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# DETERMINANTS AND ALTERNATIVE STRATEGIES IN IMPROVING THE FINANCIAL PERFORMANCE OF SHARIA COMMERCIAL BANKS IN INDONESIA

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*Key Factors and Alternative Strategies to Improve The Financial Performance of Sharia Commercial Banks In Indonesia*

## ABSTRACT

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*Internal factors such as FDR, CAR, BOPO, and NPF, as well as external factors such as inflation and the BI Rate, can be used to determine the stability of the financial performance of Islamic banks. This study is to investigate the impact of internal and external factors on the profitability of Islamic commercial banks and to provide suitable solutions for enhancing their financial performance. This study utilizes original data collected from Islamic banking specialists that have experience, professionalism, a proven track record, and are true experts in their disciplines. Secondary data are gathered from the Financial Services Authority's (OJK) annual report on the financial performance of Islamic banks in Indonesia for the period 2013-2020 and 2013-2020 macroeconomic data. Using qualitative descriptive, panel data regression, and Analytical Hierarchy Analysis, the data were evaluated. The results of the study indicate that Bank Muamalat is the bank with the worst performance, whereas BTPN Syariah is regarded as the most outstanding since it is the sharia bank with the best performance. Only BOPO and FDR have a substantial impact on the profitability of Islamic Commercial Banks (ROA), with BOPO having a negative impact and FDR having a favorable impact. Inflation and the BI Rate have no substantial impact on profitability as external factors. As the primary approach, Sharia Commercial Banks must improve services and develop business segmentation based on risk tolerance. Trust and capital are the most crucial aspects in the success of this strategy. Directors as top-level managers play a crucial role in setting the direction of business policies and objectives, whereas employees play a part in the successful implementation of strategies. The ultimate objective of this strategy is to enhance consumer confidence and maximize profitability.*

**Keywords:** Analytical Hierarchy Process (AHP), Financial Performance, Financial Service Authority(OJK), Islamic Banking and Profitability.

## PRELIMINARY

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In the midst of the COVID-19 pandemic, Islamic banking in Indonesia exhibited steady growth and improvement in 2020. According to OJK (2020), Islamic banking assets were IDR 608.9 trillion at the end of 2020, a rise of 13.11% over the previous year, while conventional banking only expanded 6.74%. Third party funds in Islamic banking expanded by 11.98%, outpacing conventional banking by 10.93%, while Islamic banking financing grew by 8.08%, while conventional banking financing contracted by 4.20%. This optimistic performance provides an opportunity to increase Islamic banking's market share, which is still in the region of 6.51% of total national banking until the end of 2020. The gross non-performing finance (NPF) ratio of 3.13% at the end of 2020 demonstrates that Islamic banking's function as an intermediary institution has been running quite effectively, so that with the provision of 86.88% of Indonesia's Muslim population of 272.23 million people, Islamic banking has the potential to increase business growth in a more significant direction (BPS, 2020).

The financial performance of Islamic banking is one factor that can promote public interest in its services. Essentially, financial success demonstrates Islamic banking's ability to generate stable and sustained growth. This will boost stakeholder confidence in Islamic commercial banks (BUS). The expansion in the financial side of BUS as part of Islamic

banking witnessed a fluctuating increase between 2012 and 2020, comprising total assets, revenues, costs, and third party funds can be seen in Table 1.

Table1. BUS Statistics (in IDR Trillion)

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Asset	195.0	242.3	249.6	270.7	324.0	396.7	291.4	325.4	368.3
Income	17.7	27.2	20.6	22.6	26.7	17.7	33.2	34.8	34.8
Burden	14.3	22.8	15.5	18.7	25.4	23.8	26.3	25.8	26.6
TPF	147.0	183.5	170.7	171.9	206.4	230.0	257.6	289.0	322.9

Source: Financial Services Authority data (2021)

The fluctuation of growth in Islamic banking's financial element has an effect on the dynamics of financial performance ratios. These financial ratios are used by stakeholders to measure the stability of Islamic banking business circumstances in the face of a country's diverse macroeconomic conditions. The level of credibility of Islamic banking to the wider community will be reflected in the steadiness of its financial performance in the face of macroeconomic difficulties. Table 2 shows the detailed growth of Islamic banking financial performance.

Table2. Islamic Banking Financial Performance Ratio and Macroeconomic Condition in Indonesia (in %)

Ratio	2013	2014	2015	2016	2017	2018	2019	2020
ROA	0.20	0.41	0.49	0.63	0.63	1.28	1.73	1.4
CAR	14.42	15.74	15.02	16.63	17.91	20.39	20.59	21.64
FDR	100.32	86.66	88.03	85.99	79.61	78.53	77.91	76.36
BOPO	78.21	96.97	97.01	96.22	94.91	89.18	84.45	85.55
NPF	2.62	4.95	4.84	4.42	4.76	3.26	3.23	3.13
INFLATION	8.38	8.36	3.35	3.02	3.61	3.13	2.72	1.68
BI RATE	7.50	7.75	7.50	6.50	6.50	6.00	5.00	3.75

Source: Otoritas Jasa Keuangan, 2021

Table 2 illustrates that the financial performance of BUS changed from 2013 to 2020, as did the expansion of the financial side of Islamic banking. Profitability is a key indication in assessing financial performance, with one of the ratios indicating the success of the organization in creating profits through the utilization of assets possessed. Table 2 illustrates the ROA of the national BUS, which has continually increased. Similar rise happened in the capital adequate ratio (CAR) and financing to deposit ratio (FDR), with the CAR ratio growing somewhat continuously over the same period and the FDR ratio fluctuating from 2013 to 2016 before decreasing consistently from 2017 to 2020.

When compared to the financial performance of conventional commercial banks, the swings in Islamic banking's financial performance are thought to be substantially better. While Islamic banking's CAR increased, conventional banks' CAR dipped by 1.29% in 2018. The higher the CAR ratio, the more resilient banks are to asset depreciation caused by non-performing assets. That is, the lower the CAR, the less likely the bank is to survive.

Another interesting phenomenon is the Operating Expenses to Operating Income Ratio (BOPO). Table 2 shows that the maximum ROA was attained in 2019 when FDR was 77.91% (second lowest from 2013 to 2020) and BOPO was 84.45% (lowest in 2013-2020). The ROA and BOPO movements are consistent with theory, however the ROA and FDR movements show that the optimal amount of FDR for achieving a high ROA was obtained in 2019. When compared to typical commercial banks (Table 3), the highest ROA was obtained when the LDR was at 89.7% (the third lowest maximum in the 2013-2019 period) and the BOPO value was at 74.06% (second lowest in the 2013-2019 period).

The increase in NPF in Islamic banking was followed by an increase in ROA in 2013-2014, whereas the fall in NPF in 2015-2016 was followed by an increase in ROA in the same year. In 2017, NPF increased while ROA remained unchanged, which was

followed by a fall in NPF from 2018 to 2020, which was accompanied by a rise in ROA from 2017 to 2019, but ROA reduced in 2020 when NPF also declined. Table 2 also depicts the trend of inflation and the BI Rate, which has been constantly lowering between 2013 and 2020. Except for the conditions in 2020, the pattern of movement of inflation and ROA from 2013 to 2020 validates Basher's (2002) findings that inflation has a detrimental impact on the profitability of Islamic banks.

