the environment and make a positive contribution to society. Which will then improve the company's financial performance.

Tuan Ibrahim *et al.* (2020) researched the relationship between ethical values and performance in the context of the banking sector in Malaysia. Based on the philanthropic model, the research argues that companies that issue zakat and ISR are ethical companies. The zakat disclosure index (ZDI) and charity disclosure index (CDI) were constructed to measure ethical values. In his research, a positive relationship was found between zakat disclosure and banking performance. The results show that higher zakat disclosure is associated with greater bank performance.

Abidin *et al.* (2017), examined the relationship between business ethics on company performance and continued company performance in Malaysia. The perspective of stakeholder theory shows that commitment to ethics has various positive impacts on the company. One of the positive impacts is that the company is able to gain the trust and loyalty of stakeholders. This research also found that management's commitment to ethics has a positive effect on financial performance.

Radek Halamka and Teplý (2017), found a strong relationship between ethical commitment and financial performance in 69 Islamic and conventional banks. Financial performance is measured by ROA, ROE and volatility. The research results show that volatility and ROE are lower for conventional banks than for Islamic banks. Sharia banking that applies Islamic ethical principles tends to have better financial performance. So, the first hypothesis is as follows:

H1. IEs Commitment has a negative effect on the LDR

3.2 Islamic ethic on debt to asset ratio

The main motive for someone to invest in a company is profit oriented. However, it is not impossible that in its operations every company will experience financial risks. The banking function inherently exposes it to various financial risks where each of these risks has the possibility to influence stakeholder perceptions which are then referred to as banking reputation (Ferreira *et al.*, 2019). Leiva *et al.* (2016), in their study found that company reputation through the construct of business ethics consisting of corporate social responsibility (CSR), corporate identity and company values has an influence on the company's reputation. Where the company's reputation will affect the company's financial performance, in this case related to stakeholders.

This is based on stakeholder theory which emphasizes that companies have responsibilities to a broader group of parties, which may include employees, customers, suppliers, local communities, government and the environment, in addition to shareholders. Companies that pay attention to all elements of stakeholders can generate long-term business benefits. It becomes important for the company to consider the impact on various parties and how this balance of interests can result in long-term sustainability and success. So that it will improve the company's financial performance.

Boyle *et al.* (2015), examined the level of depositors' risk perception regarding a series of banking failures. The study also considered the risk tolerance levels of 349 depositors in the USA, Europe and New Zealand, indicating how much risk depositors were willing to take. Analysis of the relationship between depositor behavior and banking reputation risk is very important for banks because one-third of banking and financial decisions are based on reputation. The study results show that the company's reputation has an influence on depositors' decisions in using banking products. Based on this, the second hypothesis are as follows:

H2. Islamic ethics commitment has a positive effect on the DAR.

4. Research design

The research design aims to examine the relationship between IEs disclosure and the performance of Islamic banks in the MENA region. The variables used include the dependent variables, namely the LDR and DAR, which measure bank liquidity and funding structure, respectively. The independent variable is Islamic ethics (IEs) commitment, measured using the ethical identity index (IIE) based on the standards of Hanafi and Halim (2016). Additionally, the study employs control variables such as BSIZE (natural logarithm of total assets), INTAN (ratio of intangible assets to total assets), ROA (ratio of net profit after tax to total assets), AAOIFI (number of Sharia board members who are also members of AAOIFI), NONISBANK (a dummy variable distinguishing Islamic and conventional banks) and GDP (gross domestic product of the country where the bank operates).

The variables were measured normatively to ensure that the data used aligns with the principles of descriptive statistics and multiple linear regression. The IE variable was assessed by assigning a score of 1 if an ethical aspect was disclosed in the bank's financial statements and 0 if it was not. A total score based on 78 indicators was used to calculate the ethics index. The LDR and DAR variables were calculated using standard formulas outlined in the research documentation.

The study's data were derived from the financial statements of Islamic and conventional banks in the MENA region during the period 2015–2021, comprising a total of 283 observations from 15 countries. The sample distribution per year showed an increase from 27 observations in 2015 to 47 between 2017 and 2019, before slightly declining to 29 in 2021. The sampling process involved collecting secondary data from banks' annual reports, selecting samples based on the completeness of data for the study variables and excluding outlier data to enhance the accuracy of the results.

