Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3, 2413-2434
2025
Publisher: Learning Gate
DOI: 10.55214/25768484.v9i3.5815

Optimizing sharia banking business Units financial performance through effective risk management

Sofyan Halim[1]*
[1]Faculty of Economics & Business, Mercu Buana University, Indonesia; sofyan.halim@mercubuana.ac.id (S.H.).
[1]Postgraduate of Doctoral Economic Sharia of Ibnu Khaldun University, Bogor, Indonesia; sofyanhalim@uika-bogor.ac.id (S.H.).

Abstract: This study aims to conduct research on the impact of financial arrangements, operational costs, and risk management practices as intervening factors on financial performance in Sharia Banking Business Units in Indonesia. This study explores the complex relationship between the financing framework and operational efficiency over operational investment. Additionally, this study examines the relationship between risk management practices and financial results. This research contributes substantively to the development of Islamic finance. The integration of Non-Performing Financing variables and the duration of the research, which spans from 2014 to 2024, provides strategic insights and enriches the depth of analysis. The distinguishing feature of this study is its concentrated focus on Sharia Banking Business Units and risk management variables as intervening factors, facilitating a comprehensive analysis. This study employs multiple linear regression analysis to assess the effect of risk management mediation on the relationship between operational efficiency and financial performance. The results of the study highlight the importance of operational efficiency and risk management in improving financial performance. Empirical evidence corroborates a significant correlation between financing strategies and the relationship between operational efficiency, risk management, and financial outcomes. Furthermore, this study supports a theoretical framework that interconnects these variables, ensuring that the results of the analysis have direct and indirect implications for risk management variables as intervening factors, while offering significant insights for policymakers and practitioners involved in the domain of Sharia Banking Business Units.

Keywords: *Financing, Operational cost, Return on assets, Risk management, Sharia business unit.*

1. Introduction

1.1. Background

One of the primary operational functions of banks, including Sharia Banks Business Units, which are mandated By Law Number 9 of 1998 concerning Banking [1] in accordance with Banking Law and Law Number 21 of 2008 concerning Sharia Banking [2] on Islamic Banking, Sharia Banks, and Sharia Business Units are recognized as financial intermediary institutions. Their primary objective is to stimulate economic growth, in compliance with Sharia tenets, by mobilizing public funds and extending financing. Sharia Banks' operations involve collecting funds through various deposit channels and also savings accounts and channeling financing to promote community economic activities.

Specifically, the business activities of Sharia Business Units are governed by Law Number 21 of 2008 concerning Sharia Banking [2] specifically Article 19(2). These activities include:

1) Fundraising Activities: Sharia Business Units collect funds through deposits and investments based on sharia contracts. This involves mechanisms such as Wadi'ah (safekeeping) and Mudharaba (profit-sharing) contracts.

History: Received: 20 January 2025; Revised: 18 March 2025; Accepted: 22 March 2025; Published: 27 March 2025
* Correspondence: sofyan.halim@mercubuana.ac.id

2) Investment Instruments: Funds are raised using deposit and investment instruments that strictly adhere to sharia principles.
3) Financing Activities: Sharia Business Units implement various financing contracts, including Mudharaba (profit-sharing), Musyaraka (partnership), Murabaha (cost-plus financing), Salam (forward sale), Istishna' (manufacturing contract), and Qardh (benevolent loan). These financing activities embody principles of fairness and transparency.
4) Debt Management and Services: Sharia Business Units manage debt through the Hawalah (debt transfer) agreement and offer services such as debit cards and sharia-compliant financing. All debt management and card-related services comply with sharia principles.
5) Sharia Securities Transactions: These transactions adhere to sharia principles, emphasizing justice and honesty. The management of sharia securities is conducted in compliance with both sharia principles and applicable regulations.
6) Custody and Transfer Services: Sharia Business Units provide services for the safekeeping, transfer, and management of guarantees based on principles of sharia justice and honesty.
7) Social and Other Banking Activities: In addition to banking activities, Sharia Business Units also engage in social initiatives as part of their commitment to sharia principles and legal compliance.

Indonesia's Islamic banking industry growth is exemplified by the rapid development of Sharia Business Units. Table 1 demonstrates the consistent operational expansion of Sharia Business Units, based on OJK's data analysis

Table 1.
Growth of Sharia Business Unit / *Islamic Business Unit.*

Indicators		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
-	Total Assets (in billion IDR)	67.383	82.839	102.320	136.154	160.636	174.200	196.875	234.947	250.240	274.277
-	Banks with Sharia-compliant business units	22	22	21	21	20	20	20	21	20	20
-	Jumlah Kantor UUS / Number of Offices	320	311	332	344	354	381	392	444	438	426
-	KC / *Branch Offices*	138	138	149	154	153	160	162	178r	180	190
	KCP / *Sub Branch Offices*	140	129	135	139	146	159	169	201	200	236
-	KK / *Cash Offices*	42	44	48	51	55	62	61	66	58	-
-	ATMs / *ATMs /ADMs*	132	145	132	143	171	176	182	218	200	165
-	Number *of Employees*	4.425	4.403	4.487	4.678	4.955	5.186	5.326	5.590	5.590	5.590

Empirical data serves as the foundation for analyzing the determinants of Sharia Business Units' growth. This study employs an analytical approach to explore the interactions between variables that influence the performance and growth of Sharia Business Units.

The Financing to Deposit Ratio (FDR) is a key indicator of Islamic banking performance. The FDR ratio serves as an indicator of a financial institution's proficiency in liquidity management and risk mitigation. Analyzing FDR is crucial for assessing the stability and long-term viability of Islamic banks. As a liquidity measure, FDR assesses a bank's ability to meet its short-term and long-term financial commitments. According to the research conducted by Andrianto and Firmansyah [3] as referenced by Halim and Buana [4] liquidity is characterized as a bank's capacity to satisfy funding requirements and convert assets into liquid cash. Liquidity ratios are pivotal indicators utilized in the evaluation of a bank's stability and sustainability. The liquidity performance of a bank may be appraised through the examination of the ratio of financing to funds acquired. The Sharia Banking Law No. 21 of 2008, Article 25, delineates financing as the allocation of funds via sharia-compliant transactions. Sharia financing encompasses a variety of transactions, including Mudharaba (profit-sharing), Musyaraka (partnership), Ijara (leasing), Murabaha (cost-plus financing), and Qard (benevolent loan). Concurrently, the funds

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

acquired by banks consist of current accounts, time deposits, savings, and loans from other banking institutions, procured through an array of liquidity and deposit instruments.

This investigation operationalizes financing via the Financing to Deposit Ratio (FDR) serves as a metric for assessing a bank's ability to fund its operational activities. Somantri and Sukmana [5] conducted an empirical investigation into the determinants of FDR within Sharia Commercial Banks, Highlighting key performance indicators, including DPK (Third-Party Funds), ROA (Return on Assets), and NPF (Non-Performing Financing), and inflation exert significant influence on FDR. These conclusions lend credence to financial theories and offer valuable insights for policymakers within the Islamic banking sector. Conversely, the research conducted by Halim and Buana [4] revealed that FDR does not exert a significant impact on profitability within Indonesian Sharia Banks, contrary to antecedent theoretical perspectives. These results emphasize the importance of effective risk management and profitability planning for policymakers. Another study identified a positive and significant correlation between Return on Asset and the Loan-to-Deposit Ratio (LDR) indicating that LDR plays a role in shaping the financial performance of Islamic banking institutions.

Operational expenditures, evaluated through The Operational Cost on Operating Income (OCOI) ratio is an additional factor that influences the performance of Islamic banking. OCOI evaluates operational efficiency and functions as a principal indicator of operational risk. Operational costs are influenced by a combination of internal factors, including personnel and processes, and external factors, such as market conditions. Andrianto and Firmansyah [3] underscores the significance of scrutinizing operational risks, which are categorized into human, process, system, and external risks.