Table 3. Financial Performance Ratio of Conventional Commercial Banks in Indonesia during the period 2013-2019 (in%)

Ratio	2013	2014	2015	2016	2017	2018	2019
ROA	3.8	2.85	2.32	2.23	2.49	3.22	3.41
CAR	16.36	18.01	19.00	21.19	21.68	20.39	21.42
LDR	89.7	89.42	92.11	90.7	88.68	83.97	82.2
BOPO	74.06	76.29	81.49	82.22	78.79	68.19	71.28

Source: Financial Services Authority Data, 2021

The impact of external and internal factors on the efficiency of banks, particularly Islamic banks, cannot be precisely identified (Sutawijaya and Lestari, 2009). This is due to the fact that banking performance is solely judged using accounting standards such as ROE (return on equity), ROA, and asset turnover. Furthermore, to measure Islamic banking performance in Indonesia, Islamic banking pays more attention to the balance of the role of intermediation and the soundness of banks in growing financing in the real sector (Paris, 2017). This contradicts the narratives of Alsatti (2014), Bordeleau and Graham (2013), and Ademi (2009), who contend that liquidity has a favorable impact on bank profitability. So, Islamic financial performance can be evaluated using internal and external criteria.

According to these studies, there is a gap in the measuring of Islamic banking financial performance, with studies stating that performance cannot be directly quantified based on external and internal elements. Several studies, however, have found that these characteristics can have an impact on the performance of Islamic banking. As a result, this study was carried out to fill the vacuum by assessing the influence of CAR, BOPO, NPF, and FDR (internal factors), as well as external ones, namely inflation and BI Rate, on profitability with ROA proxies for Islamic commercial banks. Then, in order to maintain the confidence of Islamic banks in the community, develop alternative techniques for enhancing the financial performance of BUS in Indonesia.

## RESEARCH METHODS

The data used in this study are both primary and secondary data acquired from in-depth interviews with Islamic banking specialists. Purposive sampling was used to pick specialists who had substantial experience, professionalism, strong credibility, and an education level suitable to Islamic banking. Nine experts were interviewed, including sharia banking practitioners, regulator, sharia banking consultants, and academics. Secondary data in the form of Islamic financial performance data gathered from the Annual Reports of 12 Islamic Commercial Banks released by the OJK between 2013 and 2020, as well as Indonesian macroeconomic data from 2013 to 2020. This study employs descriptive analysis by mapping internal performance based on financial ratios, panel data regression analysis, and decision making analysis using the Analytical Hierarchy Process (AHP) are all used in this study.

The approach of panel data regression analysis is used to demonstrate the influence of internal and external influences on the dependent variable, ROA. In and of themselves,

32 panel data is a combination of time series data and cross section data. 11 Common effects, fixed effects, and random effects are among the techniques to panel data regression (Gujarati and Dawn 2009). The equation model is as follows:

$$Y_{it} = \beta_0 + \beta_1 X1\_CAR_{it} + \beta_2 X2\_BOPO_{it} + \beta_3 X3\_NPF_{it} + \beta_4 X4\_FDR_{it} + \beta_5 X5\_INFLAS_{it} + \beta_6 X6\_BI\_RATE_{it} + e_{it}$$

Information:

Y = ROA

$\beta$  = slope coefficient

X1\_CAR=Capital Adequacy Ratio(CAR)

X2\_BOPO = Operating Expenses on Operating Income(FDR)

X3\_NPF = Non Performing Financing (NPF)

X4\_FDR= Financing to Deposit to Ratio (FDR)

X5\_INFLATION = INFLATION

X6\_BI\_RATE = BI RATE

54 The hypotheses tested in this study are as follows.

1. Hypothesis 1: CAR has an effect on ROA

11 According to Kuncoro and Suhardjono (2002), the influence of CAR on ROA is that a high CAR value demonstrates the ability of banks to finance their operations and preserve current deposits, hence increasing public trust in banks. The effect occurs as a result of the fact that the capital ratio shows the capacity of banks to offer funds utilized as business development capital and to overcome the possible risk of loss. In conclusion, a high CAR indicates a sound bank operating state (Tarnidhi and Kusumo, 2003). Then the hypothesis is formulated as follows:

H1<sub>0</sub> : CAR has no effect on ROA

H1<sub>1</sub> : CAR has an influence on ROA

2. Hypothesis 2: Effect of BOPO on ROA

According to Abbasoglu and Aysan (2007), the influence of BOPO on bank profitability is due to the fact that a lower operating cost ratio might boost existing profitability because it indicates that banks are more effective at conducting business activities. Then the hypothesis is formulated as follows:

H2<sub>0</sub> : BOPO has no effect on ROA

H2<sub>1</sub> : BOPO has an influence on ROA

3. Hypothesis 3: Effect of NPF on ROA

The influence or relationship between NPF and bank profitability can be described as a negative relationship, with a small NPF number reflecting lower bank credit risk (Sumarlin, 2016; Lemiyana and Litriani, 2016). NPF shows a bank's financing risk as a result of its financing and investment activities. Credit risk posed by NPF is the risk experienced by banks as a result of non-payment of loans provided by banks to debtors. Then the hypothesis is formulated as follows:

H3<sub>0</sub> : NPF has no effect on ROA

H3<sub>1</sub> : NPF has an influence on ROA

4. Hypothesis 4: Effect of FDR on ROA

According to Febriani and Manda (2021), a lower FDR value influences ROA because it indicates the lending efficiency of banks. So that the bank's profit obtained by the estimation of Bank Indonesia's FDR ratio is deemed capable of enhancing ROA. According to Wibisono and Wahyuni (2017); Jamaludin and Kuriyah (2016), there was no correlation between FDR and ROA. Then the hypothesis is formulated as follows:

H<sub>40</sub> : FDR has no effect on ROA  
H<sub>41</sub> : FDR has an effect on ROA

5. Hypothesis 5: Effect of Inflation on ROA

Inflation influences ROA because excessive inflation can depress the stock price of banking assets, whereas low inflation can impede the movement of banking assets (Kalengkongan, 2013). Arumningtyas and Muliati (2019) explain that there is no influence of inflation on profitability, because there is no interest system in Islamic bank activities, however Kalengkongan (2013) notes that there is evidence of inflation harming banking organizations as assessed by ROA. Then the hypothesis is formulated as follows:

H<sub>50</sub> : Inflation has no effect on ROA  
H<sub>51</sub> : Inflation has an effect on ROA

6. Hypothesis 6: Effect of BI Rate on ROA

The BI Rate influences profitability since Bank Indonesia's BI Rate policy aims to reduce inflationary pressures. Despite the fact that high interest rates can raise people's willingness to use bank deposit services, bank funds will increase. Consequently, it may be stated that the BI Rate influences profitability. According to Kurniawati et al. (2018), the impact of the BI Rate on bank profitability should be equivalent to that of the inflation rate. Therefore, it may be stated that the BI Rate influences profitability.. Then the hypothesis can be formulated as follows:

H<sub>60</sub> : BI Rate has no effect on ROA  
H<sub>61</sub> : BI Rate has an influence on ROA

AHP is the following analytical tool for determining the optimal alternative plan for enhancing the financial performance of BUS in Indonesia. Figure 1 depicts the general shape of the AHP process flow, as described by Saaty (1993).

