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Determinants of Islamic Banking Competitiveness in Indonesia, Malaysia, and Brunei Darussalam

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Abstract

Objective: Financial ratios play a crucial role in measuring the performance and competitive position of Islamic banking institutions. Indicators such as profitability, operational efficiency, asset quality, and liquidity reflect the ability of banks to sustain growth and maintain a competitive edge. Accordingly, this study investigates the factors affecting the competitiveness of Islamic banks across Indonesia, Malaysia, and Brunei Darussalam.
Method: This competitiveness is measured using Islamic bank assets as the dependent variable, and net profit, ROA, ROE, CAR, and CIR as the independent variables. A quantitative descriptive research approach using panel data regression was used to determine the effect of Islamic bank profitability on competitiveness in peer countries. Data were collected through secondary data from all Islamic banks in peer countries (Indonesia, Malaysia, and Brunei Darussalam) from 2022 to 2025.
Result: The results indicate that net profit, ROE, and ROA significantly enhance the competitiveness of Islamic banks, while CIR and CAR show no significant effect. This finding highlights the critical role of profitability-related indicators in driving competitive performance. In contrast, operational efficiency and capital adequacy appear to have a more limited contribution within the observed banking systems.
Implication: This study demonstrates that profitability-based measures are more effective drivers of competitiveness than capital adequacy and cost-efficiency indicators. The results offer practical insights for policymakers and banking practitioners seeking to strengthen the resilience and market position of Islamic banks in the region.
Originality or Novelty: The novelty of this study lies in its use of Islamic bank assets as a measure of competitiveness and its comparative analysis across three countries with well-developed Islamic banking sectors—Indonesia, Malaysia, and Brunei Darussalam. By applying panel data regression to cross-country banking data, this study extends existing research beyond single-country investigations. It provides new evidence on the determinants of competitiveness in Islamic banking.

Keywords: Associated Countries; Competitiveness of Islamic Banks; Cross-Country Analysis; Financial Ratios; Panel Data Regression.

Introduction

In recent years, Islamic banking has emerged as an increasingly important component of the Asian financial system due to its contribution to financial stability, inclusive economic development, and the diversification of financial services. Furthermore, its strategic role has become more evident through efforts to enhance financial inclusion and strengthen regional cooperation among ASEAN member states. (Akhter et al., 2019; Bawana et al., 2025; Hanif & Hanafi, 2023; Mohamed & Redzuan, 2025; Rizvi et al., 2020). Particularly in ASEAN member states with majority Muslim populations, including Indonesia, Malaysia, and Brunei Darussalam, Islamic banking has evolved beyond its traditional role as a financial intermediary to become an alternative financial system capable of supporting economic stability and sustainable development. (Abdulghani, 2024; Dewi, 2025; Hajar, 2024; Rahmat et al., 2025). Nevertheless, although the sector exhibits promising growth prospects, it still faces persistent challenges related to strengthening its competitive advantage over conventional banks and increasing its market penetration within the regional financial landscape.(Oktaviana & Miranti, 2025; Reswara & Nisa, 2024).

Evidence of competitiveness issues within the Islamic banking sector is particularly apparent in the Borneo region, which comprises Indonesia, Malaysia, and Brunei Darussalam. Although these countries share comparable geographical proximity and socio-cultural backgrounds, significant disparities remain in the performance and efficiency of their Islamic banking industries. (Listiyanti & Shofawati, 2019; S. G. D. Putri et al., 2024). Previous studies suggest that variations in regulatory quality, operational efficiency, innovation capacity, and the level of financial technology integration shape these differences. (E. Fadila et al., 2025; Rahmi et al., 2023). For instance, Malaysia's more comprehensive and mature regulatory framework has been found to enhance the financial performance and profitability of its Islamic banking institutions relative to those operating in other developing countries. (Rahmadi et al., 2025; Ulya et al., 2025). This phenomenon highlights that the competitiveness of Islamic banking extends beyond mere industry growth and depends substantially on banks' capabilities to optimize financial performance through effective and efficient management practices.

Profitability constitutes one of the primary indicators for evaluating the competitiveness of Islamic banking, as it reflects a bank's capability to generate earnings while efficiently managing its operational expenses. (Humairah et al., 2023; Nugrohowati et al., 2022). Prior research has consistently demonstrated that profitability measures, including Return on Assets (ROA), Return on Equity (ROE), and the Operating Expense to Operating Income ratio (BOPO), play a pivotal role in shaping the competitive position of Islamic banking institutions. (Fathiyyah & Muflih, 2023; F. I. Putri, 2024; Yasya & Fauzan, 2025). Furthermore, comparative studies conducted across Asian countries indicate that the profitability of Islamic banks in Indonesia, Malaysia, and Brunei Darussalam is influenced by factors such as capital adequacy, financing quality, and operational efficiency. Nevertheless, the magnitude and direction of these effects vary considerably among countries, reflecting differences in institutional characteristics and regulatory environments. (Fakhrunnas, 2018; Ramadhani et al., 2019; Rodoni, 2025).

