

Effect of Islamicity Performance Index on Profitability of Sharia Commercial Banks

Afifatuz Zakiyyah^{1*}, Novi Puspitasari², Lusiana Ulfa Hardinawati³

^{1,2,3}Department of Management, Universitas Jember, Indonesia

ARTICLE INFO

JEL Classification:

G14, G21, G32

Corresponding Author:

Afifatuz Zakiyyah

(afifatuzzakiyyah02@gmail.com)

Received: 14-03-2023

Revised: 01-04-2023

Accepted: 08-04-2023

Published: 15-04-2023

Keywords:

Islamicity Performance Index, Bank Performance, Profitability, Sharia Commercial Banks

ABSTRACT

Dramatic development of sharia economic has changed the existing structure of banking industry and created the so called sharia banking. Sharia Commercial Banks as the implementer of sharia banking feel necessary to maintain and improve performance and profitability. The objective of this research is to understand and analyze the effect of performance of Sharia Commercial Banks on profitability. Research population includes all Sharia Commercial Banks in the registry of Financial Services Authority in period 2020. Sampling technique is purposive sampling. Research sample with criteria is 6 Sharia Commercial Banks. Panel data regression is used as data analysis method because this research is processing cross-section data and time series data. The results of research show that Profit Sharing Ratio and Islamic Income Ratio have negative effect but not significant on profitability of Sharia Commercial Banks, Zakat Performance Ratio has negative and significant effect on profitability of Sharia Commercial Banks, and Equitable Distribution Ratio has positive and significant effect on profitability of Sharia Commercial Banks.



This work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

1. INTRODUCTION

The development of sharia economic has globalized in the last few years. Many countries in the world use and take benefits from sharia economic. Even, non-moslem countries start to make an attempt on using sharia economic. According to the 2020 data of Global Islamic Economic Indicator (GIEI), Indonesia is in the fourth rank of top 10 countries for sharia economic development. Few criteria used by GIEI to assess sharia economic development are Islamic Finance, Halal Food, Travel, Modest Fashion, Media & Recreation, and Pharmacy & Cosmetics.

Sharia finance system, especially sharia banking, grows well in Indonesia. The rapid development of sharia banking in Indonesia is indicated by the increasing number of total asset and office network in term of every year. Indonesia sharia banking is dominated by 3 entities, namely Sharia Commercial Banks (BUS – Bank Umum Syariah), Sharia Business Units (UUS – Unit Usaha Syariah), and Sharia People Financing Banks (BPRS – Bank

Pembiayaan Rakyat Syariah). All these entities show lucrative and positive growth every year. Surprisingly, in 2020 when Indonesia and other countries in the world suffering from covid-19 pandemic, sharia banks successfully held out their existence and even stood stronger. Based on the report from Sharia Banking Statistics for January 2021, total office network of sharia banking has reached 3000 offices throughout Indonesia.

Table 1. Development of Indonesia Sharia Banking in 2020

Banking Industry	Number of Institution	Number of Office
BUS	14	2034
UUS	20	392
BPRS	163	627
Total	197	3053

Source: <https://www.ojk.go.id> (data processed)

Lucrative development of sharia banking is associated with good financial performance. This relationship is one important aspect to gain trust from corporate stakeholders. Within Indonesia context, gaining trust from corporate stakeholders is very important and worthwhile to the growth and development of sharia banking. Supports from corporate stakeholders are needed by sharia banks to increase their competitiveness over conventional banks (Afifa, 2016).

Bank performance is one crucial factor for the growth of sharia banks. Stakeholders evaluate bank performance by examining financial statement issued by sharia banks. Bank financial performance is the description of bank financial condition at certain period, such as monthly, quarterly and annually, which usually concerns with funds raised and distributed by the bank (Iswari& Amanah, 2015). Financial performance is usually measured by profitability ratios and one of them is quite well-known, namely Return on Assets (ROA). Financial performance of sharia banks must be linearly related with their soundness level. High financial performance is always associated with high soundness level. Poor financial performance definitely leads to low soundness level (Fitriani, 2020). Good financial performance will surely convince customers and investors to give their notice to sharia banks. Besides financial performance, sharia banks are also evaluated for their implementation of sharia values. Interestingly, the measurement tool for evaluating financial performance of sharia banks is similar to the tool used in conventional banks. There is not agreement or consensus yet concerning the measurement of bank performance in sharia way (Nurmalitasari, 2017).

