

# Influence of Islamicity Performance Index, Islamic Social Reporting, Third Party Funds, operating Expenses and Operating Income (Bopo) on Financial Performance (Empirical Study on Islamic Commercial Banks in 2011-2019)

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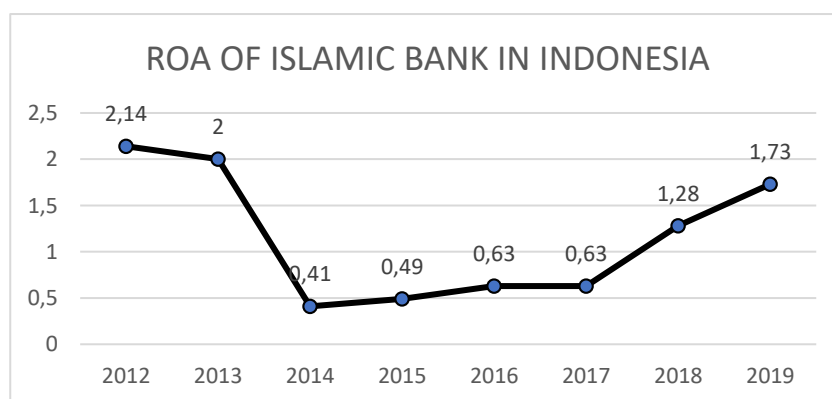
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**Abstract.** The aim of this research was to examine the effect of Islamicity performance index, Islamic social reporting, Third-Party Funds (DPK), Operational expenses and operating income (BOPO), on financial performance which is proxied by Return on Asset (ROA) in Islamic commercial bank registered by Authority for the periods on 2011-2019. Population in this research were 14 Islamic commercial banks and the samples were 7 banks, obtained by nonprobability sampling with purposive sampling techniques, so the amount of data in this research were 63 data. The analysis techniques used were descriptive statistical analysis, classical assumptions, multiple linear regression analysis. Based on the analysis found that Third-Party Funds (DPK) has no effect on the financial performance, Operational expenses and operating income (BOPO) has a significant negative effect on the financial performance, Islamicity performance index which is proxied by profit sharing ratio has a significant negative effect on the financial performance, Islamicity performance index has a significant positive effect on the financial performance and Islamic social reporting has no effect on financial performance.

**Keywords:** Islamicity performance index, Islamic social reporting, DPK, BOPO, Financial performance

## 1 Introduction

Islamic banking in Indonesia began to exist since 1992 to coincide with the issuance of Law No. 7 of 1992. Bank Muamalat Indonesia (BMI) was the first Islamic bank to be established in Indonesia [18]. After the issuance of Law No. 21 of 2008 the development of Islamic banking in Indonesia is growing rapidly. It is proven by the proliferation of Islamic banking in Indonesia [15]. From 2012 to 2019 there was an increase in the number of Islamic banks in Indonesia, until December 2019 there were 14 sharia commercial banks (BUS), 20 sharia business units (UUS) and 164 sharia people financing banks (BPRS) [30].



Source: SPS, 2020

Based on the graph above, the ROA value owned by Islamic commercial banks has fluctuated development. It is proven that ROA owned by Islamic commercial banks from 2012 to 2014 continued to decline, but in 2015 to 2019 it increased again. Even so, the development of banking in Indonesia is still lagging behind when compared to the development of Islamic banks in Malaysia (Santoso and Astuti, 2020). The development of return on assets of Islamic commercial banks which is getting better, of course, requires Islamic commercial banks to continue to manage assets efficiently in order to continue to generate optimal profits. One of the most important sources of funds in bank operational activities is third party funds or funds sourced from the community [16].

To achieve the maximum level of profitability, banks must also pay attention to the level of efficiency in their operational costs. When the efficient level of banking operational costs is higher, the level of bank problems will be lower (Dewi, 2018). As a financial institution that operates based on sharia principles, the measurement of Islamic banking financial performance must not only be measured using conventional methods but must also be measured using sharia principles [4]. One alternative for measuring sharia-based financial performance is to use the Islamicity performance index. With the Islamicity performance index, it can be seen whether the performance of the banking sector is running according to sharia principles or not [11].

