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Analysis Of Fixed Financing, Profit Sharing Financing And Non Performing Financing On Profit Gain Of Banking Industries In Indonesia

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Abstract:

The purpose of this study is to determine whether profit-sharing, fixed financing, and non-performing financing (NPF) all have an impact on sharia banking earnings at the same time. Influence analysis research is what this study is doing. Purposive sampling was used in this study's sample process. The research sample in this study is sharia banking profit. Twenty Indonesian commercial banks that follow sharia law served as the study's population. This study employs quantitative data methodologies, meaning that Ordinary Least Squares analysis is employed to turn the research's data into numerical values. The research findings indicate that sharia banking earnings are significantly impacted by profit sharing, fixed financing, and non-performing financing (NPF) variables all at the same time. The profit-sharing component significantly and favorably affects profit. This implies that profit will rise with each increase in profit sharing. The profit margin is significantly and favorably impacted by fixed finance variables. This implies that profit will rise with each increase in fixed funding. The variable of non-performing finance (NPF) has a noteworthy and adverse impact on earnings. This implies that earnings will decrease with each increase in NPF. The modified R-squared value indicates that while some variation in the independent variables can be used to partially explain the variation in the dependent variable (profit), other variables unrelated to the variables under study account for the remaining portion.

Keywords: profit-sharing financing, fixed financing, non-performing financing (NPF), commercial banks, sharia banking profit.

Introduction

A country's economy is one of the most important things for the continued development and growth of a country. Since World War II, the banking system has played an important role in enabling the private sector and government to achieve their desired roles in the economy. Aside from that, banks play a crucial function as middlemen between those in need of money and those who have excess money. Subsequently, the bank distributes the funds as financing or credit. A financial system based on Islamic sharia has been implemented in Indonesia in recent years, and it offers the community another banking option. The community is very supportive of the idea of a banking system that is secure, dependable, and free of usury. The features of a profit-sharing sharia banking system offer an alternative banking model that benefits both the bank and the community. These features prioritize ethical investment, fairness in transactions, and avoiding speculative activity in financial transactions. Additionally, the system prioritizes the values of brotherhood and togetherness in production. Banking authorities must keep a close eye on the institution's functioning because it is crucial to the economy. Examining a bank's profitability level is one way to gauge its financial success. This has to do with how effectively the bank manages its operations. By contrasting the earnings realized with the capital or assets that generate profits, efficiency is determined. The greater the likelihood that a bank will perform (Antonio, 2021).

Sharia banking operations are essentially an expansion of banking services for those who require and desire incentives to be paid out according to Islamic law's sharia principles rather than the interest system. The tasks and responsibilities outlined in the accounting bookkeeping standards released by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) enable sharia banks to manage customer funds. Second, sharia banks have the ability to invest both their own money and money entrusted to them by consumers. Third, sharia banks can continue to provide standard banking services since they are a provider of financial services and payment flow. Fourth, Islamic banks are required to issue and manage (collect, administer, and distribute) zakat and social funds as they are social activity implementers and are fundamentally sharia financial organizations. Since the passage of Law Number 10 of 1998, which establishes a precise legal foundation and specifies the kinds of enterprises that sharia banks may undertake and run, sharia banks have seen significant growth. The confidence that conventional banks may establish sharia branches or even fully transform into sharia banks resulted from that point on (Santoso, 2010).

The existence of sharia banking in Indonesia is demonstrated by the rise in sharia banks and offices; this suggests that public confidence in sharia banking has generally increased. Therefore, the expansion of bank operations related to the collection and distribution of public funds has a major influence on the expansion of each bank, which in turn affects the expansion of sharia banks' profits. A financing indication based on price difference, buying and selling (murabahah, salam, and istisna) is a variable that affects profits based on the relationship with the amount of income obtained by the bank through the buying and selling principle. It will be able to raise banking profits with the money from the purchasing and selling premise. In a mudharabah transaction, the buyer is the consumer, the seller is the bank, and the items specify the profit margin. A salam is a purchase and sale in which the products being exchanged are not yet manufactured. As a result, payment in cash is received and the goods are delivered on a strict basis. Although Istisna payments can be made by the bank in multiple installments, Istisna is nearly identical to a greeting card. The community needs musharakah financing for a number of reasons. Firstly, it is needed for project financing, in which both the customer and the bank supply funds; once the project is finished, the customer returns the funds together with the negotiated profit sharing. Both capital investments are made for a predetermined amount of time, following which the bank makes either quick or slow investments or sales of shares (Tannady & Purnamaningsih, 2023).

