

Saiyid Syekh 5

by Romi Purba

Submission date: 26-Feb-2020 05:10PM (UTC+0800)

Submission ID: 1264480586

File name: 37-Article_Text-68-1-10-20191121.pdf (334.73K)

Word count: 2674

Character count: 14813



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EFFECT OF INTERNAL VARIABLES OF SHARIA BANKS ON SHARIA BANKS PERFORMANCE

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ARTICLE INFORMATION

Received: 18/10/2019

Revised: 23/10/2019

Issued: 28/10/2019

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DOI:10.31933/DIJEMSS

Abstract: This research is to know the effect of internal variables of Sharia Banks (amount of financing and operational expense than operating income (BOPO)) on Sharia Banks Performance (Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Return On Asset (ROA) and Financing to Deposit Ratio (FDR) in Indonesia. The population in this research is the whole of Sharia Banks in Indonesia year of 2010 - 2017, with a sample of 6 Sharia Banks. The analysis tool uses Partial Least Square with SmartPLS program. The results of research showed that internal variables of Sharia Banks (amount of financing and BOPO) have a positive and significant effect on Sharia Banks Performance (CAR, NPF, ROA and FDR).

Keywords: Amount of Financing, BOPO, CAR, NPF, ROA, FDR.

INTRODUCTION

The effectiveness of monetary variables can be indicator of banking sector performance, besides to the effectiveness internal variables of banking such as lending policy and operational/efficiency policy (Agenor and Montiel, 2008). The success of a banking system can be seen from its performance in allocating sources of funds collected to channel it to those who need these funds (the function of banks as intermediary). Later that success is expected to increase of a country's economic growth. This is clearly in accordance with the objectives to be achieved from a financial institution based on banking law No.10 of 1998

which is creating the healthy domestic banking structure that is able to fulfill the needs of the society and encourage sustainable national economic development (Iskandar, 2008).

According to Sergio (1996), as quoted by Ranjan and Dhaf (2003), high risk level of loan assets located in lending policy, which begin to a careless assessment of the prospects of the economic sector where potential borrowers operate or do business. Other that, empirically it cannot be proven that economic recession only can give rise to NPL, except the lending policy. The relationship between the bank and the borrower will be effective, not because it is successful in resolving asymmetric information only, but is mainly cause to canons implementation of the weak lending.

Operational policy (efficiency) is policy used to measure operational costs and operating income (BOPO), this ratio is used to measure bank management capability in controlling operational costs on operating income. Getting smaller the ratio shows the more efficient a bank is in carrying out its business activities. The operational cost is calculated based on the total amount of interest expense and other total operating expenses while the operating income is the sum of the total interest income and other total operating income.

In the banking sector, measurement of efficiency (performance measurement) is also one thing that is very necessary to knowing the performance of the banking system. Can be put forward three important reasons why studies on efficiency in the banking sector are very important (Ramli, 2005), that is : first, the banking industry holding very crucial in economic development and society welfare. Beside from being a producer of financial services, this industry also have a role as a driver of economic development and creates employment as a source of community income. In this regard, the banking system is still a major player in the intermediation between to those who need these funds so as to increase the effectiveness and productivity of society financial resources. Second, banking institutions face the challenges of globalization and increasingly fierce international competition. Competition does not only occur between domestic banks but also between domestic banks with foreign banks. With these increasingly open competition conditions, domestic banks that are less efficient, such as high operating costs, are very likely to be eliminated from the market. Third, the concepts and information of research results can be important input for various parties related to the banking industry. Bank leaders can use it to improve bank performance while investors can use it to make investment decisions. Similarly with monetary authority and banking also have an behalf in banking efficiency because the performance of the banking sector can be effect the performance of other economic sectors.

Banking performance can be interpreted as the results achieved by a bank with managing existing resources in the bank as effectively and efficiently as possible to achieve the goals set by management (Perkasa, 2007). Assessment of banking performance is very important because banking operations are very influential on forward and back a country's economic.