The OCOI ratio is instrumental in evaluating the efficiency of resource allocation and represents a critical metric in financial performance and risk management. Research has indicated that FDR mediates the correlation between OCOI and profitability in Islamic banks, suggesting that proficient fund management can enhance financial performance. Another[7] investigation established a negative association between OCOI and ROA, highlighting the necessity of managing operational costs to bolster profitability.

Empirical data supports the theory that strong financial performance increases asset value. The growth of Sharia Business Unit assets from 2014 to 2023 serves as a reliable indicator of financial performance. According to Andrianto and Firmansyah [3] profitability is a key measure of a bank's health, and sustained operational losses can threaten stability. Based on the Research, emphasizing the importance of profitability in assessing the health of banks, the analysis of banks' financial performance must consider the ability to create profits. Ongoing operational losses can affect bank stability. The assessment is based on the profitability or earning of a bank, which is to look at the ability of a bank to create profits.

Empirical analysis has shown a significant relationship between financing structures and Sharia Business Unit performance. Sharia financing is structured through various contracts, including Mudharaba, Musyaraka, Murabaha, Istisna, and Ijara, while deposits are sourced through Mudharaba and Wadi'ah contracts. Analyzing the financing structure allows researchers to evaluate the bank's profitability and efficiency. Additionally, analyzing operational costs through programs like OPEX can provide insights into the performance of Sharia Business Units.

Halim and Buana [4] research found that Net Operating Income positively impacts bank performance, emphasizing the importance of operational cost management. Other studies of Lidyah, et al. [6]. On the Research on Indonesian Sharia commercial banks indicates significant relationships between performance and profit-sharing financing, FDR, NPF, OCOI, and CAR.

The efficacy of Indonesian Sharia Commercial Banks, as delineated by ancillary studies Elena and Nurwahidin [7] has scrutinized the correlation between financial variables and the operational performance of Sharia Commercial Banks, revealing that profit-sharing financing, FDR, NPF, OCOI, and CAR exert a statistically significant impact on banking performance. This revelation bears consequential implications for Islamic banking policymakers aiming to enhance financial efficacy.

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

Referring to study of Halim and Buana [4] also analyzes Risk Management, using Non-Performing Financing (NPF) as a proxy. NPF refers to financing risks arising when customers fail to meet payment obligations. Factors such as financing concentration and credit risk affect NPF. Managing financing risk is crucial for maintaining financial stability.

Regulation of the Financial Services Authority (OJK) Number 15/PJOK.03/2017, establishes a threshold NPF ratio of 5% as a standard for assessing bank viability. The OJK systematically oversees banks exhibiting elevated NPF ratios to avert potential financial crises, instituting intensified supervision when deemed necessary.

Empirical investigations on Halim and Buana [4] research have yielded disparate outcomes concerning the influence of NPF on financial performance. Certain studies have identified an absence of significant effects, while others have articulated a noteworthy correlation among NPF, risk management, and financial performance. These observations underscore the intricate nature Factors influencing the financial performance of Islamic banks.

1.2. Statement of the Problem

Based on the contextual framework presented, this research endeavor is formulated to scrutinize the operational efficacy of Sharia Bank Business Units by concentrating on the subsequent dimensions:

1) The Influence of Financing Structure on Funding and its Impact on Risk Management, this examination aspires to elucidate the manner in which diverse financing structures exert influence Analyzing risk management procedures in Sharia-based bank business units.
2) The examination of the impact of Operating Costs on Operating Income (OCOI) in relation to Risk Management seeks to elucidate the linkage between operational efficiency, as measured by OCOI, and its implications for the governance of operational risks.
3) The assessment of the Influence of Financing Structure on Funding and its implications for Financial Performance assesses the impact of financing structure on Sharia Bank Business Units' financial metrics.
4) The inquiry into the Effect of Operating Costs on Operating Income (OCOI) concerning Financial Performance investigates the degree to which the efficiency of operational costs influences the financial performance outcomes of Sharia Bank Business Units.
5) The analysis of the Effect of Risk Management on the Health and Financial Performance of UUS delves into the critical role of risk management in upholding the sustainability and overall financial robustness of Sharia Bank Business Units.
6) This study assesses the impact of financing structure on funding and financial performance, exploring the mediating role of risk management.
7) The research explores the role of risk management in moderating the relationship between OCOI and financial performance, shedding light on the interplay between operational efficiency and financial success.

1.3. Aim and Objectives

The primary objective of this research is to test three hypotheses regarding the relationships between financing structure, operational costs, risk management, and financial performance, including the mediating effect of risk management. This design provides comprehensive insights into how financial variables interact to influence the performance of SBUs and offers a basis for formulating strategies to enhance their effectiveness.

2. Literature Review

2.1. Previous Research and Novelty or Novelty of Research

The current study builds upon previous research in Sharia banking and finance by integrating variables related to Financing Structure on Funding (proxies by FDR), Operational Costs (proxies by OCOI, and Risk Management (proxies by NPF), and examining their influence on Financial

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

Performance (proxies by ROA) in Sharia Business Units (UUS) over a long research period (June 2014–September 2024). This approach provides both depth and breadth in understanding the dynamics of Sharia Business Units while addressing gaps and extending existing knowledge.

The contributions of previous research and their relevance to this study include the work of Halim and Buana [4] Researchers examined the impact of NPF, operational costs, FDR, and Net Operating Margin on ROA in Islamic commercial banks, revealing that Net Operating Margin significantly affects ROA, thus underscoring the criticality of managing operating margins for financial performance. The relevance of this study highlights the key drivers of financial performance, particularly the influence of operational efficiency and risk metrics such as NPF.

Somantri and Sukmana [5] Analyzed factors affecting FDR in Sharia Commercial Banks, finding significant relationships between DPK, ROA, NPF, and inflation with FDR, Relevance: Strengthens the understanding of the determinants of financing structures and funding in Sharia banks. Lidyah, et al. [6] Explored FDR as a mediating variable between financing, NPF, OCOI, and profitability in Sharia banks, Relevance: Introduced FDR as a key variable in financial performance mediation, which aligns with the current study's focus.

Rachmawati and Marwansyah [8] An examination was conducted on the influence of inflation, BI rate, CAR, NPL, and OCOI on ROA in state-controlled banks, discovering a significant negative correlation between OCOI and ROA. The relevance of this finding illustrates the inverse relationship between operational expenditures and profitability, a central theme within the current research.

Suardana, et al. [9] Research indicates CAR, LDR, NIM, and OCOI are key determinants of ROA and profit variability in banking institutions. Relevance: Confirms OCOI's significant impact on bank performance, supporting its use as a variable in this study. Elena and Nurwahidin [7] Found that financial variables like FDR, NPF, OCOI, and CAR explain 97.15% of the variation in ROA in Sharia Commercial Banks, Relevance: Reinforces the integration of FDR, NPF, and OCOI as critical variables in understanding ROA.

Hafilah and Mahardika [10] Identified the effects of OCOI, FDR, and CAR on NPF, emphasizing financing risk management. Relevance: Underlines the importance of operational and financing variables in managing risks, directly linked to the current study's objectives.

Current Research Distinction are Focus on Sharia Business Units (UUS), Unlike previous studies that primarily examined Sharia Commercial Banks (BUS), this research centers on UUS, providing unique insights into the operations and risk management of these entities; Integration of Risk Management and Financial Performance, By using NPF as a proxy for Risk Management, the study bridges the gap between operational costs, financing structure, and their impact on financial performance; Longitudinal Scope (2014–2024), The extended research period allows for an in-depth analysis of trends and changes in financial performance, operational efficiency, and risk management in Sharia Business Units. ; Empirical Contributions, Provides a strategic perspective on the role of financing structures and operational costs in shaping financial performance, and Advances knowledge in Islamic finance and banking, particularly the relationship between operational efficiency, financing risk, and profitability.

Research Objectives are Analyze the influence of Financing Structure on Funding (FDR) on Risk Management (NPF); This study examines the link between risk management (NPF) and financial performance (ROA) in Islamic banking business units.; Investigate the mediating role of Risk Management (NPF) between Financing Structure (FDR) and Financial Performance (ROA), also Operational Costs on Operating Income (OCOI) and Financial Performance (ROA).

