Determinants of market share in sharia banking of the ASEAN countries

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ABSTRACT

This study analyzes the effect of Islamic banks on economic growth in ASEAN. This type of research is quantitative, with data analysis using multiple linear regression and classical assumption tests. The research sample is Islamic banking registered with World Bank ASEAN. The findings of this study consist of 1) competitiveness, capitalization, financing risk, size, and interest rates do not affect market share. 2) GDP and exchange rate effect on market share. The results of this study are expected to create an integrated and robust Islamic financial area, so there needs to be cooperation among relevant parties among ASEAN countries to reduce the gap. Sharia economic actors and practitioners must remain enthusiastic and optimistic in Sharia society and socialize Sharia. The benchmark of competitive advantage is internal strength that is better than its competitors, and the company can fix internal weaknesses. In addition, external factors also need attention, and companies must be observant to see existing opportunities and minimize threats.

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Studi ini menganalisis pengaruh bank syariah terhadap pertumbuhan ekonomi di ASEAN. Jenis penelitian ini bersifat kuantitatif, dengan analisis data menggunakan regresi linier berganda dan uji asumsi klasik. Sampel penelitian adalah perbankan syariah yang terdaftar di World Bank ASEAN. Temuan penelitian ini terdiri dari 1) daya saing, kapitalisasi, risiko pembiayaan, ukuran, dan suku bunga tidak mempengaruhi pangsa pasar. 2) PDB dan nilai tukar berpengaruh terhadap pangsa pasar. Hasil kajian ini diharapkan dapat menciptakan kawasan keuangan syariah yang terintegrasi dan kuat, sehingga perlu ada kerja sama antar pihak-pihak terkait di antara negara-negara ASEAN untuk mengurangi kesenjangan tersebut. Pelaku dan praktisi ekonomi syariah harus tetap semangat dan optimis dalam masyarakat syariah serta mensosialisasikan syariah. Tolok ukur keunggulan kompetitif adalah kekuatan internal yang lebih baik dari pesaingnya, dan perusahaan dapat memperbaiki kelemahan internal. Selain itu, faktor eksternal juga perlu diperhatikan, dan perusahaan harus jeli melihat peluang yang ada dan meminimalisir ancaman.

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1. Introduction

Southeast Asia has become a significant player in the global Islamic finance industry due to its rapid growth. The countries within the Association of Southeast Asian Nations (ASEAN) region have shown varying degrees of development in this sector. Malaysia and Indonesia, leading the way, have been actively establishing Islamic banks, with Brunei Darussalam following suit. Additionally, Singapore, despite being a Muslim minority country, along with the Philippines and Thailand, also harbors ambitions to develop its Islamic finance industry. Increasing competition in the financial services industry has a negative impact on the performance of Islamic banks. This is due to limited capital, funding sources, and human resources (Iqbal et al., 2022). Therefore, the role of financial inclusion is important because it has a positive effect on poverty levels (Bruhn & Love, 2014; 'Park & Mercado, 2015).

Ali (2011) said that Islamic banking and *market share* remained resilient during the global financial crisis caused by three factors: (a) Islamic banks' financing activities are more tied to actual economic activities than their conventional counterpart. Similarly, murabahah and ijarah transactions, a form of Islamic leasing, necessitate that Islamic banks know the purpose and utilization of their customers' finances. When the customer has fulfilled the requirements for using funds, the customer and parties from Islamic banks make a contract. Unlike conventional bank financing, Customers are not obligated to disclose the specific use of funds to Islamic banks as long as they are deemed creditworthy or can provide adequate collateral; (b) tend to avoid direct involvement with complex and risky financial derivative products. Derivative products are conventional bank products that are not known in banking based on Sharia principles. Violations of the Sharia Banking Law harm the Islamic banks concerned and the entire Islamic banking industry. In addition, if there are derivative transactions in Islamic banking, these transactions escape the supervision of not only the *World Bank* but also the Sharia Supervisory Board; and (c) In terms of liquidity, Islamic banks typically maintain a more significant portion of their assets in liquid form compared to conventional banks. This is primarily due to the absence of a lender of last resort (LOLR) facility available to Islamic banks and their limited access to market liquidity through the interbank market. Therefore, Islamic banks deliberately manage their liquidity as a risk management strategy.

