

The Effects of Asset Spread and Good Corporate Governance on Profit Distribution Management in Indonesian Islamic Commercial Banks

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ABSTRACT

Purpose : This study aims to examine the relationship between Asset Spread, Good Corporate Governance (GCG), and Profit Distribution Management (PDM) in Islamic Commercial Banks in Indonesia during the 2020–2025 period. The study specifically investigates whether Asset Spread and governance mechanisms are associated with banks' profit distribution practices, while considering the potential relevance of Displaced Commercial Risk (DCR) as a theoretical perspective.

Design/Methodology/Approach : This study employs a quantitative approach using secondary data from eight Islamic Commercial Banks in Indonesia selected through purposive sampling. The study utilizes a balanced panel dataset consisting of 48 bank-year observations. The empirical analysis is conducted using a Two-Way Fixed Effects (TWFE) model with bank-clustered robust standard errors. Robustness tests are performed by incorporating additional control variables, including the Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), and Financing-to-Deposit Ratio (FDR).

Findings : The findings indicate that Asset Spread has a statistically significant negative relationship with Profit Distribution Management, while Good Corporate Governance does not demonstrate a statistically significant relationship with PDM. The negative association between Asset Spread and PDM remains consistent across alternative model specifications after including additional control variables. These results suggest that Displaced Commercial Risk may provide a relevant theoretical explanation for understanding how banks' return-generating capacity relates to profit distribution practices; however, the findings do not establish a causal relationship.

Originality/Value : This study contributes to the literature by positioning Asset Spread as a potential explanatory factor for Profit Distribution Management and examining it alongside a composite measure of Good Corporate Governance within an integrated economic and governance framework. Furthermore, this study highlights the limitation of composite GCG self-assessment scores in capturing governance dimensions that may be more directly relevant to profit distribution decisions in Islamic banking.

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1. Introduction

Islamic banking in Indonesia has coexisted with conventional banking within a dual banking system since 1992. The institutional framework supporting Islamic banking was subsequently reinforced by the introduction of a specific legal framework in 2008 ([Widarjono et al., 2022](#)). Nevertheless, Islamic banks continue to account for a relatively limited proportion of the country's overall banking assets. This condition creates a competitive challenge, particularly in attracting and retaining public funds in competition with conventional banking institutions. Whereas conventional banks generally provide depositors with predetermined interest-based returns, Islamic banks predominantly raise funds through profit-sharing investment accounts, in which the returns received by account holders are determined by the performance of the underlying investments ([Archer & Abdel Karim, 2006](#)). This arrangement reflects the principle of profit and loss sharing, which is primarily implemented through contracts such as *mudharabah* and *musyarakah* ([Ghayad & Hamdan, 2021](#)). In the case of *mudharabah* deposits, the relationship between the bank and depositors is established on the basis of a profit-sharing partnership rather than a conventional debtor-creditor arrangement ([Asyiqin, 2025](#)). Accordingly, profit distribution represents an important component of Islamic banking operations, as the level of returns received by depositors may affect their willingness to maintain their funds with a particular bank or move them to another institution ([Shahzadi et al., 2021](#)). Within this framework, Profit Distribution Management (PDM) can be understood as the policies and practices adopted by Islamic banks to determine and manage the distribution of profits to investment account holders ([Iswanto et al., 2023](#)).

The need to provide competitive returns is closely related to the concept of Displaced Commercial Risk (DCR). Recent evidence concerning Islamic banking in Indonesia indicates that depositors are responsive to movements in interest rates, particularly because increases in market interest rates raise the opportunity cost of placing funds in Islamic banks and may consequently increase the likelihood of fund withdrawals ([Masrizal et al., 2026](#)). When the returns generated by Islamic banks are perceived as less competitive than those available from alternative financial institutions, banks may experience greater pressure to modify their profit distribution policies. One potential strategy is for the bank, acting as the fund manager, to relinquish a portion of its own share of profits in order to preserve sufficiently attractive returns for investment account holders ([Laela & Latif, 2023](#)). DCR may therefore have implications for bank performance, while competitive pressures may encourage income-smoothing practices to reduce the risk of fund withdrawals or transfers ([Drissi & Angade, 2018](#)). Accordingly, Profit Distribution Management (PDM) reflects the interaction between a bank's economic capacity, competitive conditions, the interests of investment account holders, and managerial discretion ([Rouetbi et al., 2023](#)).