Measurement or assessment of bank performance in sharia banking system is now multidimensional which surely involves more than one dimension. Shahul Hameed et al. (2004) in a study titled Alternative Disclosure And Performance Measures For Islamic Banks had developed an alternative performance measurer for sharia banks which is called Islamicity Performance Index which comprises indicators such as Profit Sharing Ratio, Zakat Performance Ratio, Islamic Income Ratio and Equitable Distribution Ratio. Gaining trust and loyalty of stakeholders is a crucial effort that may help sharia banks to cope with the unexpected challenge in the future. This position is in line with the perspective of Sharia Enterprise Theory which asserts that sharia banks should be

responsible not only to stakeholders but also to Allah SWT (God Almighty) (Sumadi, 2022). Another studies on measurement of sharia banks performance are needed, especially those that evaluate both financial performance and implementation of sharia values. Anyway, the implementation of sharia values and the compliance with these values help sharia banks to increase their soundness level.

The current research reviews financial performance of sharia banks. Regarding this matter, the research analyzes the effect of the use of measurement tool called Islamicity Performance Index on profitability of Sharia Commercial Banks in period 2016-2020. Four variables are used which are Profit Sharing Ratio, Zakat Performance Ratio, Equitable Distribution Ratio and Islamic Income Ratio.

2. LITERATURE REVIEW

Islamicity Performance Index

Islamicity Performance Index (IPI) is a measurement tool to reveal sharia values implemented in sharia banking. However, the use of IPI is only limited to academic environment and prevailed on studies regarding sharia banking performance. In Malaysia and Indonesia, the use of IPI is not authorized yet for measuring bank performance (Duantika, 2015). Islamicity Performance Index (IPI) represents a measurement on financial performance of sharia banks with considerations given on sharia compliance, governance and society or environment. Indicators of IPI include:

a. Profit Sharing Ratio

This ratio describes the amount of finance fund agreed in the profit sharing contract. Precisely, this ratio is the comparison of *mudharabah* and *musyarakah* with total finance. *Profit Sharing Ratio* (PSR) is formulated as follows:

$$\text{Profit Sharing Ratio} = \frac{\text{Mudharabah} + \text{Musyarakah}}{\text{Total Finance}}$$

b. Zakat Performance Ratio

This ratio is the comparison of zakat with total net assets owned by sharia banks. In this context, zakat is the substitution of earnings per share. If sharia banks have high level of net assets, then zakat that must be paid by the banks is also high. *Zakat Performance Ratio* (ZPR) is formulated as follows:

$$\text{Zakat Performance Ratio} = \frac{\text{Zakat}}{\text{Net Assets}}$$

c. Islamic Income Ratio

This ratio is used to measure the amount of halal revenue acquired by sharia banks. Halal revenue usually comes from the service given by sharia banks in managing the fund. In this position, the banks act as *mudharib*. The formulation of *Islamic Income Ratio* (IsIR) is given as follows:

$$\text{Islamic Income Ratio} = \frac{\text{Halal Revenue}}{\text{Halal Revenue} - \text{Non-Halal Revenue}}$$

d. Equitable Distribution Ratio

This ratio measures the amount of fund distribution to each stakeholder. Items usually represented in this ratio are *qard*/benevolence fund, employee wage, dividend, and net earnings. The amount of fund distribution to stakeholders is usually compared with total revenue after reduction by zakat and tax. Based on each item, *Equitable Distribution Ratio* (EDR) is formulated as follows:

Qard/Benevolence Fund	$\frac{\text{Qard + Donation}}{\text{Revenue - (Zakat + Tax)}}$
Worker Expense	$\frac{\text{Worker Expense}}{\text{Revenue - (Zakat + Tax)}}$
Dividend	$\frac{\text{Dividend}}{\text{Revenue - (Zakat + Tax)}}$
Net Earnings	$\frac{\text{Net Earning}}{\text{Revenue - (Zakat + Tax)}}$

Financial Intermediation

Bank is basically an organization that accumulate fund from society in the form of financing. In other words, the bank conducts the function of financial intermediation. In Indonesia, sharia banks are regulated by Law No 21 of 2008 on Sharia Banking. By this law, sharia banks are banks that undertake the works based on sharia values or principles as required by instructions of Indonesia Moslem Scholars Council (MUI – Majelis Ulama Indonesia). Sharia values in this context include justice and balance ('adl wa tawazun), benefit (maslahah), universalism (alamiyah), and refusal against gharar, maysir, riba, zalim, and any haram objects.