Although previous studies have extensively examined the determinants of Islamic bank profitability and financial performance, most have focused on single-country settings and have primarily treated profitability as the outcome variable. Limited attention has been given to the

role of profitability and financial performance indicators in explaining Islamic banking competitiveness across countries. Furthermore, existing studies generally measure competitiveness using profitability or efficiency indicators. In contrast, the use of bank assets as a proxy for competitiveness remains underexplored, particularly in comparative studies involving Indonesia, Malaysia, and Brunei Darussalam. This gap limits our understanding of how financial performance translates into competitive strength within different Islamic banking environments.

To address this gap, the present study investigates the determinants of Islamic banking competitiveness in the Borneo region by employing bank assets as a measure of competitiveness and examining the effects of net profit, ROA, ROE, CAR, and operational efficiency indicators. The study contributes to the literature by providing cross-country evidence from three Islamic banking systems with similar socio-cultural characteristics but different regulatory and market structures. This approach offers a broader understanding of the factors shaping competitiveness in Islamic banking and extends the existing literature beyond profitability-oriented analyses.

Literature Review

Net Profit and Islamic Banking Competitiveness

From a theoretical perspective, the Resource-Based View (RBV) argues that an organization's competitiveness is determined by its ability to effectively utilize strategic resources and capabilities to create sustainable competitive advantages. In the banking sector, financial performance represents a critical organizational capability, reflecting the efficiency with which resources are managed to generate value and strengthen market position. Consistent with this perspective, profitability is considered a key determinant of Islamic banking competitiveness because it reflects a bank's ability to generate earnings, optimize asset utilization, and manage operational costs efficiently.

Net Profit, Return on Assets (ROA), and Return on Equity (ROE) are widely recognized as primary indicators of profitability that directly influence a bank's competitive position in both regional and global markets. (Badawi et al., 2023; Fauziyah et al., 2022; Nugrohowati et al., 2022). In addition, the Structure–Conduct–Performance (SCP) paradigm suggests that superior organizational performance enhances a firm's ability to compete by improving efficiency, innovation, and market responsiveness. Cross-country studies in ASEAN and OIC member countries demonstrate that Islamic banks with higher profitability tend to achieve stronger competitiveness through more effective asset management, revenue diversification, and operational efficiency, which ultimately contribute to greater market share and financial stability. (E. F. Fadila et al., 2025; Syahid et al., 2024). Furthermore, financial technology innovation, regulatory quality, and operational efficiency have been identified as important contextual factors that strengthen the relationship between profitability and competitiveness. (Abd-Elmageed & Abdel Megeid, 2020; Nurjanah & Amrizal, 2024; Oktaviana & Miranti, 2025; Yasya & Fauzan, 2025). Empirical evidence also confirms that profitability indicators, particularly Net Profit Margin, serve as significant predictors of the competitive performance of Islamic banks, including comparative analyses involving Indonesia, Malaysia, and Brunei Darussalam. (Fathihani et al., 2025; Husen et al., 2025; Wati & Rosyadi, 2025). Therefore, profitability not only reflects financial performance but also constitutes a strategic resource and a key mechanism through which Islamic banks can strengthen their competitiveness in increasingly integrated and

competitive financial markets. (Hanifah & Zuhroh, 2024; Islamic Financial Services Industry Stability Report, 2023).

H1: Net Profit has a positive and significant impact on the competitiveness of Islamic banks in the Borneo region.

ROE and Islamic Banking Competitiveness

From a theoretical perspective, Return on Equity (ROE) is a critical profitability indicator that reflects an Islamic bank's ability to utilize shareholders' funds efficiently to generate profits and create value. Within the Resource-Based View (RBV), profitability represents a strategic organizational capability that contributes to competitive advantage by strengthening financial performance and market position. In Islamic banking, a higher ROE indicates effective capital management, which enhances the institution's capacity to compete in both regional and international markets. (Malini & Putri, 2023). Empirical evidence supports this theoretical relationship. Comparative studies of Islamic banks in Indonesia and Malaysia reveal that differences in ROE and other profitability indicators are influenced by economic conditions, managerial strategies, and regulatory environments, which subsequently shape the competitiveness of each institution. (E. Fadila et al., 2025). ROE also serves as a measure of capital utilization efficiency and is positively associated with a bank's ability to attract customers and investors (Syafaat & Timuriana, 2025). Although profitability does not always translate directly into greater market share, maintaining a strong and consistent ROE is essential for capturing competitive opportunities in ASEAN markets (Mala et al., 2023). Furthermore, regulatory harmonization within dual banking systems can support Islamic banks in maximizing ROE and strengthening their competitive position relative to conventional banks. (Khotib & Siddiqi, 2025).

H2: ROE has a positive and significant impact on the competitiveness of Islamic banks in the Borneo region.