Despite the significant role of Profit Distribution Management (PDM), empirical evidence on its determinants remains inconclusive. [\[unintelligible\]](#) found that CAR and DPK negatively affect PDM, while productive asset quality has no significant effect. [\[unintelligible\]](#) reported that ROA and FDR affect PDM, whereas CAR, NPF, and BOPO are insignificant. [\[unintelligible\]](#) found that capital adequacy, DPK, and bank age differentiate PDM policies, while macroeconomic factors and Sharia Supervisory Board characteristics have no significant effect. [\[unintelligible\]](#) identified FDR and bank age as significant determinants of PDM. In the ASEAN context. These mixed findings indicate that PDM determinants remain inconclusive. Moreover, DCR research has largely overlooked the spread

between asset returns and returns to fund providers as a factor related to PDM decisions. [Rahman et al. \(2023\)](#) likewise examined CAR, financing risk, and efficiency as determinants of PDM in Indonesian Islamic banks.

Table 1. Comparison of Previous Studies and Positioning of the Present Study

Study	Focus/Variables	Findings and Limitations	Contribution
Shahzadi et al. (2021)	PDM, corporate governance, asset composition, market share, third-party funds	Corporate governance moderates PDM-related factors; Asset Spread has not been examined as a determinant	Repositions Asset Spread as an explanatory variable for PDM and extends the governance dimension
Widarjono et al. (2022)	Islamic deposits, conventional returns, DCR	Islamic deposits respond to conventional returns; determinants of PDM are not examined	Connects Asset Spread with PDM by positioning DCR as a theoretical mechanism
Iswanto et al. (2023)	PDM, ROA, FDR, CAR, NPF, BOPO	ROA and FDR are significant; the analysis focuses on financial indicators and a single bank	Investigates the return gap through Asset Spread
Rouetbi et al. (2023)	DCR, bank performance	DCR is associated with bank performance; Asset Spread is not examined as an antecedent of PDM	Positions DCR as a theoretical mechanism underlying the relationship between Asset Spread and PDM
Parwati & Welkom (2024)	PDM, CAR, third-party funds, asset quality	Empirical findings regarding PDM determinants remain mixed	Examines Asset Spread and GCG as explanatory variables for PDM
Present study	Asset Spread, GCG, PDM	Examines Asset Spread as an explanatory variable for PDM together with a governance dimension	Provides a new application by repositioning Asset Spread as an explanatory variable for PDM

Table 1 summarizes the positioning of the present study relative to previous research. The identified empirical gap is further reinforced by the conceptual differences between Asset Spread and other financial indicators commonly employed in the literature. ROA measures overall profitability generated from a bank's assets but does not explicitly represent the difference between returns earned on those assets and returns allocated to investment account holders. By comparison, ROIAH, or the equivalent rate, represents the return received by investment account holders following the profit distribution process, while NIM is conceptually derived from an interest-based margin framework. Therefore, the Asset Spread provides a perspective on the economic space related to profit distribution decisions by Sharia banks.

Importantly, this study neither proposes Asset Spread as a novel construct nor argues that it provides a more accurate or superior measure than ROA, NOM, financing income, NIM-equivalent measures, ROIAH, or other financial indicators. Instead, its novelty rests on a different empirical application: a measure already recognized within the PDM literature is

repositioned as an explanatory variable for profit distribution outcomes. This approach makes it possible to investigate whether differences between returns generated from assets and returns provided to investment account holders are associated with variations in PDM. Such an association is theoretically relevant to Displaced Commercial Risk (DCR), given that pressure to maintain competitive depositor returns may expose Islamic banks to DCR, particularly when their capacity to generate sufficient returns is constrained ([Rismayani & Nanda, 2019](#)). Nevertheless, DCR is employed only as a theoretical mechanism in this study and is not directly subjected to empirical testing.