Performance of Financial Institutions

Performance is any activity done by the entity that can effectively and efficiently measure the achievement of goal. In general, performance is defined as the achievement of an entity at certain time period. Therefore, bank performance is the general description of bank achievement or success in conducting banking operation effectively and efficiently which enables the bank to achieve what is previously planned at certain time period (Wahyuni, 2019). Assessment on bank soundness is assessment on bank condition after taking into consideration of risk and bank performance. Moreover, assessment on bank soundness is a reflection that a bank is able to function as expected.

Return On Assets (ROA)

Return On Assets (ROA) is the comparison of after-tax net earnings with total assets. In this context, ROA measures the ability of an entity to produce profit (return) after using the existing assets. High ROA is associated with high financial performance. Moreover, high ROA signifies that an entity is able to use the assets effectively and efficiently to produce earnings, which indirectly will increase entity value (Sunaryo, 2021).

3. RESEARCH METHODS

Research Plan

The current research is associative research because this research examines the causal relationship between two or more variables. Main point of this research is the relationship between financial performance measured by Islamicity Performance Index and profitability of Sharia Commercial Banks.

Type and Source of Data

This research is also quantitative research because the data produced by this research are mathematic calculations and universal facts. Data type is cross section and time series. Data source is secondary data which are collected from official website of Sharia Commercial Banks, precisely the annual financial statements in period 2016-2020.

Population and Sample

Research population includes all Sharia Commercial Banks in Indonesia that are registered on the 2021 Sharia Banking Statistics held by Financial Services Authority. The exact number of population is 14 Sharia Commercial Banks. Sampling method is purposive sampling in which the sample is obtained through criteria. The criteria used in the sampling are:

- a) Sharia Commercial Banks are registered in Financial Services Authority in period 2016-2020.
- b) Sharia Commercial Banks submit financial statements in period 2016-2020.
- c) Variables needed for the measurement of Islamicity Performance Index are available in the annual financial statements of Sharia Commercial Banks.

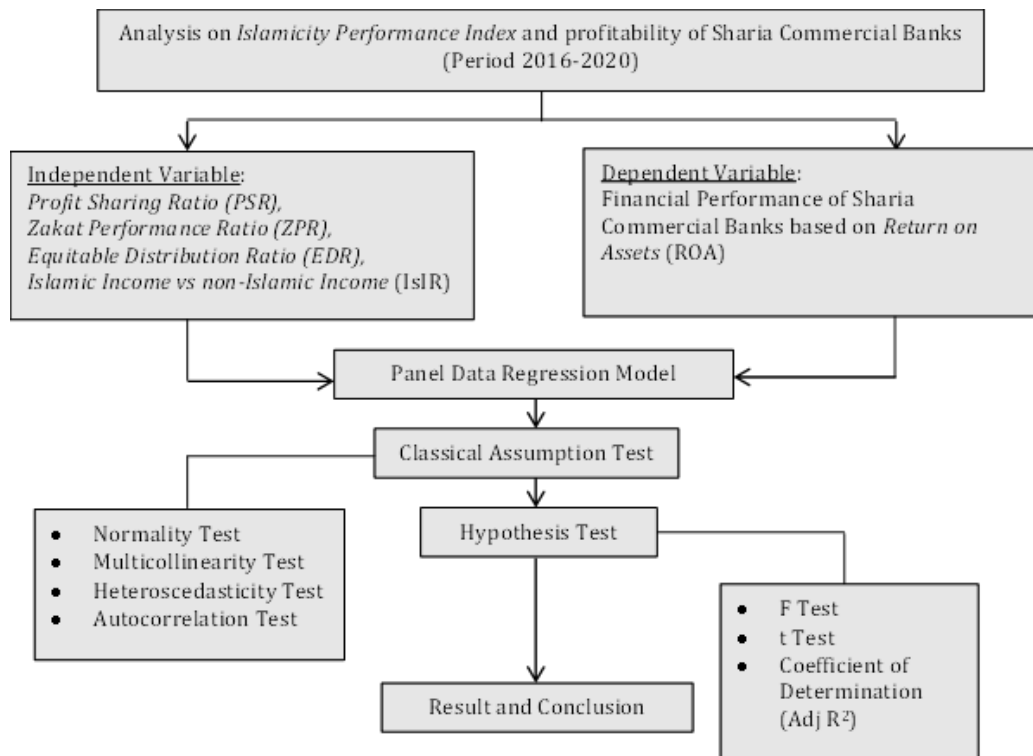
Table 2. Research Sample

No	Description	Number
1	Sharia Commercial Banks are registered in Financial Services Authority in period 2016-2020.	14
2	Sharia Commercial Banks submit financial statements in period 2016-2020.	14
3	Variables needed for the measurement of Islamicity Performance Index are available in the annual financial statements of Sharia Commercial Banks.	6
Research Sample		6
Number of Observation Data (5 years)		30

