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INTERNAL FACTOR ATTRIBUTE IN ISLAMIC BANKS: WHICH ONES CONTRIBUTE THE MOST TO PROFIT DISTRIBUTION? EVIDENCE FROM MUAMALAT BANK

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Abstract

Competition between financial institutions will have a positive and negative impact on the development of a bank. In this case, the existence of Bank Muamalat Indonesia as the first pioneer of banks operating with Sharia principles for 30 years needs to be assessed for its financial performance. This study aims to determine and analyze the effect of the ratio of CAR, ROA, FDR, NPF, and BOPO on Profit Distribution Management at Bank Muamalat Indonesia for the 2014-2021 period. The data used in this study includes data on Bank Muamalat Indonesia's quarterly financial statements from 2014 to 2021. The statistical test method used to analyze data in this study is Multiple Regression Analysis. The results of this study show that the ratio of ROA and FDR has a significant effect on Profit Distribution Management, while the ratio of CAR, NPF, and BOPO does not have a significant effect on Profit Distribution Management. Simultaneously, the ratio of CAR, ROA, FDR, NPF, and BOPO affects Profit Distribution Management. This research has several implications for bank policy regarding the importance of maintaining financial performance ratios and opinions through increasing bank financing disbursements and optimizing Profit Distribution Management.

Keywords: *Sharia Banking; Bank Muamalat; Profit Distribution Management*

Abstrak

Persaingan antara lembaga keuangan akan membawa dampak positif dan negatif bagi perkembangan sebuah bank. Dalam hal ini eksistensi Bank Muamalat Indonesia sebagai pelopor pertama bank yang beroperasi dengan prinsip syariah selama 30 tahun juga perlu dinilai kinerja keuangannya. Penelitian ini bertujuan untuk mengetahui dan menganalisis pengaruh rasio CAR, ROA, FDR, NPF dan BOPO terhadap Profit Distribution Management pada Bank Muamalat Indonesia periode 2014-2021. Data yang digunakan dalam penelitian ini meliputi data laporan keuangan triwulan Bank Muamalat Indonesia dari tahun 2014 hingga tahun 2021. Metode uji statistik yang digunakan untuk menganalisis data dalam penelitian ini adalah Analisis Regresi Berganda. Hasil penelitian ini menunjukkan bahwa rasio ROA dan FDR berpengaruh signifikan terhadap Profit Distribution Management, sementara rasio CAR, NPF dan BOPO tidak berpengaruh signifikan terhadap Profit Distribution Management. Secara simultan rasio CAR, ROA, FDR, NPF dan BOPO berpengaruh terhadap Profit Distribution Management. Penelitian ini memiliki implikasi pada kebijakan bank mengenai pentingnya mempertahankan rasio kinerja keuangan serta pendapatan agar dapat mengoptimalkan Profit Distribution Management.

Kata kunci: : Perbankan Syariah; Bank Muamalat; Profit Distribution Management

INTRODUCTION

In recent decades, the Islamic banking and finance sector has been integrated into the global financial system (Zaheer, 2013). As an important aspect of the global economy, Islamic banking has rapidly increased in recent years (Lahrech et al., 2014). Thus, the emergence of competition between Islamic and conventional banks gradually has a positive or negative impact on the development of a bank. The positive impact can motivate each bank to compete to be the best. However, at the same time, the negative impact that occurs if it experience defeat in competition will slow down the bank development rate (Aprilianto et al., 2018). According to Abbas & Arizah (2019), Islamic banks operate under different principles than conventional systems. The Islamic principles applied by Islamic banks include being oriented towards profit and loss sharing.

In this regard, when carrying out the principles and roles of Islamic banks, they have an obligation in an explicit contract to share profits earned or income returns with customers (Farook et al., 2012). Wahasusmiah (2022) explains that the distribution of profits to customers is regulated based on the product, profit earned, and agreed-on ratio agreements. So that in practice, Wafaretta et al., (2016) stated that Islamic banks have the authority as managers to manage and distribute profits, known as Profit Distribution Management as stipulated in the MUI National Sharia Council fatwa No 87/DSN-MUI/XII/ 2012 concerning Income Smoothing Methods for Third Party Funds.