Profit distribution decisions also entail managerial discretion and, consequently, raise questions regarding the governance mechanisms used to oversee such discretion. For this reason, GCG is incorporated into the analysis to represent the governance dimension of PDM. From an Agency Theory perspective, information asymmetry between Islamic banks as fund managers and investment account holders can create opportunities for managerial discretion in determining profit distribution. In contrast, Stakeholder Theory emphasizes the role of governance mechanisms in addressing and balancing the interests of depositors, shareholders, and other relevant stakeholder groups ([Mohammed & Muhammed, 2017](#)). Within this perspective, Good Corporate Governance (GCG) can be viewed as an institutional dimension that complements the economic dimension represented by Asset Spread, thereby providing a broader framework for understanding differences in Profit Distribution Management (PDM). Against the backdrop of these conceptual and empirical gaps, this study investigates the association between Asset Spread, GCG, and Profit Distribution Management (PDM) among Islamic Commercial Banks in Indonesia during the 2020–2025 period. Its primary contribution is the repositioning of Asset Spread as an explanatory variable for PDM and its integration with GCG within a framework that considers both economic and governance dimensions of profit distribution. This positioning is intended to broaden the explanation of PDM without suggesting that Asset Spread is inherently superior to other financial indicators.

2. Literature Review and Hypothesis Development

2.1. Theoretical Foundation

This study is grounded in Agency Theory and Stakeholder Theory as complementary theoretical perspectives for understanding Profit Distribution Management (PDM) in Islamic banking. From the standpoint of Agency Theory, information asymmetry between Islamic banks and investment account holders may provide managers with a degree of discretion in determining and managing the returns distributed to account holders ([Fahamsyah et al., 2023](#)). This condition may provide managers with greater discretion in managing and distributing returns ([Franzoni & Ait Allali, 2024](#)). The importance of governance in addressing information asymmetry and managerial conflicts is also emphasized in banking research. Such asymmetry can strengthen the need for governance mechanisms in monitoring managerial decisions. Competitive return pressures may expose Islamic banks to Displaced Commercial Risk (DCR) when asset returns are insufficient to meet investment account holders' expectations. DCR may encourage banks to sacrifice part of their profit share to maintain competitive returns. Stakeholder Theory emphasizes the importance of balancing the interests of investment account holders and shareholders. Thus, Agency Theory explains managerial discretion, while Stakeholder Theory highlights the role of governance in balancing stakeholder interests.

2.2. Profit Distribution Management

Profit Distribution Management (PDM) refers to policies adopted by Islamic banks to manage returns distributed to investment account holders under profit-sharing arrangements (Ernayani, 2024), a phenomenon documented empirically in Islamic banking (Farook et al., 2012). PDM is important because distributed returns may be influenced not only by underlying asset performance but also by competitive pressures to retain investment account holders. Islamic banks may manage returns to maintain competitiveness when actual asset returns are insufficient to meet market expectations. Income smoothing may also support the management of returns under DCR conditions (Sulong & Mohd Noor, 2018). In this study, PDM is operationalized through the outcome of profit distribution to holders of temporary syirkah funds rather than as a direct proxy for managerial discretion. This distinction allows Asset Spread to be examined as an explanatory variable, while DCR and managerial discretion represent theoretical mechanisms underlying profit distribution policies.

2.3. Asset Spread and Profit Distribution Management

Asset Spread reflects the gap between the returns generated by a bank's assets and the returns distributed to investment account holders. Unlike ROA, which reflects overall profitability, Asset Spread directly represents the economic margin between asset returns and distributed returns. DCR is relevant to this relationship because Islamic banks may bear additional risk when asset returns are insufficient to provide competitive returns to investment account holders (Barau, 2023). A narrower Asset Spread indicates a more limited margin between asset returns and distributed returns. This condition may increase pressure on profit distribution through DCR and return-smoothing mechanisms (Ahmed et al., 2025). Conversely, a wider Asset Spread may provide greater capacity to accommodate returns distributed to investment account holders. Laela and Latif (2023) further show the relevance of income smoothing in managing DCR within Indonesian Islamic banking. Therefore, a narrower Asset Spread is expected to correspond with higher PDM, indicating an inverse relationship between Asset Spread and PDM.