The contents of the table above point out that Sharia Commercial Banks in Indonesia that meet the criteria include Bank Muamalat Indonesia, Bank Victoria Syariah, Bank BRI Syariah, Bank Jabar Banten Syariah, Bank Panin Dubai Syariah and Bank BCA Syariah.

Data Analysis Method

Data analysis is done using two softwares, respectively Eviews 10 and Microsoft Excel 2010. These softwares enable researcher to get explanations about variables in econometric basis. Problem solving framework of this research is illustrated as follows.



4. RESULTS AND DISCUSSION

Results

1. Panel Data Regression Test

Panel data regression method used in this research is Random Effect Model (REM) with Lagrange Multipliers (LM) approach.

Table 3. Random Effect Model

Independent Variable	Coefficient	Prob.
Constant	1.151892	0.7903
Profit Sharing Ratio	-0.005701	0.7741
Zakat Performance Ratio	-0.318209	0.0473
Islamic Income Ratio	-1.169389	0.7872
Equitable Distribution Ratio	0.264536	0.0000

Source: Eviews 10 (Data processed)

Based on the selected estimation model, the resultant regression equation is as follows:

$$ROA = \alpha + \beta_1PSR + \beta_2ZPR + \beta_3IsIR + \beta_4EDR + eit$$

$$ROA = 1.151892 - 0.005701PSR - 0.318209ZPR - 1.169389IsIR + 0.264536EDR$$

2. Classical Assumption Test

a) Normality Test

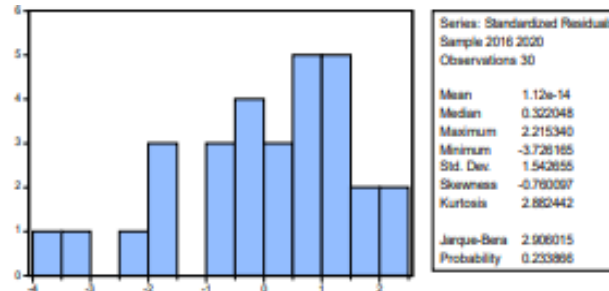


Figure 2. Normality Test

As displayed in the figure above, the value of Jarque-Bera is 2.906015 with probability of 0.233866 which is above significance value of 0.05. This result signifies that all variables are normally distributed or fulfilling normality requirement.

b) Multicollinearity Test

Table 4. Multicollinearity Test

Independent Variable	Correlation Value			
	PSR	ZPR	IsIR	EDR
Profit Sharing Ratio	1.0000	-0.2047	- 0.4918	-0.1670
Zakat Performance Ratio	-0.2047	1.0000	0.1177	0.0744
Islamic Income Ratio	-0.4918	0.1177	1.0000	0.1315
Equitable Distribution Ratio	-0.1670	-0.0744	0.1315	1.0000

Source: Eviews 10 (Data processed)

Correspond to the contents of the table above, there is no variable with correlation value higher than 0.85. This result explains that regression model in this research does not have multicollinearity problem.

c) Heteroscedasticity Test

Tabel 5. Heteroscedasticity Test

Independent Variable	Probability
Profit Sharing Ratio	0.1240
Zakat Performance Ratio	0.2313
Islamic Income Ratio	0.1180
Equitable Distribution Ratio	0.3767

Source: Eviews 10 (Data processed)

The contents of the table above reveal that each variable has probability value higher than 0.05. In descend order, each value of research variable is 0.1240, 0.2313, 0.1180, and 0.3767. This result asserts that research model does not have heteroscedasticity symptom.

d) Autocorrelation Test

Table 6. Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.932649	Prob. F(2.23)	0.1686
Obs*R-squared	4.333747	Prob. Chi-Square(2)	0.1145

Source: Eviews 10 (Data processed)

In relation to the contents of the table above, the value of Obs*R-Squared has probability value higher than 0.05, which is, 0.1145. This result confirms that there is no autocorrelation issue in research model.