In addition to using the Islamicity performance index, it can also be measured using Islamic social reporting. ISR has a goal as a form of accountability of a company to Allah SWT and society as well as increasing the level of transparency of a business by paying attention to the spiritual needs of investors, namely providing appropriate information [32]. The ISR measurement is carried out using a dummy variable, namely if the company discloses the specified item it will be coded "1" and if the company does not disclose the specified item it is coded "0" [26].

The results of Husaeni's research (2015) that TPF has no effect on ROA, research from [35] states that TPF has a positive effect on ROA. [20] states that BOPO has a negative effect on ROA. The results of the research by [19] stated that BOPO had a positive effect on ROA. The results of research from [17] stated that PSR had a positive effect on ROA. Meanwhile, according to [23], PSR has a negative effect on ROA. [17] also stated that ZPR had no effect on ROA, while [22] stated that ZPR had a positive effect on ROA. Harahap et al (2017) stated that ISR had no effect on ROA while [13] stated that ISR had no effect on ROA.

## 2 Literatur Review

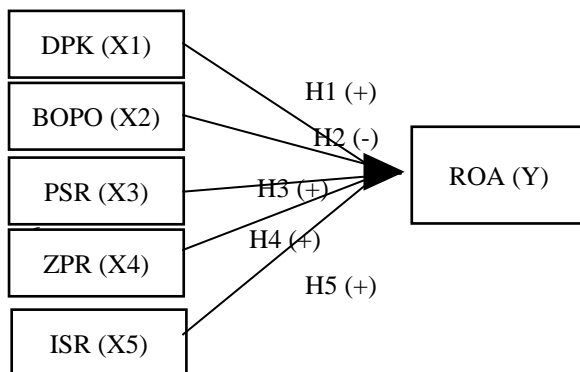
### 2.1 Stakeholder theory

Stakeholder theory is a theory that describes which parties the company is responsible for [7]. According to [8] stakeholder theory is a theory which states that companies do not only operate for their own interests but for the interests of stakeholders (shareholders, creditors, consumers, suppliers, government, society, analysts and other parties).

### 2.2 Syariah Enterprise Theory

SET theory according to [34] is a theory that puts God at the center of everything. SET was developed from zakat which has a balance character. The rule of this balance value causes SET not only to care about individual interests but also to care for other parties. Therefore, SET has concern for a wide range of stakeholders. According to SET stakeholders include God, humans and nature.

### 2.3 Research Framework



## 3. Research Method

Financial Services Authority (OJK) in 2011-2019. Data were collected using documentation techniques and literature study. The data source comes from the annual report of Islamic commercial banks obtained from the company's official website. The variables used in this study are independent and dependent variables. The independent variables are third party funds (DPK), operational costs of operating income (BOPO), Islamicity performance index which is measured using profit sharing ratio and zakat performance ratio and Islamic social reporting. Then for the dependent variable used is financial performance (ROA). The data analysis method used in this research is multiple linear regression analysis method. In this study, the method was used to test five independent variables against one dependent variable.

## 4. Discussion and Result

### 4.1. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	63	-11,2965	3,0323	0,730853	1,6634095
DPK	63	26,7650	32,2342	30,168202	1,2571158
BOPO	63	67,4970	218,0884	92,676594	17,2219458
PSR	63	0,0054	0,9278	0,373704	0,2212032
ZPR	63	0,0000	0,0010	0,000241	0,0002229
ISR	63	0,5833	0,8125	0,710648	0,0535886

Source: Statistic Output, 2019

Based on the table above, it can be seen that the results of the descriptive statistical test show that the sample used (N) in this study amounted to 63 observed samples. The results of descriptive statistical tests show the minimum, maximum, mean and standard deviation of each variable. Based on the table that has been presented, the ROA variable has a data distribution that is not good because the mean < standard deviation. However, the DPK, BOPO, PSR, ZPR and ISR variables have a good distribution because the mean value > standard deviation.