Research conducted previously explained that partial buying and selling financing has a positive influence on profits; buying and selling financing shown through murabahah financing partially has a negative effect on profits. Therefore, according to previous researchers, it is necessary to carry out further research on the influence of buying and selling on profits. Ijarah rent is used as a variable that influences profits based on the rental contact price, which is related to the profit obtained by the party renting out the goods or services in the form of the difference between the purchase price from the supplier and the selling price to the lessee. The profits obtained by Islamic banks are in the form of rental income, which can later increase the profits of Islamic banks. This profit is reduced by zakat, which later, using the rental principle, can increase profits. Previous research on leasing principal financing shows that the leasing principle in sharia banking has a negative influence on profits. Rental principal financing has a positive effect on profits. Provides an explanation of how the leasing principle can increase profits in sharia banking (Siamat, 2015). Based on the results of this research, the results show inconsistent results, so further research needs to be carried out.

Literature Review

The role of sharia banks is to have two main roles, including as a social agency and a business entity. As a social agency, sharia banks have the function of managing social funds to collect funds for the distribution of zakat, infaq and sadakah, as well as the distribution of benevolent loans. Meanwhile, as a business entity, sharia banks act as investment managers, investors and service providers. As investment managers, sharia banks' job is to take deposits from clients based on the concepts of profit-sharing, rent, or deposit (Yakup & Haryanto, 2019). The bank directs money through investment activities based on the buying and selling, renting, or profit-sharing principles in its capacity as a provider of financial services. Net profit is the result of subtracting operating expenses such as rent, payroll taxes, interest depreciation, power, and other unforeseen withdrawals of capital from gross profit. The main goal of Islamic economics is to achieve prosperity in this world and the hereafter, while conventional economics focuses solely on worldly prosperity. The zakat and tax burden have reduced this profit. The higher the expected profit, the more sharia banks can maintain sustainability in order to achieve profits, namely increasing social or world prosperity and happiness in the hereafter. Therefore, profit is used as a measure of bank performance, both in terms of prosperity in the social sector and happiness in the hereafter (Tjahjadi, 2011).

When opposed to interest, profit sharing is a fundamentally different type of alternative finance. This method, as the name implies, involves sharing business results that have been funded through financing or credit. Both direct funding and financing through sharia banks are eligible for the profit-sharing plan. The profit-sharing principle, which is comprised of mudharabah, musharakah, and muzara'ah (an indicator of financing through the processing of joint costs), is utilized as a variable that affects profits because it is associated with the theory that sharia banking will receive revenue from the sharing agreement if customers are offered profit-sharing financing (Wirdyaningsih et al., 2015). In Indonesian sharia commercial banks, profit-sharing financing has a detrimental impact on profitability, which is measured by return on assets (ROA). Financing that is based on a mutually trusting structure between partners is known as profit sharing. Because the parties need to be aware of one another's identities, there are hazards involved. finance risks are classified according to finance class, use kind, and economic sector, taking into account Indonesian peculiarities. The riskiest types of finance include those based on the financing group, financing based on usage kind, and financing based on economic sector. Profit-sharing financing is extremely effective at financing sharia banking profits, which will impact profitability as measured by return on assets (ROA), despite the relatively high financing risk. contracts that are frequently utilized are mudharabah and musharakah contracts, which operate on the profit-sharing premise (Sudarsono, 2017).