ROA and Islamic Banking Competitiveness

From a theoretical perspective, Return on Assets (ROA) is a key profitability indicator that measures a bank's ability to generate earnings from its total assets. According to the Resource-Based View (RBV), effective asset utilization represents a strategic capability that enables banks to create value, improve operational performance, and sustain competitive advantages. In Islamic banking, a higher ROA reflects greater efficiency in managing assets, which strengthens profitability and enhances the institution's competitive position in both regional and global markets. The relationship between ROA and competitiveness has been widely supported in the literature. Comparative studies of Islamic banking in ASEAN demonstrate that ROA is positively associated with competitive performance indicators, including industry rankings, asset growth, and market share, making it an important component of banking competitiveness frameworks. (Malini & Putri, 2023). Likewise, ROA is recognized as one of the most widely used measures of bank performance and serves as a benchmark for evaluating competitiveness in international markets. (Wardana & Masruroh, 2022). Variations in ROA across countries often reflect differences in operational efficiency, industry structure, and managerial effectiveness, which influence the competitive position of Islamic banks. (Badawi et al., 2023). Furthermore, banks

that consistently maintain higher ROA tend to achieve stronger market expansion and greater long-term financial stability, reinforcing their competitive advantage. (Nugroho et al., 2024). Based on the theoretical arguments and empirical evidence, a higher ROA is expected to strengthen the competitiveness of Islamic banks by improving profitability, resource utilization, and market performance. Therefore, the following hypothesis is proposed:

H3: ROA has a positive and significant impact on the competitiveness of Islamic banks in the Borneo region.

CIR and Islamic Banking Competitiveness

The Cost to Income Ratio (CIR) is a key indicator of operational efficiency that reflects a bank's ability to manage costs relative to the income it generates. According to the Resource-Based View (RBV), operational efficiency represents an organizational capability that enables banks to optimize resources, reduce unnecessary expenses, and strengthen competitive advantage. A lower CIR indicates greater efficiency in resource utilization, allowing Islamic banks to improve profitability, maintain financial stability, and enhance their market position. The relationship between CIR and competitiveness is supported by empirical evidence. Studies on Islamic banking suggest that CIR significantly influences financial stability, risk management, and operational effectiveness, all of which contribute to a bank's competitive performance. (Anggraini et al., 2025). Operational efficiency, as measured by CIR, is also widely recognized as an important determinant of banking performance because cost-efficient institutions are better positioned to sustain profitability and expand their business activities in domestic and international markets. (L. T. Putri & Sudarmawan, 2024). Furthermore, efficient cost management enables banks to optimize resources and implement competitive strategies aimed at increasing market share and strengthening cross-border competitiveness. (Widarjono & Rudatin, 2021). Therefore, effective CIR management can be considered a strategic factor in enhancing the long-term competitiveness of Islamic banks.

H4: CIR has a positive and significant impact on the competitiveness of Islamic banks in the Borneo region.

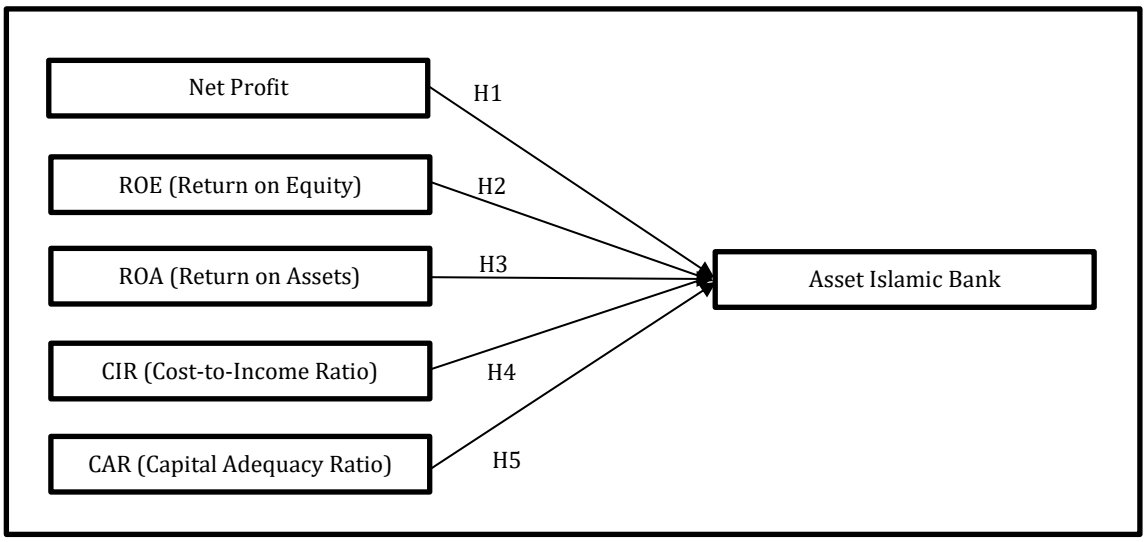
CAR and Islamic Banking Competitiveness

Capital Adequacy Ratio (CAR) is a fundamental indicator of capital strength that reflects a bank's capacity to absorb risks and support business expansion. According to banking theory and the Resource-Based View (RBV), strong capital serves as a strategic resource that enhances financial stability, strengthens stakeholder confidence, and supports sustainable competitive advantage. In Islamic banking, adequate capital enables institutions to expand financing activities, withstand economic shocks, and maintain operational resilience in increasingly competitive markets. Empirical evidence supports the relationship between CAR and competitiveness. Studies show that banks with adequate capital levels are generally better positioned to manage risks and capitalize on growth opportunities, thereby improving their competitive performance. (Alnajjar & Othman, 2021). CAR is also associated with profitability, which constitutes an important component of competitive advantage because stronger capital supports broader and more sustainable financing activities (Yasya & Fauzan, 2025). In the ASEAN context, CAR is frequently analyzed alongside profitability indicators such as ROA and