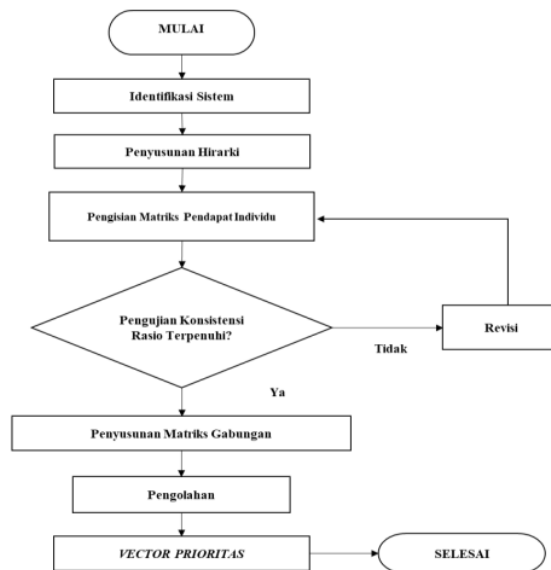


Figure 1 Data processing using Analysis Hierarchy Process (Source: Saaty, 1993)

## RESULTS AND DISCUSSION

### Map of Islamic Commercial Bank Financial Performance (Mapping Analysis)

The examination of the financial performance mapping of Islamic Commercial Banks in Indonesia makes reference to Bank Indonesia laws guiding the rating system for the soundness of Sharia-compliant Commercial Banks. Table 4 displays the findings of the mapping study of BUS performance in Indonesia throughout the observation period.

Table 4. Analysis of Financial Performance Mapping of Islamic Commercial Banks (BUS)

No.	Bus name	ROA	FDR	BOPO	CAR	NPF
1	Aceh Sharia	Very high	Low	Very low	Higher than stipulation	Very good
2	BTPN Syariah	Very high	High enough	Very low	Much higher than the stipulation	Very good
3	BSM	High enough	Low	Very high	Higher than stipulation	Well
4	Muamalat	Low	Low	Very high	Higher than stipulation	Well
5	BNI Syariah	Tall	Low	High enough	Higher than stipulation	Very good
6	Panin Dubai Sharia	High enough	High enough	Very high	Higher than stipulation	Very good
7	Sharia BJB	High enough	High enough	Very high	Higher than stipulation	Very good
8	Mega Syariah	High enough	High enough	Very high	Much higher than the stipulation	Very good
9	BCA Syariah	High enough	High enough	Very high	Much higher than the stipulation	Very good
10	Sharia Bukopin	Low	High enough	Very high	Higher than stipulation	Well
11	BRI Syariah	High enough	Low	Very high	Higher than stipulation	Well
12	Victoria Sharia	High enough	High enough	Very high	Higher than stipulation	Well

Table 4 shows that the BUS with the best overall performance is BTPN Syariah, as seen by its extremely high ROA value, extremely low BOPO, CAR that is significantly higher than the requirements, and low NPF (very good). BTPN Syariah's attainment of a strong financial performance can be supported by a variety of grounds. The client capacity-building program also contributes to the success of the business. Where the program's unique value proposition focuses on three primary pillars: 1) the power of health and well-being for senior clients, 2) the power of company growth for MSME businesses, and 3) the power of community growth.

10 Table 4 also presents the performance of three BUS owned by State-Owned Banks (State-Owned Enterprises), namely Bank Syariah Mandiri (BSM), BNI Syariah, and BRI Syariah, which have not been able to demonstrate optimal financial performance, particularly BSM and BRI Syariah, as measured by BOPO and NPF. The inability of the three BUS under BUMN to acquire funds via sukuk also contributed to their subpar financial performance. In Malaysia, Saudi Arabia, and the United Arab Emirates, the ratio of sukuk to conventional debt securities as of April 2020 exceeds 20% on average. (KNKS, 2019). Since February 1, 2021, these three BUS have united to form Bank Syariah Indonesia (BSI) in order to strengthen their capital capacity. (<https://www.bankbsi.co.id/>). In addition, mergers are conducted to assist the government-desired halal environment. It

is thought that the presence of large-scale BUS is a crucial pillar in the development of Islamic banking integration in Indonesia (KNKS, 2019).

The financial performance of Bank Muamalat and Bukopin Syariah, as demonstrated by their poor ROA, extremely high BOPO, and reasonably high NPF, requires special consideration. The NPF data for the observation period for these two BUS indicates that there are issues with the quality of the funding given, resulting in high NPF and BOPO, which inhibits the attainment of ROA. Prior to 2020, Bank Muamalat had capital problems, not liquidity problems. This is because the shareholders have not been able to expand their capital contribution to Bank Muamalat, despite the fact that Bank Muamalat's commercial development demands a larger capital base (Rahayu, 2019).

### Determinants of Financial Performance of Islamic Commercial Banks in Indonesia

Using ROA as the dependent variable and CAR, BOPO, NPF, Inflation, and BI Rate as independent factors, panel data regression analysis was utilized to assess the elements influencing BUS's financial success. On the basis of the estimation test, the fixed effect model was selected as the estimation model. A summary of test results for the model can be seen in Table 5.

Table 5. Determination of BUS Performance

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.036094	0.032594	1.107369	0.2718
X1_CAR	0.026584	0.040511	0.656201	0.5138
X2_BOPO	-0.072757	0.025959	-2.802807	0.0065
X3_NPF	0.132941	0.094649	1.404566	0.1644
X4_FDR	0.053846	0.026216	2.053973	0.0436
X5_INFLATION	-0.077327	0.099557	-0.776710	0.4399
X6_BI_RATE	-0.106546	0.231385	-0.460470	0.6466

Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.740451	Mean dependent var		0.016524
Adjusted R-squared	0.679169	SD dependent var		0.026328
SE of regression	0.014913	Akaike info criterion		-5.396326
Sum squared resid	0.016012	Schwarz criterion		-4.896364
Likelihood logs	260.8347	Hannan-Quinn Criter.		-5.194712
F-statistics	12.08263	Durbin-Watson stat		2.415908
Prob(F-statistic)	0.000000			

Based on Table 5, it is known that the value of the F-statistical test which indicates an error probability of  $0.000 < 0.05$  level of significance (5%), means that  $H_0$  is rejected and  $H_1$  is accepted. Therefore, it is known that the resulting model is practical and that there are variables with a major impact on the profitability of Islamic commercial banks.

$R^2$  obtained by 0.7404 indicates that the dependent variable of 74.0451% is explained through the independent variable, while the remaining 25.95% is caused by other variables that are not identified. This means that the variables of CAR, BOPO, NPF, FDR, Inflation, and BI Rate can explain the ROA variable as an independent variable.

BOPO has a significant negative effect on ROA with a p-value of  $0.0065 < \alpha$  0.05, and a coefficient of -0.072757. This negative effect on ROA because BOPO is a comparison between operational expenses and operating revenue, therefore the lower the value of operational costs, the more efficient the banking operations. (Khoirunnisa et al. 2016). Bank Indonesia maintains an excellent BOPO ratio of less than 85%, since if the



BOPO ratio surpasses 85% and approaches 100%, the bank is deemed inefficient in its commercial activities.

