



## *Is Islamic Banking Social Performance Able to Maintain Stock Price Stabilization by Exploring the Role of Profitability As An Intervening Variable?*

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**Abstract:** This study aims to analyze the effect of profitability as an intervening variable on the Islamic and social performance of Islamic Banking in order to maintain earnings per share. The purpose of maintaining earnings per share is to attract investors to invest in Islamic bank issuers. Therefore, this study also endeavors to forecast Islamic banking stock price volatility for companies listed on IDX and propose a framework for its mitigation. This framework considers the role of social performance in enhancing profitability, utilizing the path analysis method. This study focused on 3 Islamic banking companies (PNBS, BRIS, and BTPS) as a sample, using quarterly data specifically for the period of 2017 to 2021 with a purposive sampling method. In addition, Data sources include financial statements encompassing profit-sharing ratio, distribution of zakat, and distribution of qard al-hasan. Furthermore, this study employed an ARIMA regression model, subsequently adjusted using ARCH (Autoregressive Conditional Heteroscedasticity) and GARCH (Generalized Autoregressive Conditional Heteroscedasticity) as an analysis method for data forecasting. Based on the path diagram, it indicated that all hypotheses are accepted except for qard al-hasan, which has a significant and negative effect on profitability and stock prices. Therefore, based on these findings, this study contributes to expanding the scope of knowledge in the field of Sharia finance, as well as offers valuable guidance to Islamic finance industries on maximizing Islamic and social instruments to increase profitability, ultimately leading to a positive effect on stock price volatility.

## Introduction

The Islamic banking sector is one of the financial business sectors experiencing rapid growth globally, particularly in Indonesia. This phenomenon is evidenced by the listing of three Islamic banks on the Indonesia Stock Exchange (IDX), enabling investors to invest in and purchase Sharia stock on the Stock Exchange (Fernando, 2021). A stock with high volatility is a great stock because the greater the stock volatility, the greater the opportunity to profit (Khan, 2020; I. Setyawati et al., 2020). However, alongside the potential for significant returns due to high volatility, it also has a high financial risk.

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Therefore, maintaining stock price stability is a crucial factor in establishing a company's existence in the capital market.

The ratio of capital adequacy to investment activity is a crucial aspect of the capital market that must be maintained properly. This significance arises from the fact that investment is one of the most common avenues to gain such profitability (dividends) or capital gains (Robiyanto & Puryandani, 2015; Suhadak et al., 2019). Therefore, investors tend to choose such a potential stock in order to obtain the highest dividend yield. To this end, they typically conduct preliminary research to identify the best-valued stock, and they also tend to forecast the stock prices for several years forward.

Investors can assess the potential stock by examining the volatility of stock prices (Robiyanto et al., 2017). This occurs because statistical volume can provide information regarding the level of profit and risk associated with such stocks (Neelanjana & Hassan, 2019). Therefore, this phenomenon demonstrates that stock prices exert a significant impact on global financial markets, triggering a high volatility, which can deter investors from purchasing high-volatility assets. Hartono (2015) explained that a company's performance and its attributes have a significant impact on stock price volatility. Furthermore, the low stock price volatility is considered less desirable. This reflects a company's ineffectiveness in maintaining its performance. Hence, stock price stability is critical for a corporate entity because stable-value stocks tend to be in demand by investors to invest their capital, representing public trust in the company (Robiyanto et al., 2017).

As an Islamic financial institution, all Islamic banking operational activities must adhere to sharia compliance. This is crucial because Islamic ethical values are the most important characteristics of Islamic banks to boost public interest and trust (Kholidah, 2019). A study suggests that a company's strong financial and social performance can enhance profitability and potentially influence the stock price stability of Islamic banks as Sharia financial institutions (Puspasari & Mawardi, 2015).