ROE to assess the relative performance and competitiveness of Islamic banks. Efficient capital management has been found to enhance institutional resilience and strengthen market positioning amid varying regulatory and risk environments. (Uckun & Ölçen, 2025). Furthermore, CAR may mediate the effects of asset quality, liquidity, and profitability on competitiveness, highlighting its strategic role in supporting long-term growth and stability. (Rahmawati & Pratiwi, 2025).

H5: CAR has a positive and significant impact on the competitiveness of Islamic banks in the Borneo region.

Figure 1
Conceptual Framework Model



Source: Author's processing, 2025

Research Methodology

This study uses a quantitative approach to explain the effect of Islamic bank profitability in the Borneo region (Indonesia, Malaysia, and Brunei Darussalam) on the competitiveness of Islamic banking. The data used in this study consist of Islamic Bank Assets (Indonesia, Malaysia, and Brunei Darussalam) as the dependent variable. Assets are considered as a measure of bank competitiveness, as they reflect the bank's operational scale, financial strength, and growth capacity. Large assets reflect the bank's greater ability to mobilize funds, expand financing activities, diversify services, and withstand risks. Furthermore, assets are a strategic resource in supporting the development of sustainable competitive advantage. They are also widely used to assess the expansion and resilience of Islamic banking institutions, thus becoming an indicator of bank success, strengthening market position, and institutional capacity. (Aryanti & Wahydi, 2022; Prasetyo & Susetyohadi, 2022). Net Profit, ROE, ROA, CIR, and CAR as independent variables from 2023 to 2025. Of these, 27 Islamic banks registered on TABInsights are listed on TABInsights. Of these, 10 are from Indonesia, 16 are from Malaysia, and only one is from Brunei Darussalam. Data analysis uses panel data regression analysis.

Table 1

Variable

Variable	Definitions	Scala	References
Asset ($ Million)	This is the asset value of Islamic banks. Asset value is one proxy for Islamic bank competitiveness.	($ Million)	(Husna & Satria, 2019) (Irman & Purwati, 2020)
Net Profit	It is used as an indirect indicator of profitability. A higher NPM indicates higher profitability.	($ Million)	(Nariswari & Nugraha, 2020) (Panjaitan, 2018)
ROA	ROA = net income/total assets	%	(Husna & Satria, 2019) (Kanoujiya et al., 2023)
ROE	ROE = net income/total equity	%	(Hao et al., 2022) (Ronald & Semuel, 2022) (Ayinuola & Gumel, 2023)
CIR	Cost-to-Income Ratio is the ratio of the bank's operational costs to its operational income.	%	(Kusuma & Budhidharma, 2025)
CAR	The capital adequacy ratio held by the bank is calculated as the ratio of total risk-weighted assets.	%	(Sang, 2022) (Tran, 2024)

Source: Author's processing, 2025

Data analysis includes descriptive statistical testing, hypothesis testing, and model feasibility testing using Eviews statistical tools. Chow test with criteria, model feasibility testing with stages. The General Effects Model is used if the probability value is less than 0.05, while the Fixed Effects Model is used if the probability value is less than 0.05. The Hausman test uses standards. The fixed effects model is applied if the chi-square value is less than 0.05, while the random effects model is applied if the chi-square value is greater than 0.05. The Lagrange multiplier test is based on a criterion. Random effects are applied if the probability value is less than 0.05, and general effects are applied if the probability value is greater than 0.05. The regression equation can be shown as follows to support the methodically formulated hypothesis:

$$\textbf{Competitiveness}_{it} = \beta_0 + \beta_1 NP_{it} + \beta_2 ROE_{it} + \beta_3 ROA_{it} + \beta_4 CIR_{it} + \beta_5 CAR_{it}\ \varepsilon_{it}$$

Information:

Competitiveness = Assets
NP = Net Profit
ROE = Return on Equity
ROA = Return on Assets
CIE = Cost to Income Ratio
CAR = Capital Adequacy Ratio
i = Bank Syariah Indonesia, Malaysia dan Brunei Darussalam
t = 2023-2025
β0 = Constanta
β1,2,3,4,5 = Coefisien regresi
ε = Error term

Partial Test (t-Test)

Partial test, used to determine the influence of the independent variable on the dependent variable, where if the significance value is <0.05, then there is a significant influence, but conversely, if the significance value in the partial test is >0.05, then there is no significant influence.