### 4.2. Classic Assumption test

All of the classic assumption test are pass.

### 4.3. Regression Test; Multiple Linear regression

Model		Unstandardized Coefficients		Standardized Coefficient	t	Sig.
		B	Std. Error	Beta		
1	(constant)	10,668	0,687		15,523	0,000
	DPK	-0,024	0,027	-0,018	-0,900	0,372
	BOPO	-0,091	0,002	-0,941	-53,563	0,000
	PSR	-0,343	0,150	-0,046	-0,286	0,026
	ZPR	864,712	155,018	0,116	5,578	0,000
	ISR	-1,225	0,617	-0,039	-1,985	0,052

Based on the table above, it can be seen that the multiple linear regression equation is as follows:

$$\text{ROA} = 10,668 - 0,024\text{DPK} - 0,091\text{BOPO} - 0,343\text{PSR} + 864,712\text{ZPR} - 1,225\text{ISR} + e$$

Information:

- A: The constant value is 10.668 (positive), meaning that if the variable value of third-party funds, operating costs of operating income, profit sharing ratio, zakat performance ratio and Islamic social reporting is equal to zero, the Return on Assets value is 10.668%.
- B<sub>1</sub>: The third party fund variable has a regression coefficient value of -0.024 The regression coefficient value shows that every increase in the third party fund variable by 1 assuming other variables is 0 it will cause a decrease in the Return on Assets value of 0.024 rupiah.
- B<sub>2</sub>: The operating income variable has a regression coefficient value of -0.091. The value of the regression coefficient shows that every increase in the operating income operating expense variable is 1 with the assumption that other variables are 0, it will cause a decrease in the Return on Assets value of 0.091%.
- B<sub>3</sub>: The profit sharing ratio variable has a regression coefficient of -0.343. The value of the regression coefficient shows that every increase in the profit sharing ratio variable by 1 with the assumption that other variables are 0, it will cause a decrease in the Return on Assets value of 0.343 rupiah.
- B<sub>4</sub>: The zakat performance ratio variable has a regression coefficient of 864.712. The regression coefficient value shows that every increase in the zakat performance ratio variable is 1 with the assumption that other variables are 0, it will cause an increase in the Return on Assets value of 864.712 rupiah.
- B<sub>5</sub>: Variabel *Islamic social reporting* memiliki nilai koefisien regresi sebesar -1,225. Nilai koefisien regresi menunjukkan bahwa setiap kenaikan variabel *Islamic social reporting* sebesar 1 dengan asumsi variabel lain bernilai 0 maka akan menyebabkan penurunan nilai *Return on Asset* sebesar 1,225%.

### 4.4. Test the coefficient of determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate

1	0,992 <sup>a</sup>	0,984	0,983	0,2172896
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Based on the table above shows that the value of Adjusted R Square is 0.984. This shows that the dependent variable in this study, namely Return on Assets can be explained by the independent variable, namely third party funds, operating costs of operating income, profit sharing ratio, zakat performance ratio and Islamic social reporting of 0.983 or 98% and the remaining 2% is explained by other variables outside the research model.

#### 4.5. F Test

F	Sig.
715,278	0,000 <sup>b</sup>

Based on the table above, it can be seen that the calculated F value obtained is 715,278. With degrees of freedom df: , (k-1),(n-k) where k is 5 and n is 63. The value of Ftable obtained is 2.53. From these results it can be concluded that Fcount is 715.218 > Ftable 2.53 with a significance of 0.000 <0.05. So the model in this study is declared fit.