This result is consistent with Sumarlin (2016) conclusion that BOPO has a negative influence on ROA. Then, Pinasti and Mustikawati (2018) research reveals where there is a considerable negative influence of BOPO on ROA, since if BOPO increases, efficiency reduces, and the impact on profitability (ROA) lowers. Meanwhile according to Pratiwi (2012), BOPO has a large beneficial impact on ROA.

FDR has a significant positive effect on ROA, with a probability value of 0.0436 <math>< \alpha 0.05</math> with a coefficient value of 0.053846. This means that a high FDR value suggests a huge disbursement of capital and a greater acquisition of income that may bring benefits to the company. About the influence of FDR on regulated industries, such as Islamic banking, there are still requirements regarding a suitable FDR threshold in order to adhere to wise principles and good governance of banking firms that serve as community institutions of trust (Hariwibowo, 2017). The effect of FDR on ROA is consistent with the findings of Akter and Mahmud (2014) and Almunawwaroh and Marlianan (2018), who found that FDR has a positive influence on ROA. This is because a high FDR can increase the allocation of funds for funding growing capital. The goal is that banks will use these cash to boost their profitability. This, however, contradicts the findings of Lemiyana (2016), which suggest that FDR has no influence on ROA. Similarly, these findings contradict Sumarlin's (2016) conclusion that FDR has a detrimental impact on banking ROA.

With a CAR probability value of 0.5138 >  $\alpha 0.05$  and a coefficient value of 0.0265, CAR has insignificant effect on ROA. These findings imply that there is little data to suggest that a high CAR yields a greater profit potential. CAR is a capital adequacy ratio that demonstrates a bank's ability to retain adequate capital and its management's capacity to recognize, assess, monitor, and respond to emerging risks. Almunawwaroh and Marliana (2018) found that an increase in the bank's capacity to provide funds for business expansion did not result in a significant rise in profitability. This finding is consistent with the findings of Saputra et al. (2018), which indicate that the insignificant CAR to ROA ratio is a result of BI regulations that require each bank to maintain CAR so that additional capital is provided in the form of credit expansion or loans so that the Bank's capital adequacy ratio can meet BI requirements. Nevertheless, according to Lemiyana (2016), CAR has no effect on ROA. Sumarlin (2016) demonstrates in his research that CAR has a considerable detrimental effect on ROA.

NPF has an insignificant positive impact on ROA due to the fact that its probability value is 0.1644 >  $\alpha 0.05$  and its coefficient value is 0.132944. These data suggest that NPF has no effect and is not the primary factor in achieving ROA. This is owing to the fact that an increase in the value of the NPF results in a lost opportunity to make money from the funding supplied, which can lower earnings and have a negative influence on ROA. (Wibisono, 2017). According to Kuswahariani et al. (2020), the effect of NPF is related to the fact that a high NPF level signals poor performance of Islamic banks because of numerous funding issues. According to Mawardi (2004), NPF has no discernible influence on ROA, which is supported by these findings. This indicates that a rise in the number of Islamic banks in financial distress does not always result in a rise in profit before taxes. This study contradicts the findings of Pratiwi (2012), who found that NPF has a favorable influence on profitability. Furthermore, Sumarlin (2016) and Lemiyana (2016) find that NPF has a negative impact on ROA.

With a probability (p-value) of 0.4399 >  $\alpha = 0.05$  and a coefficient of -0.077327, inflation has no direct effect on ROA. Inflation does not appear to have a major impact on ROA via the transmission mechanism of macroeconomic factors to the real sector, however there is a trend for a negative impact. Inflation has an effect on the rising of interest rates and profit-sharing ratios, which restricts the public's access to banking funds. As intermediaries, banks are typically susceptible to inflation risk due to the liquidity of their

funds (Haramain et al. 2020). In accordance with the findings of Gunartin (2015) and Sumarlin (2016), inflation has no substantial impact on ROA, despite the fact that inflation typically has a negative effect on ROA. In his analysis, Fathoni (2019) also concluded that inflation had no detrimental effect on profitability. However, these results contradict the findings of Lailiyah (2017), who discovered that inflation has a beneficial influence on profitability (ROA).

ROA is unaffected by BI Rate since the probability value of BI Rate is  $0.6466 > \alpha 0.05$  and the coefficient value is  $-0.106546$ . The BI Rate has no effect on ROA because the increase in the BI Rate is offset by an increase in conventional bank interest rates, but the increase in interest rates does not directly affect banks, hence bank profitability will continue to increase even as the BI Rate increases (Hidayati, 2014). This result is consistent with the findings of Hidayati (2014), which indicate that the BI Rate has no significant effect on the increase in interest rates of conventional banks. According to Alim (2014), the BI Rate had no influence on banking operations, particularly with regard to the financing and distribution of funds. This is unlikely to affect the revenue and profitability of banks. This discovery, however, contradicts the findings of Hagwiza (2014), who discovered that interest rates have a significant impact on ROA.

## Analysis of the Strategy to Improve the Financial Performance of Islamic Commercial Banks

AHP analysis is employed to select various ways for enhancing the financial performance of BUS in relation to planning, implementation, and communication control. Nine experts from Islamic banking, Bank Indonesia, Islamic Economics Practitioners, and Academics filled out the AHP questionnaire. The AHP framework consists of five levels: the primary focus/goals, the factors that can influence the alternative strategies, the actors involved, the implicit goals to be attained from the strategy, and the primary strategic alternatives that will be implemented to enhance the financial performance of Islamic Commercial Banks. The hierarchy can be seen in Figure 2.

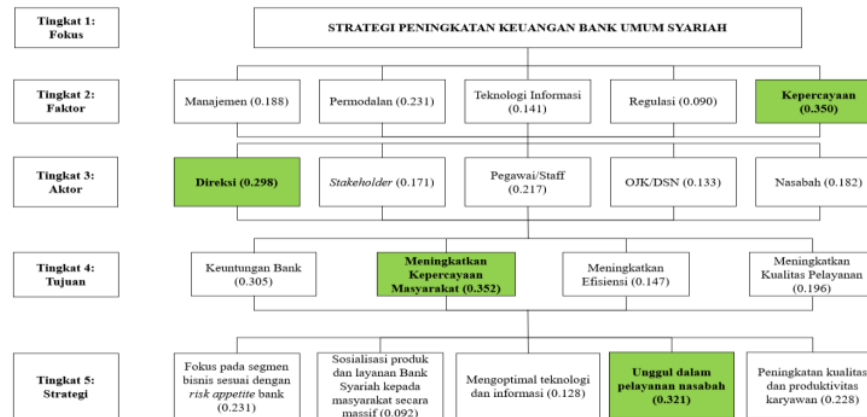


Figure 2. BUS Financial Performance Improvement Strategy  
Source: Data Processing, 2020

The results of the AHP indicate that increasing customer service quality is the most important alternative approach for enhancing BUS's financial performance, with a weight of 0.321. (32.1% ). Where service quality is one of the most critical indicators of a bank's success as a service provider. Thus, Islamic commercial banks can raise client satisfaction

by delivering superior services; this would subsequently boost their performance (Triandini, 2013).