This study expands on previous research by offering an integrative framework to assess the interplay between financing structures, operational efficiency, risk management, and financial performance in Sharia Business Units, this research offers seminal contributions to Islamic finance literature, informing scholarly discourse and professional practice.

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

2.2. Conceptual Framework

As explained, the outline of the thinking in this research study is:

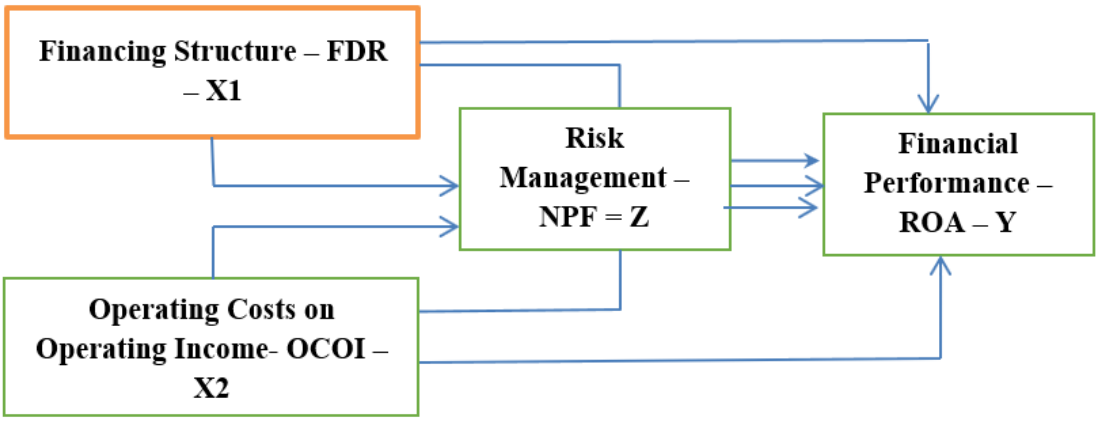

Figure 1.
Thought Framework.

The hypothesis of the thought structure in Figure 1 above are:

H_1: Financing Structure for Funding affects Risk Management in Sharia Business Units.

H_2: Operating Costs to Operating Income (OCOI) affects Risk Management in Sharia Business Units.

H_3: Financing Structure for Funding affects Financial Performance in Sharia Business Units.

H_4: OCOI affects Financial Performance in Sharia Business Units.

H_5: Risk Management affects Financial Performance in Sharia Business Units.

H_6: Financing structure indirectly influences financial performance through risk management in Sharia Business Units."

H_7: Operational costs (OCOI) indirectly impact financial performance, mediated by risk management in Sharia Business Units.

2.3. Intervariable Hypothesis

2.3.1. Hypothesis of the Influence of Financing Structure on Funding on Risk Management in Sharia Business Units

In the research of Lidyah, et al. [6] stated that FDR or financing structure for funding is affected simultaneously or partially with other X variables on ROA in Sharia Commercial Banks, where the ROA is the financial performance of Sharia Banks. Meanwhile, in the research of Halim and Buana [4] the results were obtained that FDR had no effect on the Financial Performance of Sharia Commercial Banks with ROA proxies. so, in the study a hypothesis was developed.

H_1: Financing Structure for Funding Affects Risk Management in Sharia Business Units.

2.3.2. Hypothesis of Assessing the Impact of Operational Costs (OCOI) on Risk Management Effectiveness in Sharia Business Units

In the research of Halim and Buana [4] stated that Operating Costs or Operating Income (OCOI) have a negative effect on the Financial Performance of Sharia Commercial Banks. Meanwhile, in the Elena and Nurwahidin [7] research, the results of their research stated that Financial Performance in Sharia Commercial Banks was influenced simultaneously or partially by Operational Cost on Operational Income (OCOI), meaning that both studies produced the same.

In connection with this the hypothesis formulated is:

H_2: OCOI affects Risk Management in Sharia Business Units.

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

2.3.3. Hypothesis of the Influence of Financing Structure on Funding on Financial Performance of Sharia Business Units

In the research of Lidyah, et al. [6] stated in the conclusion of his research, that NPF has a negative effect on revenue, where this income is part of the assessment of the financial performance of Sharia Commercial Banks. Meanwhile, in research Elena and Nurwahidin [7] concluded that NPF has a simultaneous or partial effect on ROA where the ROA is part of the Financial Performance of Sharia Commercial Banks. Meanwhile, in other studies4, the conclusion states that NPF does not have a significant effect on Financial Performance with ROA proxies in Sharia Commercial Banks.

Based on this, the hypothesis that is constructed is:

H_3 Financing Structure for Funding affects the Performance of Finance on Sharia Business Units.

2.3.4. Hypothesis of the Influence of OCOI on the Performance Finance on Sharia Business Units

The next hypothesis in terms of Risk Management as an intervening variable is one that refers to the research of Lidyah, et al. [6] where it was concluded that FDR was not affected by NPF. However, according to Suardana, et al. [9] that Operating Expenses Operating Income (OCOI) has a negative effect on Profit Changes. so, in the study a hypothesis was developed.

H_4 OCOI affects Financial Performance in Sharia Business Units.

2.3.5. Hypothesis of the Risk Management's Impact on Financial Performance in Sharia Banking: A Hypothetical Framework

This hypothesis builds on Lidyah, et al. [6] findings indicating NPF's impact on revenue and ROA.

So that the hypothesis built in this research study is:

H_5 A significant correlation exists between risk management (NPF) and financial performance (ROA) in Sharia-compliant business units.

2.3.6. Hypothesis of the Influence of Financing Structure on Funding on the Performance of Finance with the Management of Risk an Intervening Variable in Sharia Business Units

Next, the hypothesis of this study is related to the OCOI variable as the X2 variable on the Risk Management Variable and Risk Management as an Intervention on Financial Performance in Sharia Business Units. As well as referring to Hafilah and Mahardika [10] concluded that OCOI has a positive influence on NPF both simultaneously and partially.

In connection with this, the hypothesis built in this study is:

H_6 Financing Structure for Funding affects Financial Performance through the Management of Risk as an intervening variable in Sharia Business Units.

2.3.7. Hypothesis of the Influence of OCOI on Financial Performance with Variable Intevenning of Risk Management in Sharia Business Units

The last hypothesis about the relationship between OCOI through intervening Risk Management with NPF proxies as an intervening variable on the performance of Sharia Commercial Banks refers to the research of Halim and Buana [4] and the research of Lidyah, et al. [6] concluded in their research that OCOI and NPF affect the Financial Performance of Sharia Commercial Banks in Indonesia, and this hypothesis connects OCOI, NPF, and ROA to evaluate indirect effects. So, the hypothesis that can be formulated is:

H_7 OCOI affects Financial Performance through The Management of Risk as an intervening variable in Sharia Business Units.

3. Method and Procedure

3.1. Design

This quantitative study examines the relationship between financial variables and the performance

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

of Sharia Business Units, taking into account the impact of financing structure, operational costs, and risk management, with a focus on the intervening role of risk management.

3.1.1. Research Design and Approach

3.1.1.1. Quantitative Approach

Numerical data is collected and analyzed to test hypotheses and explore causal relationships among variables. This design facilitates the identification of the influence of independent variables (e.g., financing structure and operational costs) on the dependent variable (financial performance), with risk management serving as a mediating factor.

3.1.1.2. Causal Research Design

The causal research framework is utilized to determine how financing structure and operational costs affect financial performance directly and indirectly through risk management. This study also conducts a casual relationship approach, namely conducting a causal relationship analysis, a causal relationship is a formulation of a research problem that asks about the relationship between two or more variables which is stated as a causal relationship between independent variables (which affect) and dependent variables (influenced), Sugiyono [11]. In this study, the researcher conducted a hypothesis analysis whether there is an influence of the Financing Structure on Funding, Operational Costs on Operating Income on the Performance of Sharia Business Units with Risk Management Intervention.

