

FACTORS AFFECTING PROFITABILITY OF SHARIA COMMERCIAL BANKS IN INDONESIA

Widia Astuty^{1*}
Mhd. Husein Pasaribu²

^{*1, 2}Universitas Muhammadiyah Sumatera Utara

^{*1}email: widiaastuty@umsu.ac.id

Abstract: This study aims to empirically prove the factors that affect profitability in Islamic Banks in Indonesia seen from the Islamicity Performance Index as measured by Profit Sharing Ratio, Zakat Performance Ratio, and Islamic Income Ratio. This study uses an associative approach while the data collection technique uses documentation from the Otoritas Jasa Keuangan (OJK) through <http://www.ojk.go.id>. The population of this study is 12 Sharia Commercial Banks in Indonesia registered with the Otoritas Jasa Keuangan (OJK) from 2021 to 2022. The data analysis technique uses multiple linear regression analysis. The results of this study show that the Profit-Sharing Ratio variable affects profitability, while Zakat Performance Ratio, and Islamic Income Ratio do not affect profitability.

Keywords: Islamicity Performance Index, Profitability, Profit Sharing Ratio, Zakat Performance Ratio, Islamic Income Ratio

Introduction

The company's ability to generate profits from the use of all its resources can be measured through profitability. Profitability is one of the most appropriate indicators in showing the quality of financial performance. Because, basically an entity is established in order to get profit for the sustainability of the entity itself. Because one of the benchmarks to state the performance of a company, especially companies engaged in banking, is good or not, it can be seen from how much profit the bank gets (Hanania, 2015). Profitability can be measured using Return on Assets (ROA). ROA is a comparison between net profit after tax and total assets owned by a company. If the ROA owned by a company is good, it can be understood that the company's performance in generating net profit will be better too.

Bank Indonesia (often referred to by the abbreviation BI) prioritizes the assessment of the amount of ROA. This is because ROA is related to the level of performance of bank companies that maintain the confidence of investors who add capital in Sharia Commercial banks and people who have used the Sharia Commercial Bank products offered. The data on ROA movements in Sharia Commercial Banks in Indonesia from 2019 to 2022 are presented as follows:

Table 1: Return on Assets (ROA) at Sharia Commercial Banks in Indonesia 2019 to 2022

2019	2020	2021	2022
1,73	1,40	1,55	2,00

Source: Otoritas Jasa Keuangan, 2023

Based on Table 1, it shows that the profitability ratio measured by ROA at Sharia Commercial Banks in Indonesia from 2019 to 2022 has experienced fluctuating developments. The instability of the ROA level in Islamic commercial banks in Indonesia indicates that there has been a development in Indonesian sharia commercial banks, although this at first glance looks good for the company's development (because it shows growing value), but at the same time if we look at 2020 there was actually a decrease in the value of ROA. This shows that conventional Islamic banking companies have not carried out their business in accordance with established sharia principles, this makes people unable to fully trust Islamic banks because things such as the decline in ROA value that occurred in 2020 are very likely to occur again in the coming years. Many factors may affect profitability, including the Islamicity Performance Index. Islamicity Performance Index is a method that can evaluate the performance of Islamic banks, in this indexing system is not only focused on financial aspects, but also able to evaluate the principles of justice, halal, and purification (tazkiyah) carried out by Sharia commercial banks (Khofifah, 2020; Maqfirah & Fadhlia, 2019; Rizal, 2016). There are several financial ratios measured in the Islamicity Performance Index, such as the Profit Sharing Ratio, Zakat Performing Ratio, and Islamic Income Ratio (Dewanata, Hamidah, & Ahmad, 2016; Khasanah, 2016; Putri & Gunawan, 2019)

With the findings of a decrease in the level of ROA at Islamic commercial banks domiciled in Indonesia recently, especially in 2020 and followed by an increase but in value that is very "creeping" in the following years, researchers suspect this has something to do with the company's lack of focus on the ratios contained in the Islamicity Performance Index, especially the Profit Sharing Ratio, Zakat Performance Ratio, and Islamic Income Ratio. With this assumption, researchers will test the level of Profit Sharing Ratio, Zakat Performance Ratio, and Islamic Income Ratio on profitability proxied through Return on Asset (ROA) in Islamic banking companies in Indonesia.