The second strategic priority that Islamic commercial banks might employ is to remain focused on the targeted business area, which must be consistent with the bank's intended risk (risk appetite) (0.231). Whereas, in order to improve the financial performance of Islamic commercial banks, banks must develop rules addressing risk management for liquidity, strategy formulation, and risk management limits. Banks must tailor these policies to their corporate strategy, goal, and risk tolerance (risk tolerance) (Indonesian Bankers Association, 2015). Staying focused on the products given to consumers is one sort of segmentation that banks can employ.

With a weight of 0.228, the third strategic aim for Islamic commercial banks is to continue improving the quality and productivity of their staff (22.8%). Where work productivity is the employees' ability to create output relative to the amount of input issued. With the achievement of boosting work productivity, the business will be able to increase its competitiveness (Ikhwana and Anggraini, 2021).

The fourth strategy with a weight of 0.128 (12.8%) is IT Optimization, while the fifth strategy with a weight of 0.092 is huge product and service socializing (9.2%). Where the strengthening of technology and information infrastructure is a form of banking efforts in strengthening services, including by increasing the dependability of access to banking services so that customers feel convenience, there is an aspect that must be optimized to encourage higher performance. Because a bank is considered good if the storage of transaction data is secure and reliable, including the maintenance of client personal information (Ronny, 2018).

Determination of strategies to improve the performance of Islamic banking is tied to several factors that directly have an influence on improving the performance of Islamic banking, the factor that has the greatest influence is the trust of stakeholders and shareholders towards Islamic banks which has a weight of 0.350 (35%), the second factor is the influence of capital Islamic bank itself with a weight of 0.231 (23.1%), Islamic bank management with a weight of 0.188 (18.8%), while the fourth and fifth factors respectively are information technology and Islamic banking regulations with each weight of 0.141 (14.1%) and 0.090 (9.0%). In determining a plan to improve the performance of Islamic banking, it is evident that maintaining and enhancing the confidence of stakeholders and shareholders is of utmost importance. This trust issue is regarded to be one of the primary reasons for the stagnant expansion of Islamic banking's market share, as well as the inclusion or exclusion of the community towards Islamic banks.

Obviously, efforts to improve the performance of Islamic commercial banks cannot be implemented without the participation of the key actors. The most significant contributors to the sequential improvement of Islamic banking performance are the Directors who have the highest weight of 0.298 (29.8%), then employees or staff with a weight of 0.217 (21.7%), then in the third position, namely customers with a weight of 0.182 (18.2%). While the order of the rest of the actors can be seen in Figure 2. The main objectives implicitly to be achieved from the strategy of improving the performance of Islamic commercial banks are to increase public trust and confidence (0.352), increase bank profits (0.299), improve service quality (0.305), and the last goal to be achieved is to increase efficiency (0.192).

## IMPLICATIONS

An understanding of the character of the Islamic banking industry and its determinants of financial performance in the industry is expected to improve the quality of decision making for management, investors and regulators. The findings of this study reveal that BOPO and FDR have a considerable impact on BUS's profitability, which is the

primary metric of its primary financial performance, while CAR and NPF have an insignificant impact. The non-reserve financing component (non-NPF) has an effect on profitability, and it is management's obligation to create efficiency programs that lower operational costs. Management of fund collection and financing has also been shown to affect profitability; therefore, management must develop a strategy for achieving optimal FDR through asset liability management (ALMA), fund raising programs (deposits), and financing in conjunction with an effective profit-sharing ratio policy. This approach must be supported by the program for service excellence and the use of information technology in several BUS business programs and strategies. The service excellence program must be founded on the premise that banking is a trust-based institution, and that a breach of trust will undermine business continuity. This approach must be supported by the program for service excellence and the use of information technology in several BUS business programs and strategies. The service excellence program must be founded on the premise that banking is a trust-based institution, and that a breach of trust will undermine business continuity. This approach must be supported by the program for service excellence and the use of information technology in several BUS business programs and strategies. The service excellence program must be founded on the premise that banking is a trust-based institution, and that a breach of trust will undermine business continuity.

In addition, it is anticipated that the findings will inspire regulators to pay greater attention to the achievement of efficiency efforts, good governance, and management in the program for collecting and financing BUS money. The greatest issue for regulators in establishing Islamic banking is how to raise market share, which will remain at 6.51% until the end of 2020. Taking into consideration the majority of the Muslim population in Indonesia, the market share growth of Islamic banking is still quite open, and the regulator (OJK) as one of the stakeholders has a significant impact on the market share growth. Investors can use the findings of this study to make investment decisions on sharia-compliant financial instruments. By gaining an understanding of BUS's financial performance, particularly BOPO and FDR.

## CONCLUSIONS AND SUGGESTIONS

### Conclusion

Based on the state of Islamic commercial banks in Indonesia, BTPN Syariah has the best financial performance, while Bank Muamalat has the lowest. Internal factors that have a substantial impact on the profitability of Islamic Commercial Banks are limited to BOPO and FDR. BOPO has a substantial negative effect on ROA, but FDR has a substantial positive effect. The profitability of Islamic commercial banks is largely unaffected by external factors such as inflation and the BI Rate. The most appropriate method for increasing the finances of Islamic commercial banks is the establishment of service excellence for clients, with a focus on the targeted business areas that must be consistent with the bank's risk appetite.

### Suggestion

This study employs financial performance metrics such as CAR, BOPO, FDR, and NPF as internal factors and macroeconomic data such as inflation and BI Rate as external factors to examine the determinants of Islamic commercial bank profitability. Islamic commercial banks are included in the regulated business, therefore future study can model using characteristics associated with good governance. To pay attention to important corporate action events in the Islamic banking industry in Indonesia, namely the merger of BSM, BNI Syariah, and BRI Syariah into Bank Syariah Indonesia (BSI), it is interesting to conduct research on the merger event and its impact on BSI's financial performance following the merger.

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## DETERMINANTS AND ALTERNATIVE STRATEGIES IN IMPROVING THE FINANCIAL PERFORMANCE OF SHARIA COMMERCIAL BANKS IN INDONESIA

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**Abstract:** This study is to examine the impact of internal and external factors on the profitability of Islamic commercial banks and to provide suitable solutions for enhancing their financial performance. This study utilizes original data collected from Islamic banking specialists that have experience, professionalism and a proven track record, as well as are true experts in their disciplines. Secondary data are gathered from the Financial Services Authority's (OJK) annual report on the financial performance of Islamic banks in Indonesia for the period 2013-2020 and 2013-2020 macroeconomic data. Using qualitative descriptive, panel data regression, and Analytical Hierarchy Analysis (AHP), the data were evaluated. The results of the study indicate that Bank Muamalat is the bank with the worst performance, whereas BTPN Syariah is regarded as the most outstanding since it is the sharia bank with the best performance. Only BOPO and FDR have a substantial impact on the profitability of Islamic Commercial Banks (ROA), with BOPO having a negative impact and FDR having a favorable impact. Inflation and the BI Rate have no substantial impact on profitability as external factors. As the primary approach, Sharia commercial banks must improve services and develop business segmentation based on risk tolerance. Trust and capital are the most crucial aspects in the success of this strategy. Directors as top-level managers play a crucial role in setting the direction of business policies and objectives, whereas employees play a part in the successful implementation of strategies. The ultimate objective of this strategy is to enhance consumer confidence and maximize profitability.