By utilizing Profit Distribution Management (PDM), strategic steps are taken by Islamic banks to be able to compete competitively with other banks, especially with conventional banks, one of which is by increasing operating income (Shahzadi et al., 2021). However, on the other hand, there is an opinion stating that the operation of the Islamic financial system may be indirectly affected by interest rates (Anuar et al., 2014). So there is a gap of opinion that in practice, PDM in Islamic banking still refers to interest rates (Farook et al., 2012; Mulyo & Mutmainah, 2013). In their research, Lahrech et al. (2014) proved that changes in conventional bank interest rates have an effect on the level of distribution of profits from Islamic banks. Similarly to this, Wafaretta et al. (2016) concluded that interest rates have a positive effect on profit distribution.

To compete with conventional banks that have dominated Indonesia's banking industry, Islamic banks, especially Bank Muamalat Indonesia, must strive to improve financial performance (Alteza, 2017). According to Mulato, et al., (2021), the main thing that needs to be developed by Islamic banking, including Bank Muamalat in improving financial performance is how the bank's ability to manage funds so that it can provide optimal profit sharing to customers (Nengsih, 2020). The profit-sharing system makes the amount of profit the customer gets adhere to the amount of profit the bank gets. The distribution of customer funds collected can be placed by Islamic banks in business sectors that generate profits (Mismiwati, 2018).

Several previous studies have shown that financial performance indicators in Islamic banks are related PDM (Africano et al., 2017; Ernayani, Robiyanto, & Sudjinan, 2017). One of the main indicators for evaluating financial performance is the financial statements of the bank concerned. According to Fitri et al., (2018), one of the factors that determine the level of profit distribution is internal factors that arise from within the company's operations, such as operating costs and other internal conditions contained in financial reports.

Bank Muamalat Indonesia as the object of research because it is the first pioneer bank to operate under Sharia principles in Indonesia and is also considered successful in maintaining its existence after being established for 30 years. In addition, this research is supported by the addition of implementing the profit-sharing distribution that distinguishes it from previous research studies. This research is expected to provide a conceptual contribution to decisions related to asset quality, use of funds, capital, liquidity, and spending in managing income returns that will be given to customers. Based on the previous explanation, the researcher is interested in conducting further research that focuses on knowing and analyzing the influence of the bank's internal factors on Profit Distribution Management at Bank Muamalat Indonesia by using financial report ratios which are internal factors as benchmarks in measuring, namely the ratio of CAR, ROA, FDR, NPF, and BOPO.

LITERATURE REVIEW

PDM is defined as a form of profit distribution obtained by Islamic banks to customers who save their funds based on the agreed ratio every month. The amount of profit that will be distributed depends on the acquisition of profit sharing from the bank's income as well as the amount and term of the deposit so that, in this case, the customer will get his share and will not lose the principal of his savings (Dewi et al., 2020). So it can be said that Profit Distribution Management is part of the bank's activities to fulfill its obligations to distribute profit sharing to its customers. Cihak & Hesse (2010) stated that the profit-sharing mechanism specifically enables Islamic banks to maintain net assets and prevent balance sheet damage when under difficult economic situations. It is partly due to the prohibition of *usury* (riba), *gharar* (uncertainty), which is a limitation for Islamic banks to contribute to certain instruments that are considered to have contributed to the financial crisis, such as collateralized debt obligations to conventional banks that borrow funds to pay interest and those that borrow funds charge interest (Iqbal & Molyneux, 2006).

PDM in Islamic banks, according to Evayani et al., (2014), is considered to have a relationship with financial performance, which in this case is shown through the role of bank management in carrying out bank operational activities then realized through managing profit distribution. Internal factors influence bank financial performance. Internal factors at a bank represent factors that can be controlled by bank management, and these factors will also show differences in each bank in terms of policies and decisions related to asset quality, use of funds, capital, liquidity, and spending (Almanaseer, 2014).

Capital is a very important factor for banks to develop their business and continue operational activities. After Islamic banks carried out their operational activities, the Minimum Capital Adequacy Requirement (CAR) provisions were enforced (Mainata & Ardiani, 2017). CAR is a tool for assessing and measuring the ratio of capital to the soundness level of the bank. A study by Yunita et al. (2018) shows that CAR affects PDM.