Data analysis was performed using STATA software with the ordinary least squares (OLS) approach and a two-stage Heckman method to address potential endogeneity issues and ensure the robustness of the results. This research is expected to contribute to understanding the impact of IEs disclosure on banking performance in the MENA region and to serve as a model for the development of Islamic banking in other regions.

4.1 Sample selection and data resource

The data used in this research is secondary data. This research is quantitative using conventional banking and sharia banking in the MENA region samples during the 2015–2021 period as the focus of the research subject.

The final sample was 283 observations. In Table 1, it can be seen the distribution of samples based on the standard industrial classification (SIC) code of the company or company sector and year. It can be seen that every year the sample of companies has increased. The lowest value was in 2015 with a total sample of 27 and the highest value was in 2017–2019 with a sample size of 47.

Table 1. Sample distribution by SIC and year

Country	2015	2016	2017	2018	2019	2020	2021	Total
Bahrain	5	6	6	6	6	6	6	41
Bangladesh	5	8	8	8	8	8	4	49
Indonesia	1	2	2	2	2	2	2	13
Iran	1	1	2	3	3	1	0	11
Iraq	0	0	1	1	2	2	1	7
Jordan	4	4	4	4	4	4	1	25
Kuwait	2	4	5	4	4	4	3	26
Malaysia	0	1	1	1	1	1	0	5
Oman	0	2	2	2	2	2	2	12
Pakistan	3	4	5	5	5	5	4	31
Qatar	3	3	3	3	3	3	3	21
Saudi Arabia	1	2	4	4	4	3	2	20
Sri Lanka	0	1	1	1	1	1	0	5
UAE	2	3	3	3	2	3	1	17
<i>Total</i>	<i>27</i>	<i>41</i>	<i>47</i>	<i>47</i>	<i>47</i>	<i>45</i>	<i>29</i>	<i>283</i>

Source(s): Data processed by authors

4.2 Variable definition

The dependent variables of this research are LDR and DAR. IEs commitment is measured using the IIE. The data used in this research are secondary. These data are taken from the banking financial reports of MENA region during the 2015–2021 period. Data analysis techniques use descriptive statistical analysis and multiple linear regression. Hypothesis testing in this research uses the statistical panel regression method. The data source in this research was obtained by collecting a large amount of secondary data in the form of annual reports, then the researcher selected data that suited the needs of the research variables.

The characteristic that will be explained in this research is the level of disclosure of EI in sharia banking which is measured through the EI. The EI developed by [Hanafi and Halim \(2016\)](#) consists of seven dimensions of EI, namely vision and mission; board of directors and top management; product; zakat, infaq and policy loans; employee; loan policy; society; and the sharia supervisory board with a total of 78 indicators. The index has the same weight. In determining the score, a dichotomous scale is used, where the assessment points will be given one point if there is and zero points if it is not communicated.

LDR is used to assess the liquidity of a bank by dividing the amount of credit by the amount of funds. LDR is a ratio that shows a bank’s ability to provide funds to its debtors using capital owned by the bank and funds that can be collected from the public. [Mulyati \(2017\)](#) as for how to find the LDR value can be found through the following formula:

$$LDR = \frac{\text{Loans disbursed}}{\text{Total Funds Received}} \times 100\%$$

[Kasmir \(2014\)](#), concluded that “Debt to asset ratio is a liability ratio that is used to measure the ratio between total liabilities and total assets.” Overall, how much of a company’s resources are financed by liabilities or how much of a company’s liabilities affects management’s resources. The formula used to calculate the DAR is as follows:

$$DAR = \frac{\text{Total Funded Debt}}{\text{Total Assets}} \times 100\%$$

Referring to the article [Aini et al. \(2023\)](#), [Tuan Ibrahim et al. \(2020\)](#), [Abidin et al. \(2017\)](#), [Radek Halamka and Teplý \(2017\)](#), [Tiwana \(2015\)](#), this research uses the control variables BSIZE, INTAN, ROA, AA OIFI, NONISBANK, GDP. Variable definitions are in [Table 2](#) below:

Table 2. Variable definition and operationalizations

Variables	Measurement	Data source
LDR	Total loan to total deposit	ESG Dataset
DAR	Total debt to total assets	ESG Dataset
IE	The total ethical expressed by the company are divided by the total ethical disclosure standards based on Hanafi and Halim (2016)	ESG Dataset
ISBPHDED	Dummy: if there are ISB members who are experienced in the Islamic bank field or have a finance and accounting with Ph.D. or doctoral educational background and 0 if not	ESG Dataset
BSize	Natural logarithm of total assets	ESG Dataset
INTAN	The ratio of total intangible assets and total assets	ESG Dataset
ROA	The ratio of earning after tax and total assets	ESG Dataset
AAOIFI	Total ISB members who are also members of AAOIFI	ESG Dataset
NONISBANK	Dummy 1 if bank conventional bank and 0 if Islamic bank	ESG Dataset
GDP	The total gross domestic product in a country where the company operates	World Bank

Source(s): Data processed by the authors

In this study we used OLS and to ensure the robustness of our research findings using STATA, we used a Heckman two-stage regression approach. Before processing the data, each variable needs to be prioritized first because the data distribution is quite skewed and there are many outliers. This research uses the CEM regression model for hypothesis testing. The regression model for this research is as follows:

$$\text{LDR}_{ijt} = \alpha_1 + \beta_1 \text{IE}_{ijt} + \beta_2 \text{BSize}_{ijt} + \beta_3 \text{GROWTH}_{ijt} + \beta_4 \text{ISBPHDED}_{ijt} \\ + \beta_5 \text{INTAN}_{ijt} + \beta_6 \text{CURRENT}_{ijt} + \beta_7 \text{LEV}_{ijt} + \beta_8 \text{PPE}_{ijt} + \epsilon_{ijt}$$

$$\text{DAR}_{ijt} = \alpha_1 + \beta_1 \text{IE}_{ijt} + \beta_2 \text{BSize}_{ijt} + \beta_3 \text{GROWTH}_{ijt} + \beta_4 \text{ISBPHDED}_{ijt} \\ + \beta_5 \text{INTAN}_{ijt} + \beta_6 \text{CURRENT}_{ijt} + \beta_7 \text{LEV}_{ijt} + \beta_8 \text{PPE}_{ijt} + \epsilon_{ijt}$$

This model is expected to show that conventional banking and sharia banking with higher IEs has a positive/negative relationship with LDR/DAR and proves this research hypothesis. The model includes several control variables selected based on common measures.

5. Empirical result and discussions

5.1 Descriptive statistics

[Table 3](#) describes the variables in this study. Based on [Table 3](#), the data show that the LDR variable has a minimum value of 0.001, a maximum of 5066.000 and an average of 42.126. The DAR variable has a minimum value of 11.835, a maximum of 24.533 and an average of 18.146. The IEs variable has a minimum value of 0.000, a maximum of 1.000 and an average of 0.587%. The data in [Table 3](#) also show that Islamic and conventional banking in MENA have a fairly good financial performance ratio. The ROA average ratio is 0.010%. The average board size and ISBPHDED in Islamic and conventional banking in MENA are 9.643 and 0.092%. The AAOIFI level and intangible assets show an average value of 0.205 and 22.178%. Meanwhile, the average NONISBANK and GDP are 0.113% and 2,793,000.

[Table 4](#) shows the correlation between independent variables. This section explains the relationship between LDR and DAR and all independent variables on the financial performance of Islamic and conventional banking in MENA countries. [Table 4](#) shows the correlation coefficients between the independent variables. Variables in the model are variables that have a correlation coefficient value with other variables of less than 0.8. From

Table 3. Descriptive statistics

Variables	Mean	Median	Minimum	Maximum
LDR	42.126	0.894	0.001	5066.000
DAR	18.146	17.931	11.835	24.533
IE	0.587	0.714	0.000	1.000
ISBPHEDED	0.092	0.000	0.000	1.000
BSIZE	9.643	9.000	0.000	23.000
INTAN	22.178	22.074	12.946	30.242
ROA	0.010	0.013	-0.396	0.143
AAOIFI	0.205	0.000	0.000	3.000
NONISBANK	0.113	0.000	0.000	1.000
GDP	2.793e+11	2.336e+11	3.105e+10	1.187e+12