**Keywords:** analytical hierarchy process (AHP), financial performance, financial service authority (OJK), islamic banking and profitability

**Abstrak:** Penelitian ini bertujuan menguji pengaruh faktor internal dan eksternal terhadap profitabilitas bank umum syariah dan memberikan solusi yang sesuai untuk meningkatkan kinerja keuangan mereka. Studi ini menggunakan data asli yang dikumpulkan dari spesialis perbankan syariah yang memiliki pengalaman, profesionalisme dan rekam jejak yang terbukti, serta ahli sejati di bidangnya. Data sekunder dikumpulkan dari laporan tahunan Otoritas Jasa Keuangan (OJK) tentang kinerja keuangan bank syariah di Indonesia periode 2013-2020 dan data makroekonomi 2013-2020. Dengan menggunakan deskriptif kualitatif, regresi data panel, dan Analytical Hierarchy Analysis (AHP), data dievaluasi. Hasil penelitian menunjukkan bahwa Bank Muamalat merupakan bank dengan kinerja terburuk, sedangkan BTPN Syariah dinilai paling unggul karena merupakan bank syariah dengan kinerja terbaik. Hanya BOPO dan FDR yang memiliki dampak substansial terhadap profitabilitas Bank Umum Syariah (ROA), dengan BOPO memiliki dampak negatif dan FDR memiliki dampak yang menguntungkan. Inflasi dan BI Rate tidak berpengaruh besar terhadap profitabilitas sebagai faktor eksternal. Sebagai pendekatan utama, bank umum syariah harus meningkatkan layanan dan mengembangkan segmentasi bisnis berdasarkan toleransi risiko. Kepercayaan dan modal adalah aspek terpenting dalam keberhasilan strategi ini. Direksi sebagai manajer tingkat atas memainkan peran penting dalam menetapkan arah kebijakan dan tujuan bisnis, sedangkan karyawan berperan dalam keberhasilan penerapan strategi. Tujuan akhir dari strategi ini adalah untuk meningkatkan kepercayaan konsumen dan memaksimalkan profitabilitas.

**Kata kunci:** analytical hierarchy process (AHP), kinerja keuangan, otoritas jasa keuangan (OJK), perbankan syariah dan profitabilitas

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## INTRODUCTION

In the midst of the COVID-19 pandemic, Islamic banking in Indonesia exhibited steady growth and improvement in 2020. According to OJK (2020), Islamic banking assets were IDR 608.9 trillion at the end of 2020, a rise of 13.11% over the previous year, while conventional banking only expanded 6.74%. Third party funds in Islamic banking expanded by 11.98%, outpacing conventional banking by 10.93%, Islamic banking financing grew by 8.08%, while conventional banking financing contracted by 4.20%. The optimistic performance provides an opportunity to increase Islamic banking's market share, which is still in the region of 6.51% of total national banking until the end of 2020. The gross non-performing finance (NPF) ratio of 3.13% at the end of 2020 demonstrates that Islamic banking's function as an intermediary institution has been running quite effectively. With the provision of 86.88% of Indonesia's Muslim population of 272.23 million people, Islamic banking has the potential to increase business growth in a more significant direction (BPS, 2020).

The financial performance of Islamic banking is one factor that can promote public interest in its services. Essentially, financial success demonstrates Islamic banking's ability to generate stable and sustained growth. This will boost stakeholder confidence in Islamic commercial banks (BUS). The expansion in the financial side of BUS as part of Islamic banking witnessed a fluctuating increase between 2012 and 2020, comprising total assets, revenues, costs, and third party funds is presented in Table 1.

The fluctuation of growth in Islamic banking's financial element has an effect on the dynamics of financial performance ratios. These financial ratios are used by stakeholders to measure the stability of Islamic banking business circumstances in the face of a country's diverse macroeconomic conditions. The level of credibility of Islamic banking to the wider community will be reflected in the steadiness of its financial performance in the face of macroeconomic difficulties. Table 2 shows the detailed growth of Islamic banking financial performance.

Table 2 illustrates that the financial performance of BUS changed from 2013 to 2020, as did the expansion of the financial side of Islamic banking. Profitability

is a key indication in assessing financial performance, with one of the ratios indicating the success of the organization in creating profits through the utilization of assets possessed. The ROA of the national BUS, which has continually increased. Similar rise happened in the capital adequate ratio (CAR) and financing to deposit ratio (FDR), with the CAR ratio growing somewhat continuously over the same period and the FDR ratio fluctuating from 2013 to 2016 before decreasing consistently from 2017 to 2020.

When compared to the financial performance of conventional commercial banks, the swings in Islamic banking's financial performance are thought to be substantially better. While Islamic banking's CAR increased, conventional banks' CAR dipped by 1.29% in 2018. The higher the CAR ratio, the more resilient banks are to asset depreciation caused by non-performing assets. That is, the lower the CAR, the less likely the bank is to survive.

Another interesting phenomenon is the Operating Expenses to Operating Income Ratio (BOPO). Table 2 shows that the maximum ROA was attained in 2019 when FDR was 77.91% (second lowest from 2013 to 2020) and BOPO was 84.45% (lowest in 2013-2020). The ROA and BOPO movements are consistent with theory, however the ROA and FDR movements show that the optimal amount of FDR for achieving a high ROA was obtained in 2019. When compared to typical commercial banks (Table 3), the highest ROA was obtained when the LDR was at 89.7% (the third lowest maximum in the 2013-2019 period) and the BOPO value was at 74.06% (second lowest in the 2013-2019 period).

The increase in NPF in Islamic banking was followed by an increase in ROA in 2013-2014, whereas the fall in NPF in 2015-2016 was followed by an increase in ROA in the same year. In 2017, NPF increased while ROA remained unchanged, which was followed by a fall in NPF from 2018 to 2020, which was accompanied by a rise in ROA from 2017 to 2019, but ROA reduced in 2020 when NPF also declined. Table 3 also depicts the trend of inflation and the BI Rate, which has been constantly lowering between 2013 and 2020. Except for the conditions in 2020, the pattern of movement of inflation and ROA from 2013 to 2020 validates Basher's (2002) findings that inflation has a detrimental impact on the profitability of Islamic banks.