Previous studies on the analysis of stock price volatility have been widely conducted. Fakhfekh et al. (2016) found that the disclosure of information has a significant effect on the volatility of stock prices. Furthermore, Azrak et al., (2020) also explained that the accessibility of information to the public is one factor that determines the volatility of the stock price, although this influence was not statistically significant in their study. These findings suggest that transparency in information may affect market price volatility. Consequently, developing strategies to effectively communicate positive signals to potential investors is crucial, especially in the context of Islamic bank stocks. The existence of information relating to a firm's social performance (particularly in Islamic banks) is one of the disclosures considered to be a good signal for investors (Puspasari & Mawardi, 2015; Kholidah, 2019). Therefore, the Islamic banking sector is a business that is not solely profit-driven but also concerned with Islamic social welfare, defining it as an Islamic financial institution (Wardani & Sari, 2019). In light of this, considering social instruments is crucial for the Islamic banking sector to attract investors, indicating that the banks openly disclose their performance, and demonstrate good performance. Furthermore, Islamic instruments such as profit-loss sharing, zakat, and *qard al-hasan* also play a significant role in increasing Islamic banking performance and profitability (Hudaefi & Badeges, 2021; Mohammed & Razak, 2008; Puspasari & Mawardi, 2015). This is because these instruments have become the characteristics of the Islamic banking sector, distinguishing it from conventional banking. Thus, Islamic and social instruments can contribute to improving the bank's image and performance, leading to investors' trust and the stabilization of stock price volatility in a global market. Then, due to the fact that profitability is a key factor in persuading investors to participate in Islamic banks, profitability can be a buffer between a company's social performance and its stock price stability. When social performance is a key consideration for the public in choosing Islamic banking products and services, it can significantly contribute to increased profitability (Hikmah, 2018; Larasati & Kariyam, 2020; Sholichah et al., 2021).

In this regard, the researchers propose a strategy to maintain and improve the profitability and stability of Islamic banking stock prices. Thus, the purpose of this study is to demonstrate the significant potential for Islamic banks to expand their business operations by going public for Islamic banks not yet listed on IDX. This is expected to increase the market share of Islamic banks in Indonesia. In addition, the samples used in this study are Islamic banks listed on the Indonesia Stock Exchange, such as Bank Syariah Indonesia Tbk (BRIS), Bank Panin Dubai Syariah Tbk (PNBS), and Bank Tabungan Pensiun Syariah Tbk (BTPS). The researchers selected an Indonesian sample of Islamic banks due to

Indonesia's position as one of the top five countries with the highest value of sharia financial assets (Hartomo, 2021). Despite the potential for Islamic banks to expand their business and market share, only three are currently listed on the Indonesia Stock Exchange (IDX) (Fernando, 2021). Furthermore, these three Islamic banks listed on the IDX are expected to serve as a model for other Islamic banks considering a stock exchange listing. The stock market presents numerous opportunities for Islamic banks, including halal investment.

Based on the explanation, this research employed ARIMA and ARCH/GARCH models to forecast the stock prices of Islamic banks prospectively in order to determine the potential of Islamic stocks for the coming year. Furthermore, this study endeavors to demonstrate that Islamic and social instruments of Islamic banks have a positive impact on Islamic banking performance by examining the social impact on profitability and stock price volatility.

## Literature Review and Hypothesis Development

### *The Influence of Islamic Banking Social Performance on Profitability*

The agency theory posits that two primary stakeholders, shareholders and management, have a significant influence on a company's performance (Eisenhardt, 1989; Scott, 2015). Therefore, it is evident that performance constitutes a key factor for companies as a representation of the achievement of their goal, mission, and vision. Three main achievements are considered fundamental indicators in measuring companies' management ability to conduct their operations (Bendickson et al., 2016; Panda & Leepsa, 2017).

One aspect of a company's performance that can be evaluated is social performance, as an exemplar of corporate responsibility in establishing social welfare (Stanciu & Bran, 2016). Furthermore, Carroll (1979) states that corporate social performance can be measured through several dimensions, such as corporate social responsibility, corporate social responsiveness, and social issue management. Islamic banking is a financial institution operating based on Islamic principles. This necessitates the Islamic banking sector to conduct its operational activities in accordance with Islamic ethical values. The social and financial performance of the Islamic bank is used to determine the success of its operational activities. In relation to this phenomenon, Hameed et al., (2004) developed a Sharia-based performance metric known as the Islamicity Performance Index (IPI) as an alternative model for assessing Islamic bank performance, consisting of several indicators such as profit sharing ratio, zakat performance ratio, equitable distribution ratio, director-employee welfare ratio, Islamic investment, and Islamic income.