H1: Asset Spread is negatively associated with Profit Distribution Management in Islamic Commercial Banks.

2.4. Good Corporate Governance and Profit Distribution Management

Good Corporate Governance (GCG) provides mechanisms for mitigating information asymmetry, strengthening accountability, and monitoring managerial discretion (Harisa et al., 2019). Effective governance may reduce potential conflicts of interest between bank management and investment account holders. Corporate governance is also important for strengthening accountability and supporting bank resilience (Agha, 2023). From a Stakeholder Theory perspective, governance encourages management to consider the interests of different stakeholder groups in decision-making (An et al., 2022).

This study uses the original composite GCG self-assessment score without transformation. Lower composite scores indicate stronger governance quality, whereas higher scores indicate weaker governance quality (Aulia & Fithria, 2023). The inverse scale is therefore important in interpreting the relationship between GCG and PDM. Higher numerical GCG scores indicate weaker governance and may provide greater opportunities for managerial discretion in determining profit distribution. Conversely, stronger governance is expected to constrain such discretion.

H2: The composite Good Corporate Governance self-assessment score is positively associated with Profit Distribution Management in Islamic Commercial Banks.

3. Methodology

This research adopts a quantitative methodology and applies panel data regression to analyze Islamic Commercial Banks in Indonesia during the 2020–2025 period. The study utilizes secondary data obtained from banks' annual reports, financial statements, Good Corporate Governance (GCG) implementation reports, and publications released by the Financial Services Authority (OJK). The sample was determined using purposive sampling based on two selection criteria: the banks had to operate continuously throughout the 2020–2025 observation period and provide complete information for all variables included in the analysis. Applying these criteria resulted in a final sample of eight Islamic Commercial Banks: Bank Aceh Syariah, BCA Syariah, Bank BJB Syariah, Bank BTPN Syariah, Bank Mega Syariah, Bank Muamalat Indonesia, Bank NTB Syariah, and Bank Panin Dubai Syariah. Accordingly, the dataset forms a balanced panel of 48 bank-year observations, consisting of eight banks observed over six years (8 banks × 6 years).

Bank Syariah Mandiri, BRIsyariah, and BNI Syariah were excluded from the sample because the three banks merged to establish Bank Syariah Indonesia in 2021. This exclusion was intended to preserve the consistency of the cross-sectional units throughout the observation period and to avoid structural discontinuities associated with the merger. Nevertheless, excluding these banks may limit the representativeness of the sample relative to the Indonesian Islamic banking industry as a whole. This issue is therefore acknowledged as one of the limitations of the study.

Table 2. Operational Definitions of Variables

Variable	Definition/Measurement	Unit and Source	Expected Sign
PDM	$PDM = \frac{\text{Bagi Hasil Dana Syirkah Temporer}}{\text{Dana Syirkah Temporer}} \times 100\%$	%; financial statements and annual reports of Islamic Commercial Banks	–
AS	AS = ROA – Average ROIAH	Percentage points (pp); financial statements and profit-sharing distribution reports of Islamic Commercial Banks	Negative (–)
GCG	Original composite self-assessment score without transformation	Scale of 1–5; GCG implementation reports of Islamic Commercial Banks	Positive (+)
CAR	Capital Adequacy Ratio	%; financial statements of Islamic Commercial Banks	Control
NPF	Non-Performing Financing Ratio	%; financial statements of Islamic Commercial Banks	Control
FDR	Financing-to-Deposit Ratio	%; financial statements of Islamic Commercial Banks	Control

Table 2 provides the operational definitions and measurement procedures for the variables examined in this study. The baseline empirical model is specified as follows:

$$PDM_{it} = \alpha + \beta_1 AS_{it} + \beta_2 GCG_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

where PDM_{it} refers to the Profit Distribution Management of bank i in year t ; AS_{it} denotes Asset Spread; GCG_{it} represents the composite Good Corporate Governance score; μ_i denotes bank-specific effects; λ_t captures time-specific effects; and ε_{it} refers to the idiosyncratic error term.