Literature Review

Every company including banking companies will strive to improve company performance in order to increase company productivity and profits (Marbun & Saragih, 2018; Sejati & Prastiwi, 2015). One of the company's performance indicators is profitability, through this ratio we can measure the extent to which management effectiveness has been achieved based on the returns obtained from sales and / or investments that have been made. ROA is a form of profitability ratio that is intended to be able to measure the company's ability with the overall funds invested in assets used in the company's operations to generate a number of profits. ROA relates the profits earned from a company's operations to the amount of investments or assets used to generate those operating profits (Mawaddah, 2015; Silitonga et al., 2020; Wardhani & Samrotun, 2020). Islamicity Performance Index is one method that can

evaluate the performance of Islamic banks, not only in terms of finance but also able to evaluate the principles of justice, halal and purification (tazkiyah) carried out by Sharia commercial banks (Maqfirah & Fadhliah, 2019; Nasution & Siregar, 2023; Supriyaningsih, 2020). In this study, researchers will understand the effect of the level of ratios contained in the Islamicity Performance Index on the profitability of banking companies in Indonesia. The ratios to be examined include Profit Sharing Ratio, Zakat Performance Ratio, and Islamic Income Ratio.

Profit Sharing Ratio can be understood as a level of profit sharing obtained between capital owners (customers) and fund managers (Islamic banking) connected in the context of capital management based on Islamic banking financial principles whose purpose is to determine the amount of profit to be obtained both for the capital owner and the fund manager. This ratio is one of the important indicators in Islamic banking because profit-sharing financing is an important point of Islamic bank financing itself. Profit Sharing Ratio is able to show how far Islamic banks have managed to achieve their existence on profit sharing (Fransiska & Siregar, 2023; Mayasari, 2020). Based on studies that have been conducted by previous researchers, the variable Profit Sharing Ratio generally affects the profitability of Islamic banks (Khasanah, 2016).

Furthermore, what is meant by Zakat Performance Ratio can be understood as a measurement of zakat performance whose value is calculated based on the amount of zakat distributed from the net worth owned (Fajar, Ulfah, & Lahaya, 2022). Zakat Performance Ratio can be measured based on how much the Islamic banking company distributes zakat from its net worth, this means that the greater the net worth owned by an Islamic banking company, logically it should be the greater the distribution of zakat, if the distribution is larger then this will result in a greater value of Zakat Performance Ratio as well. Based on research that has been conducted by previous researchers, the Zakat Performance Ratio is known to have a positive influence on Return on Assets (ROA) so that this means that the higher a bank distributes zakat (both in terms of frequency and quantity of zakat material), it will increase the profitability they get later (Aeny, Fakhrudin, Santoso, & Hapsari, 2023).

In carrying out its business operations, a sharia bank must certainly follow and comply with sharia principles that have been introduced by Islamic religious teachings which include prohibiting all forms of transactions containing usury, gharar, and gambling, so that this causes a sharia banking inevitably can only receive income from halal sources (Andriani & Juliandi, 2008). The Islamic Income Ratio, which is one of the ratios contained in the Islamicity Performance Index, can be used to measure revenues obtained from halal sources (Iman & Umiyati, 2022). Although in reality there are still non-halal transaction practices carried out by Islamic banks (especially transactions containing usury), previous researchers actually found that the Islamic Income Ratio did not significantly affect Return on Assets (ROA) (Rahma, 2018).

Method

This study aims to empirically prove the factors that affect profitability in Sharia Commercial Banks in Indonesia seen from the Islamic Performance Index measured through the Profit Sharing Ratio, Zakat Performance Ratio, and Islamic Income Ratio. This research uses an associative approach, with data collection techniques in the form of documentation sourced from the annual financial statements of Islamic commercial bank companies (BUS), as well as financial statements published through: <http://www.ojk.go.id> so that the data to be used is secondary data of Islamic banking companies. The population of this study is 12 Sharia Commercial Banks in Indonesia registered with the Otoritas Jasa Keuangan from 2021 to 2022. Then, for the data analysis technique used is a multiple linear regression analysis technique.