Profit sharing is a key indicator of Islamic banks' success in terms of social performance. This is because this profit-sharing principle (*muḍārabah* and *musyārahah*) is the main characteristic of the Islamic banking sector, distinguishing it from the conventional banking sector. Furthermore, Kholidah (2019) and Ryandono (2010) demonstrated that operational activities based on profit-sharing and kindness are able to increase the economic empowerment of several communities, which in turn leads to social welfare. Similarly, Islamic banks that are actively engaged in social activities can allocate a portion of their income earned through the profit-sharing principle as corporate social responsibility. Studies have shown a strong correlation between increased profit-sharing fund distribution and greater profitability in Islamic banks, suggesting their capacity to enhance social welfare within the community (Mohammed & Razak, 2008; Puspasari & Mawardi, 2015). Therefore, based on the explanation above, the following hypothesis is formulated:

H1: The profit-sharing fund distribution has a positive and significant effect on profitability.

Another form of social performance undertaken by Islamic banks is the distribution of welfare funds, primarily through zakat and qardh financing. This aligns with the Quranic verse, Surah Al-Baqarah: 261:

“The likeness of those who spend their wealth in Allah’s way is like the likeness of a grain which groweth seven ears, in every ear a hundred grains. Allah multiplies increase for whoever He pleases. Allah is All-Embracing, All-Knowing”

This verse of the Qur’an clearly mandates that spending and distributing wealth in Allah’s way is a must for those (both individuals and organizations). This can be interpreted to mean that by distributing

half of one's Islamic banking income as zakat, Allah will multiply it in return. Empirically, it may be challenging to definitively prove the phenomenon revealed in Surah Al-Baqarah: 261. However, this verse can serve as a valid indicator based on the Nash of al-Qur'an. This is because the emergence of trust and a sense of belonging from the public towards Islamic banks is significantly influenced by zakat distribution, distributed by Islamic banking. Then, this fosters public perception that the presence of Islamic banks can offer such benefits, and it affects the profitability of the banks by increasing consumers' loyalty to Islamic banks (Hudaefi & Badeges, 2021; Mohammed & Razak, 2008; Puspasari & Mawardi, 2015). Therefore, based on the explanation above, the following hypothesis is formulated:  
H2: Zakat has a significant and positive effect on profitability

Furthermore, the qardh financing model possesses social objectives, aiming to empower individuals by addressing their needs. From a business perspective, this approach can enhance the positive image of Islamic banks and foster customer loyalty. Therefore, as Islamic banks attract more loyal customers, their profitability increases (Kholidah, 2019; Kurniawan, 2010; Puspasari & Mawardi, 2015). Therefore, based on the explanation above, the following hypothesis is formulated:

H3: Qard al-Hasan financing has a significant and positive effect on profitability.

### ***The Influence of Profitability on Stock Price Stability***

Profitability is a ratio that is able to describe companies' ability to generate a certain amount of profit (Othman et al., 2009; Fitzsimmons et al., 2011; Sari, 2020). Highly profitable companies signal strong investment prospects for investors due to their potential for high dividend payouts (Fajaria, 2018; Nadyayani & Suarjaya, 2021). Previous studies demonstrated that the profitability of companies has a positive and significant effect on stock prices (Fajaria, 2018; Hussain et al., 2020; Sholichah et al., 2021). This is due to the good management and maintenance of companies that are able to increase their profitability, leading to good financial performance. Thus, the higher the profitability level of a company, the greater investors' interest in investing, and this has an impact on the company's ability to maintain stock price stability, expected to increase over time. Therefore, based on the explanation above, the following hypothesis is formulated:

H4: Profitability has a positive and significant effect on stock price stability

### ***The Influence of Social Performance on Stock Price Stability through Profitability as the Intervening Variable***

Social performance based on Sharia principles conducted by the Islamic banking sector affects Islamic banks' profitability. However, the realization of Islamic banking's Sharia-compliant social performance can signify the success of its performance in fostering economic and social welfare (Bendickson et al., 2016; Kholidah, 2019; Panda & Leepsa, 2017; Puspasari & Mawardi, 2015). This aligns with the Qur'an, underscoring the significance of social welfare to all human beings.