Table1. BUS Statistics (in IDR Trillion)

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Asset	195.0	242.3	249.6	270.7	324.0	396.7	291.4	325.4	368.3
Income	17.7	27.2	20.6	22.6	26.7	17.7	33.2	34.8	34.8
Burden	14.3	22.8	15.5	18.7	25.4	23.8	26.3	25.8	26.6
TPF	147.0	183.5	170.7	171.9	206.4	230.0	257.6	289.0	322.9

Source: OJK (2021)

Table2. Islamic banking financial performance ratio and macroeconomic condition in Indonesia (in %)

Ratio	2013	2014	2015	2016	2017	2018	2019	2020
ROA	0.20	0.41	0.49	0.63	0.63	1.28	1.73	1.4
CAR	14.42	15.74	15.02	16.63	17.91	20.39	20.59	21.64
FDR	100.32	86.66	88.03	85.99	79.61	78.53	77.91	76.36
BOPO	78.21	96.97	97.01	96.22	94.91	89.18	84.45	85.55
NPF	2.62	4.95	4.84	4.42	4.76	3.26	3.23	3.13
INFLATION	8.38	8.36	3.35	3.02	3.61	3.13	2.72	1.68
BI RATE	7.50	7.75	7.50	6.50	6.50	6.00	5.00	3.75

Source: OJK (2021)

Table 3. Financial performance ratio of conventional commercial banks in Indonesia during the period 2013-2019 (in%)

Ratio	2013	2014	2015	2016	2017	2018	2019	2019	2020
ROA	3.8	2.85	2.32	2.23	2.49	3.22	3.41	325.4	368.3
CAR	16.36	18.01	19,00	21.19	21.68	20.39	21.42	34.8	34.8
LDR	89.7	89.42	92.11	90.7	88.68	83.97	82.2	25.8	26.6
BOPO	74.06	76.29	81.49	82.22	78.79	68,19	71.28	289.0	322.9

Source: OJK (2021)

The impact of external and internal factors on the efficiency of banks, particularly Islamic banks, cannot be precisely identified (Sutawijaya and Lestari, 2009). This is due to the fact that banking performance is solely judged using accounting standards such as ROE (return on equity), ROA, and asset turnover. Furthermore, to measure Islamic banking performance in Indonesia, Islamic banking pays more attention to the balance of the role of intermediation and the soundness of banks in growing financing in the real sector (Paris, 2017). This contradicts the narratives of Alsatti (2014), Bordeleau and Graham (2013), and Ademi (2009), who contend that liquidity has a favorable impact on bank profitability. hence, Islamic financial performance can be evaluated using internal and external criteria.

According to these studies, there is a gap in the measuring of Islamic banking financial performance, with studies stating that performance cannot be directly quantified based on external and internal elements. Several studies, however, have found that these

characteristics can have an impact on the performance of Islamic banking. As a result, this study was carried out to fill the vacuum by assessing the influence of CAR, BOPO, NPF, and FDR (internal factors), as well as external ones, namely inflation and BI Rate, on profitability with ROA proxies for Islamic commercial banks. Then, in order to maintain the confidence of Islamic banks in the community, develop alternative techniques for enhancing the financial performance of BUS in Indonesia.

## METHODS

The data used in this study are both primary and secondary data acquired from in-depth interviews with Islamic banking specialists. Purposive sampling was used to pick specialists who had substantial experience, professionalism, strong credibility, and an education level suitable to Islamic banking. Nine experts were interviewed, including sharia banking

practitioners, regulator, sharia banking consultants, and academics. Secondary data in the form of Islamic financial performance data gathered from the annual reports of 12 Islamic commercial banks released by the OJK between 2013 and 2020, as well as Indonesian macroeconomic data from 2013 to 2020. This study employs descriptive analysis by mapping internal performance based on financial ratios, panel data regression analysis, and decision-making analysis using the Analytical Hierarchy Process (AHP) are all used.

The approach of panel data regression analysis is used to demonstrate the influence of internal and external influences on the dependent variable, ROA. In and of themselves, panel data is a combination of time series data and cross section data. Common effects, fixed effects, and random effects are among the techniques to panel data regression (Gujarati and Dawn, 2009). The equation model is as follows:

$$Y_{it} = \beta_0 + \beta_1 X1\_CAR_{it} + \beta_2 X2\_BOPO_{it} + \beta_3 X3\_NPF_{it} + \beta_4 X4\_FDR_{it} + \beta_5 X5\_INFLAS_{it} + \beta_6 X6\_BI\_RATE_{it} + e_{it}$$

Information: Y (ROA);  $\beta$  (slope coefficient); X1\_CAR (Capital Adequacy Ratio (CAR)); X2\_BOPO (Operating Expenses on Operating Income (FDR)); X3\_NPF (Non Performing Financing (NPF)); X4\_FDR (Financing to Deposit to Ratio (FDR)); X5\_INFLATION (INFLATION); X6\_BI\_RATE (BI RATE).

Hypothesis 1: CAR has an effect on ROA

According to Kuncoro and Suhardjono (2002), the influence of CAR on ROA is that a high CAR value demonstrates the ability of banks to finance their operations and preserve current deposits, hence increasing public trust in banks. The effect occurs as a result of the fact that the capital ratio shows the capacity of banks to offer funds utilized as business development capital and to overcome the possible risk of loss. In conclusion, a high CAR indicates a sound bank operating state (Tarmidhi and Kusumo, 2003). The hypothesis is formulated as follows:

H1<sub>0</sub> : CAR has no effect on ROA

H1<sub>1</sub> : CAR has an influence on ROA

Hypothesis 2: Effect of BOPO on ROA

According to Abbosoglu and Aysan (2007), the influence of BOPO on bank profitability is due to the fact that a lower operating cost ratio might boost existing profitability because it indicates that banks are more effective at conducting business activities. Then the hypothesis is formulated as follows:

H2<sub>0</sub> : BOPO has no effect on ROA

H2<sub>1</sub> : BOPO has an influence on ROA

Hypothesis 3: Effect of NPF on ROA

The influence or relationship between NPF and bank profitability can be described as a negative relationship, with a small NPF number reflecting lower bank credit risk (Sumarlin, 2016; Lemiyana and Litriani 2016). NPF shows a bank's financing risk as a result of its financing and investment activities. Credit risk posed by NPF is the risk experienced by banks as a result of non-payment of loans provided by banks to debtors. The hypothesis is formulated as follows:

H3<sub>0</sub> : NPF has no effect on ROA

H3<sub>1</sub> : NPF has an influence on ROA

Hypothesis 4: Effect of FDR on ROA

According to Febriani and Manda (2021), a lower FDR value influences ROA because it indicates the lending efficiency of banks. So that the bank's profit obtained by the estimation of Bank Indonesia's FDR ratio is deemed capable of enhancing ROA. According to Wibisono and Wahyuni (2017); Jamaludin and Kuriyah (2016), there was no correlation between FDR and ROA. The hypothesis is formulated as follows:

H4<sub>0</sub> : FDR has no effect on ROA

H4<sub>1</sub> : FDR has an effect on ROA

Hypothesis 5: Effect of Inflation on ROA

Inflation influences ROA because excessive inflation can depress the stock price of banking assets, whereas low inflation can impede the movement of banking assets (Kalengkongan, 2013). Arumningtyas and Muliati (2019) explain that there is no influence of inflation on profitability, because there is no interest system in Islamic bank activities, however Kalengkongan (2013) notes that there is evidence of inflation harming banking organizations as assessed by ROA. The hypothesis is formulated as follows:

$H5_0$  : Inflation has no effect on ROA

$H5_1$  : Inflation has an effect on ROA

Hypothesis 6: Effect of BI Rate on ROA

The BI Rate influences profitability since Bank Indonesia's BI Rate policy aims to reduce inflationary pressures. Despite the fact that high interest rates can raise people's willingness to use bank deposit services, bank funds will increase. Consequently, it may be stated that the BI Rate influences profitability. According to Kurniawati et al. (2018), the impact of the BI Rate on bank profitability should be equivalent to that of the inflation rate. Therefore, it may be stated that the BI Rate influences profitability. The hypothesis can be formulated as follows:

$H6_0$  : BI Rate has no effect on ROA

$H6_1$  : BI Rate has an influence on ROA

AHP is the following analytical tool for determining the optimal alternative plan for enhancing the financial performance of BUS in Indonesia. Figure 1 depicts the general shape of the AHP process flow, as described by Saaty (1993).