3. Hypothesis Test

a) t test

Table 7. t test

Independent Variable	t-count	Prob.
Constant	0.268767	0.7903
Profit Sharing Ratio	-0.290147	0.7741
Zakat Performance Ratio	-2.086130	0.0473
Islamic Income Ratio	-0.272865	0.7872
Equitable Distribution Ratio	9.552906	0.0000

Source: Eviews 10 (Data processed)

According to the contents of the table above, several results are obtained.

- Profit Sharing Ratio (PSR) has negative relationship with profitability (ROA), which is proven by value of -0.290147 and probability value of 0.7741 that is higher than 0.05. This result signifies that PSR has negative effect on profitability of Sharia Commercial Banks but the effect is not significant.
- Zakat Performance Ratio (ZPR) has negative relationship with profitability (ROA), which is shown by value of -2.086130 but with probability value of 0.0473 that is lower than 0.05. This result explains that ZPR has negative and significant effect on profitability of Sharia Commercial Banks.
- Islamic Income Ratio (IsIR) has negative relationship with profitability (ROA), which is indicated by value of -0.272865 and probability value of 0.7872 that is higher than 0.05. This result confirms that IsIR has negative effect on profitability of Sharia Commercial Banks but the effect is not significant.
- Equitable Distribution Ratio (EDR) has positive relationship with profitability (ROA), which is pointed out by value of 9.552906 and probability value of 0.0000 that is lower than 0.05. This result asserts that EDR has positive and significant effect on profitability of Sharia Commercial Banks.

b) F test

Table 8. F Test

Weighted Statistics	
R-squared	0.795989
Adjusted R-squared	0.763347
S.E. of regression	0.010412
F-statistic	24.38554
Prob(F-statistic)	0.000000

Source: Eviews 10 (Data processed)

Based on the contents of the table above, F-statistic value is 24.38554 at significance level of 0.000000 which is lower than 0.05. This result stipulates that H₀ is rejected whereas H₁ is accepted. By this result, Profit Sharing Ratio (PSR), Zakat Performance

Ratio (ZPR), Islamic Income Ratio (IsIR), and Equitable Distribution Ratio (EDR) are said to have simultaneous effect on profitability (ROA) of Sharia Commercial Banks.

c) Coefficient of Determination

Table 9. Coefficient of Determination

Weighted Statistics	
R-squared	0.795989
Adjusted R-squared	0.763347
S.E. of regression	0.010412
F-statistic	24.38554
Prob(F-statistic)	0.000000

Source: Eviews 10 (Data processed)

The contents of the table above point out that Random Effect Model has Adjusted R-Square value of 0.763347. This value insists that independent variables of this research, respectively Profit Sharing Ratio (PSR), Zakat Performance Ratio (ZPR), Islamic Income Ratio (IsIR) and Equitable Distribution Ratio (EDR), have ability to explain dependent variable, which is profitability (ROA) of Sharia Commercial Banks. Explanatory power of these independent variables is 76.3347% whereas the remaining 23.6653% are explained by other variables beyond research scope.

Discussion

a. Effect of Profit Sharing Ratio on Profitability

The result concerning this relationship is in line with the findings of two previous studies, respectively (Mayasari, 2020) and (Rahmatullah & Triuspitorini, 2020). Both studies found that external finance extended by Sharia Commercial Banks in period 2016-2020 is relatively lower than their transactional finance and unable to optimize Profit Sharing Ratio (PSR) in order to improve profitability.

b. Effect of Zakat Performance Ratio on Profitability

The result concerning this relationship is in agreement with the finding of previous study conducted by (Mayasari, 2020). The study discovered that zakat is able to increase assets value. When an entity pays zakat, the wealth of this entity will not decrease but even increase due to God blessing to this wealth. However, the negative result for the relationship between zakat and profitability leads to a surprising fact. Net assets of Sharia Commercial Banks may be continually increasing and stable. But, the banks pay zakat less than 2.5% of their income which is definitely lower than zakat requirement.