In addition, when Islamic banks exhibit a high level of profitability, it is also indicated that it can affect the stability of their stock prices on IDX. This is due to their strong profitability. It is evident that the performance of Islamic banks indicates a positive trend, fostering public trust and encouraging investment in these institutions. Thus, the higher the value of Islamic banks on IDX, the higher the profits to be made (Setyawati et al., 2020). Therefore, based on the explanation above, the following hypotheses are formulated:

H5: A profit-sharing distribution fund has a significant and positive effect on stock price stability, with profitability as the intervening variable

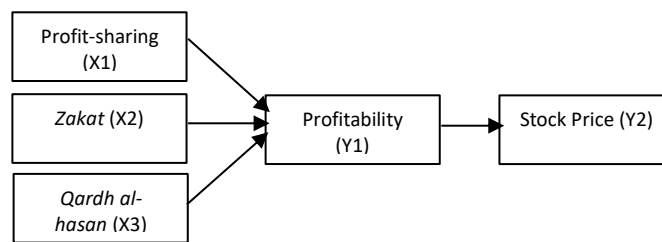
H6: Zakat has a significant and positive effect on stock price stability with profitability as the intervening variable

H7: Qard al-Hasan financing has a positive and significant effect on stock price stability with profitability as the intervening variable

**Research Methods**

This study employs a quantitative research methodology. Initially, this study used a forecasting method regarding Islamic banking stock price volatility. Subsequently, the researchers formulated a model for maintaining Islamic banking stock prices using a path analysis approach. This study focused on financial sector companies listed on IDX. Meanwhile, the sample for this study was all Islamic banks listed on IDX, including PT Bank Syariah Indonesia.Tbk, PT. Bank Panin Dubai Syariah.Tbk, and PT. Bank Tabungan Pensiun Syariah Tbk, with secondary data collected from the IDX website, the Indonesia Capital Market Directory (ICMD), and the websites of respective issuers. In addition, in relation to volatility analysis, the study utilized a dataset comprising the weekly closing price of shares commencing from the initial IPO. For the analysis path, the data was obtained from financial statements per quarter of the period 2017–2021. The specific financial variables examined were profit-sharing distribution, zakat distribution, and *qardh al-hasan*.

This study initially forecasts Islamic banking stock-volatility prices using the ARCH/GARCH method. Subsequently, researchers propose a model to maintain and increase stock price stability as a follow-up to the forecasting method. Then, the model was presented based on the path analysis approach. The proposed model of this study can be seen as follows:



**Figure 1:** Model of research

Based on Figure 1, regression equations can be derived as follows:

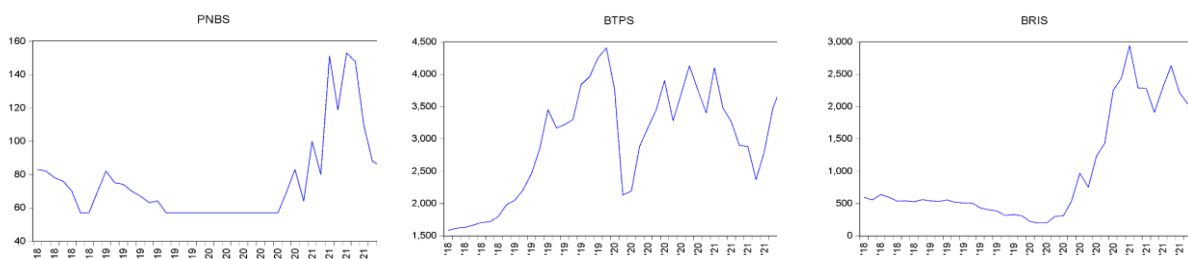
$$Profitability = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon_1$$

$$Stock Price = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4Y_1 + \varepsilon_2$$

**Analysis and Discussion**

**Stock Price Modelling by ARIMA Model**

The stock prices of three Islamic banking sectors listed on IDX fluctuated throughout the observation period. However, BRIS and PNBS experienced high fluctuations, particularly in early 2021, indicating a significant increase. For BTPS, the most fluctuating stock price occurred in the February-April 2021 period, resulting in a fairly declining stock price. However, this downturn did not last long because BTPS was able to increase the stock price fairly quickly.



**Figure 2:** Islamic bank stock price fluctuation  
Source: Data Proceed (2021)

Based on the result of the Unit Root test by Augmented Dickey-Fuller, the data is found to be non-stationary at the level because the p-value of ADF > 0,05. Therefore, it needs a unit root test by Augmented Dickey-Fuller at the first different level, reaching a p-value of ADF < 0,05 (Table 1). The result of the table suggests that the data is stationary at the first different level, meaning that the selected model is ARIMA

**Table 1.** Result of Stationary Test

		Probability Augmented Dickey-Fuller test statistic
BRIS	Level	0.8465
	1 <sup>st</sup> difference	0.0000
BTPS	Level	0.1553
	1 <sup>st</sup> difference	0.0000
PNBS	Level	0.3094
	1 <sup>st</sup> difference	0.0000