As competition between banking industries gets tighter between Islamic banking and conventional banking, it does not reduce the interest in saving for the Muslim community in Islamic banking (Haider et al. 2016). This is due to public awareness of usury or interest that burdens customers. In addition, there is support for the emergence of Islamic banking slogans, namely "profit and loss sharing" in financial transactions rather than interest, which is part of conventional banking transactions. Some previous studies relevant to this research problem such as Chazi and Syed (2010); Hasan and Dridi (2011); Beck (2013); Rosman (2013); Fakhfekh (2016); Bourkhis (2013); Johnes (2014); Grira (2016); Olson (2017); Claessens (1998); Hasan and Dridi (2011); Rofi'ah (2017); Yulaeli et al., (2022); ElMassah & El-Sood (2021); Moreno-Gómez et al., (2018); Chen and Liao (2011); Conyon and He (2017); Gomez-Mejia (2019), Ahern and Dittmar (2012) Gomez-Mejia et al., (2019); ; Post and Byron (2013).

Some study results show several GAP research related to issues, variables, and research results, so strengthening this research is essential. Some previous GAP research studies include (1) the case of risk exposure to the global financial crisis in Islamic and conventional banking, and the results show that risk exposure has a positive effect on market share Beck (2013); Chazi & Syed (2010); Hasan & Dridi (2011); Rosman (2013); Fakhfekh (2016) and Rosman et al.,(2013); (2) the issue of comparison between conventional banks and Islamic banks in increasing resilience by looking at the adequacy of capital ratios, liquidity levels and the risk of non-performing loans. The study results show that resilience does not affect market share (Bourkhis, 2013; Grira, 2016; Izzeldin et al., 2021); and (3) macroeconomic issues on the profitability of Islamic banking. The study results show that macroeconomics affects bank profitability (Claessens, 1998; Hasan &; Dridi, 2011); (4) cultur*al and market share* issues. Study results show different (inconsistent) results Ahern & Dittmar, (2012); and Post & Byron (2013); Conyon & He (2017). Thus, this research is necessary because this research issue is different from other studies, namely related to resilience and *market share* in its scope with (1) internal factors and (2) external factors (Belkhaoui, 2014; Delis & Papanikolaou, 2009; Rofiatun, 2016; and Yulaeli et al., 2022). The first factor includes competitiveness, capitalization, financing risk, and size. The second factor comprises macroeconomics. The macroeconomics referred to in this study are GDP, interest rates, and exchange rates.

Based on the phenomenon of previous studies and interested parties (government, banking, and prior researchers) shows that no one has provided a solution to this research issue (*GAP research*). Therefore, this research is essential to be carried out by researchers with the problem of how competitiveness, capitalization, financing risk, size and gross domestic product (GDP), interest rates, and exchange rates influence the market share of Islamic banking institutions.

2. Literature Review

Structure Conduct Performance Theory

According to the Structure Conduct Performance (SCP) theory, the market structure plays a crucial role in determining the performance of an industry. A concentrated market structure can lead to various forms of unhealthy business competition behaviors to maximize profits. Companies with a dominant market share exerting market power are likelier to maximize their profits. In such a market structure, dominant firms significantly influence market dynamics, including pricing, product offerings, and market entry barriers. This can result in reduced competition, limited consumer choices, and potentially higher prices. Companies with a dominant market position have a more extraordinary ability to control market outcomes, leading to potentially higher profits. It is important to note that the SCP theory highlights the relationship between market structure and company behavior, which ultimately affects performance. The theory suggests that regulatory measures and competition policies should be in place to promote healthy and competitive markets, preventing the abuse of market power and ensuring fair and efficient outcomes for consumers and the overall economy.

The SCP approach was first introduced by McWilliams (1993) and then applied by Tung (2010). The SCP approach to industrial organization analysis is a hypothesis that states that the performance or existence of the market or industry is influenced by market behavior. At the same time, the company is

Also influenced by various variables that make up the market structure. Orges & Omer (2008) state that in practice, the application of SCP analysis is more widely used to examine the relationship between market structure and company performance. Analysis of the relationship between company behavior and performance is not much done because it is challenging to find proxies (indicators) of company behavior that are easily quantified. Performance measures in most industry analyses are presented with estimates of profitability. In this case, profitability tends to be positively associated with market power owned by the company. The higher the degree of market power of the company is followed by the ability of the company to apply prices above marginal costs, which is higher, and subsequently, tends to be followed by the level of profitability of firms in the market, which is also higher. According to Kaminsky & Reinhart (1999), the causes of financial system instability come not only from exogenous or external factors, such as war or economic disaster, but also from endogenous or internal factors with much greater dominance. Stable financial and economic conditions create an environment that encourages economic actors to be more willing to take risks. However, during times of overconfidence, financial crises can emerge, leading to significant impacts. The causes of financial problems can be classified into two categories: endogenous factors and exogenous factors. Endogenous factors originate from internal management and the valuation of financial ratios within an economy. Exogenous factors, on the other hand, arise from external sources such as banks and macroeconomic variables that have a systemic impact.