The financial statements are basically the results of an accounting process that can be used as a tool to communicate between the company with those with an interest in the company's data or activities. Tools that can be used to seeing or researching the health condition of a company are through financial statements consisting of balance sheets, calculations of profit and loss, summary of retained earnings, and position of financial statements (Sawir, 2001).

According to Martono and Harjito (2002) the financial statement is a summary of the financial condition of a company at any given moment. Financial statements are broadly divided into 4 types, that is balance sheet, statements of profit and loss, statement of changes in capital and cash flow statement. Balance sheet is a report that describes the amount of wealth (assets), liabilities (debt) and capital of a company at a particular time, while the statements of profit and loss is a report that describes the amount of earning or income and costs of a company in certain periods.

RESEARCH METHODS

Thought framework

To assess the Bank's performance is through financial information issued by the Bank, that is information about the financial condition and development of a bank's business results. Financial statements are the main tool to provide information to external users, where total credit/financing and efficiency (BOPO) is a factor to increase banking financial performance. According to Weston and Copeland (1997) defines financial statements as reports that contain information about company events in the past and can be used as a basis for determination company policy in the future. From the financial statements can be informed about a variety of bank accounting activities periodically and from the financial statements can also be assessed on the financial performance of the Bank concerned. In assessing the financial performance of a company, investors can analyzing the information contained in the Bank's financial statements.

The banking sector is very important to support and drive the economy of a country by providing loans/credit to society who need to develop their businesses. Therefore the banking sector must be healthy and strong, so that it can survive in the event of an economic / financial crisis. An unhealthy and strong bank will fail in carrying out its operations so that it can have an impact on a country's economy. Because of the importance of internal variables in a bank (total financing and BOPO), there is thought that there is an effect of internal banking variables (total financing and BOPO) on the performance of Sharia Banks (CAR, NPF, ROA and FDR) in Indonesia.

Approach Method

The population in this research is Sharia Banks registered at Bank Indonesia period 2010 – 2017 that is as much 13 (thirteen) Sharia Banks (based on Indonesian Banking Statistics in June 2017) published by the Financial Services Authority, with sample of 6 (six) Sharia Banks. The sample selection criteria are as follows :

- a) Sharia Banks registered at Bank Indonesia and still operating during the period of research (period 2010 - 2017).
- b) The financial statements of the Bank is researched (period 2010 - 2017) are available in full at both Bank Indonesia (BI), the Financial Services Authority (OJK) and the official website of each bank.

The type of data used in this research is secondary data, that is quarterly financial report of Sharia Banks in Indonesia for the period 2010 - 2017, other data available at Bank Indonesia and the Financial Services Authority and other official sources that supporting this research. Methods of data collection in this research are :

- a) Observation method: direct observation of the annual financial report at 6 (six) Sharia Banks that become the sample of this research for the period 2010 - June 2017.
- b) The method of library research : studying and analyzing the various of literatures that relate the problem to be researched.

In this research, researcher using the inferential descriptive and quantitative descriptive analysis methods, that is :

- a) Inferential descriptive : The method for analyzing financial data by means of inductive statistical analysis.
- b) Quantitative Descriptive : The method used to analyzing financial data by applying a theory or concept to facts.

In this reseach, the data obtained and the proposed hypothesis will be analyzed and tested with the Partial Least Square (PLS) analysis tool with using the SmartPLS program. The consideration of using PLS analysis tools, because of its ability to measure the construct through its indicators, analyzing indicator variables, latent variables, and mistake of measurement and can do analysis directly (not one by one regressed) the relationship between independent variables (independent variable/exogenous) with dependent variable (dependent variable/endogenous). Partial Least Square (PLS) is a powerful analysis method because it does not assume the data must be of measure by a certain scale, the number of small samples. The purpose of Partial Least Square (PLS) is to help researchers to get the value of latent variables for predictive purposes (Ghozali, 2006).