3.1.1.3. Descriptive Analysis

Descriptive analysis is employed to identify patterns and relationships among variables, including financing structure, operational costs, risk management, and financial performance.

3.1.1.4. Research Period

The study spans the years 2014 to 2024, enabling a longitudinal analysis to observe financial trends and their impact on the performance of SBUs over time.

3.2. Population and Sample

The entire population of Sharia Banking Business Unit in the 2023 period there are 20 SBBU entities (see table 1 above), so in this study the sample taken is the entire population mentioned above.

The population consisted of 20 Sharia Business Units operationally supervised by the Financial Services Authority

3.3. Scale and Variable Operational Measurement

The research involves the following variables:

1. Independent Variables:
- Financing Structure for Funding: Represents the allocation and composition of financing used by Sharia Business Units.
- Operating Cost Efficiency: Measures the effectiveness of operational expenses in relation to operating income generate.

2. Dependent Variable:
- Performance of Finance: Measures the financial outcomes and profitability of Sharia Business Units, indicating their overall financial health.

3. Intervening Variable:
- Risk Management: Risk management plays a mediating role in shaping the relationship between financing structure, operating costs, and financial performance.

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

This framework allows the study to evaluate direct and indirect effects among these variables, with a particular focus on how risk management moderates the impact of financing structure and operating costs on financial performance.

3.3.1. Variable Dependent

This research evaluates the financial performance of Sharia Business Units within conventional banks, utilizing Return on Assets (ROA) as a performance metric from June 2014 to September 2024.

In the previous study on Halim and Buana [4] The performance of Sharia commercial banks, denoted by variable Y, is proxied by the Return on Assets (ROA) metric.

The formula used is:

$$ROA = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \text{ X } 100\%$$

3.3.2. Variable Independent

An independent variable, typically denoted as X, is a variable that influences one or more dependent variables, the explanatory variable, drives variations in Y

3.3.2.1. Financing of Funding

The ratio of financing provided to deposits received, known as the Financing to Deposit Ratio (FDR) is used as a proxy for financing funding in this research, where this ratio is a comparison of the amount of financing which includes financing with Mudharaba contracts, Musyaraka contracts, Murabaha contracts, istishna contracts, Ijara contracts and other contracts compared to the amount of funding consisting of funding from the community, both deposits, savings and current accounts, with Mudharaba contracts and wadi'ah contracts, and this variable is notated as the X_1 variate, in the previous study Halim and Buana [4] formulas used were:

$$FDR = \frac{\text{Total Financing Amount}}{\text{Community Funding}} 100\%$$

The formula used in this study is also the same as the formula above, and will be analyzed as part of an independent variable.

3.3.2.2. Operating Costs to Operating Revenue

The Operating Cost Variable is noted as an X_2 variable, with the proxy used being the Operating Cost to Operating Income. According to Andrianto and Firmansyah [3] the Operating Cost Ratio (OCR) measures the proportion of Operating Costs to Operating Income.

$$OCOI = \frac{\text{OPEX (Operational Expenditures)}}{\text{Operating Income}} \text{ x } 100\%$$

The formula used has been used in the previous research Halim and Buana [4] which is also utilized in this research, but the object of research is the Sharia Business Unit.

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

3.3.3. Variable Intervening

This variable is a variable between the one that mediates the Dependent variable and Independent that is notified as the Z variable. The parameters used are Risk Management with Non Performance Loan proxies.

The Non-Performing Financing (NPF) ratio indicates the proportion of loans that are not generating income to total loans outstanding, encompassing Less Current, Doubtful, and Non-Performing Financing.

The Gross NPF Formula is as follows:

$$\text{NPF Gross} = \frac{\text{Credits awarded with collectability 3 to 5}}{\text{Total Financing Provided}} \times 100\%$$

The NPF Net analysis considers the reduction of PPAP from non-performing loans, with the NPF Net formulation being as follows:

$$\text{NPF-Net} = \frac{\text{Credits awarded with collectability 3 to 5} - \text{PPAP with collectability 3 to 5}}{\text{Total Financing Provided}} \times 100\%$$

The formula used in this study is NPF-Net, and this formula was also used in previous studies[4].

4. Method of Data Analysis

The research utilizes numerical quantitative data, with EPS facilitating data analysis.

4.1. Hypothesis Test

4.1.1. Multiple Linear Regression Analysis

This study analyzes the impact of Tax Aggressiveness, Thin Capital, Company Value, and Financial Performance on Stock Price Changes using multiple linear regression

Regression Test 1:

$Y = \alpha + \beta 1X1 + \beta 2X2 + e$ Where:

Y = Performance – Sharia Business Unit

$\alpha = \beta 1 - 3$ = Regression Coefficient

X1 = Financing Structure on Funding

X2 = Operational Costs

e = error standard

Regression Test 2:

$Y = \alpha + \beta 1X1 + \beta Z + e$

Where: Y = Performance – Sharia Business Unit

$\alpha = \beta$ constant = Regression coefficient

X1 = Financing Structure on Funding

Z = Risk Management

e = standard error

Regression Test 3

$Y = \alpha + \beta 2X2 + \beta Z + e$

Where: Y = Performance – Business Unit of Sharia

α = Constant

β = Regression Coefficient
X2 = Operational Cost
Z = Risk Management
e = standard error

4.1.2. Partial Significance Test (Statistical Test t)

1) Significance Test

This test uses a 0.05 significance level. If the T-test significance value exceeds 0.05, H0 is accepted, indicating no significant influence. Conversely, if the value is below 0.05, Ha is accepted, indicating significant influence.

1) t-test

The t-test is used to determine the partial effect of the independent variable on the dependent variable by comparing the calculated t-value with the t-table value.

4.1.3. Determination Coefficient Test

The model's explanatory power for dependent variable variation is assessed using the coefficient of determination (R_2).

5. Results and Discussion

This study employed descriptive and inferential statistics, complemented by intervening regression analysis, to examine the relationships between Financing Structure. Risk Management acts as a moderating variable, influencing the relationships between variables.

5.1. Results of Intervening Regression Analysis: Hypothesis Testing

This research investigates the impact of financing structure and operational costs on risk management and financial performance using a two-stage analytical framework. This study utilized a sequential regression approach to investigate the effects of financing structure on risk management and financial outcomes, operational costs and risk management on financial performance.

5.1.1. Examining the Hypothesis: The Impact of Financing Structure and Operating Costs on Operating Income and Risk Management (Sub Structure 1)

The hypothesis of this research examines how financing structure (X_1) and operational costs (X_2) affect risk management (Z), The analysis demonstrated a mediating effect of Z on the relationships between X_1, X_2, and the outcome variable.

Table 2.
The Effect of Financing Structure on Funding (X_1) and Operating Costs on Operating Income (X_2) on Risk Management (Z).

Coefficients									
		Unstandardized Coefficients		Standardized Coefficients			Correlations		
Type		B	Std. Error	Beta	t	Sig.	Zero-order	Partial	Part
1	(Constant)	-0.646	0.992		-0.651	0.517			
	FDR	0.036	0.007	0.418	4.831	0.000	0.387	0.408	0.407
	OCOI	-0.018	0.011	-0.140	-1.619	0.108	-0.047	-0.148	-0.136
R2		0.168							

Note: a. Dependent Variable: NPF.

The analysis reveals that X1 and X2 variables explain 16.8% of the variance in Z variable. Approximately 83.2% of the variance in Risk Management (Z) remained unexplained by the independent variable. The regression results indicate a significant positive relationship between

Financing Structure and Risk Management, with a coefficient value of 0.036. The study finds a positive correlation between Financing Structure and Risk Management, but a negative correlation between Operating Costs to Operating Income and Risk Management, with coefficients of 0.036 and -0.018, respectively.

The regression equations that are helped from the first substructure are:

$$Z = -0.646 + 0.036X1 - 0.018X_2 + \square_1$$

Further analysis, including significance testing and variance analysis, is performed to validate the effect of Financing Structure on Risk Management, then the Financing Structure on Funding (X_1) Given the significant impact of Operating Costs on Operating Income (X_2) on Risk Management (Z), hypothesis testing was conducted to further investigate this relationship.