Kaminsky & Reinhart (1999) financial crises in countries can be attributed to several indicators. These indicators include the balance of payments, economic growth, inflation, exchange rates, interest rates, and the money supply. Monitoring and analyzing these indicators can be early warning signs for identifying vulnerabilities that may lead to a crisis. By paying close attention to these indicators, policymakers and analysts can enhance their ability to detect signs of potential crises and take appropriate preventive measures. Early detection of crisis vulnerability can help mitigate the adverse effects of financial crises and facilitate more effective crisis management strategies.

Thus, Structure Conduct Performance (SCP) influences a bank's resilience and *market share*. Because SCP can determine how banking actors determine their performance, to maintain the resilience of a bank is to increase market share. Increased market share can allow companies to achieve greater scale by increasing profitability. A company can try to expand its market share by lowering prices, advertising, or introducing new or different products. In addition, a company can also increase the size of its market share by attracting other audiences or demographics.

Hypothesis

Competitiveness, Capitalization, Financing Risk, and Size to Market Share

Competitiveness is a condition where several parties compete to fight for something. In a competitive market, banks have little market power. The enormous market power in the banking sector will cause banks to increase lending interest (Boyd, 2005). This explanation aligns with De Franco et al. (2013) and Sahut (2011), who found a positive relationship between competition and market power as measured by the Lerner and CAR indices. In research conducted by Chortareas (2012), it is stated that a competitive market results in low spreads in the Latin American banking sector. The intensity of competition in the banking market can influence comprehensive market strength. This has been proven

by Kachtouli (2014), who found a decrease in profitability in the banking industry with high competition. Increased competition, as measured by Panzer Rosse's h-statistic, negatively affects market share. So it can be concluded that high competition intensity can increase market share.

Capitalization or capital is vital in the continuity of the bank's business. One way to determine the strength of a bank's capital is to calculate the ratio of equity to total assets (EAR). The capital owned by the bank can be used to anticipate existing risks and for the development of the bank's business to increase the profits obtained by the bank. Generally, banks with a high capital-to-asset ratio are considered relatively safer during loss or liquidation. Banks with good capital face lower bankruptcy costs and reduced funding costs, or they have lower requirements for external funding, which results in higher profitability and more robust market share (Pasiouras, 2007). A bank with healthy capital can pursue business opportunities more effectively and have more time and flexibility to deal with problems arising from unexpected losses to achieve increased market share (Athanasoglou, 2008). According to research conducted by Noman et al. (2017), credit risk, loan ratio, cost efficiency, and capitalization negatively affect the market share of Islamic banking. At the same time, Contessi et al. (2013) and Sioulas & Gracia (2012) found that capitalization has a significant positive effect on market share.

Financing risk can describe the debtor's failure to fulfill its obligations to the bank. A high NPL ratio illustrates the frequent occurrence of bad loans experienced by banks. Bad loans can increase losses suffered by banks, thereby reducing market share. This explanation aligns with Farook et al. (2011), who found a significant negative relationship between NPL and CAR. (Noman et al., 2017) in their research, shows that credit risk, loan ratio, cost efficiency, and capitalization negatively affect the market share of Islamic banking.

In contrast to the research conducted, Saurina et al. (2011) and Sufian (2012) found a significant positive relationship between financing risk and Islamic banking market share. Although many risky loans still result in higher profitability with a stable market share. It implies a positive relationship between non-performing loans (a measure of credit risk) and bank profitability.

Size is a bank measure measured using the logarithm of total assets. The size of the bank positively affects the market share (Kosmidou, 2008). Since diversification reduces risk and economies of scale improve operational efficiency, a positive relationship exists between size and market share (Çalim, 2013). Noman et al., (2017) show that credit risk, loan ratio, cost efficiency, and capitalization negatively affect the market share of Islamic banking. The results of Khattak et al., (2021) stated that the company's size has a positive and significant influence on the market share of Islamic banking measured using the capital adequacy ratio. The results of other studies also show the same influence, namely research by Duho & Onumah (2019) and Lee et al., (2014).

In the context of Islamic banking, implementing the SCP (Structure Conduct Performance) theory can help identify how market structure influences the behavior of banks and how the behavior of banks, in turn, affects their performance. Furthermore, it can aid in understanding how factors such as capital and bank size play a role in enhancing the competitiveness of banks and reducing financing risks. However, it is essential to remember that external factors and regulations influence Islamic banking, so SCP analysis must be applied cautiously, considering all relevant variables.