Source: Data Proceed (2021)

After conducting the stationary test, researchers determined the ARIMA model for each sample. The results of the ARIMA model estimation can be found in Table 2 as follows:

**Table 2.** Model of ARIMA

	Adj-R Square	AR	MA	AIC	SC
PNSB	ARIMA (1,1,0)	0.156738	- 2.904410 (0.0060)	8.445632	8.529221
	ARIMA (1,1,1)	0.184159	- 3.446548 (0.0014)	8.437740	8.563124
	ARIMA (1,1,2)	0.217275	- 1.899423 (0.0651)	8.525453	8.400069
BTPS	ARIMA (1,1,0)	- 0.034655	0.804887 (0.4259)	15.15363	15.27901
	ARIMA (1,1,1)	- 0.043808	- 0.261475 (0.7952)	0.494526 (0.6239)	15.18511
BRIS	ARIMA (1,1,0)	- 0.052090	- 0.135950 (0.8926)	14.02457	14.14995
	ARIMA (1,1,1)	- 0.013426	- 3.986478 (0.0003)	2.344400 (0.0245)	14.01246

Source: Data Proceed (2021)

The selected ARIMA model for PNBS is ARIMA (1,1,2) because the p-value is higher than that of another ARIMA model, and it reaches the smallest AIC and SC values. Furthermore, the selected ARIMA model for BTPS is ARIMA (1,1,0). This is because the p-value is higher than that of another ARIMA model, and it reaches the smallest AIC and SC values. While for BRIS, the selected ARIMA model is ARIMA (1,1,1), because the p-value is higher than another ARIMA model and it reaches the smallest AIC and SC values.

### **ARCH/GARCH Model Identification**

Before selecting the ARCH /GARCH models, researchers initially identify the effect of ARCH/GARCH, to find out whether the samples contain ARCH/GARCH elements. Therefore, the following table presents the results of the ARCH/GARCH effects identification:

**Table 3.** ARCH/GARCH Effect Identification

<b>PNBS</b>				
	Coefficient	Std. Error	z-Statistic	Prob.
C	3.759891	1.055990	3.560538	0.0004
RESID(-1)^2	0.850655	0.383329	2.219127	0.0265
GARCH(-1)	0.322580	0.088695	3.636945	0.0003
<b>BTPS</b>				
	Coefficient	Std. Error	z-Statistic	Prob.
C	160739.9	185578.0	0.866158	0.3864
RESID(-1)^2	0.612070	0.667823	0.916516	0.3594
GARCH(-1)	0.069883	0.434715	0.160756	0.8723
<b>BRIS</b>				
	Coefficient	Std. Error	z-Statistic	Prob.
C	428.7198	479.3698	0.894240	0.3711
RESID(-1)^2	0.573119	0.395154	1.450366	0.1470
GARCH(-1)	0.451094	0.222313	2.029095	0.0424

Source: Data Proceed (2021)

Based on the results of the ARCH/GARCH Effect identification test (Table 3), it can be determined from the p-value of all samples that PNBS contains ARCH and GARCH elements. Then, the selected model is GARCH as the p-value of the GARCH model is higher than that of ARCH, BRIS contains GARCH elements, thus the selected model is the GARCH model. Conversely, BTPS does not contain ARCH and GARCH elements, thus the ARIMA model is selected to forecast the volatility of BTPS stock prices. Therefore, the following is the estimation result of the ARCH/GARCH model:

**Table 4.** ARCH/GARCH Model Estimation

	Model	AR	MA	AIC	SC
PNBS	ARCH (1)	13.97200 (0.0000)	-0.720085 (0.4715)	7.480294	7.687159
	ARCH (2)	-0.353087 (0.03240)	-1.568386 (0.0168)	7.732345	7.941317
	GARCH (0,1)	6.401380 (0.0000)	5.293159 (0.0000)	8.376928	8.583793
	GARCH (1,0,1)	7.6128595 (0.0000)	4.383675 (0.0000)	8.498130	8.340881
	GARCH (1,1,1)	6.139807 (0.0000)	0.344320 (0.0306)	7.339999	7.588237
BRIS	ARCH (1)	136.9749 (0.0000)	-1.606219 (0.1082)	13.19281	12.39968
	ARCH (2)	-2.696842 (0.0070)	1.256544 (0.0289)	13.13160	13.34057
	GARCH (0,1)	20.74478 (0.0000)	-0.480114 (0.6311)	13.05704	13.26390
	GARCH (1,0,1)	-3.239830 (0.0012)	2.055889 (0.0398)	14.05363	14.26261
	GARCH (1,1,1)	0.967219 (0.0034)	-0.659483 (0.0487)	12.77943	13.03020