Source(s): Data processed by authors

Table 4. Pearson correlation

No	Variables	[1]	[2]	[3]
[1]	LDR	1.000		
[2]	DAR	-0.120 (0.101)	1.000	
[3]	IE	0.066 (0.322)	0.007 (0.918)	1.000
[4]	ISBPHEDED	-0.031 (0.637)	-0.133** (0.042)	0.006 (0.924)
[5]	BSIZE	0.026 (0.697)	-0.144** (0.027)	-0.139** (0.019)
[6]	INTAN	-0.029 (0.664)	0.781*** (0.000)	-0.012 (0.848)
[7]	ROA	-0.058 (0.382)	0.145** (0.048)	0.078 (0.240)
[8]	AAOIFI	-0.033 (0.625)	0.089 (0.176)	0.011 (0.855)
[9]	NONISBANK	-0.035 (0.601)	-0.040 (0.541)	-0.077 (0.197)
[10]	GDP	0.264*** (0.000)	-0.203*** (0.002)	-0.093 (0.118)

Source: Data processed by authors

	[4]	[5]	[6]	[7]	[8]	[9]	[10]
[4]	1.000						
[5]	-0.138** (0.020)	1.000					
[6]	-0.105* (0.079)	-0.075 (0.211)	1.000				
[7]	0.063 (0.341)	-0.045 (0.495)	0.097 (0.148)	1.000			
[8]	0.263*** (0.000)	0.024 (0.683)	-0.006 (0.916)	-0.010 (0.878)	1.000		
[9]	-0.075 (0.209)	-0.191*** (0.001)	0.021 (0.725)	-0.112* (0.092)	-0.124** (0.037)	1.000	
[10]	-0.093 (0.118)	0.119** (0.045)	-0.143** (0.017)	-0.180*** (0.006)	-0.066 (0.269)	-0.019 (0.755)	1.000

Note(s): *t* statistics in parentheses. **p* < 0.1, ***p* < 0.05, ****p* < 0.01

Source(s): Data processed by the authors

this model it can be assumed that there is not a high correlation between the explanatory variables. It can be seen that the LDR and DAR variables do not have a univariate relationship with the dependent variable, namely IEs. Then almost all control variables in this study showed a significant relationship with the IEs variable except NONISBANK and AAOIFI.

5.1.1 Regression analysis. IEs represents the total ethics expressed by the company with ethical disclosure standards. In this study, Table 5 presents the results of the regression analysis. The table shows that IEs have a positive and significant effect on LDR at a significant level of 5% (coeff. 230.682, $t = 2.24$). Which means, if there is an increase in IEs it will be followed by an increase in the LDR. Thus, the test results support the stakeholder theory, that the company is not its own entity, but must provide benefits for all stakeholders. IEs applied by banks can increase customer loyalty to banking. Customers who are loyal to banking will automatically increase banking assets, which will increase banking liquidity. So that the better the application of banking IEs will increase banking LDR, where LDR is the liquidity ratio. This is in line with research Nugroho *et al.* (2021).

5.2 Discussions

A very important role is played by the banking sector in the economic development of every country (Batten and Vo, 2019). According to Anshori (2018), Indonesia strives to realize economic development in a just and prosperous society through the development of an Islamic-based banking system. One strategic tool in supporting the performance of a sharia financial institution is adequate capital (Nursyamsu, 2016).

One of the capital sources for sharia banks comes from loan capital or also known as debt, which is used for sharia bank operational activities, one of which is the distribution of funds in the form of financing. One ratio that can measure or identify how much of a bank's assets come

Table 5. Regression result Islamic ethics on loan to deposit ratio

	(1) LDR	(2) LDR	(3) LDR
IE	230.682** (2.24)	111.338 (1.42)	210.551* (1.91)
ISBPHDED		1.533 (0.02)	-4.764 (-0.04)
BSIZE		0.521 (0.07)	-10.143 (-1.27)
INTAN		0.541 (0.04)	0.529 (0.04)
ROA		-346.686 (-0.31)	714.559 (0.62)
AAOIFI		-20.827 (-0.39)	1.234 (0.02)
NONISBANK		-39.673 (-0.43)	47.393 (0.47)
GDP		0.000*** (3.97)	0.000 (1.04)
_cons	-100.823 (-0.77)	-162.079 (-0.50)	-11.941 (-0.03)
Country FE	Yes	No	Yes
Year FE	Yes	No	Yes
r2	0.185	0.080	0.199
N	283	283	283

Note(s): t statistics in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Source(s): Data processed by authors

from debt is the DAR. DAR shows the amount of total debt that can be guaranteed by total assets (Tripuspitorini *et al.*, 2022).