Based on this description, the hypotheses to be tested in this study are as follows:

H$_1$: Competitiveness has a positive effect on market share
H$_2$: Capitalization has a positive effect on market share
H$_3$: Financing risk has a positive effect on market share
H$_4$: Size has a positive effect on market share

GDP, Interest Rates, and Exchange Rates to Market Share

Sukirno (2004) mentions economic growth as a quantitative measure that describes the development of an economy. When analyzing economic development, comparing the current year's performance with the previous year's is common. This comparison is typically expressed in terms of percentage changes in national income. National income refers to the total value of goods and services produced within a country's borders during a specific year. Conceptually, this value is known as Gross Domestic Product (GDP). By calculating the percentage change in GDP from one year to another, we can assess the direction and magnitude of economic growth or contraction. This comparison evaluates the economy's performance and helps identify trends and patterns. Research conducted by (Demirgüç-Kunt & Huizinga, 1999) uses macroeconomic factors and a country's financial structure to see its market share. In his study, he explained that inflation positively affects market share, provided that banks can raise interest rates faster than the costs incurred due to inflation. Hasan et al. (2022), who conducted research on Islamic banks worldwide, found that macroeconomic variables positively affect increasing market share, assuming that Islamic banking does business by not using the principle of interest and more towards real investment with a profit-sharing model.

Research by Williams (2003) states that the relationship between market share and per capita income affects the banking world. Williams (2003) also states that GDP Growth affects the level of market share, in contrast to research conducted by Naceur (2003), who said that GDP and per capita income did not significantly influence market share, especially in Tunisia. (Athanasoglou, et al., 2006) also states that GDP per capita does not significantly increase net interest margin if this variable is associated with market share. Research conducted by Nurjanah & Sumiyarti (2009) said that when income rises, mudharabah deposits will also increase, and vice versa. When income falls, mudharabah deposits will decrease. The relationship between income and savings can be seen from the savings function. The savings function is a function that shows the relationship between the amount of savings and the amount of income in a certain period of time or can be interpreted as the remaining income that is not consumed (Waluyo, 2019).

Islamic banking still has a small share in implementing the dual banking system. Islamic banks are often still influenced by conventional commercial banks (Lewis, 2010; Plimmer et al., 2023). One of the influencing factors is the deposit interest rate factor in conventional commercial banks. Based on the substitution effect, an increase in deposit rates at conventional commercial banks can result in the movement of funds from Islamic banks to conventional commercial banks because profit-oriented customers will choose to deposit their funds in products that provide higher profits. Bahagia et al. (2020) show that interest rates on conventional commercial bank deposits significantly negatively affect the growth of Mudharabah Deposits. In contrast, Eliana et al. (2021) said that interest rates positively affect market share in Islamic banking. This is because the Islamic banking customer base is influenced by emotional/spiritual. The interest rate is still used to determine the level of rewards and profit sharing

provided by Islamic banks. So, it can be estimated that there will be only a slight difference between the benefits obtained by rational customers from commercial bank interest and the benefits of savings products in Islamic banks for short-term savings products such as Current Accounts and Savings.

The foreign exchange rate plays a significant role in banking profitability, as banks engage in foreign exchange buying and selling activities. Typically, trading foreign exchange is highly profitable, as it involves generating profits through exchange rate differences. This occurs because foreign exchange traders always offer two exchange rate prices. Banks provide foreign exchange services by facilitating the buying and selling of currencies. When customers exchange one currency for another, banks benefit from the difference between the buying and selling rates, commonly known as the spread. The spread represents the profit margin for the bank in foreign exchange transactions. Under normal circumstances, banks can capitalize on favorable exchange rate fluctuations to maximize profitability. However, it's important to note that exchange rates can be subject to volatility and unpredictable changes, which may introduce risks to the profitability of foreign exchange activities. Therefore, banks must carefully manage these risks while seeking profitable opportunities in the foreign exchange market (Sakyi, et al., 2015).

When the Indonesian Rupiah depreciates against major currencies like the United States Dollar (USD), it can lead to capital outflows or capital flight, as individuals may prefer to invest abroad due to the expectation of higher returns compared to investment opportunities in Indonesia. The lower expectation of return on investment in Indonesia, caused by the depreciation of the Rupiah, may discourage domestic investors from keeping their funds in the country. Research conducted by Bourkhis & Nabi (2013) and Beck et al. (2013) see a positive relationship between inflation or long-run interest rates and profitability in increasing the market share of Islamic banking. In contrast, research conducted by Mihajat (2018) says that exchange rates are not supported by profitability; they affect market share. This means that the exchange rate will not be able to encourage better banking performance if the exchange rate does not provide increased profitability for banks. Because it will be verydangerous when exchange rate depreciation burdens companies with low-profit levels.