Simultaneous Test (F-Test)

In the F test, it is carried out to determine the simultaneous influence of the independent variables, where if the significance value is <0.05, then the independent variables simultaneously have an influence, but conversely, if the significance value is >0.05, then simultaneously there is no significant influence.

Coefficient of Determination (R2)

The coefficient of determination test (R^2) is used to determine how much the independent variable contributes to the dependent variable. If the result is closer to 1, the effect is very strong, and if the result is closer to 0, the effect is very weak. (Santoso, 2018). The formula for the R2 test is as follows:

$$R^2 \frac{ESS}{TSS} = \frac{\sum(Y_i - Y)^2}{\sum Y_1 - Y)^2}$$

Where:
ESS = Number of quadrants described
TSS = Total number of quadrants
R

Durability Test (Strongness Test)

To ensure the robustness of the empirical findings, the model was estimated using three panel-data approaches, namely the Common Effect Model (CEM), Fixed Effects Model (FEM), and Random Effects Model (REM). Although the Fixed Effects Model was selected as the preferred specification based on the Chow and Hausman tests, the CEM and REM estimations were employed as alternative specifications to evaluate the stability of the results. The robustness assessment was conducted by comparing the direction, magnitude, and statistical significance of the estimated coefficients across the three models. Consistent results across alternative specifications indicate that the findings are robust and not sensitive to the choice of panel-data estimation method.

Results and Discussion

Descriptive statistical tests determine the minimum, maximum, average, and standard deviation values. Of the 81 observational data, the Assets data produced the lowest value of 452,000, while the most significant value was 72,867,000, with an average asset value of 11,648,066. The total assets of Islamic banks in the Borneo region are quite varied; differences in asset size reflect the bank's capacity to channel funds and affect intermediation capabilities. The wide range indicates the heterogeneity of banks in the Borneo region, which is relevant for the analysis of growth and risk strategies. Net Profit has the smallest value of 35,000,000, with a maximum value of 690,000 and an average of 102,187,28. In profitability theory, net profit reflects the bank's ability to manage productive assets and income. Large variations in net profit indicate different risk management strategies and operational efficiency between banks.

Table 1

Descriptive Statistics Test Results

	ASSETS	NET_PROFIT	ROE	ROA	CIR	CAR
Mean	11648.06	102.1728	8.313580	1.001235	53.49630	23.46296
Median	5042.000	52.00000	9.800000	0.800000	48.00000	20.30000
Maximum	72867.00	690.0000	23.20000	8.900000	117.9000	65.00000
Minimum	45-2.0000	-35.00000	-80.10000	-7.200000	0.000000	14.90000
Std. Dev.	14580.78	136.4127	11.03885	1.514389	20.02128	9.091788
Skewness	2.242577	2.372144	-6.401619	0.214293	0.828285	2.476370
Kurtosis	8.757756	9.134087	52.21942	21.53851	4.300328	9.948185
Jaque-Bera	179.7807	202.9566	8729.349	1160.528	14.96838	245.7233
Prob.	0.000000	0.000000	0.000000	0.000000	0.000562	0.000000
Sum.	943493.0	8276.000	673.4000	81.10000	4333.200	1900.500
Sum. Sq.Dev.	1.70E+10	1488674.	9748.495	183.4699	32068.13	6612.849
Observation	81	81	81	81	81	81

Source: Author's processing, 2025

ROE has the lowest value of -80.10000 with the highest value of 23.20000 and an average of 8.313580. This means that in the Risk–Return Trade-Off Theory, a high ROE indicates effective management in maximizing returns on equity. Negative values in some banks reflect the risk of default or low efficiency. ROA has a minimum value of -7.2 with a maximum of 8.9 and an average of 1.001, which can be interpreted as indicating that, in the Profitability–Growth Trade-Off Theory, banks that focus on productive asset efficiency tend to hold back aggressive expansion to maintain portfolio quality and risk stability. CIR has a minimum value of 0, with a maximum value of 117.9 and an average of 53.50, which means that, based on the Operational Efficiency theory, this ratio measures the bank's ability to manage operational costs relative to income. A high CIR does not always significantly reduce total assets, because operational costs do not directly limit bank expansion. The CAR has a minimum value of 14.9, a maximum of 65, and an average of 23.46. According to the Basel Capital Regulation, a high CAR indicates a bank has adequate risk buffers to maintain stability and solvency. However, high capital does not always directly drive asset growth or profitability.

These results can be concluded that descriptively, they demonstrate the heterogeneity of banks in the Borneo region, both in terms of asset size, profitability, efficiency, and capital. This reflects the bank's capacity to manage assets, capital, and costs to improve performance and competitiveness, in accordance with financial intermediation theory, profitability trade-offs, and Basel regulations. Most importantly, the minimum and maximum values indicate outliers that require attention in risk analysis and bank development strategies in Borneo.