Source: Data Proceed (2021)

Based on Table 4, the selected model for PNBS and BRIS is GARCH (1,1,1) due to its lowest absolute values for SC and AIC compared to other models. However, BTPNS does not have ARCH/GARCH effects, thus the selected model is ARIMA (1,1,0) as the probability is greater than other models (Table 2). Based on the result, the following are the forecasting results of the volatility stock price of Islamic banks listed on IDX, such as (PNBS), BRIS, and BTPNS) in 1 (one) year:

**Table 5.** Forecasting Result

Year	PNBS	BTPS	BRIS
2021M12	31.93066	4018.348	1487.884
2022M01	30.70886	4077.185	1509.740
2022M02	29.48706	4136.023	1531.952
2022M03	28.26526	4194.860	1553.854
2022M04	27.04345	4253.698	1576.026
2022M05	25.82165	4312.536	1597.962
2022M06	24.59985	4371.373	1620.104
2022M07	23.37805	4430.211	1642.067
2022M08	22.15624	4489.049	1664.186
2022M09	20.93444	4547.886	1686.169
2022M10	19.71264	4606.724	1708.270
2022M11	18.49084	4665.562	1730.268

Source: Data Proceed (2021)

Based on forecasting results in the next 1 year, PNBS experienced a decrease in stock price, while BTPS and BRIS experienced an increase every month. This fluctuation can be attributed to several factors, including the company's performance. This is because a company's performance is commonly used as a reference for investors to make a fundamental analysis in order to assess the company's shares. Key aspects considered in assessing a company's performance include cash dividend levels, debt ratios, price-to-book value (PBV) ratios, earnings per share (EPS), and a company's profit level. Companies with a higher dividend payout ratio (DPR) tend to be favored by investors due to their potential for attractive returns. In addition, companies with high debt ratios are commonly developing companies actively seeking capital from investors. However, these companies frequently attract significant investor interest. If the analysis yields positive results, the stock will provide high returns due to increased capitalization (Financial Services Authority, n.d.). Thus, this evidence suggests that the company's lack of performance will lead to a decline in its stock price and vice versa (Milosevic-Avdalovic & Milenkovic, 2017; Probohudono et al., 2021). One of the considerations or strategies that can be implemented by Islamic banks as fairly new players on the stock exchange is to increase profitability. This is because profitability plays a crucial role in the rise and fall of the stock price. Thus, this study offers a model to maintain and increase stock prices to maintain the stability of stock price volatility and even grow with a positive trend over time.

### **Path Analysis**

The Fixed Effect Model was selected as the most suitable model for this study based on a panel regression test. It is because, based on the Chow test result, the p-value of Cross-section F is  $0.000 < 0.05$ . Therefore, Ordinary Least Square (OLS) is the best approach to estimating the research model. Based on the explanation, the classical assumption test result, namely the heteroscedasticity and multicollinearity tests, revealed that (1) the data is free from heteroscedasticity (P-Value F-Statistic  $0.6129 > 0.05$ ) and (2) the data contains multicollinearity on variables of Zakat and Qardh al-Hasan, with a correlation coefficient of 0.9535, however, the value is not substantially above the threshold of the maximum correlation value of 0.09, and thus, the data can be processed to the next stage. Furthermore, researchers employed a research model to find out the relationship between observed variables. The result of the direct effect of this research model was obtained from the estimation result through the E-views application program by observing the coefficient and probability values. Therefore, based on the explanation above, the following is the estimation result of the direct effect:

**Table 6.** Output of the Direct Effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PLS→Profitability	0.6625	0.1824	3.6327	0.0025
Zakah → Profitability	1.3369	0.2051	6.5179	0.0000
Qardh al-Hasan → Profitability	-1.1972	0.2333	-5.1316	0.0001
Profitability → Stock Price	0.5665	0.2493	2.2744	0.0392

Source: Data Proceed (2021)