In the context of Islamic banking, the SCP theory can be used to analyze how macroeconomic factors such as GDP, interest rates, and exchange rates affect the market share of Islamic banks. SCP analysis shows that strong economic growth (positive GDP rate) can positively impact the market share of Islamic banks. Robust economic growth will boost overall economic activities, increasing demand for Islamic banking products and services. With low-interest rates, Islamic banks can offer financing and credit at lower costs, attracting more customers. Moreover, if the currency exchange rate weakens, Islamic banks can gain a competitive advantage by providing products and services at lower prices to domestic and foreign customers.

Thus, the hypotheses to be tested in this studyare as follows:
H_5: GDP Affects Market Share
H_6: Interest Rates Affect Market Share
H_7: Exchange Rate Affects Market Share

3. Research Method

Research Sites

This research was conducted on all Islamic banks listed in *Banscope World Bank* ASEAN. This research method uses multiple linear regression analysis and classical assumption test methods.

Population and Sample

The population in this study is all companies listed in the Jakarta Islamic Index. At the same time, the sampling method used in this study was carried out by purposive sampling. The sample in this study is Islamic banking registered with the Banscope World Bank ASEAN for six years, from 2015 to 2020. The samples in this study were taken based on the following conditions:

1. Sharia banks listed in World Bank ASEAN countries data

2. Have a complete annual financial report for 2015-2022 that has been published

3. Provides sufficient calculation data to calculate all variables used

Table 1. Description of data sample

Country (Asean)	Number Of Bank
Indonesia	15
Brunei Darussalam	1
Philippines	1
Malaysia	17
Singapore	5
Thailand	1
Total	**40**

Data Analysis Methods

The analysis method used in this research is panel data regression. The data analysis in this study is conducted with the assistance of the SPSS program. The research has followed the appropriate statistical methods and considered the limitations of the sample size, which consists of only 40 units of analysis. (Winarno, et al., 2015).

The hypothesis test used a t-test, f-test, and coefficient determination (R^2). The initial form of the equation is:

$$Y_{it} = + \quad + \alpha + \beta_1 X_{1it} \beta_2 X_{2it} \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \beta_7 X_{7it} + e_{it}$$

With the following information:

Y_{it}: Market Share

α: Coefficient

$\beta_1 - \beta_2$: Regression Coefficient β_3

$X_{1it} - X_{4it}$: Competitiveness, Capitalization, Financing Risk and Size

$X_{5it} - X_{7it}$: GDP, Interest Rates, and Exchange Rates

e_{it}: Error term

4. Result and Discussion
Descriptive Statistics

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Competitiveness	36	.00	17.22	8.7387	4.17646
Capitalization	36	.00	11.54	4.3066	2.98600
Financing Risk	36	.00	6900.00	441.9688	1103.34965
Size	35	.00	10.46	8.6443	2.41734
PDB	36	18.11	47.75	39.4357	8.01673
Interest	34	1.00	1325.00	131.3125	227.45231
Exchange rate	36	1.00	38458.00	8319.9167	11905.81421
Market Share	36	.00	48.24	37.2439	14.47922
Valid N (listwise)	33				

Source: Processed secondary data, 2023

Table 1. The descriptive statistical analysis results explain the general description of the data variables used in this study. The variable resilience of Islamic banking in ASEAN countries has an average competitiveness (mean) of 8.74 with a standard deviation of 4.17, capitalization has an average value of 4.30 with a standard deviation of 2.98, an average financing risk of 441.97 with a standard deviation of 1103.34, while the size has an average of 8.64 with a standard deviation of 2.41.

Macro variables of ASEAN countries have an average value in GDP of 39.44 with a standard deviation of 8.01, Income per Capita has an average value of 29.30 with a standard deviation of 8.62, interest rates with an average value of 131.31 with a standard deviation of 227.45, and Exchange rates have an average of 8319.92 with a standard deviation of 11905.81.