The results of the Chow and Hausman test in this study are as follows:

Table 2

Results of the Chow and Hausman Tests

Test	Prob.	Decision
Chow (Cross Section Chi Square)	0,0014	Fixed Effects
Hausman (Cross-Section Random)	0,0136	Fixed Effects

Source: Author's processing, 2025

Since the significance level for the Chow test is 0.0014 < 0.05? The model uses a fixed-effects model. Conversely, the probability of the Hausman test is 0.0136 < 0.05, which means that fixed

effects are also used. Since both the Chow and Hausman tests use fixed effects, this study also uses fixed effects and does not require LM.

Table 3
Fixed Effect Model Regression Model Analysis

Variable	Coeff.	Std. Error	t-Statistic	Prob.
C	2378.933	3046.444	0.780888	0.4386
NET_PROFIT	86.02871	5.354353	16.06706	0.0000
ROE	192.5003	94.57374	2.035452	0.0472
ROA	-2725.684	811.8196	-3.357500	0.0015
CIR	-5.104638	44.21541	-0.115449	0.9086
CAR	80.17291	85.52311	0.937441	0.3531
Adjusted R-squared				0.914492
F-statistik				28.59961
Prob(F-statistic)				0.000000

Source: Author's processing, 2025

Furthermore, to assess the robustness of the variables in this study, a robustness test was conducted to ensure that the regression estimation results obtained remained consistent and valid, even when using alternative model specifications, different sample sizes, and the presence of data symptoms such as outliers. The robustness test in this study used the Random Effect Model (REM) test. The use of alternative models, such as REM, to examine the stability of results is a common approach in panel data studies. Furthermore, the literature also emphasizes that Fixed Effects and Random Effects are often compared to transmit the sensitivity of estimation results and ensure that research conclusions do not depend on a single model specification.

Table 4
Random Effect Model Regression Model Analysis (Robustness Check)

Variable	Coeff.	Std. Error	t-Statistic	Prob.
C	4977.350	2232.2165	2.2297793	0.0288
NET_PROFIT	94.89017	4.239359	22.38314	0.0000
ROE	165.7276	82.780337	2.0020165	0.0489
ROA	-2563.017	684.9637967	-3.7418286	0.0004
CIR	-28.97071	31.969790	-0.9061901	0.3677
CAR	-12.20091	77.908169	-0.1566063	0.8760
Adjusted R-squared				0.892708
F-statistik				124.8048
Prob(F-statistic)				0.000000

Source: Author's processing, 2025

The Influence of Net Profit on the Competitiveness of Sharia Banks in Serumpun Countries

The results of this study indicate that net profit has a positive and statistically significant effect on the competitiveness of Islamic banks in the Kalimantan region, which includes Indonesia, Malaysia, and Brunei Darussalam. This finding suggests that profitability is not merely a result of banking operations but also a strategic resource that enables Islamic banks to expand productive assets, strengthen their intermediation function, and enhance their competitive position. From the perspective of Financial Intermediation Theory, higher profits enhance a bank's ability to mobilize and allocate funds efficiently, thereby supporting asset growth and financial stability. Similarly, the Risk-Return Tradeoff Theory implies that profitable banks have

greater discretion to undertake productive investments and growth-oriented activities while maintaining an acceptable level of risk.

This finding is consistent with previous research (Hasanatun et al., 2025; Wijayanti & Mardiana, 2020), which highlights the importance of profitability in driving asset expansion and institutional growth. However, the strength of this relationship may vary across countries. Malaysia's more mature Islamic banking ecosystem, stronger regulatory framework, and broader market penetration enable profits to be translated into asset growth more effectively than in Indonesia and Brunei Darussalam. In Indonesia, the large market potential is accompanied by intense competition and operational constraints, while Brunei's relatively smaller banking market may reduce the contribution of profitability to expansion. This difference suggests that the impact of net profit on competitiveness is influenced not only by internal financial performance but also by the institutional and market environment in which Islamic banks operate. Therefore, profitability should be viewed as a necessary but not sufficient condition for competitiveness. To maintain a long-term competitive advantage, Islamic banks must complement profitability with effective asset management, innovation, and a supportive regulatory framework. These findings contribute to the literature by demonstrating that the relationship between profitability and competitiveness in Islamic banking is context-dependent and shaped by cross-country differences in market structure and regulatory development.

The Effect of Return on Equity on the Competitiveness of Sharia Banks in Serumpun Countries

The results indicate that Return on Equity (ROE) has a positive effect on the competitiveness of Islamic banks in the Borneo region (Indonesia, Malaysia, and Brunei Darussalam). This finding suggests that the efficient utilization of shareholders' capital contributes to asset expansion and strengthens the competitive position of Islamic banks. From the perspective of Financial Intermediation Theory, a higher ROE reflects a bank's ability to allocate financial resources effectively, thereby enhancing its capacity to support financing activities and business growth. Similarly, the Risk–Return Trade-Off Theory argues that banks generating higher returns on equity are better positioned to balance profitability and risk, enabling sustainable expansion and improved market performance.