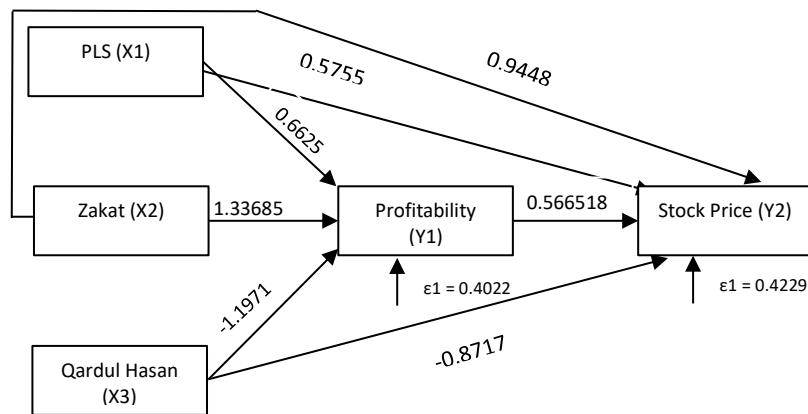
In addition, researchers conducted the indirect effect test to find out the total effect that independent variables exert on dependent variables through intervening variables. This is conducted by summing the direct and indirect effects of independent variables on the dependent variable through the intervening variable. Furthermore, researchers also conducted a total significance influence test, using a Sobel test through [www.danielsoper.com](http://www.danielsoper.com). Therefore, based on the explanation, the following is the result of the indirect effect test:

**Table 7.** Output of the Indirect Effect

Variable	Direct Effect	Std. Error	Indirect Effect	Total Effect	Prob.
PLS → Profitability → tock Price	0.5755	4.2242	0,3753	0.9506	0.0025
Zakah → Profitability→ Stock Price	0.9448	0.3866	0,7574	1,7022	0,0159
Qardh al-Hasan → Profitability→ Stock Price	-0.8717	0.6960	-0,6782	-1,5499	0.0189

Source: Data Proceed (2021)

Therefore, based on the results of indirect effect tests, as depicted in Table 7, the researchers compiled the following path diagram to compare the direct and indirect effects as follows:



**Figure 3:** Path Diagram  
Source: Data Proceed (2021)

Based on Tables 6 and 7 on the results of direct and indirect effects between variables and the path diagrams (Figure 3), the following is the result of hypothesis tests:

**Table 8.** Hypotheses Test Result

Hypotheses	Effect	Prob.	Result	Description
H1: PLS → Profitability	0.6625	0.0025	Positive Significant	Accepted
H2: Zakah → Profitability	1.3369	0.0000	Positive Significant	Accepted
H3: Qardh al-Hasan → Profitability	-1.1972	0.0001	Negative Significant	Rejected
H4: Profitability → Stock Price	0.5665	0.0392	Positive Significant	Accepted
H5: PLS → Profitability → Stock Price	0.9506	0.0025	Positive Significant	Accepted
H6: Zakah → Profitability → Stock Price	1,7022	0,0159	Positive Significant	Accepted
H7: Qardh al-Hasan → Profitability → Stock Price	-1,5499	0.0189	Negative Significant	Rejected

Source: Data Proceed (2021)

As seen in Table 8, profit sharing has a significant and positive effect on the profitability of Islamic banks. This is consistent with the findings of the studies conducted by [Puspasari & Mawardi \(2015\)](#) and

Syahri & Harjito (2020), suggesting that the distribution of profit-sharing funds may indicate that Islamic banks are profitable, enabling them to provide social welfare to the community through the distribution of these funds. Additionally, Islamic banks are interest-free and can claim to have a profit-sharing structure. However, when examining the type of financing offered by Islamic banks, financing through a profit-sharing contract system (*mudharabah*) remains relatively uncommon in the public sphere (Khan, 2020) and is considered to pose a high risk to Islamic banks (Afkar, 2017), making it necessary to optimize this type of financing, enabling Islamic banks to generate profits, particularly from superior products (in this case, *mudharabah* financing) (Lestari, 2019). This is demonstrated by study findings that the profit-sharing system has a beneficial effect on the public's perception of Islamic banks' goods and services, hence affecting Islamic banks' profitability potential.