Return On Assets (ROA) is the ratio used to measure the activity level of investments made by banks using their assets. ROA is considered an important factor vital in a bank's operational performance because it is related to bank profitability (Tirmizi et al., 2021). The research findings conducted by Arafiah & Poerwati (2014) show that ROA has a significant effect on PDM.

The Financing Deposit Ratio (FDR) is a ratio that shows how much a bank can contribute to mobilizing public funds by distributing financing for productive purposes (Nugroho et al., 2020). The findings of a study conducted by Yunita et al. (2018) show that the FDR ratio has a significant effect on PDM.

Non-Performing Financing (NPF) refers to the ratio of bad, problematic, or risky financing that a bank will face due to the debtor's failure to repay the principal loan provided through financing so that the bank is unable to obtain a return on the investment it has made (Hasanah et al., 2020). The findings of research conducted by Mais, Hendrawati, & Putra (2019) show that NPF has an effect on PDM.

Operating Costs Operating Income (BOPO) is a ratio used to measure the level of ability of bank management to efficiently control operational costs to operating income (Suartini et al., 2018). The research findings by Nengsih (2020) show that BOPO affect PDM.

HYPOTHESIS

CAR is a capital ratio that shows the bank's ability to provide sufficient funds to improve the company and cover possible risks of loss caused by bank operations (Hidayati, 2015). Ryad & Yupi (2017) stated that if the CAR value is higher, the source of the bank's funds will also be higher, and these funds can be used for the company's operational needs, developing business, and anticipating risks that may arise in the future. In this case, it can be interpreted that if the CAR value level has reached 8%, the bank can overcome possible risks that arise in its operational activities so that the PDM activities that are carried out can run well and will influence the manager's judgment to increase PDM.

H_1: Capital Adequacy Ratio Influences Profit Distribution Management

ROA plays a role in analyzing a bank's ability to manage productive assets to generate optimal profits (Nugroho et al., 2021). The greater the ROA, the greater the level of profit obtained by the company, and if the profits are greater, it indicates that the company's performance is getting better and more efficient in generating profits and attracts investors to the company because the rate of return (profit sharing) given by the company is getting bigger

(Wijaya, 2019). This explanation is reinforced by research conducted by Arafiah & Poerwati (2014) and Africano et al. (2017), where ROA has a significant effect on PDM.

H_2: Return On Assets Affect Profit Distribution Management

If the FDR value is not too high and not too low, namely around 80% - 100%, the bank can maintain liquidity conditions through the fund manager owned by optimizing the distribution of financing, which then has an impact on increasing the return that will be obtained from financing so that the level of profit sharing (profit distribution) also increases automatically. It will make customers have certain considerations in saving their funds in the bank (Somantri & Sukmana, 2019). A higher PDM will benefit the bank in maintaining customer relationships and providing high profit-sharing levels to reduce the risk of customers who want to transfer their funds to other banks (displacement funds). It is reinforced by Muyassaroh & Saputra's (2015) research, where FDR has a significant effect on PDM.

H_3: Financing to Deposit Ratio Affects Profit Distribution Management

According to Nasir et al. (2022), financing risk (non-performing financing) occurs due to financing failures caused by the inability of banks to recover the amount of financing or obtain returns on investments that have been disbursed. If this ratio continues to increase, the bank shows that the soundness of its financing is of poor quality. In this case, it is necessary to have financing management carried out by banks considering that the largest income of Islamic banks comes from financing carried out. Because the soundness level of financing influences achieving profits and the distribution of profit sharing in Islamic banks (Wibowo & Syaichu, 2013). It is reinforced by research conducted by Rifadil & Muniruddin (2017) financing risk has a significant effect on PDM.

H_4: Non-Performing Financing has an effect on Profit Distribution Management

The lower the ratio of operational costs to operating income, the better the bank's operational performance so that the resulting bank profits increase and the profit sharing received by customers will also increase (Tho'in, 2022). To make the manager reduce operational costs, they can reduce the inefficiency of banks in managing their business so that the profit earned will also increase and the level of Profit Distribution Management (PDM) will also be higher. It is reinforced by the research conducted by Nengsih (2020), who found that BOPO has a significant effect on the level of PDM.