As previously estimated, the results of this study show that the debt to assets ratio (DAR) has an effect on return to assets (ROA) with a positive relationship. The results of this research are in line with the research of Harsanto *et al.* (2022) and (Puspitasari, 2021). The higher the DAR value, the greater the total loan capital used to invest in assets to be used to generate profits for the company. The use of large debt indirectly affects uncertainty and risk and the profits that will be generated will also be greater (Efendi and Wibowo, 2017; Maulita and Tania, 2018; Sari *et al.*, 2021). This shows that the higher the DAR means the more effective the use of these assets. An effective DAR is very important for companies, because it can increase the level of profitability (Hanafi and Halim, 2016). Apart from that, the greater the DAR indicates that the business capital structure utilizes more debts relative to assets (Kasmir, 2014).

So a positive influence means that if the DAR increases, the ROA will also increase and vice versa. An increase in the DAR that is still reasonable will help increase the company's ROA Jurlinda *et al.* (2022). This theory is supported by research by Hadiano (2008), stating that the DAR is one of the factors that influences ROA. Research conducted by Pancawati (2014) also shows that there is a significant influence between the DAR variable on ROA. This is because the increasing ownership of assets is balanced by an increase in sales which is one of the components of the company's income which ultimately affects the capital structure.

In recent years, company awareness of the importance of implementing business ethics in carrying out company activities has increased (Choi and Jung, 2008; Jackson *et al.*, 2000). The company's general goal is to make a profit. There are many ways and strategies used by companies to achieve these goals. Most of the business world relies on their marketing power to achieve large profits (Chandra *et al.*, 2013). However, commitment from management, employees, company culture and the strength of consumer demand in the market do not determine the company's goals. In achieving company goals, company management must also pay attention to the implementation of ethical values within the company (Jackson *et al.*, 2000).

Furthermore, based on the research results, it was found that the IE variable had no effect on ROA. The results of this research are in line with research by Choi and Jung (2008), which examined business managers from various levels of management positions as many as 248 respondents who came from various business backgrounds of companies listed on the Korean stock market.

The relationship between business ethics and economic benefits has important implications for corporate managers. It is surprising then that the relationship between business ethics and financial performance has not been well documented. This shows that companies that try to commit to implementing business ethics in their business, do not necessarily show higher company performance.

6. Summary and conclusion

This study demonstrates that IEs disclosure has a positive relationship with the performance of Islamic banks in MENA countries. This finding indicates that banking practices based on Islamic ethical principles are not only relevant from a religious compliance perspective but also make a tangible contribution to improving the financial performance of Islamic banks. IEs disclosure, which reflects transparency and integrity, enhances customer loyalty and boosts investor confidence. This study enriches the literature on IEs by highlighting its role as a determinant in enhancing the performance of Islamic banks. The results offer a framework that can be used to develop and improve the performance of Islamic banks in other countries that have not yet implemented IEs disclosure standards.

From a practical perspective, the findings of this study emphasize the importance of applying Islamic ethical principles to create added value for Islamic banks. Banks can leverage

ethics disclosure as a tool to build a strong reputation, attract more customers and enhance competitiveness. From a policy perspective, regulators can adopt these findings as a model to strengthen regulations and policies related to IEs disclosure in the banking sector.

This study has several limitations, including its geographical focus on MENA countries, which may limit the generalizability of the findings to a global context. Additionally, the data period (2014–2020) does not account for recent economic or regulatory changes. Some control variables may not fully eliminate bias in the analyzed relationships.

Future research could expand the geographical scope to other regions to understand the impact of IEs disclosure in a global context. The use of more advanced analytical methods, such as more comprehensive econometric approaches, could help address endogeneity issues. Furthermore, long-term studies are needed to explore the sustained impact of IEs disclosure on various aspects of banking performance, including profitability, risk and sustainability. Research could also focus on identifying specific elements of IEs disclosure that have the most significant impact on financial or operational outcomes in banking.

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