The findings are consistent with previous studies. (Mahendra & Musthofa, 2023; Nugrohowati et al., 2022), which emphasizes the importance of profitability in supporting bank growth and competitiveness. However, the positive relationship between ROE and competitiveness may vary across countries due to differences in market structure, regulatory frameworks, and the maturity of Islamic banking industries. In Malaysia, where Islamic banking is relatively well-established and supported by a comprehensive regulatory environment, high ROE may be translated more effectively into asset growth and market expansion. In contrast, Indonesian Islamic banks operate in a larger but more competitive market, while Brunei Darussalam's smaller banking sector may limit the scale at which profitability contributes to competitiveness. These differences indicate that the effectiveness of ROE in enhancing competitiveness depends not only on internal financial performance but also on external institutional conditions. This finding contributes to the literature by demonstrating that ROE serves as an important driver of competitiveness in Islamic banking, although country-specific characteristics shape its impact. Therefore, improving competitiveness requires not only

increasing profitability but also strengthening governance, capital allocation efficiency, and regulatory support to ensure that profits can be transformed into sustainable growth and market advantage.

The Effect of Return on Assets (ROA) on the Competitiveness of Sharia Banks in Serumpun Countries

The results indicate that ROA has a positive but statistically insignificant effect on the total assets of Islamic banks in the Borneo region (Indonesia, Malaysia, and Brunei Darussalam). Although the positive coefficient suggests that higher profitability derived from asset utilization tends to support asset growth, the insignificant result indicates that ROA alone is not a decisive factor in explaining differences in competitiveness across Islamic banks in the region. This finding implies that the ability to generate returns from existing assets does not necessarily translate into substantial asset expansion, particularly when banks prioritize stability and risk management over aggressive growth.

From the perspective of the Profitability–Growth Trade-Off Theory, Islamic banks may focus on maximizing returns from existing assets rather than pursuing rapid expansion that could increase operational costs and risk exposure. (Bertay & Huizinga, 2019; Gaber, 2018; Gupta & Mahakud, 2020). Similarly, Financial Intermediation Theory suggests that efficient fund allocation and financial stability may be more important than asset accumulation itself. The insignificant relationship may also reflect differences in banking environments across countries. Malaysia's mature Islamic banking industry provides greater opportunities to convert profitability into growth, whereas Indonesian Islamic banks face stronger competition and market fragmentation. In Brunei Darussalam, the relatively small size of the banking sector may limit the extent to which profitability contributes to asset expansion. These findings are consistent with previous studies. (Bertay & Huizinga, 2019; Nguyen, 2023), which argues that larger banks often experience lower ROA due to diseconomies of scale and increasing organizational complexity (Jahan & Islam, 2017). Therefore, the contribution of this study lies in demonstrating that profitability efficiency, as measured by ROA, does not automatically enhance competitiveness in Islamic banking. Instead, the relationship appears to depend on institutional conditions, market structure, and strategic decisions regarding growth and risk management. This evidence suggests that policymakers and bank managers should focus not only on improving profitability but also on strengthening operational quality, financing efficiency, and sustainable growth strategies.

The Effect of Cost-Income Ratio (CIR) on the Competitiveness of Sharia Banks in Serumpun Countries

The results indicate that the Cost-to-Income Ratio (CIR) has a negative but statistically insignificant effect on the total assets of Islamic banks in the Borneo region (Indonesia, Malaysia, and Brunei Darussalam). While the negative coefficient suggests that higher operating costs relative to income tend to reduce asset growth, the insignificant result implies that operational efficiency alone is insufficient to explain differences in competitiveness across Islamic banks. This finding indicates that asset expansion is likely influenced by a broader set of factors, including market opportunities, regulatory conditions, financing demand, and institutional strategies. From the perspective of Financial Intermediation Theory, operational efficiency supports the effective allocation of financial resources. Still, it does not automatically translate into asset growth when banks prioritize stability and prudent risk management. Similarly, the Basel

regulatory framework emphasizes resilience and sustainability rather than rapid expansion, which may explain why cost efficiency does not directly affect competitiveness. The Risk–Return Trade-Off Theory further suggests that banks facing higher operational costs may adopt more conservative growth strategies to maintain financial stability, thereby weakening the direct relationship between CIR and asset expansion.

The insignificant effect of CIR may also reflect differences in the Islamic banking environments of the three countries. Malaysian Islamic banks generally benefit from more advanced digital infrastructure and economies of scale, allowing them to absorb operational costs more efficiently. In contrast, Indonesian Islamic banks operate in a larger and more fragmented market, where expansion costs are relatively higher. Meanwhile, Brunei Darussalam's smaller banking sector may limit the impact of operational efficiency on asset growth. These differences suggest that the relationship between CIR and competitiveness is highly context-dependent and influenced by country-specific institutional conditions. Consistent with previous studies (Al-sharkas & Al-sharkas, 2022; Antwi, 2019; Ayinuola & Gumel, 2023; du Toit & Cuba, 2018; Isnurhadi et al., 2023)The findings indicate that cost efficiency remains important for profitability and operational performance, but is not a primary determinant of competitiveness as measured by total assets. Therefore, Islamic banks should focus not only on controlling operational costs but also on enhancing technological innovation, financing quality, and strategic growth initiatives to strengthen long-term competitiveness.