The appropriate model specification was selected based on empirical testing rather than being predetermined *a priori*. The analysis compared four alternative specifications: Pooled Ordinary Least Squares (Pooled OLS), Bank Fixed Effects, Time Fixed Effects, and Two-Way Fixed Effects (TWFE). The significance of both bank-specific and time-specific effects was evaluated using the Redundant Fixed Effects Test. The TWFE model was adopted as the main specification when bank and time effects were jointly found to be relevant. By incorporating both dimensions of fixed effects, the model accounts for relatively time-invariant unobserved heterogeneity across banks as well as common time-specific shocks affecting the sampled banks during the study period. Accordingly, the estimated coefficients are interpreted as conditional relationships rather than as evidence of causal effects.

As a robustness check, the baseline model was re-estimated by incorporating CAR, NPF, and FDR as additional control variables:

$$PDM_{it} = \alpha + \beta_1 AS_{it} + \beta_2 GCG_{it} + \beta_3 CAR_{it} + \beta_4 NPF_{it} + \beta_5 FDR_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

In the robustness specification, CAR represents capital adequacy, NPF captures financing risk, and FDR reflects the bank intermediation function. These control variables were selected parsimoniously given the limited size of the panel dataset. ROA was not included as a separate control variable because it constitutes a component of Asset Spread. Including ROA and Asset Spread simultaneously could therefore introduce conceptual overlap and complicate the interpretation of the estimated Asset Spread coefficient.

The robustness specification preserves both bank and time-fixed effects while using bank-clustered robust standard errors. Clustering at the bank level allows disturbances within the same bank to be correlated over time and provides inference that is more robust to heteroskedasticity and within-bank serial dependence. However, because the sample contains only eight bank clusters, conventional cluster-robust inference may be less reliable than in settings with a larger number of clusters. Statistical significance from the clustered specification is therefore interpreted cautiously, with particular attention given to the direction, magnitude, and stability of the estimated coefficients across model specifications. All statistical estimations were performed using EViews 14, with statistical significance assessed at the 5% level.

4. Results and Discussion

4.1. Descriptive Statistics

Table 3. Descriptive Statistics of the Research Variables

Variable	Mean	Maximum	Minimum	Std. Dev.
PDM	4.098	7.790	1.500	1.329
Asset Spread	4.389	6.940	0.330	1.809
GCG	1.979	3.000	1.000	0.385

Source: Authors' calculations using EViews 14 (2026).

Table 3 summarizes the descriptive statistics for the variables examined in this study. PDM records a mean value of 4.098 and a standard deviation of 1.329, suggesting differences in profit distribution outcomes among banks and across the observation period. Asset Spread has a mean of 4.389 with a standard deviation of 1.809, reflecting variation in the difference between returns generated from bank assets and those distributed to investment account holders. In comparison, GCG has a mean of 1.979 and a standard deviation of 0.385, indicating relatively low dispersion within the sample. The GCG measure is retained in its original, untransformed form, where a lower score represents stronger governance quality and a higher score reflects weaker governance quality.

4.2. Panel Data Model Selection

Table 4 compares the alternative panel-data specifications. Four specifications were compared to account for bank and time heterogeneity: Pooled Ordinary Least Squares (Pooled OLS), Bank Fixed Effects, Time Fixed Effects, and Two-Way Fixed Effects (TWFE).

Table 4. Comparison of Panel Data Model Specifications

Model	AS Coefficient	Prob.	GCG Coefficient	Prob.	Adjusted R ²
Pooled OLS	-0.314921	0.0031	-0.180309	0.7052	0.141898
Bank FE	-1.098488	0.0000	0.419935	0.3343	0.634911
Time FE	-0.284746	0.0025	-0.449937	0.2934	0.347276
Two-Way FE	-0.661398	0.0011	-0.066024	0.8378	0.822627

Source: Authors' calculations using EViews 14 (2026).

Across all model specifications, Asset Spread displays a negative and statistically significant coefficient. In contrast, GCG is statistically insignificant throughout the specifications, with its coefficient changing direction across the different models. The significance of bank-specific and time-specific effects was then examined using the Redundant Fixed Effects Test.