One financial ratio associated with troublesome borrowing is non-performing financing. The bank performs worse and makes less money the greater the NPF. Given that the financing function contributes the most to a bank's income, especially sharia banks, good financing management is really necessary for banks. NPF does not have a positive effect on profits (Ahmad et al., 2023). This runs counter to the findings of other researchers' studies, which demonstrate the detrimental impact of NPF on profits. Therefore, based on previous research, it is necessary to carry out further research on the influence of NPF on profits. Ijarah financing experienced an increase in 2012 and then continued to decline until 2014. The decline in ijarah financing was caused by customers being in arrears in paying installments, which could increase the percentage of bad credit or non-performing financing and have an impact on decreasing Islamic banking profits in Indonesia.

Methodology

Because the purpose of this study is to investigate the influence relationship between two variables, it is an influence analysis study. Time series data are employed as operational data in this study. A sample is a portion of the population that is thought to be representative of the study population. Purposive sampling was used in this study's sample process. The research sample consists of sharia banking earnings. All Indonesian commercial banks that follow sharia law comprise the population considered in this study. There are twenty sharia commercial banks in Indonesia, according to statistics provided by Bank Indonesia. Three different strategies were employed to gather data for this study: online, library, and field research. This study employs a quantitative data approach, meaning that the Ordinary Least Squares analysis tool is utilized to obtain numerical data in order to minimize deviation or error using multiple regression analysis, which involves the use of more than two independent variables. An estimating technique called ordinary least squares is frequently used to extrapolate the population regression function from the sample regression function. The Eviews program and Microsoft Excel will be the two computer programs used to analyze the data. Differentiation data were used in this study. Additionally, as in the case of solving equations without the knowledge of additional variables.

Case studies

According to the OLS data processing results, the constant value is 15, which indicates that the profit value will rise by 15% if the independent variable is taken as constant or stays constant. This demonstrates that if macroeconomic variables are held constant, the profit value will rise. The t-count result was 2.3 with a significance level of 0.03 based on the research findings. Partial profit sharing has a substantial impact and a favorable correlation with sharia banking profitability since the significance threshold is less than 0.05. Profit sharing financing has a coefficient value of 0.09%, meaning that for every 1% increase in profit sharing, sharia banking profits will rise by 0.09%. According to earlier studies, the impact of profit sharing on sharia banks' profitability is reported to provide significance values of 0.01 and 0.01 <0.05 between mudharabah and musyarakah, respectively. Research therefore has a big impact on the revenues of sharia banks. This suggests that bank profitability is impacted by the quantity of profit-sharing financing. This influence can be seen in the large capital participation of banks in profit-sharing financing because it can cause quite large losses if customers who receive capital are not careful.

The t-count result was 2.2 with a significance level of 0.03 based on the research findings. Partial fixed financing has a considerably beneficial influence on sharia banking profitability because the significance threshold is less than 0.05. Because the regression coefficient value for fixed financing in sharia banking is 0.2%, an increase of 1% in fixed financing will result in a 0.2% rise in sharia banking profits. The test findings indicate that sharia banking earnings are significantly increased by murabahah, salam, istisna, and ijarah rental finance. Thus, sharia banking earnings will rise in proportion to the amount of purchasing, selling, and renting finance that banks issue. The study's findings are consistent with earlier studies, which explains why leasing, financing, and buying and selling all significantly increase profitability. demonstrating the potential impact on sharia banking profits of buying and selling financing, the greatest financing pattern distributed by banks to date and which is dominated by the murabahah principle, followed by the salam and istisna principles. The fact that leasing and buying and selling financing have a positive impact on profits further demonstrates that the management of this asset group buying and selling financing has been done correctly to generate the highest possible profits for Indonesia's sharia commercial banks.