The Effect of Capital Adequacy Ratio (CAR) on the Competitiveness of Sharia Banks in Serumpun Countries

The results indicate that the Capital Adequacy Ratio (CAR) has a negative but statistically insignificant effect on the total assets of Islamic banks in Indonesia, Malaysia, and Brunei Darussalam. Although the negative coefficient suggests that higher capital adequacy is associated with lower asset growth, the insignificant relationship indicates that CAR is not a primary determinant of competitiveness as measured by total assets. This finding implies that maintaining higher capital reserves does not necessarily translate into asset expansion, particularly when banks prioritize financial stability and regulatory compliance over aggressive growth strategies.

The findings are consistent with previous studies. (Nguyen, 2023; Olalekan & Adetinka, 2021; Silaban, 2017), which argues that the impact of CAR on bank performance is often indirect and dependent on institutional and market conditions. In Islamic banking, capital serves primarily as a buffer against risk rather than a direct source of growth. Consequently, banks with higher CAR may allocate resources more conservatively to preserve solvency and comply with prudential regulations. This interpretation is further supported by studies showing that factors such as financing quality, operational efficiency, and bank size often play a more substantial role in determining performance and competitiveness than capital adequacy alone. (Jha & Agrawal, 2022; Madugu et al., 2020). The insignificant effect of CAR may also reflect differences across the three countries. Malaysia's mature Islamic banking sector benefits from a well-developed regulatory framework and diversified financing instruments, enabling banks to maintain adequate capital while continuing to expand assets. In Indonesia, Islamic banks face stronger competition and varying operational capacities, which may weaken the direct contribution of capital adequacy to growth. Meanwhile, Brunei Darussalam's relatively small banking market

limits opportunities for large-scale asset expansion, regardless of capital strength. These differences suggest that the relationship between CAR and competitiveness is shaped by country-specific institutional environments rather than capital levels alone. This study contributes to the literature by demonstrating that capital adequacy functions more as a mechanism for maintaining resilience and long-term sustainability than as a direct driver of competitiveness in Islamic banking. Therefore, policymakers and bank managers should complement capital strengthening strategies with improvements in financing effectiveness, operational efficiency, and market development to enhance sustainable competitiveness.

Conclusion

The results indicate that profitability, represented by Net Profit and ROE, significantly enhances the competitiveness and asset growth of Islamic banks in the Borneo region (Indonesia, Malaysia, and Brunei Darussalam). Higher profitability and efficient capital utilization strengthen banks' ability to expand productive assets, improve financial intermediation, and enhance their competitive position. These findings support Financial Intermediation Theory, Risk–Return Trade-Off Theory, and Basel regulatory principles, highlighting profitability as a key driver of sustainable growth in Islamic banking. In contrast, ROA, CIR, and CAR exhibit positive or negative but statistically insignificant effects, suggesting that asset utilization efficiency, operational cost management, and capital adequacy contribute more to institutional stability and risk mitigation than to direct asset expansion.

This study contributes to the literature by providing cross-country evidence that profitability remains the most important determinant of Islamic banking competitiveness in the Borneo region. However, the findings also suggest that differences in regulatory environments, market structures, and institutional development across countries shape competitiveness. The study is limited by its regional focus and the exclusion of several potential determinants, such as digital transformation, financing quality, and macroeconomic conditions. Future research should expand the geographical scope and incorporate additional variables to better capture the multidimensional nature of Islamic banking competitiveness. From a practical perspective, regulators should strengthen policies that support profitability while maintaining financial stability, including improving regulatory harmonization, promoting digital financial innovation, and enhancing the efficiency of Islamic banking operations across jurisdictions. For Islamic bank managers, the findings highlight the importance of optimizing productive asset allocation, improving financing quality, strengthening risk management practices, and leveraging digital technologies to enhance operational performance. By combining profitability-oriented strategies with prudent risk management, Islamic banks can strengthen their long-term competitiveness and resilience in an increasingly integrated regional financial market.

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Author Contributions Statement

NS contributed to conceptualization, methodology, investigation, data curation, and writing the original draft; LS contributed to supervision, validation, and writing the review and editing; and MZ and AR contributed to investigation, resources, and writing and editing. All authors of this study have read and approved the final version of the manuscript.

Conflict of Interest

The authors state that in this research, there is no conflict of interest, as we conducted this research independently without any financial relationship or anything that could influence the final process of this research.

AI Usage Statement

The authors acknowledge that in this study, the use of artificial intelligence (AI) tools is strictly limited to supporting functions, such as language editing, grammar checking, and improving the clarity and limitations of the manuscript. We did not use AI to generate research ideas, analyze data, or draw conclusions. All processes and flows of this research were carried out solely by the authors. Therefore, the authors certify the authenticity and accuracy of the information presented in this study, and the use of AI complies with ethical standards in academic publications.

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