H_5: Operating Costs Operating Income Affects Profit Distribution Management

METHOD

This study uses a quantitative type approach. Based on the background described, this study aims to determine the relationship between a variable and other variables or how a variable affects other variables is called explanatory research (Hartono, 2018). The data source used in this study is secondary data obtained from Bank Muamalat Indonesia's quarterly financial reports, published from 2014 to 2021. The independent variable in this study is part of the bank's financial performance indicators consisting of Capital Adequacy Ratio (CAR), Return On Assets (ROA), Financing Deposit Ratio (FDR), Non-Performing Financing (NPF), and Operational Income Operating Costs (BOPO). While Profit Distribution Management (PDM), the dependent variable in this study, describes the level of implementation of bank obligations in distributing or allocating profits from business results to customers as capital owners in each agreed period. The statistical test method used is multiple regression analysis.

RESULTS AND DISCUSSION

Descriptive Data and Regression Analysis

Based on data on financial performance ratios that have been processed to find out the description of the data, the statistical test results are shown in the Table 1. Based on Table 1, on the CAR, ROA, FDR, NPF, BOPO, and PDM variables, it is known that the value of the standard deviation does not exceed the mean value. It means that the CAR, ROA, FDR, NPF, BOPO, and PDM variable data are spread evenly and have a normal distribution. Then, Table 2 shows the regression test. Based on Table 2, it can exposed the the significant effect of each independent variable.

Based on the partial test results in Table 4, which has been described above it can be explained the effect of each variable as follows. The t-value for the CAR variable (X1), which is 1.987, meaning the t calculated value is less than the t table (t calculated < t table). The significance value of the CAR variable (X1) shows a value of 0.059 which means the significance value is greater than 0.05 (sig. > 0.05). In this case, the results obtained are H0 accepted, and H1 rejected, which means that CAR has no significant effect on PDM. This also happened to the NPF and BOPO variables. Both of these variables have a significant value greater than 0.05. So, the NPF and BOPO have not significant effect to PDM.

The t value of ROA is -5.153 greater than 2.055 (t table), and the significance value of the ROA shows a value of 0.000 less than 0.05. In this case, the results obtained are H0 rejected and H2 accepted, which means that ROA has a significant effect on PDM. Same Case, the t-value of FDR is 3,256 gretaer than 2,055 (t table), and the significance value for the FDR shows a value of 0.003 less than 0.05. So, FDR has a significant effect on PDM.

Based on the F test output results in Table 3, the calculated F value is 13.117, and the table F value obtained is 2.59. As for the significance value in the regression, that is 0.000. In this case, the results obtained are that the F count is greater than the F table (F count > F table), and the significance value is less than 0.05 (Sig. < 0.05). So, this F test indicates that H0 is rejected and H6 is accepted, which means that there is influence simultaneously or jointly between the independent variables, namely the ratio of CAR, ROA, FDR, NPF, and BOPO to the dependent variable, namely Profit Distribution Management.

Furthermore, a test of the coefficient of determination (R2) is carried out to see the independent variable's ability to explain the dependent variable. Based on the results of the coefficient of determination test conducted, the value of Adjusted R Square was 0.846, which means that in this study, the variation of all independent variables affecting the dependent variable by 84.6%, while the remaining 15.4% was influenced by other variables not used in this study.

Table 1. Descriptive Statistics

Model	CAR	ROA	FDR	NPF	BOPO	PDM
Minimum	10.16	0.10	38.33	0.08	85.55	0.18
Maximum	23.76	23.76	105.40	4.98	99.50	0.91
Mean	13.9062	10.3388	82.3550	3.5153	97.0344	0.4531
Std. Deviation	2.42568	6.16492	14.67263	1.27057	3.07264	0.1930

Source: Author's analysis (2022)

Table 2. Regression Coefficient

Coefficients[a]			
	Type	t	Sig.
1	(Constant)	-1.052	.304
	CAR	1.987	.059
	ROA	-5.153	.000
	FDR	3.256	.003
	NPF	-1.472	.155
	BOPO	1.281	.213

Source: Author's analysis (2022)

Table 3. Simultaneous Significance Test (F-Test)

ANOVA[a]			
	Type	F	Sig.
1	Regression	13.117	.000[b]

Source: Author's analysis (2022)

Discussion

Effect of Capital Adequacy Ratio on Profit Distribution Management

Mismiwati (2018) explains that the higher CAR ratio will influence managers to increase Profit Distribution Management. This statement is not in line with the results of this study because, according to Sulistyawati et al. (2019), high bank capital is not a major factor in increasing Profit Distribution Management because the high profits generated by banks do not come from high capital. However, the bank's efforts in maintaining the value of its capital adequacy and maintaining the level of profit sharing continue to run stably without the bank having to spend funds which will pose a big risk to the bank (Sulistyawati et al., 2019).