5.1.1.1. Testing the Effect of Financing on Funding (X_1) on Risk Management (Z)

The results of the SPSS calculation show a significant influence of X1 on Z, namely:

Table 3.
The Effect of Financing Structure on Funding (X_1) on Risk Management (Z).

		β	Calculation	p-value	Label
Financing Structure for Funding	Risk Management	0.036	4.831	0.000	Significant

As shown in the table, the relationship between Financing Structure on Funding (X_1) and Risk Management (Z) is positive, with a β value of 0.036 meaning that when there is an increase in the Financing Structure on Funding (X_1) The results of the analysis show that the increase in the Financing Structure (X1) has a positive effect on Risk Management (Z).

Financing Structure demonstrated a significant impact on Risk Management, as evidenced by the t-test ($t = 4.831$, $p < 0.05$).

Hypothesis 1

H01=β=0 : The analysis reveals that Financing Structure on Funding has no significant impact on Risk Management

Ha1=$\beta_{\neq 0}$: The analysis reveals a significant impact of Financing Structure on Funding on Risk Management.

Statistical analysis shows that Financing Structure on Funding has a statistically significant effect on Risk Management. (p-value = 0.000; t calculated > 1.98), so Ha1 is accepted. Therefore, the hypothesis positing a significant relationship between Financing Structure and Risk Management is supported.

5.1.1.2. Risk Management Testing (Z) is affected by Operating Costs on Operating Income (X_2)

The results of statistical analysis using SPSS show a significant relationship between X_2 and Z.

Table 4.
The results of the Risk Management analysis (Z) are influenced by Operating Costs on Operating Income (X_2).

		β	Calculation	p-value	Label
Operating Costs on Operating Income	Risk Management	-0.018	-1.619	0.108	Insignificant

As shown in the table, Operating Costs to Operating Income (X_2) exhibits a negative relationship with Risk Management (Y). A significant inverse relationship is evident, as indicated by the negative regression coefficient of -0.018. Although the t-value of -1.619 suggests a negative relationship, the p-value exceeds 0.05, indicating no significant influence between X2 and Z. With a p-value greater than 0.05, the t-test results do not provide sufficient evidence to reject the null hypothesis (H0).

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

Hypothesis 2

H02=β=0 : The analysis reveals that Operating Costs have no significant impact on Operating Income in terms of Risk Management

Ha2=β≠0 : The analysis reveals a statistically significant impact of Operating Costs on Operating Income in terms of Risk Management.

Statistical analysis shows Since the p-value (0.108) exceeds the significance level α (0.05), the null hypothesis (H0) is accepted, and the alternative hypothesis (Ha2) is rejected. The test results did not find significant statistical evidence to support the effect between variables, and insignificant between Operating Costs on Operating Income on Risk Management. Thus, the hypothesis that there is a significant influence between Operating Costs on Operating Income on Risk Management is unacceptable.

5.1.2. Examining the Hypothesis: The Impact of Financing Structure on Funding, Operating Costs on Operating Revenue and Risk Management on Financial Performance (Sub Structure 2)

This study tests the hypothesis regarding the significant influence between Financing Structure on Funding (X_1), Operating Costs on Operating Income (X_2), and The Impact of Risk Management (Z) on Financial Performance (Y): A Regression Analysis, namely X_1, X_2, and Z, to the dependent variable of Financial Performance (Y), as follow:

Table 5.
Impact of Financing Structure on Funding, Operating Costs on Operating Income, and Risk Management on Financial Performance.

Coefficients

Type		Unstandardized Coefficients		Standardized Coefficients			Correlations		
		B	Std. Error	Beta	t	Sig.	Zero-order	Partial	Part
1	(Constant)	5.644	0.390		14.487	0.000			
	FDR	0.015	0.003	0.240	4.608	0.000	0.185	0.393	0.214
	OCOI	-0.070	0.004	-0.777	-16.131	0.000	-0.738	-0.832	-0.749
	NPF	0.216	0.036	0.304	5.968	0.000	0.434	0.485	0.277
2		0.750							

Note: a. Dependent Variable: ROA

As shown in the table, the overall impact of Financing Structure on Funding (X_1) is Operating Costs on Operating Income (X_2), and Risk Management (Z) on Financial Performance (Y) reached 0.750 or 75.0%. Meanwhile, the remaining 25.0% comes from other factors outside the three variables. The regression coefficient for the Financing Structure to Funding (X_1) is 0.015 with a positive correlation direction, which indicates that an improvement in the Financing Structure to Funding will improve Financial Performance. The regression coefficient of -0.070 for Operating Costs to Operating Income (X_2) signifies a statistically significant negative relationship, This implies that an increase in Operating Costs relative to Operating Income will lead to a decline in Financial Performance.

Meanwhile, the regression coefficient for Risk Management (Z) is 0.215 with a positive relationship direction, the findings indicate that improvements in Risk Management contribute significantly to better Financial Performance.

The regression equations formed from the second substructure are:

$$Y = -0.646 + 0.036X1 - 0.018X_2 + \sum_2$$

After calculating the regression coefficient, the next step is to conduct a hypothesis test to prove whether the Financing Structure on Funding (X_1) and Operating Costs on Operating Income (X_2) significantly impact Financial Performance (Y).

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

5.1.2.1. Testing the Financial Performance (Y) Influenced of Financing Structure on Funding (X_1)

The statistical analysis utilizing SPSS software yields the following findings regarding Financing Structure's (X_1) effect on Financial Performance (Y):

Table 6.
The Impact of Financing Structure on Funding (X1) on Financial Performance (Y).

		B	Calculation	P-Value	Label
Financing Structure for Funding	Financial Performance	0.015	4.608	0.000	Significant

Based on the table above, the direction of the relationship between the Financing Structure on Funding (X_1) and Financial Performance (Y) is positive, with a coefficient value in column B of 0.015. This shows that an improvement in the Financing Structure on Funding (X_1) will improve Financial Performance (Y).

Hypothesis testing utilized a t-test statistical analysis. The calculated t-value of 4.608 exceeds the critical t-value of 1.98 from the table, with 116 degrees of freedom. Additionally, the test employed a significance threshold of $\alpha = 0.05$, comparing p-values to determine statistical significance:

H0 is accepted if the p-value exceeds 0.05, and rejected if it falls below 0.05

Hypothesis 3:

H03 ($\beta = 0$): The Financing Structure has no significant effect on Funding on Financial Performance.

Ha3 ($\beta \neq 0$): The Financing Structure has a significant impact on Funding on Financial Performance.

The p-value of 0.000 suggests that the results are statistically significant, which is smaller than $\alpha = 0.05$, The t-statistic (4.608) surpasses the tabulated t-value (1.98), supporting rejection of the null hypothesis. Consequently, H03 was rejected in favor of Ha3, indicating a statistically significant impact of Financing Structure on Financial Performance. Therefore, the hypothesis of a statistically significant relationship is confirmed influence between the Financing Structure on Funding on Financial Performance is acceptable.

5.1.2.2. Testing the Effect of Operating Costs on Operating Income (X_2) on Financial Performance (Y)

The results of the analysis of the influence of the Operational Cost variable on Operating Income (X_2) on Financial Performance (Y), based on calculations using SPSS software, are as follows:

Table 7.
Financial Performance is affected by Operating Costs on Operating Income (X_2)

		Calculation	p-value	Label
Operating Costs on Operating Income	Financial Performance	-16.131	0.000	Significant

Based on the table above, the relationship between Operating Costs to Operating Income (X2) and Financial Performance (Y) is negative, A statistically significant regression coefficient ($\beta = -0.070$) was observed. An incremental increase in Operating Costs to Operating Income (X_2) will lead to a decrease in Financial Performance (Y).