Result and Discussion

Based on the data collection conducted by researchers, there are 12 Islamic general banking companies that will be studied. Among them are:

Table 2: List of Sharia Commercial Banks Researched

No	Company Name
1	PT Bank Muamalat Indonesia
2	PT Bank Syariah Bukopin
3	PT Bank Victoria Syariah
4	PT Bank Panin Dubai Syariah
5	PT Bank Mega Syariah
6	PT Bank NTB Syariah
7	PT Bank BCA Syariah
8	PT Bank Jabar Banten Syariah
9	PT Bank Aladin Syariah Tbk
10	PT Bank BTPN Syariah
11	PT Bank Aceh Syariah
12	PT Bank Syariah Indonesia

Source: Author Documentation

After the data was collected, researchers also processed the data to find the relationship between the three independent variables, namely Profit Sharing Ratio, Zakat Performance Ratio, and Islamic Income Ratio to the dependent variable, namely profitability proxied through Return on Asset (ROA) in Islamic banking companies in Indonesia. The results of the multiple linear regression test analysis obtained by the researchers include:

Table 3: Multiple Linear Regression Analysis Results

Model		Unstand. Coefficients		Stan. Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.266	4.591		-.711	.485
	Profit Sharing Ratio	7.079	1.939	.627	3.652	.002
	Zakat Performance Ratio	.000	.006	.009	.052	.959
	Islamic Income Ratio	-2.409	4.221	-.098	-.571	.574

Source: Author Documentation

We can see the value of the constant (α) of -3.266. The value of the regression coefficient of the variable Profit Sharing Ratio (β_1) is 7.079, the value of the regression coefficient of the variable Zakat Performance Ratio (β_2) is 0, and the value of the regression coefficient of the variable Islamic Income Ratio (β_3) is -2.409. So now we can design a regression equation formulated as follows.

$$Y = -3.266 + 7.079 X_1 + 0 X_2 - 2.409 X_3 + \varepsilon$$

Based on the equation above, we can understand that if all independent variables are constant or have a value of zero (0) then the value of the dependent variable (ROA) is equal to -3.266. Furthermore, the value of the regression coefficient of the Profit Sharing Ratio variable of 7.079 means that every increase of 1% of the variable Profit Sharing Ratio, while at the same time other variables do not change, the dependent variable (ie ROA) will increase by 7,079 units. Then, for the variable Zakat Performance Ratio has a value of 0, this means that if other variables the value does not change while the Zakat Performance Ratio variable has a value change of at least 1%, the dependent variable (ie ROA) will not experience a change in value (even if it changes in value it will be very small), and the value of the Islamic Income Ratio variable worth -2.409 means that if other variables the value does not experiencing changes, while the variable Islamic Income Ratio increases by 1%, the dependent variable (ie ROA) will decrease in value by 2,409 units.

Still focusing on table 3, we can see the influence of each independent variable partially shows that, the variable Profit Sharing Ratio has a Significance value of 0.002 (smaller than $\alpha = 0.05$) this indicates that this variable (X_1) partially affects the profitability of Islamic commercial banks, while for the Zakat Performance Ratio with a value of 0.959 and the Islamic Income Ratio with a value of 0.574, Both have values above $\alpha = 0.05$ which actually indicates that both have no effect on the profitability of Islamic commercial banks.

Table 4: Simultaneous Test Results (Test F)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	94.591	3	31.530	4.733	.012 ^b
	Residual	133.225	20	6.661		
	Total	227.817	23			

Source: Author Documentation

Through F testing which aims to understand the simultaneous influence of the independent variable on the dependent variable in this study, the researcher obtained the significance value of the linear regression model of 0.012 (the value is smaller than 0.05), this means that the regression model used in this study is feasible to use.

Table 5: Coefficient of Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.644 ^a	.415	.327	2.58094432

Source: Author Documentation

Based on the results of the coefficient of determination test in table 5, we can see that the Adjusted R Square value obtained is 0.327, this means that the profitability variable proxied through Return on Assets is influenced by the Profit Sharing Ratio, Zakat Performance Ratio, and Islamic Income Ratio is 32.7%, while the influence of 67.3% (100% - 32.7%) comes from other variables that do not exist in the model or other variables that do not engaged in this research.