The results obtained in this study are in line with research conducted by Wahasusmiah (2022), Sulistyawati et al. (2019), and Shahzadi et al. (2021), which shows the results that CAR has no significant effect on PDM. However, research conducted by Yunita et al. (2018) and Kartika & Adityawarman (2014) shows that CAR has an effect on Profit Distribution Management.

In addition, this study shows that the average CAR value at Bank Muamalat is 13.90%, exceeding Bank Indonesia's standard of 8%. The application and implementation of the distribution of profit sharing, in this case, will depend on the policy of Islamic banks, which distribute profits after being able to reduce the emergence of risks that accompany concomitant efforts to expand asset expansion, especially in assets that are considered to have the potential to provide profits and at the same time contain risks. The high level of capital owned shows that Bank Muamalat Indonesia is in a safe condition in the event of liquidation because it has capital reserves. The increasing CAR ratio shows the bank's ability to be more stable in providing financing contributions while fulfilling its operational activities because the bank is able to bear the risk of risky assets (Mayliza et al., 2018),

Effect of Return On Assets on Profit Distribution Management

According to Arief et al., (2021), taxes will be higher along with an increase in the ROA ratio. In this case, the bank has an obligation to pay taxes to the company because the profits earned by the bank are not all placed on PDM activities, but the bank must also fulfill obligations in other operational activities.

From the explanation above, it can be concluded that high ROA will tend to have an impact on the profit distribution that customers will receive. These results are also in line with the research conducted by Arafiah & Poerwati (2014) and Mismiwati et al., (2020), which showed results that ROA has a significant effect on PDM.

The ROA ratio describes the measurement of the rate of return on bank assets used in its efforts to earn income and generate net profit, which will then affect the amount of profit sharing received by customers. The application and distribution of profit sharing for each product will be different, depending on the type of product used by customers and investors. Besides that, the existence of MUI fatwas issued on an ongoing basis provides support for the bank's growth trend, which has quite an impact on the use of Bank Muamalat Indonesia's financial products and services (Fitri et al., 2018).

Effect of Financing to Deposit Ratio on Profit Distribution Management

The more efficient the bank's ability to provide financing from the funds collected. It will have an impact on increasing the income generated by the bank, which will increase the profit distribution (profit sharing) received by customers (Alteza, 2017). The results of this study are in line with research conducted by Muyassaroh & Saputra (2015) and Yunita et al. (2018), which shows that the FDR ratio has a significant effect on PDM. However, research conducted by Mais et al., (2019) shows that FDR has no effect on Profit Distribution Management.

The FDR ratio reflects the utilization of Third Party Funds that the bank has managed to collect through distribution in the form of financing. According to the research results above, the size of the FDR ratio turns out to have a significant impact on the distribution of bank profit sharing. If the increase in third-party funds is accompanied by an increase in financing that is in an optimal position, the application and implementation of the profit sharing distribution, which refers to interest rates, will decrease due to the already high distribution of profit sharing given along with the increase in profits derived from the increasing amount of financing that has been channeled effectively (Fitri et al., 2018).

Effect of Non-Performing Financing on Profit Distribution Management

The results and explanations show that according to Bank Indonesia in Bank Indonesia Circular Letter No.9/24/DPbS of 2007, the criteria for an ideal NPF ratio are less than 5%. Based on Table 1 on the descriptive statistical analysis test, the average NPF value at Bank Muamalat shows a value of 3.51%, which means that the value already meets the criteria of Bank Indonesia.