Test t

Table 2
Test Results t

Type		t	Sig.
1	(Constant)	-15.097	.000
	Competitiveness	.591	.556
	Capitalization	1.167	.247
	Financing Risk	-1.286	.202
	Size	-1.036	.303
	.PDB	34.110	.000
	Interest	.728	.469
	Exchange rate	-3.008	.004

Source: Processed secondary data, 2023

Based on Table 2 above, the research results for the t-test are as follows:

1. Competitiveness has a significance value of $0.556 > 0.05$, and it can be concluded that competitiveness (H_1) does not affect Market Share. With high competition, customer loyalty tends to decrease, so the relationship between customers and banks becomes less stable and more short-term. Such conditions can trigger the emergence of asymmetric information problems and stimulate banks to focus more and spend a lot of money on activities to increase customer loyalty. Competition can

Cause inefficiencies in the relationship between the level of competition and bank efficiency (Casu & Girardone, 2009). This research is in line with the results of Elsas (2010); Forssbæck & Shehzad (2012); Kabir & Worthington, (2017); Kachtouli (2014); Majumder & Li (2018); Weersainghe & Ravinda (2013); Sharma & Anand (2018); Stiroh & Rumble (2006); and Williams & Prather (2010); who found competitiveness had no effect on market share and did not support research conducted by (De Franco et al., 2013) and (Sahut & Mili, 2011) which found a positive relationship between competitiveness and market share. According to the theory of Structure Conduct Performance (SCP), a market with fewer banks tends to exhibit less competitive behavior among banks. The theory suggests that market structure influences the conduct or behavior of firms within that market, which subsequently affects their performance. Market competitiveness will result in outcome efficiencies equivalent to marginal costs. The competitiveness between banks is in the form of a struggle for productive resources such as sources of income, namely deposits, savings, and credit distribution. In addition, competition can also take the form of new types of services and products supported by technological developments, where technological developments can reduce distribution and production costs (Boyd, 2005).

2. Capitalization has a significance value of $0.247 > 0.05$; it can be concluded that capitalization (H_2) does not affect Market Share. This means that even though the capitalization of Islamic banks increases, it is rather difficult to reduce the credit risk of Islamic banks due to the fact that Islamic banks do not use collateral to cover loan losses (Sobarsyah et al., 2020). According to Abedifar et al. (2015), there are two reasons capitalization does not affect the market share of Islamic banking: First, Islamic banks do not have flexibility in adjusting the risk profile of borrowers, causing loan mispricing and adverse selection problems. Second, Islamic banking still does not comply with Sharia principles. This is also in line with the opinion of Hussain et al., (2021), who said that the profits and losses of Islamic banks could occur due to the risk of withdrawal originating from investment account holders. As a result, the risk of depositor withdrawals from Islamic banks may encourage Islamic banks to offer higher deposit rates compared to market interest rates that are not in line with Sharia principles (Obaidullah, 2005). Thus, this study is in line with research conducted by Alqahtani et al. (2017); Bourkhis & Nabi (2013), which resulted in capitalization not affect the market share of Islamic banking due to lack of monitoring by Islamic banks, lack of flexibility in restructuring loan losses by using collateral, and the risk of debt holder withdrawal thus posing higher risks and inefficiencies. This is not in line with research conducted by Contessi et al. (2013) and Sioulas (2012), who show that capitalization significantly affects market share. This is due to the increase in capital in Islamic banks to increase bank opportunities to increase business expansion with the addition of a capital adequacy ratio to increase profitability. Islamic banks must raise capital. Structure conduct performance theory supports this research, where high capitalization can result in high credit risk. Therefore, high credit growth tends to harm Islamic banks. On the other hand, high bank capitalization also suggests that self-serving bank managers can reshuffle bank portfolios to increase profitability through higher risk-taking. Thus, higher capitalization can worsen bank risk-taking and worsen financial stability (Bitar et al., (2018); Iannotta et al., (2007); Jeitschko & Jeung (2005).

3. Financing risk has a significance value of $0.202 > 0.05$, and it can be concluded that financing risk does not affect (H_3) Market Share. This means that Islamic banks providing loans must be based on

The principle of profit-loss sharing (PLS), where both parties are equally responsible for loan losses. According to Olweny & Mamba (2011), if banks cannot manage their credit correctly, it will reduce profitability, ultimately reducing asset quality. This is in line with this study and research conducted by Athanasoglou, P. P., Delis, M. D., &; Staikouras (2006); Chen et al. (2018); Hidayat &; Abduh (2012); Rahman et al., (2009); Sufian &; Noor (2009); Sufian (2011); banks that have a high level of credit risk due to the accumulation of debtors' inability to make payments resulting in low profitability. Low profitability has an impact on the level of market share of banks. Thus, management must pay attention to credit risk, which can later become a problem in the future because the biggest bank failure comes from how banks can recognize the weakness of their assets and create reserves for (write off) assets. (Illes, et al., 2019) and Sufian (2012) found a significant relationship between financing risk and Islamic banking market share. Although many risky loans still result in higher profitability with a stable market share. This research is in line with the theory of structure conduct performance, which says that the main product of banks in their operational activities is loans. When total loans rise, the rate of return on assets will increase. It will affect the company's size to be larger, and if the scale of production increases, it will be more efficient as long as the loans are not loans with risks. High-capitalized banks will follow stricter rules, and rules can help stabilize deteriorating NPLs.