Hypothesis testing was carried out using the t-test. The results show a calculated t-value of -16.131, The calculated t-value (-0.070) is less than the critical t-value (-1.98) with 116 degrees of freedom. In addition, the test was also carried out by comparing the p-value with a significance level of 0.05 ($\alpha = 5\%$), using the following criteria:

- p-value > 0.05: H0 (Null Hypothesis) is accepted.
- p-value < 0.05: H0 is rejected.

Hypothesis 4:

H04 (β = 0): There is no significant effect of Operating Costs on Operating Income on Financial Performance.

Ha4 (β ≠ 0): There is a significant influence of Operating Costs on Operating Income on Financial Performance.

The analysis reveals a significant relationship between Operating Costs on Operating Income and Financial Performance, with a p-value of 0.000 and a t-statistic of -16.131, leading to the rejection of H0 and acceptance of Ha.

5.1.2.3. Testing the Effect of Risk Management (Z) on Financial Performance (Y)

The results of the SPSS calculation show a significant influence of Risk Management (Z) on Financial Performance (Y)

Table 8.
The Effect of Risk Management (Z) on Financial Performance (Y).

		β	Calculation	p-value	Label
Risk Management	Financial Performance	0.216	5.968	0.000	Significant

The results of the analysis show that Risk Management has a positive and significant effect on Financial Performance with a regression coefficient value of 0.216.

The t-test results indicate a statistically significant relationship (t = 5.968, df = 116, p < 0.001). Statistical analysis employed a p-value approach with a 5% significance level (α = 0.05) for hypothesis testing. Hypothesis testing criteria: p-value compared to α = 0.05."

- p-value > 0.05: Accept the null hypothesis (H0)
- p-value < 0.05: Reject the null hypothesis (H0)

Hypothesis 5:

H05=β=0: There is no significant influence of Risk Management on Financial Performance

Ha5=β≠0 : There is a significant influence of Risk Management on Financial Performance

Based on the provisions that have been stated earlier, the p-value (0.000) falls below the significance threshold (α = 0.05), indicating statistical significance. and t is calculated greater than 1.98. This means that H05 is rejected and Ha5 is accepted, so there is a significant influence between Risk Management and Financial Performance. Therefore, the hypothesis positing a significant relationship between Risk Management and Financial Performance is supported.

5.1.3. Testing the Effect of Risk Management Mediation on the Influence of Financing Structure on Funding and Operating Costs on Operation Revenue on the Performance of Finance

The analysis of the Sobel test was used to test the mediating effect of Risk Management in the relationship between independent variables and Financial Performance (Hypotheses 6 and 7). Hypothesis testing 6 and 7 were carried out by analyzing the Sobel test to determine the mediation role of Risk Management.

5.1.3.1. Financing Structure on Funding has significant Effect to the Performance of Finance through Risk Management

The hypotheses tested were:

H06=ρ=0: The financing structure's impact on funding does not significantly influence financial performance through risk management

Ha6=ρ≠0: The analysis revealed a statistically significant indirect relationship between financing structure and financial performance, mediated by risk management.

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

Table 9.
The Effect of Financing Structure on Funding (X_1) on Financial Performance (Y) through Risk Management (Z).

Input	Test	Test Statistic	*p*-value
t_a = 4.831	Sobel Test	3.75494323	0.00017338
T_b =5.968	Arolan Test	3.72349718	0.00019648
	Goodman Test	3.78719969	0.00015235

According to the Sobel test analysis, the t-statistic (3.755) exceeded the table value (1.98), indicating a statistically significant result, indicating that Risk Management plays a role as a significant mediating variable between the Financing Structure over Funding and Financial Performance The statistical analysis supports hypothesis 6, showing that Risk Management mediates the relationship between the Financing Structure over Funding and Financial Performance partially.

5.1.3.2. Operating Cost on Operating Revenue have significant effect to the Performance of Finance through Risk Management as Intervening.

The hypotheses tested were:

H07=ρ=0: The relationship between operating expenses, operating income, and financial performance remains unaffected by risk management

Ha7=ρ≠0: A statistically significant indirect effect of operating costs on financial performance through risk management was observed.

Table 10.
Operating Costs on Operating Income Effect (X_2) on Performance of Finance (Y) through Risk Management (Z)

Input	Test	Test Statistic	*p*-value
t_a = -1.619	Sobel Test	1.56252519	0.11816432
T_b = -5.968	Arolan Test	1.54248592	0.12295556
	Goodman Test	1.58336635	0.11333799

Analysis using the Sobel test yielded a t-statistic of [value], supporting/rejecting the mediation hypothesis of t calculation (1.563) did not exceed the t table (1.98), so the hypothesis was not supported. Statistical analysis found no significant evidence of the influence of mediation on this hypothesis. 3. Hypothesis 7 is not supported, The Sobel test revealed that risk management does not significantly mediate the relationship between operational expenses and financial outcomes, showing no mediation effect of Risk Management.

The hypothesis test results based on the statistical analysis can be summarized as follows:

5.1.3.2.1. Hypothesis Conclusions

1) H_1: Supported, There is a statistically significant relationship between Financing Structure and Risk Management.

2) H_2: Not Supported, There is no significant influence of Operating Costs to Operating Income (OCOI) on Risk Management.

3) H_3: Accepted, A significant relationship exists between Financing Structure and Financial Performance.

4) H_4: Accepted, Empirical evidence confirms a statistically significant relationship between Operating Costs and Financial Performance.

5) H_5: Accepted, There is a significant relationship between Risk Management and Financial Performance.

6) H_6: Accepted, A significant relationship exists between Financing Structure and Financial Performance, with Risk Management playing a mediating role.

7) *H_7: Rejected, The analysis reveals that Risk Management* does not mediate a significant relationship between Operating Costs and Financial Performance.

5.1.3.2.2. Key Insights

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

- Financing structure affects risk management and financial performance, directly and through its mediating effects.
- Risk management exhibits a statistically significant positive correlation with financial performance, reinforcing its importance in Islamic banking operations.
- Operating Costs significantly influence Financial Performance directly, but this relationship does not hold when mediated through Risk Management.

5.1.4. Analyzing Inter Variable Correlations: Insights from the Study Findings

This comprehensive analysis highlights several key findings regarding the relationships between financing, risk management, operating costs, and financial performance in Islamic banking:

5.1.4.1. Financing, Risk Management, and Financial Performance

Impact of Financing on Risk Management: Financing derived from funding has a direct impact on risk management in Islamic bank business units because it involves fund distribution, risk assessment, and potential loss mitigation. However, this study contrasts with prior research of Lidyah, et al. [6] which concluded that financing on funding is not affected by Non-Performing Finance (NPF). Proper financing aligned with Sharia principles helps Islamic banks manage risks (e.g., credit, market, and liquidity risks) and build a stable portfolio. Conversely, poorly managed financing increases the risks faced by banks.

Within the Islamic finance framework, financial derivatives must be free from speculation, gambling, and excessive uncertainty, allowing for applications that meet Islamic ethical standards and facilitate effective risk management in Islamic banking. The prohibition on speculative activities in Islamic banking research by Uluyol [12] underscores the importance of eliminating harmful elements, facilitating effective risk management and adherence to Islamic ethical principles.

Financing and Financial Performance: Proper financing has a significant influence on financial performance, as funds generate income through profit margins (e.g., Murabaha) or profit sharing (e.g., Mudharaba and Musyaraka). This diversification contributes to profitability and financial stability. Effective risk management mediates this relationship, enabling banks to optimize financial performance while minimizing excessive risks.

5.1.4.2. Operating Costs (OCOI) and Financial Performance

OCOI and Risk Management: The results show that Operating Costs to Operating Income (OCOI) do not significantly affect risk management. While OCOI reflects operational efficiency, risk management is driven by credit risk assessments, market risks, and external factors rather than cost efficiency. Some Islamic bank units with high OCOI (inefficiency) can still maintain robust risk management if internal policies are well-implemented.

A study of Bani Yousef, et al. [13] reveals Their research findings suggest that operational risk has a detrimental impact on the financial performance of Islamic banks in the MENA region, including key metrics such as return on assets, return on equity, and net interest margin. Larger banks tend to have lower operational risk as they can better diversify their operations.