Table 5. Redundant Fixed Effects Test Results

Effects Test	Statistic	Prob.
Cross-section F	16.314052	0.0000
Cross-section Chi-square	71.773130	0.0000
Period F	9.043190	0.0000
Period Chi-square	41.422370	0.0000
Cross-section/Period F	15.391934	0.0000
Cross-section/Period Chi-square	90.558008	0.0000

Source: Authors' calculations using EViews 14 (2026).

As reported in Table 5, the results show that the cross-sectional effects, period effects, and joint cross-section/period effects are all statistically significant at the 5% level. These findings indicate that both bank-specific heterogeneity and temporal variation are relevant in explaining differences in PDM. Accordingly, the Two-Way Fixed Effects (TWFE) model was selected as the primary specification because it simultaneously accounts for unobserved bank characteristics that remain relatively stable over time and common time-specific effects throughout the 2020–2025 observation period. The selection of TWFE was based on the fixed-effects testing procedure rather than solely on the Adjusted R² value.

4.3. Diagnostic Testing and Robust Estimation

Serial correlation in the panel dataset was assessed using the Wooldridge test for autocorrelation in panel data, which is designed to detect first-order serial correlation within individual cross-sectional units. The corresponding results are reported in Table 6.

Table 6. Wooldridge Test Results

Test	F-Statistic	Prob.	Conclusion
Wooldridge Test	32.6643	0.0007	Serial correlation is present

Source: Authors' calculations (2026).

The Wooldridge test yields a probability value of 0.0007 (< 0.05), leading to rejection of the null hypothesis of no first-order serial correlation. This indicates the presence of serial correlation in the panel data. To obtain robust inference against within-bank residual correlation, the TWFE model was re-estimated using White period (cross-section cluster) standard errors clustered at the bank level.

Table 7. TWFE Results with Bank-Clustered Robust Standard Errors

Variable	Coefficient	Robust Std. Error	t-Statistic	Prob.
C	7.132129	1.214994	5.870092	0.0006
Asset Spread	-0.661398	0.270778	-2.442579	0.0446
GCG	-0.066024	0.223835	-0.294969	0.7766

$R^2 = 0.875462$; $\text{Adjusted } R^2 = 0.822627$

Source: Authors' calculations using EViews 14 (2026).

As shown in Table 7, after applying bank-clustered robust standard errors, Asset Spread remains negative and statistically significant at the 5% level ($\beta = -0.661398$; $p = 0.0446$), while GCG remains statistically insignificant ($\beta = -0.066024$; $p = 0.7766$). Accordingly, the hypothesis testing and subsequent discussion are based on these robust estimation results. However, because the estimation includes only eight bank clusters, the precision of cluster-robust inference should be interpreted with caution.

4.4. Robustness Test with Control Variables

As a robustness check, the TWFE model was re-estimated by incorporating CAR, NPF, and FDR as controls for capital adequacy, financing risk, and the bank intermediation function, respectively. The number of control variables was deliberately limited to maintain a parsimonious specification given that the panel comprises only 48 observations.

Table 8. TWFE Robustness Test Results with Control Variables

Variable	Coefficient	Prob.
Asset Spread	-0.816442	0.0237
GCG	-0.211369	0.4539
CAR	-0.030678	0.1599
NPF	-0.033635	0.8808
FDR	0.013840	0.4615
Adjusted R²	0.818879	–

Bank FE = Yes; Time FE = Yes; Bank-clustered robust SE = Yes.

Source: Authors' calculations using EViews 14 (2026).

As shown in Table 8, The robustness test indicates that Asset Spread retains a negative and statistically significant coefficient after controlling for CAR, NPF, and FDR ($\beta = -0.816442$; $p = 0.0237$), whereas GCG remains statistically insignificant ($\beta = -0.211369$; $p = 0.4539$). The consistency in the direction and statistical significance of the Asset Spread coefficient suggests

that the main finding is relatively robust to the inclusion of the selected bank-specific financial characteristics. Nevertheless, this result does not eliminate all potential omitted-variable bias and should not be interpreted as evidence of a causal relationship.