Furthermore, zakat has a materially beneficial effect on the profitability of Islamic banks. This is consistent with the established view that zakat is a quality of Islamic banks' social performance, which may help boost their profitability (I. Sari & Aisyah, 2022). This is because Islamic banks not only offer profit-oriented products but also adhere to their Sharia-based commitments. Moreover, by maximizing the utilization of Islamic and social instruments, Islamic banks can cultivate an excellent image. This is because Islamic and social instruments effectively represent the distinctive characteristics of Islamic banking compared to the conventional banking sector. Thus, when Islamic banks possess such an excellent image, it signifies strong performance, potentially attracting investors to allocate capital to these institutions, thereby fostering a sustainable stock price in this sector. In addition, zakat is collected by Islamic banks through zakat issued by Islamic banks, as well as from Islamic bank employees. Thus, this can provide concrete evidence that Islamic banks are capable of adhering to sharia requirements, including the distribution of productive zakat that benefits the economic welfare of *mustahik*, in order to persuade the public to remain loyal to Islamic banks and thus increase their profitability (Wafi & Herianingrum, 2020). However, based on the data collected by the researchers, certain banks, such as BTPS, do not currently practice zakat. Therefore, it is strongly recommended that these institutions consider implementing zakat as a tangible demonstration of Shariah compliance, thereby enhancing customer and public respect for Islamic banks.

Unlike profit sharing and zakat, *qard al-hasan* has no discernible beneficial influence on profitability. This is attributed to a portion of the *qard al-hasan* fund's revenue stemming from non-halal investments. While this remains a point of contention due to its apparent contradiction with Sharia principles, it simultaneously violates the Islamic bank's Sharia despite the utilization of the revenues for charitable purposes. Additionally, according to al-Qardhawi (2002), non-halal funds in Islamic banks must be routed according to Sharia regulations, namely by avoiding consumption and worship facilities. Although non-halal funds are incorporated within the policy fund, it is advisable to segregate them from halal funds.

Furthermore, the findings suggest that Islamic banks' profitability has a significant and positive effect on stock price stability. Profitability indicates strong performance, thereby contributing to this outcome. With Islamic banks' strong financial performance, it is certain that they will be able to maintain a sustainable presence on the stock exchange. This is evidenced by the consistent stock values of Islamic banks, suggesting that they are successfully attracting investor confidence and capital (Setyawati & Amelia, 2018). Profitability can mediate (in this case, strengthen) the correlation between the independent variables (profit sharing, zakat, and *qard al-hasan*) and the dependent variable, according to the indirect test results (stock price stability). This is due to the fact that profitability is a key factor in persuading investors to participate in Islamic banks. Due to increased demand for the company's stock, its price is likely to rise. This, in turn, will positively impact the company's returns (Hikmah, 2018; Larasati & Kariyam, 2020; Sholichah et al., 2021). Profitability can serve as a buffer between a company's social performance and its stock price stability. Given that social performance is a key factor in the public's selection of Islamic banking products and services, it can significantly impact profitability. In turn, profitability can positively influence stock price appreciation, as investors generally favor successful companies.

## Conclusion

Research findings suggest that the volatility of Islamic bank stock prices may be lower and more stable than previously anticipated, potentially even exhibiting a positive trend. This presents an opportunity for other Islamic banks that have yet to go public to increase their market share by listing on IDX. Based on the research findings, Bank BRIS and Bank BTPS are projected to experience an increase in share prices in the coming year, from November 2021 to November 2023, which is expected to be profitable for both the banks and their investors. Conversely, Bank PNBS is anticipated to witness a decline in share prices during this period. Furthermore, according to the researcher's path analysis, profit sharing and zakat have a significant and positive effect on Islamic banks' profitability, while *qardul hasan* has a significant and negative effect. Moreover, by strengthening the relationship between these factors, profitability can mediate profit sharing, zakat, and *qardul hasan* variables on stock prices.

Thus, Islamic banks are required to enhance their social performance, particularly those based on Sharia, in order to retain the Muslim community, which accounts for the majority of their market share. Furthermore, Islamic banks are anticipated to consider producing reports specifically addressing non-halal funds, although these are typically suggested within virtue fund reports, to prevent the creation of a negative public perception. Furthermore, this study contributes to expanding the horizons of Sharia finance and provides valuable guidance to the Islamic finance industry. It emphasizes the significance of maximizing the utilization of Islamic and social instruments to enhance profitability, which can subsequently lead to a positive impact on stock price volatility. Lastly, it is recommended that future research conduct a more in-depth examination of social performance, particularly concerning charitable funding, to identify potential challenges and validate the findings of previous studies

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