4. Size has a significance value of $0.303 > 0.05$, and it can be concluded that size does not affect (H_a) Market Share. This is because larger banks cannot benefit from their products due to the occurrence of bad loans and high financing, so the returns obtained are small. Besides that, banks are more likely to use external funds' (Dietrich & Wanzenried, 2009). Hu (2004) and Salas & Saurina (2002) supported the study's results, showing the absence of the influence of bank size on market share. Conversely, research conducted by Lee (2014) and Behname (2013) is not in line with this study because the larger the size of a bank, the more the total bank revenue, so the net profit generated by the bank will increase. Thus, this study aligns with the theory of structure conduct performance, which states that when a company is more prominent, its operating costs per unit will decrease. This decrease in operating costs occurs due to the reduction in production costs per unit of a company and the increase in production (output). The larger the size of a bank, it will also show that the bank has more resources that can be maximized so that it will be more efficient for the cost of collecting and processing the information needed than banks with smaller sizes.

5. GDP has a significance value of $0.000 < 0.05$, and it can be concluded that GDP affects Market Share. Gross Domestic Product (GDP) reflects a country's residents' activities in producing a good within a certain period of time. GDP is a macroeconomic indicator that also affects the market share of Islamic banking. If GDP rises, it will be followed by an increase in people's income, so the ability to save (saving) also increases. This increase in savings will affect the profitability of Islamic banks. The results of this study are in line with the research of Noor & Ahmad (2012); Khan (2014); Lin (2016); Alharbi (2017); and Yousefi (2022) stated that there is a significant positive relationship between the market share of Islamic banks and the GDP growth rate. The higher the value of goods and services, the higher the level of productivity of a country, and the faster and more significant the flow of goods and services. In this process, the bank also functions as an intermediary institution that is one of the supporters of the process.

6. In contrast to research conducted by Athanasoglou, et al., (2006), Mongid (2016), Alqahtani et al. (2017), the economic growth rate has not been able to increase the market share of Islamic banks. This is because the Islamic economy prioritizes the circulation of money in the real sector to match money supply and money demand. Islam does not recognize money as a form of investment but as a medium of exchange, so money must be rotated for real business that brings benefits. Thus, it supports the theory of structure conduct performance, which states that although Islamic banks are interest-free, the dual banking system will still be affected. In Islamic banking, there must be an attachment and balance between the monetary and real sectors.

7. Interest Rates have a significance value of $0.469 > 0.05$, and it can be concluded that interest rates do not affect Market Share. That is, interest rates do not affect market share. Sharia Banks have four functions that are different from Conventional Commercial Banks. These four functions are investment managers, as investors related to profit distribution carried out by Islamic banks, social functions, and financial services. This makes the position of Islamic banks in the financial system unique. On the one hand, he runs the collection of funds like a Commercial Bank in the form of current accounts, savings, and time deposits. But on the other hand, the rewards he can give his customers depend largely on the income obtained from managing his funds. So ideally, customers cannot expect a definite income if they keep their funds in Commercial Banks. Those who deposit funds in Islamic banks and are ready to receive profits must also be willing to bear the risk. This phenomenon has led to the terms emotional (spiritual) and rational customers, where emotional customers have higher loyalty to Islamic banks than profit-oriented reasonable customers (Hassine & Limani, 2014). This research aligns with research conducted byMoussawi & Obeid (2010), which shows that interest rates do not affect market share. Thus, Islamic banks will operate more efficiently. However, not in line with research conducted by Sufian (2007), interest rates affect the market share of Islamic banking. This means that the customer base of Islamic banking is emotional/spiritual customers, although rational decisions will still affect the market share of Islamic banking. For emotional customers, the increase in interest at commercial banks does not tempt them to move their funds. Conversely, with the belief that the bank of choice is better, they may increase deposits by expecting rewards equal to or higher than those given by conventional banks (Cihak & Hesse, 2008). This research it is not in line with the Structure Conduct Performance (SCP), saying that when people decide to put their funds in the bank in the form of time deposits (deposits), then it means that they have seen the side of profit and security, especially if he compares investing elsewhere such as buying stocks.