The t-count result was 3.1 with a significance level of 0.005 based on the research findings. Partially non-performing financing (NPF) has a considerably negative impact on sharia banking profitability because the significance threshold is less than 0.05. The non-performing financing (NPF) regression coefficient value for sharia banking is -26.4%, indicating that a 1% increase in NPF will result in a -26.4% decrease in sharia banking profitability. The significant value, which is less than 5%, shows the results. Sharia commercial banks are exposed to credit risk, which is reflected in the non-performing lending ratio. Because there are more problem loans overall, which allows the bank to have more issues, the higher this ratio, the worse the bank's quality. As a result, income will decline as the cost of reserves of productive assets rises. Therefore, it may be said that the return on assets is negatively impacted by the non-performing financing (NPF) percentage. The probability value (f-statistics) was 0.0007 and the f-statistics results were 6.9. It is possible to conclude that PBH, PT, and NPF collectively have a significant impact on profit-sharing banking because the likelihood (f-statistics) is less than 0.05. The modified R-squared value of 0.29 indicates that the variation in the independent variables (PBH, PT, and NPF) of 38% may be used to jointly explain the variation in the dependent variable (profit). In the meantime, factors not included in the study account for the remainder.

The three variables profit-sharing financing, fixed financing, and non-performing financing (NPF) have a considerable impact on sharia banking profitability, according to the results of multiple regression analysis. Profit-sharing financing is highly attractive to entrepreneurs who lack the funds to start a business because it significantly boosts profitability. These companies can be financed by sharia banks under a profit-sharing arrangement. In order to ensure that earnings are distributed in accordance with an agreement between the investor and the developer, the bank gives managers who are already experienced in this area 100% of the money. Sharia banks have successfully implemented this 75% profit-sharing financing. in line with earlier studies that suggests profit sharing can raise sharia banking earnings, in order to boost sharia banking profits. The test results demonstrate that fixed financing significantly boosts profitability; hence, increasing the quantity of fixed financing that banks distribute will have a substantial favorable impact on banks. Sharia banks in general have used murabahah as the main financing method. The results of this research show that fixed financing, or profit sharing and rental financing, profit sharing, which is the largest financing pattern so far, is channeled by sharia banks and is dominated by the principles of sale and purchase. Able to have a positive influence on sharia bank profits. So, this is in accordance with previous research, which states that fixed financing can increase sharia banking profits.

The test results demonstrate that sharia banking profits are significantly and negatively impacted by non-performing financing. This implies that Indonesian sharia banking revenues decrease in proportion to the degree of non-performing financing (NPF) influence on Islamic banks. This occurs as a result of high levels of bad credit or non-performing loans increasing entry fee arrears, which may eventually result in bank losses. Higher this percentage indicates lower-quality bank financing, which raises the quantity of non-current financing and forces sharia banks to incur losses in their day-to-day operations, which in turn impacts the banks' declining profitability. Thus, this is consistent with earlier studies that found that non-performing financing (NPF) can lower the profits made by sharia banks.

Conclusion

The following conclusion may be drawn from the OLS (Ordinary Least Square) regression results of this study: Profit sharing, fixed financing, and non-performing financing (NPF) all have a big impact on sharia banking earnings in Indonesia at the same time. There is a notable and favorable impact of the profit-sharing component on profit. This implies that profit will rise with each increase in profit sharing. The profit margin is significantly and favorably impacted by fixed finance variables. This implies that profit will rise with each increase in fixed funding. The variable of non-performing finance (NPF) has a noteworthy and adverse impact on earnings. This implies that earnings will decrease with each increase in NPF. The modified R-squared value indicates that changes in the independent variables can partially account for the variation in the dependent variable, with the remaining variance being explained by variables unrelated to the variables under investigation. In this instance, the government ought to give greater thought to the laws governing sharia banking financing in Indonesia, particularly those that deal with regulating, estimating, overseeing, and tracking the industry's expansion or development, in order to ensure that Indonesia's market share keeps rising annually. for Indonesian sharia banking to achieve strong financial performance in order to maximize the amount of profitability shown by profit. Not only that, but sharia banks also need to pay greater attention to non-performing finance because it is steadily rising in this region. Customers who disregard sharia banking norms must therefore exert more control over the bank in order for them to incur losses. In order to produce more precise research results, it is intended that this study will serve as a reference for future investigations, particularly those on the financing of sharia banking in Indonesia.

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