According to the results of the analysis that has been done, we can understand that the variable Profit Sharing Ratio has a value of 7,079 which means that if the value of the Profit Sharing Ratio increases by 1%, then Profitability will also increase by 7,079 units. Then for the partial effect (Test T) has a significance value of 0.002 (smaller than $\alpha = 0.05$) this indicates that the variable Profit Sharing Ratio partially affects the profitability of Islamic commercial banks. These findings are in line with what was stated in previous research conducted by (Rahayu, Kurniati, & Wahyuni, 2020; Rahmawati, Ubaidillah, & Rahayu, 2020), This finding can occur because the higher the Profit Sharing Ratio offered by the bank to its customers, this means that the greater the nominal profit sharing that must be distributed to customers, to avoid losses or unfavorable situations due to the large value of profit sharing that must be distributed, then the bank inevitably has to try to streamline its operations, and direct financing to projects that are more productive and have the potential to generate greater profits. The right financing can help increase revenue, which in turn can increase ROA as well. In addition, with profit-sharing incentives, banks are very likely to be more inclined to manage their assets in a more effective and optimal way. Smart investment selection and good risk management can improve asset performance, which in turn can increase ROA.

Furthermore, for the Zakat Performance Ratio variable has a value of 0 which means that if other variables the value does not change while the Zakat Performance Ratio variable experiences a change in value of at least 1%, the dependent variable (ie ROA) will not experience a change in value (even if it experiences a change in value, it will be very small). Then for its partial effect (Test T) has a significance value of 0.959, this value is above $\alpha = 0.05$ which indicates that the variable Zakat Performance Ratio does not affect the profitability of Islamic commercial banks. These findings are in line with what was stated in previous research conducted by (Puspita & Mariana, 2023). This finding can occur because zakat is basically a form of religious obligation (especially Islam) that must be fulfilled by Islamic banking companies. The obligation to pay zakat does not depend on the level of financial performance of the company. As a result, although ZPR reflects adherence to religious values, it is not a measure directly related to a company's financial performance. In addition, the amount of zakat to be paid by the company is often a small percentage of net profit. Therefore, the direct effect of zakat on net profit which leads to its effect on ROA becomes insignificant. Larger or smaller net income will ultimately be more influenced by other operational and financial management factors.

For the Islamic Income Ratio variable, we can see that this variable has a nominal value of -2,409, this value indicates that if other variables do not change, while the Islamic Income Ratio variable increases by 1%, then the dependent variable (i.e. ROA) will decrease in value by 2,409 units. Although it will decrease, the partial test results (Test T) actually show a value of 0.574, this value is above $\alpha = 0.05$ which indicates that the variable Islamic Income Ratio does not have a significant effect on the profitability of Islamic commercial banks, so even though it has a negative influence, the influence is not significant. These findings are in line with previous research conducted by (Puspita & Mariana, 2023). This phenomenon can occur because the application of sharia principles in products and services can require additional costs to ensure compliance (e.g. fees for sharia consultants, internal sharia audits, employee training, procurement of technology configurations and systems based on sharia law, and continuous monitoring). In addition, there are also several aspects that require more costs for procurement outside of compliance checks, such as sharia risk management, and sharia-compliant product structures. These additional costs can affect profitability and contribute to a negative impact on ROA. However, the impact is not significant because the use of innovation and technology in Islamic bank operations can help increase efficiency and reduce additional costs associated with sharia compliance. Automation of processes and sophisticated information systems can help reduce inspection and monitoring costs. So even though the procurement costs are quite large, after the procurement, the bank can further streamline its operations so that the resulting negative impact can be minimized, causing the effect on ROA to be less significant.

Conclusion

The conclusion that researchers can draw based on data processing and analysis that has been done is, the variable Profit Sharing Ratio has a significant positive influence, this means that if an Islamic commercial bank experiences an increase in the value of the variable Profit Sharing Ratio, the resulting ROA value will increase as well. Furthermore, the Zakat Performance Ratio variable has no influence on Profitability, this means that, no matter how changes occur in the Zakat Performance Ratio variable (whether it increases or decreases) the ROA value will not change. Finally, for the Islamic Income Ratio variable has a negative but not significant influence, this means that if the Islamic Income Ratio variable increases, the ROA will decrease, and vice versa. However, it should be noted that the influence given is not significant so that if there is a change in value, the nominal will be small and tend not to show significant changes.

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