8. The Exchange Rate has a significance value of $0.004 < 0.05$, so it can be concluded that the exchange rate affects the Market Share. The exchange rate of the US dollar against the Rupiah partially significantly affects Islamic banking. This means that Islamic banking is vulnerable to changes in the rupiah exchange rate. With fluctuations in foreign exchange rates, banks can earn income through fees and exchange differences. The exchange rate of one currency affects the economy if the exchange rate of that currency appreciates or depreciates. This research is in line with research conducted by Habib & Islam (2017); 'Javaid & Alalawi (2018) found that exchange rates are significant in determining the profitability and market share of Islamic banking. In comparison Nahar & Sarker (2016); Mbutor (2010); andHalim (2017) revealed that an increase in the real effective exchange rate would result in a decrease in Islamic bank financing and vice versa. An increase in the exchange rate signifies the depreciation of the local currency in a country, resulting in local goods becoming less competitive and

More expensive than foreign competitors. This is following the theory of structure conduct performance (SCP). Both individual and corporate customers will tend to withdraw their funds from Islamic banking if the Rupiah weakens. Corporate customers tend to attract liquid funds with low returns to overcome capital problems arising from rising production costs due to rising raw materials prices and capital goods derived from imports. Meanwhile, following its nature, deposit products in Islamic banking have relatively uncertain returns compared to conventional banks, so the weakening of the Rupiah will significantly impact market share.

Test F

Table 6

F Test Results

Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	16304.747	10	1630.475	175.092	.000[b]
	Residuals	744.967	80	9.312		
	Total	17049.714	90			
a. Dependent Variable: Market Share						
b. Predictors: (Constant), exchange rate, financing risk, size, interest rate, competitiveness, capitalization, GDP						

Source: Processed secondarydata, 2023

Based on the table above shows that the significance value is less than 0.05 (0.000 < 0.05), so it can be concluded that each independent variable (competitiveness, capitalization, financing risk, size, GDP, interest rates, exchange rates, population, and regulation) together affects the dependent variable (market share).

Determination Coefficient Test (R^2)

The coefficient of determination (R^2) is used to measure how far the model can describe the variation of the independent variable. The small R^2 value, then the ability of independent variables to explain the variation of the dependent variable, is very limited. An R^2 value close to one means that the independent variables provide almost all the information needed to predict the variation of the dependent variable. In this study using multiple linear regression, each independent variable partially and jointly affects the dependent variable expressed by R^2 to express the degree of determination test or how much influence the variables of competitiveness, capitalization, financing risk, size, GDP, interest rates, and exchange rates on market share. The value of the coefficient of determination (R^2) can be seen in Table 7 below:

Table 7

Coefficient Determination Test Results (R^2)

Model Summary				
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.978[a]	.957	.953	3.19662

Source: Processed secondary data, 2023

Based on Table 7, the coefficient of determination (R^2) test results above show an Adjusted R Square (R^2) value of 0.978. This indicates that the dependent variable market share can be explained by the dependent variable of competitiveness, capitalization, financing risk, size, GDP, interest rates,

exchange rates, population, and regulation by 97.8%. In comparison, other variables outside of this study influence 2.2%.

5. Conclusion

This study's main objective is to analyze Islamic finance's influence on economic growth in ASEAN countries. As a result of this influence, it is crucial to align Islamic finance products at both national and global levels to foster growth across countries rather than being restricted by differences in madhabs (Islamic legal schools). The presence of international institutions such as the International Financial Services Board (IFSB), International Islamic Financial Market (IIFM), and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) that provide globally adoptable regulations needs to be supported and further developed to achieve global regulatory convergence. Furthermore, it is essential to note that while fatwas (Islamic legal rulings) are not an absolute requirement for attracting customers in Islamic banking in ASEAN, practitioners in Islamic banking have two responsibilities. Firstly, they must act as ambassadors for Islamic banks, spreading awareness about Islamic finance. Secondly, they need to effectively function as marketers, promoting Islamic banking services. Educating the public is a key aspect of this process, as it helps position Islamic banks appropriately in the hearts and minds of the public. Often, a lack of understanding and limited awareness among practitioners about comprehensive Islamic principles and economics results in customers failing to grasp the products being offered. As representatives of Islamic banking, practitioners must be role models for their customers and provide Sharia-compliant products as the primary choice. Emphasizing the concept of "*ibda' binnafsih*" (self-starting or leading by example) can instill greater confidence in the broader community regarding the principles and values Islamic banking brings forth.

Market share reflects the extent to which customers are satisfied with a service or product. This research introduces several variables related to Sharia finance globally so that they can indirectly encourage the country's economic growth.

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