c. Effect of Islamic Income Ratio on Profitability

The result concerning this relationship is in conformity with the finding of previous study carried out by (Nurdin & Suyudi, 2019). The study revealed that Islamic Income Ratio (IsIR) in period 2016-2020 does not affect profitability of Sharia Commercial Banks. Indeed, profitability of the banks is not affected at all by the pressure of IsIR because the banks still have halal and non-halal revenues in their transactions. Practically, such

transactions are inevitable in the banks. Non-halal revenues are distributed as benevolence fund (qard) or given as donation to other institutions, which surely this action causes a controversy. Non-halal revenues are basically haram despite their usage for benevolence purposes.

d. Effect of Equitable Distribution Ratio on Profitability

The result concerning this relationship corresponds to the finding of previous study undertaken by (Rahmatullah & Tripuspitorini, 2020). The study proved that Equitable Distribution Ratio (EDR) affects profitability of Sharia Commercial Banks in period 2016-2020. Sharia Commercial Banks distribute their income fairly to stakeholders such as employees, societies, investors and also for the banks itself.

5. CONCLUSION

Profit Sharing Ratio (PSR) and Islamic Income Ratio (IsIR) have negative effect on profitability of Sharia Commercial Banks but the effect is not significant. Zakat Performance Ratio (ZPR) has negative and significant effect on profitability of Sharia Commercial Banks. Equitable Distribution Ratio (EDR) has positive and significant effect on profitability of Sharia Commercial Banks in period 2016-2020.

REFERENCE

- Afifa, Y. 2016. Pengaruh Ukuran Bank Efisiensi, GDP, Dan Inflasi Terhadap Pembiayaan Bermasalah Dengan Likuiditas Sebagai *Intervening Variable* Pada Bank Syariah di Indonesia Tahun 2011-2015. *Skripsi*. Pekalongan: STAIN Pekalongan.
- Duantika, D. 2015. Analisis Perbandingan Kinerja Bank Syariah Berdasarkan RGEC Dan *Islamicity Performance Index* (Studi Bank Muamalat Dan Bank Syariah Mandiri). *Skripsi*. Jakarta: UIN Syarif Hidayatullah.
- Fitriani, P. D. 2020. Analisis Komparatif Kinerja Keuangan Bank Umum Syariah Pada Masa Pandemi Covid-19. *Jurnal Ilmu Akuntansi dan Bisnis Syariah*, 113-124.
- Iswari, P. W., & Amanah. 2015. Kinerja Keuangan Bank Umum Syariah: Negara Vs Swasta. *Jurnal Islaminomic*, 1-15.
- Mayasari, F. A. 2020. Pengaruh *Islamicity Performance Index* Terhadap Profitabilitas Bank Umum Syariah Indonesia Periode 2014-2018. *Kompartemen: Jurnal Ilmiah Akuntansi*, 22- 38.
- Nurdin, S., & Suyudi, M. 2019. Pengaruh *Intellectual Capital & Islamicity Performance Index* Terhadap Kinerja Keuangan Perbankan Syariah di Indonesia. *Jurnal Akuntansi Multidimensi (JAMDI)*, 119-127.

- Nurmalitasari, D. 2017. Analisis Pengaruh *Islamicity Performance Index* Terhadap Profitabilitas Bank Umum Syariah (Periode Tahun 2012-2016). *Skripsi*. Jakarta: UIN Syarif Hidayatullah Jakarta.
- Otoritas Jasa Keuangan. 2021. Statistik Perbankan Syariah-Januari 2021: <https://www.ojk.go.id/id/kanal/syariah/data-dan-statistik/statistik-perbankan-syariah/Pages/Statistik-Perbankan-Syariah---Januari-2021.aspx>. [Diakses 5 Agustus 2021]
- Rahmatullah, N. Z., & Triuspitorini, F. A. (2020). Analisis Pengaruh *Islamicity Performance Index* Terhadap Profitabilitas Bank Umum Syariah di Indonesia Tahun 2014-2018. *Journal of Applied Islamic Economics and Finance*, 85-96.
- Shahul, H., Wirman, A., Nazli, M., & Pramono, S. (2004). *Alternative Disclousure & Performance Measures For Islamic Banks*. *Department Of Accounting International Islamic University Malaysia*, 1-37.
- Sumadi. (2022). *Model Strategi Manajemen Perbankan Syariah Dalam Pemberdayaan UMKM diEra New Normal* . Klaten: Penerbit Lakeisha.
- Wahyuni, S. (2019). *Perbankan Syariah: Pendekatan Penilaian Kinerja*. Pasuruan: Qiara MediaPartner.