FINDINGS AND DISCUSSION

Effect of Internal Variables of Sharia Banks on Sharia Banks Performance

Table 1. Coefficient Value and t-Statistics Path Analysis

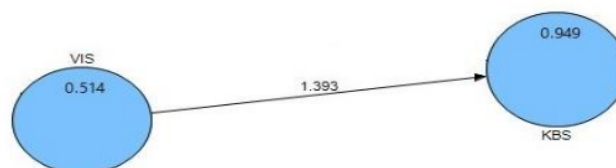
2 Variabel Laten	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	t-Statistics (O/STDEV)
VIS -> KBS	1,393	1,242	0,395	0,395	3,522

Source: Analysis Results

Information :

VIS = Internal Variables of Sharia Banks

KBS = Sharia Banks Performance



Picture 1. Relationship Inter Construct/Latent Variables

The performance of a bank in specially Sharia banks is usually reflected in its financial statements. From the financial statements it will provide information on Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Return On Assets (ROA) and Financing to Deposit Ratio (FDR). The internal variables of Sharia Banks, especially from the aspect of financing realization and BOPO will determine the performance of Sharia Banks. However in Sharia banks the realization of financing is not the end stage of the financing process. After the realization of the financing, the Sharia Banks needs to monitor and supervise the financing, because in the financing period it is not impossible to occur non performing financing. Losses will be experienced if the profit sharing are less than the cost of operational bank. This has caused problems in the Sharia Banks performance. The results of research showed that the internal variables of Sharia Banks on Sharia Banks performance were positive with value of 1.393. This means change the increase in internal variables of Sharia Banks of 10% will increase the Sharia Banks performance of 13.93%. The test results to show that $t\text{-statistics } 3.52 > 1.96$, this means accept H_1 . In other words the internal variables of Sharia Banks significantly effect the Sharia Banks performance.

The results of this research are in line with Sukarno and Syaichu (2006) that internal variables of Sharia Banks in terms of financing and BOPO have a significant effect on CAR, ROA and FDR. The better internal variables of Sharia Banks means that their operational policies will be efficient so that have significant effect on CAR, ROA and FDR. The more efficient operational policies at internal variables of Sharia Banks then the bank performance will also get better. Furthermore Stiawan (2009) shows that the performance structure of sharia banking that still conventional will not dominate the banking market and banking performance does not depend on market share or market strenght but sited in the level of efficiency of each Sharia Bank. The results of research Welta and Lemiyana (2017) that Sharia banks financing has a positive and real effect on Capital Adequacy Ratio (CAR), Non Performing Financing (NPF) and Financing to Deposit Ratio (FDR) but has no real and negative effect on Return on Assets (ROA). While the results of research Alissanda (2015) that the internal variables of Sharia bank: financing and BOPO have a positive but not significant effect on bank performance : Capital Adequacy Ratio (CAR), Return On Assets (ROA), Financing to Deposit Ratio (FDR) and Non Performing Financing (NPF).

CONCLUSION AND SUGESTION

The results of research showed that the internal variables of Sharia Bank (total financing and BOPO) had a positive and significant effect on the Sharia Banks performance (CAR, NPF, ROA and FDR) as be proven with the $t\text{-statistic}$ value of 3.52 which was greater than the value of $t\text{-table}$ of 1.96 ($t\text{-table} = 5\%$). The results of this research are in line with Sukarno and Syaichu (2006) that internal variables of Sharia Bank in terms of financing and BOPO have a significant effect on CAR, ROA and FDR. The better internal variables of Sharia Banks means that their operational policies will be efficient so that have significant effect on CAR, ROA and FDR. The more efficient operational policies at internal variables of Sharia Banks then the bank performance will also get better. Furthermore Stiawan (2009) shows that the performance structure of sharia banking still conventional will not dominate the banking market and banking performance does not depend on market share or market

strenght but sited in the level of efficiency of each Sharia Bank a⁴ Welta and Lemiyana (2017) that Sharia banks financing has a positive and real effect on Capital Adequacy Ratio (CAR), Non Performing Financing (NPF) and Financing to Deposit Ratio (FDR) but has no real and negative effect on Return on Assets (ROA).

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