OCOI and Financial Performance: Statistical analysis indicates that OCOI significantly impacts financial performance. Lower OCOI ratios signify better operational management, resulting in higher profitability and financial stability. Effective operational cost management helps Islamic banks reduce waste, strengthen liquidity, and attract investor confidence. On the other hand, high OCOI ratios reflect inefficiencies, which can undermine performance of finance.

5.1.4.3. Risk Management and Financial Performance

Risk management strategies significantly contribute to enhanced financial performance through risk mitigation such as NPF, credit risks, and market uncertainties. Effective risk management not only safeguards against financial losses but also drives long-term growth and stability.

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

The analysis reveals that Risk Management Practices (RMP) significantly influence Financial Performance (FP), with digitalization playing a mediating role. Research of Afgani, et al. [14] shows that RMP substantially enhances the financial performance of Sharia-compliant banking institutions. This underscores the need for skilled risk management as a crucial factor in optimizing financial outcomes for organizations. Furthermore, this study emphasizes that implementing strong risk management practices is vital for improving financial performance in Islamic banks, while also highlighting the critical role that RMP plays in maintaining the stability and profitability of financial entities.

On the Research of Lidyah, et al. [6] and Elena and Nurwahidin [7] suggests that Non-Performing Financing (NPF) has a detrimental impact on financial performance indicators, including ROA and revenue, other studies on Halim and Buana [4] concluded that NPF does not significantly influence financial performance. This discrepancy underscores the need for Islamic banking units to adopt systematic risk identification, evaluation, and mitigation strategies to maintain financial stability.

5.1.4.4. Contrasting and Supporting Evidence

FDR and Financial Performance: Research by Elena and Nurwahidin [7] discovered a positive correlation an analysis of the correlation between significant relationship exists between Financing to Deposit Ratio (FDR) and Return on Assets (ROA) is conducted, indicating FDR's significant impact on financial performance. However, a study by Halim and Buana [4] concluded otherwise, The study reveals no statistically significant relationship between Financing to Deposit Ratio (FDR) and financial performance. This suggests that the relationship between financing structures and financial outcomes may depend on contextual factors such as bank policies or economic conditions.

OCOI's Negative Effect: The negative relationship between OCOI and financial performance (with ROA proxies) is supported by both Halim and Buana [4] research and other studies. This reinforces the importance of operational efficiency in driving financial success.

5.1.4.5. Mediating Role of Risk Management

The findings suggest that while operational costs and financing affect financial performance, risk management plays a more dominant mediating role. Effective risk mitigation strategies can offset the adverse effects of inefficiencies and external risks on financial performance.

Efficient Financing Management: Ensuring alignment with Sharia principles and diversifying income sources to enhance profitability and stability. Operational Efficiency: Managing OCOI ratios effectively to reduce waste and improve financial outcomes. Strengthening Risk Management: Implementing robust risk assessment and mitigation frameworks to safeguard against economic uncertainties and financing problems. The interplay between financing, operational efficiency, and risk management determines the financial performance of Islamic banking units. While operational costs remain important, effective risk management holds a more significant influence on long-term financial success.

5.1.5. Optimizing the Performance of Sharia Business Units

The integration of good governance with effective risk management is essential for addressing the unique challenges faced by Islamic banking. By adopting a structured, transparent, and Sharia-compliant approach, Islamic banks can strengthen their financial performance, enhance operational efficiency, and build long-term resilience. This synergy not only ensures regulatory compliance but also positions Islamic banks as trusted institutions in the financial sector.

5.1.5.1. Risk Governance Structure

Enhancing financial performance in Islamic banking necessitates robust risk governance, encompassing audit committee fortification, competency development, and optimized Sharia Supervisory Board meetings.

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

According to Kurniawan, et al. [15] the size and independence of the audit committee, as well as the expertise of its members and the intensity of the meeting, have a significant contribution to the effectiveness of risk management. Meanwhile, the role of DPS through the frequency of meetings also ensures compliance with Islamic principles, thereby strengthening the achievement of financial performance.

5.1.5.2. Liquidity Risk Management

Liquidity risk management is a vital component in optimizing the performance of financing sharia business units banking. Understanding and controlling liquidity risk helps maintain sustainability and operational resilience. These efforts include the implementation of various funding strategies, increased transparency, and collaboration with other Islamic financial institutions. Consistent monitoring of fund flows and adjustment to regulatory changes are also needed to maintain stability.

Islamic Unit Business Banks require robust liquidity risk management to ensure stability and drive growth. By leveraging Sharia-compliant liquidity instruments, enhancing interbank market participation, and working closely with regulators, Islamic banks can mitigate liquidity risks while ensuring financial stability and compliance with Islamic principles. Findings from a study İncekara and Cetinkaya [16] indicate that conventional banks' liquidity risk is negatively correlated with NPL and LA, highlighting key variables for liquidity risk management in both conventional and Islamic banks.

As stated by Wati and Fasa [17] Effective liquidity risk management enables Islamic banks to honor their commitments and preserve stakeholder trust amidst market volatility. For this reason, a strategic approach is needed, such as looking for funding alternatives other than interest and careful asset management.

5.1.5.3. Risk Management and Good Corporate Governance

To maximize the performance of financial Sharia Banking Business Unit, Effective risk management, grounded in GCG principles, is critical for organizational resilience. Research indicates a strong correlation between robust risk management practices and enhanced financial performance, while internal audits, if not done properly, can have a negative impact. Therefore, the integration of governance and a mature risk management framework is indispensable to reduce risk, improve financial results.

According to Jaziroh and Nirwana [18] Effective governance structures contribute substantially to the financial success of Islamic banks, yet additional factors warrant consideration, the effectiveness of internal audits requires careful management in order to support optimal risk management practices.

Effective risk management and good corporate governance are crucial for an organization's long-term success. Research of the Kafidipe, et al. [19] Studies show that corporate governance has a significant adverse impact on the financial performance of Nigerian deposit money banks. However, a sound corporate governance system enhances loan profitability and bank stability. The research reveals that larger boards, independent directors, and shareholdings negatively affect financial performance, whereas board committees have a positive impact. The research recommends implementing proper corporate risk management practices, regular quality control checks, and ensuring compliance to enhance financial performance.

5.1.5.5. Financing Risk Management

The financial performance of Islamic banks, particularly Return on Assets (ROA), is a key area of focus, is significantly affected by various Islamic financing modes, such as Mudharaba, Musharaka, and Murabaha. Here are some paraphrased versions:

The Sharia Supervisory Board (DPS) plays a vital role in ensuring the Sharia compliance and integrity of Islamic banking operations in moderating the relationship between this type of financing and financial performance shows that good supervision and governance can increase efficiency.

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

According to Muthaher [20] Effective financing risk management is crucial for mitigating risks in Sharia-based financing, Effective financing risk management is crucial for mitigating risks in Sharia financing. However, challenges such as compliance with Sharia principles and competition with conventional banks require innovation and strategic governance that are able to ensure the sustainability and competitiveness of Sharia banking. Nugroho, et al. [21] The Islamic banking industry has experienced a significant surge in Non-Performing Financing (NPF). Amidst the ongoing COVID-19 pandemic, banks must proactively mitigate risks by bolstering liquidity, restructuring, and adapting strategic initiatives. Furthermore, consolidation of Islamic banks with state-owned bank subsidiaries presents an alternative solution. To mitigate the adverse effects of the pandemic, it is imperative that the government and all stakeholders collaborate to prevent substantial losses to both human life and the national economy. This opinion is based on the results of research during the COVID-19 pandemic, however, risk mitigation is something that must be done by all Stakeholders interested in the progress of Islamic Banking in general.