According to Safitri (2021), it is because banks are quite good at providing financing to their customers while adhering to the precautionary principle in providing financing. The reserves owned by Bank Muamalat Indonesia are also good and have carried out a risk analysis, the problem of which will not change the amount of PDM produced. So that the high or low

NPF value does not become a benchmark for PDM increasing activity by the bank manager concerned.

Explanation by Mulyo & Mutmainah (2013), which says a low NPF value will increase income so that the profits obtained increase and the level of profit sharing provided also increases, not in accordance with the research results obtained. According to Ambarwati & Veterina (2021), the NPF level, which is still ideal, does not make NPF affect PDM. The results of this study are in line with research that has been conducted by Ambarwati & Veterina (2021) and Aprilianto et al. (2018), which show the results that the NPF ratio has no significant effect on PDM. However, research by Mais, Hendrawati, & Putra (2019) shows that NPF has an effect on PDM.

The bank's financial management also influences the application and implementation of profit-sharing distribution. In the world of banking, financing is one element that plays a vital role in bank funding. The greater the funds disbursed in the financing, the greater the potential profit to be obtained. However, the increase in disbursed financing must be accompanied by the implementation of better management. It is because the more funds channeled for financing will not be separated from the emergence of problematic financing risks. Thus the higher the quality of the disbursed financing, it is considered capable of minimizing the occurrence of problematic financing (Mufarida et al., 2022).

The Effect of Operational Income Operating Costs on Profit Distribution Management

The BOPO ratio does not have a significant effect because the value of the average BOPO ratio at Bank Muamalat is contained in Table 1. The descriptive statistical analysis in this study shows a fairly high value, namely 97.03%, which is more than 90% and close to 100%. It shows banks' low ability to manage their sources of funds and assets to make a profit. In line with it, Andesfa & Masdupi (2019) stated that if this ratio shows a figure exceeding 90% and close to 100%, it means that the bank is showing performance with very low efficiency in obtaining acceptable profits.

Alteza (2017) revealed that if the financing incurred is high while the profit sharing obtained is low, it can make managers' motivation to carry out high-Profit Distribution Management (PDM) impossible to do, considering it will be challenging to deal with the possible risks that will arise. This study's results align with the research conducted by Mismiwati (2018), which shows that the BOPO ratio has no significant effect on Profit Distribution Management (PDM). However, research conducted by Nengsih (2020) shows that BOPO has an effect on Profit Distribution Management.

The application and implementation of the distribution of profit sharing in Islamic banks are influenced by the ability of the bank's management. The BOPO ratio is an indicator that reflects how much a bank is capable of managing its operating expenses; on the other hand, it is a benchmark for how much a bank can increase its operating income. The high operational costs will cause the BOPO ratio to be higher, which indicates that the bank's activities are increasingly inefficient in generating profits. However, even though the operational costs are quite high, they should not exceed the operational income earned. Islamic banks decide to distribute income to customers in the form of high-profit sharing in order to remain competitive with conventional banks, and as a consequence of this decision, Islamic banks incur high operational costs (Muazaroh & Septiarini, 2021).

CONCLUSION

Based on the results of this study and the explanations described, it can be concluded that statistically, the ratio of Capital Adequacy Ratio, Non-Performing Financing, and Operational Costs Operating Income have no significant effect on Bank Muamalat Indonesia's Profit Distribution Management. Meanwhile, the variable Return On Assets and Financing Deposit Ratio have a significant effect on Bank Muamalat Indonesia's Profit Distribution Management. Simultaneously, the ratio of Capital Adequacy Ratio, Return On Assets, Financing Deposit Ratio, Non-Performing Financing, and Operational Costs Operating Income affect the Profit Distribution Management of Bank Muamalat Indonesia.

This research has practical implications for Islamic banks. Decisions related to asset quality, use of funds, capital, liquidity, and expenditures in managing profits earned or income returns to be given to customers are influenced by the performance of internal factors in Islamic banks. With this information, it is hoped that it can be used as material for consideration when making decisions related to the distribution of profit sharing carried out by banks and can also be input for bank management in implementing business strategies related to the effectiveness of channeling financing and the resulting net profit. Future research is expected to add non-financial factors in the form of local economic fluctuations and cycles. Furthermore, it is also expected to be able to use a more varied test method in order to be able to answer the interrelationships in a comprehensive manner.

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