4.5. Hypothesis Testing and Discussion

4.5.1. Effect of Asset Spread on Profit Distribution Management

The TWFE estimation with bank-clustered robust standard errors reveals a significant negative association between Asset Spread and PDM ($\beta = -0.661398$; $p = 0.0446$), supporting H1. This relationship remains significant after controlling for CAR, NPF, and FDR ($\beta = -0.816442$; $p = 0.0237$). Thus, a wider Asset Spread is associated with a lower level of profit distribution to holders of temporary syirkah funds.

This finding can be interpreted through the Displaced Commercial Risk (DCR) mechanism, whereby competitive return pressures may influence banks' profit distribution decisions. Profit-sharing investment accounts may create market pressure that affects Islamic banks' managerial decisions (Boulanouar et al., 2026). Financial expertise among Sharia Supervisory Board (SSB) members may also contribute to controlling liquidity and credit risks. From an Agency Theory perspective, agency costs can affect the performance of Islamic banks (Kismawadi, 2025). A larger SSB may also reduce agency costs by strengthening oversight.

Overall, the negative association between Asset Spread and PDM suggests that bank-specific economic conditions and competitive pressures may be related to profit distribution decisions. However, the DCR mechanism was not directly tested in this study. The observed relationship may also reflect reverse causality, income smoothing, depositor characteristics, PDM measurement, or unobserved bank-specific factors. Therefore, this finding should be viewed as a relatively robust negative association rather than evidence of causality.

4.5.2. Effect of Good Corporate Governance on Profit Distribution Management

The TWFE results show that GCG is not significantly associated with PDM ($\beta = -0.066024$; $p = 0.7766$), providing no support for H2. The association remains insignificant after controlling for CAR, NPF, and FDR ($\beta = -0.211369$; $p = 0.4539$). Thus, the findings provide insufficient statistical evidence of an association between variations in the composite GCG score and PDM among Islamic Commercial Banks during the observation period.

This insignificant relationship may partly reflect the characteristics of the GCG measurement. The original self-assessment score exhibits relatively limited variation (Std. Dev. = 0.385) and may capture formal compliance more strongly than the substantive effectiveness of governance mechanisms. Previous evidence also suggests that governance effects can vary depending on the measurement proxy employed (Badshah et al., 2021). More specific governance characteristics, such as SSB independence, may produce stronger effects (Al Thnaibat et al., 2024). SSB members' accounting and financial expertise may also contribute to reducing risks in Islamic banks.

Under Agency Theory, governance is expected to reduce information asymmetry and constrain managerial discretion. A larger SSB can contribute to lower agency costs. SSB independence may also improve Islamic bank performance. Nevertheless, the present findings suggest that these governance functions are not captured by the composite GCG measure used in this study. Hence, the insignificant result should not be interpreted as evidence that governance is irrelevant. Rather, it indicates that the selected GCG proxy may not adequately capture governance characteristics associated with PDM. Future research could therefore

employ more specific indicators, including SSB independence and size, Audit Committee expertise, meeting frequency, ownership concentration, and disclosure quality.

5. Conclusion and Suggestion

This study examines the association of Asset Spread and Good Corporate Governance with Profit Distribution Management among eight Islamic Commercial Banks in Indonesia over the 2020–2025 period. The Two-Way Fixed Effects (TWFE) estimates with bank-clustered robust standard errors indicate a negative and statistically significant association between Asset Spread and PDM, whereas the composite GCG score is not significantly associated with PDM. The negative association between Asset Spread and PDM remains stable after controlling for CAR, NPF, and FDR. Overall, the findings indicate that a larger gap between returns generated from bank assets and those allocated to investment account holders is associated with lower profit distribution, as measured by the ratio of profit sharing to temporary syirkah funds. Given the observational research design, these results should be interpreted as conditional empirical associations rather than evidence of causal effects.

From a theoretical perspective, this study contributes to the literature by offering a new empirical application of Asset Spread as an explanatory variable for PDM. The study does not propose Asset Spread as a novel construct or claim that it provides a more accurate or superior measure than ROA, NOM, or other financial indicators. The observed negative association can be interpreted within the theoretical framework of Displaced Commercial Risk (DCR), whereby a narrowing gap between asset-generated returns and returns allocated to investment account holders may intensify the pressure on Islamic banks to maintain competitive returns. Agency Theory offers a complementary perspective by emphasizing managerial discretion that may arise from the relationship between Islamic banks as fund managers and investment account holders as fund providers. Stakeholder Theory further highlights the importance of balancing the interests of investment account holders and shareholders while maintaining the bank's long-term sustainability. Nevertheless, DCR remains a plausible theoretical mechanism for interpreting the observed association and is not empirically tested as a causal mechanism in this study.