6. Conclusion

The results suggest that financing decisions significantly influence financial performance outcome, so strategic considerations are needed. Funding and Optimizing Financial Performance through Effective Risk Management: The Relationship Between Operating Costs and Operating Income, it is concluded that Financing on Funding has a significant influence on Risk Management, this study finds no empirical evidence supporting a significant relationship between operating costs, operating income, and risk management strategies. Financial performance is significantly influenced by financing/funding decisions and the management of operating costs relative to operating income, The implementation of risk management strategies has a profound and statistically significant positive effect on financial performance, The relationship between financing/funding and financial performance, and operating costs and operating income, is influenced by risk management, and financial performance is not significantly mediated by risk management.

Improving the performance of Islamic banking business units requires harmonious collaboration between effective governance and integrated risk management. Solid risk governance, Effective Islamic banking governance necessitates robust DPS oversight and expert audit committee guidance, is the main foundation in ensuring that risk management runs optimally. Adopting diversified funding sources and transparency measures effectively mitigates liquidity risks, ensuring Islamic banks' long-term viability.

The application of Good Corporate Governance (GCG) principles aligned with adequate risk management practices has been proven to reduce potential risks, Optimize financial performance metrics, including ROA and maintain compliance with Sharia principles. Types of financing such as Mudharaba, Musharaka, and Murabaha, when managed with effective risk management, are able to make a significant contribution to improving financial performance.

Through the right strategy, Islamic banks are able to face internal and external challenges, including competition with conventional banks and market dynamics, while remaining consistent with Sharia values. Overall, this optimization step not only supports financial growth, but also ensures the sustainability, inclusivity, and competitiveness of the Islamic banking sector for the long term.

6.1 Suggestion

Here are some suggestions based on the conclusions of the research, which include Managerial Advice, then Sharia Business Units must be able to optimize the financing structure to reduce financial risks, develop effective risk management strategies, monitor financial performance regularly, Optimize operational expenditure productivity.

Key strategic suggestions encompass risk management integration, sophisticated risk modeling, and capacity building for Sharia Business Unit teams In relation to Operational Advice and policies, it is necessary to implement an effective risk management system, monitor and evaluate financial

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815

performance periodically, and optimize the use of technology to reduce risks from the management of Sharia Business Units.

As for the Follow-up Research Suggestions, To further advance this research, it is recommended to investigate the effects of other variables on financial performance and compare risk management strategies across different industries, Subsequent researchers are encouraged to develop an empirical financial performance forecasting framework.

Transparency:

The author confirms that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

Copyright:

References

[1] Law Number 9 of 1998 concerning Banking, "Law Number 9 of 1998 concerning Banking. Indonesia," 1998.
[2] Law Number 21 of 2008 concerning Sharia Banking, "Indonesia. State Secretariat of the Republic of Indonesia," 2008.
[3] M. A. Andrianto and Firmansyah, *Sharia bank management: Implementation of theory and practice*. Yogyakarta, Indonesia: CV Publisher Qiara Media, 2019.
[4] S. Halim and M. T. L. Buana, "The influence of non-performed financing (NPF), operational costs, financing to deposit ratio (FDR) and net operating margin to return on assets at Indonesian Sharia commercial banks," *Falah: Jurnal Ekonomi Syariah*, vol. 6, no. 2, pp. 44-59, 2021. https://doi.org/10.22219/jes.v6i1.16179
[5] Y. F. Somantri and W. Sukmana, "Analysis of factors affecting financing to deposit ratio (FDR) at Islamic commercial banks in Indonesia," *Indonesian Accounting and Finance Periodic*, vol. 4, no. 2, pp. 61-71, 2019.
[6] R. Lidyah, O. SR, Dwithia, and Agustina, "Testing the financing to deposit ratio as a mediation between financing, non-performing financing, and operating costs of operating income to profit in Sharia commercial banks in Indonesia," *I-FINANCE*, vol. 5, no. 2, pp. 123-145, 2019.
[7] Elena and Nurwahidin, "Analysis of factors affecting the profitability performance of Sharia commercial banks (BUS) in Indonesia," *Tabarru Journal, Islamic Bank and Financing*, vol. 5, no. 2, pp. 1-XX, 2022.
[8] S. Rachmawati and S. Marwansyah, "The effect of inflation, BI rate, CAR, NPL, OCOI on profitability in state-owned banks," *Journal of Penusa Logic*, vol. 3, no. 1, pp. 1-XX, 2019.
[9] I. B. R. Suardana, I. N. D. Astawa, and L. K. B. Martini, "Influential factors towards return on assets and profit change," *International Journal of Social Sciences and Humanities*, vol. 2, no. 1, pp. 105-116, 2018. https://doi.org/10.29332/ijssh.v2n1.100
[10] J. Hafilah and D. P. K. Mahardika, "The influence of OCOI, Fdr, and Car on NPF; JASA," *JASa (Jurnal Akuntansi, Audit Dan Sistem Informasi Akuntansi)*, vol. 3, no. 3, pp. 322-334, 2019. https://.org/10.36555/jasa.v3i3.612
[11] Sugiyono, "Quantitative and qualitative research methodology and R&D," vol. 65. Bandung: ALFABETA CV, 2019.
[12] B. Uluyol, "Financial derivative instruments and their applications in Islamic banking and finance: Fundamentals, structures and pricing mechanisms," *Borsa Istanbul Review*, vol. 24, pp. 29-37, 2024. https://doi.org/10.1016/j.bir.2024.02.013
[13] A. N. Bani Yousef, A. P. D. R. Taha, S. N. Muhmad, and A. F. Zainul Abidin, "Operational risk and financial performance of banks in the Middle East and North Africa," *Journal of International Studies*, vol. 19, no. 2, pp. 93–118, 2023. https://doi.org/10.32890/jis2023.19.2.4
[14] K. F. Afgani *et al.*, "Risk management practices and the performance of Indonesian and Malaysian Islamic banks: Does digitalization mediate this nexus?," *Thunderbird International Business Review*, vol. 66, no. 6, pp. 567-581, 2024. https://doi.org/10.1002/tie.22402
[15] F. A. Kurniawan, D. Hanggraeni, and G. Purnomo, "Risk governance reveals the dual performance goals of Sharia banks," *JBMP – Journal of Business Management and Banking*, vol. 10, no. 2, 2024. https://doi.org/10.21070/jbmp.v10i2.1981
[16] A. İncekara and H. Cetinkaya, "Liquidity risk management: A comparative analysis of panel data between Islamic and conventional banking in Turkey," *Procedia Computer Science*, vol. 158, pp. 955-963, 2019. https://doi.org/10.1016/j.procs.2019.09.136

[17] R. Wati and M. I. Fasa, "Liquidity risk management: Ensuring the sustainability and resilience of Islamic banks in the era of monetary crisis," *MAMEN: Jurnal Manajemen*, vol. 3, no. 4, pp. 389-402, 2024. https://doi.org/10.55123/mamen.v3i4.4270

[18] W. Jaziroh and N. Q. S. Nirwana, "Governance and risk management in Sharia banks and financial performance," *Indonesian Journal of Law and Economics Review*, vol. 19, no. 4, pp. 10.21070/ijler. v19i4. 1171-10.21070/ijler. v19i4. 1171, 2024. https://doi.org/10.21070/ijler.v19i4.1171

[19] A. Kafidipe, U. Uwalomwa, O. Dahunsi, and F. O. Okeme, "Corporate governance, risk management and financial performance of listed deposit money bank in Nigeria," *Cogent Business & Management*, vol. 8, no. 1, p. 1888679, 2021. https://doi.org/10.1080/23311975.2021.1888679

[20] O. Muthaher, "Sharia financing analysis on the financial performance of Sharia banking in the moderation of the Sharia Supervisory Board (DPS)," *Tirtayasa Ekonomika*, vol. 17, no. 1, 2022. http://dx.doi.org/10.35448/jte.v15i2.7495

[21] L. Nugroho, W. Utami, and C. M. Doktoralina, "COVID-19 and the potency of disruption on the Islamic banking performance (Indonesia cases)," *International Journal of Economic and Business Applied*, vol. 1, no. 1, pp. 1-20, 2020.

Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 3: 2413-2434, 2025
DOI: 10.55214/25768484.v9i3.5815