#### 4.6. T Test

Model		Unstandardized Coefficients		Standardized Coefficient	t	Sig.
		B	Std. Error	Beta		
1	(constant)	10,668	0,687		15,523	0,000
	DPK	-0,024	0,027	-0,018	-0,900	0,372
	BOPO	-0,091	0,002	-0,941	-53,563	0,000
	PSR	-0,343	0,150	-0,046	-0,286	0,026
	ZPR	864,712	155,018	0,116	5,578	0,000
	ISR	-1,225	0,617	-0,039	-1,985	0,052

##### 4.6.1. Hypothesis 1

Based on the results of the t-statistical test, it can be seen that the third party funds (DPK) variable has a negative regression coefficient of -0.024. Tcount -0.900 < ttable 1.67155 with sig value 0.372 > 0.05 then the first hypothesis test is rejected. This study is not in accordance with the stakeholder theory which explains that third party funds owned by the bank describe the customer's trust in the bank. When customer trust increases, third party funds will increase and financial performance will also increase. This shows that companies that have high third party funds do not always get better performance when compared to companies that have low third party funds. This is because the increase in third party funds received by the bank is not all channeled in the form of financing which causes the increase in third party funds owned cannot affect the ROA received. This research is supported by research from [6], [14] and [31] and Purbawangsa (2016).

##### 4.6.2. Hypothesis 2.

Based on the results of the t-statistical test, it can be seen that the operating income operating expense variable (BOPO) has a negative regression coefficient value of -0.091. tcount -53.563 < ttable 1.67155 with sig 0.000 <0.05 then the second hypothesis testing is accepted. This study is in accordance with stakeholder theory which states that when a company cannot manage its operational costs properly, it will cause the trust of stakeholders to decrease, and investors are reluctant to invest in the company so that it will cause a decrease in the financial performance of a company. The results of this study are in accordance with research from [10], [1] and Dewi (2018).

##### 4.6.3. Hypothesis 3.

Based on the table of t statistical test results, it can be seen that the profit sharing ratio (PSR) variable has a negative regression coefficient of -0.343. tcount -2.286 < ttable 1.67155 with a significance of 0.026 <0.05, the second hypothesis testing is rejected. This is because the indication of non-current financing can cause a decline in the bank's financial performance even though the profit sharing is high. Even though the amount of profit sharing is getting higher, if many customers do not pay off or pay their obligations, it will reduce the bank's financial performance. This study contradicts the stakeholder theory which states that the application of sharia principles, namely good profit sharing in Islamic banks, will be an added value for Islamic banks and of course will attract the attention of stakeholders to invest their capital. This research is supported by research from [17], Dewanata et al (2016), [18] and [23].

##### 4.6.4. Hypothesis 4

Based on the table of t statistical test results, it can be seen that the zakat performance ratio (ZPR) variable has a positive regression coefficient value of 864.712. Tcount 5.578 > ttable 1.67155 with a significance of 0.000

<0.05 this indicates that the fourth hypothesis testing is accepted. This research is in accordance with the Sharia Enterprise theory which states that zakat is able to grow and develop the assets owned, so it can be understood that zakat will not reduce the assets owned but will continue to increase and get blessings from the assets that have been zakated. This research is supported by research from Dewanata et al (2016), [23] and [22]

#### 4.6.5. Hypothesis 5.

Based on the results of the t-statistical test, it can be seen that the Islamic social reporting (ISR) variable has a negative regression coefficient value of -1.225. Tcount -1.985 < ttable 1.67155 with a significance of 0.052 > 0.05, the fifth hypothesis testing is rejected. This shows that the more companies that have high ISR disclosures will not necessarily have better financial performance than companies that have low ISR disclosures. This is because there are no accounting standards or guidelines that regulate social disclosure so that banks disclose ISR only as a form of responsibility to stakeholders. In addition, Islamic commercial banks have not given full attention to the disclosure of ISR, this causes no effect of ISR disclosure on financial performance. This study contradicts stakeholder theory which states that when social disclosure is getting better, stakeholders will be more satisfied and of course will provide full support for company performance. The results of this study are supported by research from [2], [3] and [21], [13] which provide empirical evidence that ISR has no effect on financial performance.

## 5. Conclusion

1. DPK has no effect on financial performance.
2. BOPO has a significant negative effect on financial performance.
3. Profit sharing ratio has a significant negative effect on financial performance.
4. Zakat performance ratio has a significant positive effect on financial performance.
5. Islamic social reporting has no effect on financial performance

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