The absence of a statistically significant association between the composite GCG score and PDM should not be interpreted as evidence that governance is irrelevant to profit distribution practices. Instead, the results indicate that the analysis provides insufficient statistical evidence of such an association when governance is represented by the composite self-assessment score employed in this study. The relatively limited variation in GCG scores, combined with the self-assessment nature of the measure, may restrict its ability to reflect differences in the substantive effectiveness of governance and supervisory practices across banks. Consequently, the finding is more appropriately interpreted as a limitation of what can be inferred from the governance proxy used in the empirical analysis rather than as evidence against the theoretical relevance of governance in profit distribution decisions.

From a managerial perspective, the findings underscore the importance of monitoring the gap between returns generated from bank assets and those allocated to investment account holders when developing profit distribution policies. Decisions concerning the distribution of returns should take into account the competitiveness of returns offered to investment account holders while preserving the bank's financial sustainability. In addition, the implementation of GCG

should extend beyond formal compliance requirements by promoting effective oversight, transparency, and accountability throughout the profit distribution process.

From a regulatory perspective, the findings suggest the importance of monitoring profit-sharing practices by considering the interaction among asset performance, returns allocated to investment account holders, and potential exposure to DCR. Governance assessments may also benefit from incorporating more substantive and disaggregated indicators alongside composite self-assessment scores. Such an approach could enable regulatory evaluations to capture not only formal compliance with governance requirements but also the effectiveness of supervisory mechanisms, transparency in profit distribution practices, and the protection of investment account holders' interests.

6. Limitations and Future Research

Several limitations should be considered when interpreting the findings of this study. First, the analysis is based on a relatively small sample of eight Islamic Commercial Banks and 48 bank-year observations, which may constrain statistical power, reduce the precision of statistical inference, and limit the generalizability of the results. The presence of only eight bank clusters also warrants particular caution when interpreting inference based on bank-clustered robust standard errors. Second, Bank Syariah Mandiri, BRI Syariah, and BNI Syariah were excluded from the sample following their merger into Bank Syariah Indonesia in 2021. Although this decision was intended to preserve consistency in the cross-sectional units throughout the observation period and avoid structural discontinuities associated with the merger, it may reduce the extent to which the sample represents the Indonesian Islamic banking industry as a whole. Third, while CAR, NPF, and FDR were included as additional control variables in the robustness specification, the potential influence of omitted variables cannot be completely ruled out. The composite GCG self-assessment score may also have limited ability to capture the substantive quality and effectiveness of governance mechanisms, particularly given its relatively limited variation across the observations. Moreover, the observational research design does not support a causal interpretation of the estimated relationships, as alternative explanations such as reverse causality, income-smoothing practices, differences in depositor composition, and other unobserved time-varying bank characteristics may contribute to the observed associations. Future research could address these limitations by expanding the sample of banks, extending the observation period, incorporating relevant macroeconomic and industry-level factors, and employing more objective and disaggregated governance indicators, including board independence and size, Sharia Supervisory Board characteristics, Audit Committee expertise, meeting frequency, ownership concentration, and disclosure quality. Further studies could also examine lagged relationships or employ appropriate dynamic panel specifications to assess whether the association between Asset Spread and PDM persists over time and across alternative empirical specifications.

Declaration of AI and AI-Assisted Technologies in the Writing Process

During the preparation of this manuscript, the author used AI and AI-assisted technologies, including NotebookLM, Gemini (Google), ChatGPT (OpenAI), and DeepL, to support the writing and language-editing process. These tools were used solely for writing and language-editing assistance and did not independently determine the research design, conduct the empirical analysis, interpret the statistical findings, or formulate the study's conclusions. The author reviewed, verified, and edited all AI-assisted content and assumes full responsibility

for the accuracy, originality, interpretation of the data and results, and final content of the manuscript.

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