## RESULTS

### Map of Islamic Commercial Bank Financial Performance (Mapping Analysis)

The examination of the financial performance mapping of Islamic commercial banks in Indonesia refers to Bank Indonesia laws guiding the rating system for the soundness of Sharia-compliant Commercial Banks. Table 4 displays the findings of the mapping study of BUS performance in Indonesia throughout the observation period.

Table 4 shows that the BUS with the best overall performance is BTPN Syariah, as seen by its extremely high ROA value, extremely low BOPO, CAR that is significantly higher than the requirements, and low NPF (very good). BTPN Syariah's attainment of a strong financial performance can be supported by a variety of grounds. The client capacity-building program also contributes to the success of the business. Where the program's unique value proposition focuses on three primary pillars: 1) the power of health and well-being for senior clients; 2) the power of company growth for MSME businesses; and 3) the power of community growth.

Table 4 also presents the performance of three BUS owned by State-Owned Banks (State-Owned Enterprises), namely Bank Syariah Mandiri (BSM), BNI Syariah, and BRI Syariah, which have not been able to demonstrate optimal financial performance, particularly BSM and BRI Syariah, as measured by BOPO and NPF. The inability of the three BUS under BUMN to acquire funds via sukuk also contributed to their subpar financial performance. In Malaysia, Saudi Arabia, and the United Arab Emirates, the ratio of sukuk to conventional debt securities as of April 2020 exceeds 20% on average (KNKS, 2019). Since February 1, 2021, these three BUS have united to form Bank Syariah Indonesia (BSI) in order to strengthen their capital capacity. (<https://www.bankbsi.co.id/>). Moreover, mergers are conducted to assist the government-desired halal environment. It is thought that the presence of large-scale BUS is a crucial pillar in the development of Islamic banking integration in Indonesia (KNKS 2019).

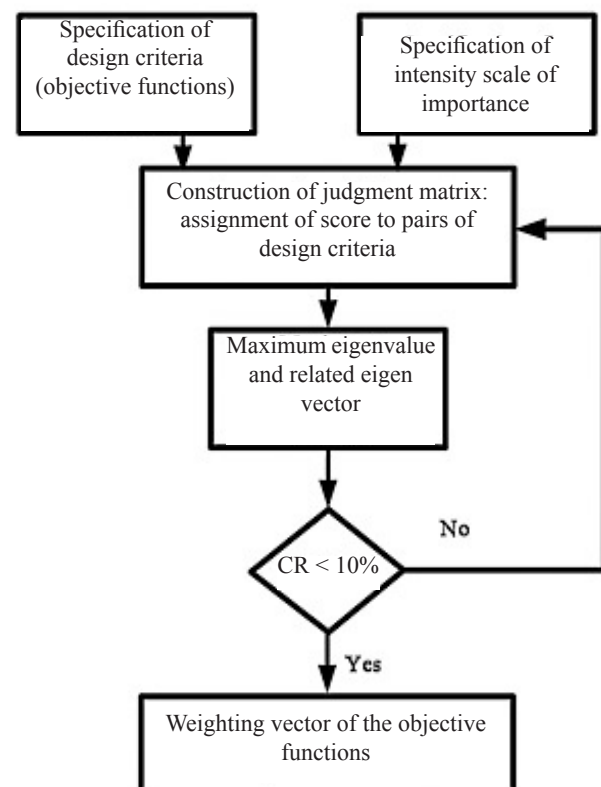


Figure 1. Data processing using Analysis Hierarchy Process (Saaty, 1993)

Table 4. Analysis of financial performance mapping of Islamic commercial banks (BUS)

Bus name	ROA	FDR	BOPO	CAR	NPF
Aceh Sharia	Very high	Low	Very low	Higher than stipulation	Very good
BTPN Syariah	Very high	High enough	Very low	Much higher than the stipulation	Very good
BSM	High enough	Low	Very high	Higher than stipulation	Well
Muamalat	Low	Low	Very high	Higher than stipulation	Well
BNI Syariah	Tall	Low	High enough	Higher than stipulation	Very good
Panin Dubai Sharia	High enough	High enough	Very high	Higher than stipulation	Very good
Sharia BJB	High enough	High enough	Very high	Higher than stipulation	Very good
Mega Syariah	High enough	High enough	Very high	Much higher than the stipulation	Very good
BCA Syariah	High enough	High enough	Very high	Much higher than the stipulation	Very good
Sharia Bukopin	Low	High enough	Very high	Higher than stipulation	Well
BRI Syariah	High enough	Low	Very high	Higher than stipulation	Well
Victoria Sharia	High enough	High enough	Very high	Higher than stipulation	Well

The financial performance of Bank Muamalat and Bukopin Syariah, as demonstrated by their poor ROA, extremely high BOPO, and reasonably high NPF, requires special consideration. The NPF data for the observation period for these two BUS indicates that there are issues with the quality of the funding given, resulting in high NPF and BOPO, which inhibits the attainment of ROA. Prior to 2020, Bank Muamalat had capital problems, not liquidity problems. This is because the shareholders have not been able to expand their capital contribution to Bank Muamalat, even though Bank Muamalat's commercial development demands a larger capital base (Rahayu, 2019).

### Determinants of Financial Performance of Islamic Commercial Banks in Indonesia

Using ROA as the dependent variable and CAR, BOPO, NPF, Inflation, and BI rate as independent factors, panel data regression analysis was utilized to assess the elements influencing BUS's financial success. On the basis of the estimation test, the fixed effect model was selected as the estimation model. A summary of test results for the model is presented in Table 5.

Based on Table 5, the value of the F-statistical test indicates an error probability of  $0.000 < 0.05$  level of significance (5%), means that  $H_0$  is rejected and  $H_1$  is accepted. Therefore, the resulting model is practical and there are variables with a major impact on the profitability of Islamic commercial banks.

$R^2$  obtained by 0.7404 indicates that the dependent variable of 74.0451% is explained through the independent variable, while the remaining 25.95% is caused by other variables that are not identified. This means that the variables of CAR, BOPO, NPF, FDR, Inflation, and BI rate can explain the ROA variable as an independent variable.

BOPO has a significant negative effect on ROA with a p-value of  $0.0065 < \alpha 0.05$ , and a coefficient of  $-0.072757$ . This negative effect on ROA because BOPO is a comparison between operational expenses and operating revenue. Therefore, the lower the value of operational costs, the more efficient the banking operations. (Khoirunnisa et al. 2016). Bank Indonesia maintains an excellent BOPO ratio of less than 85%, since if the BOPO ratio surpasses 85% and approaches 100%, the bank is deemed inefficient in its commercial activities.

This result is consistent with Sumarlin (2016) that BOPO has a negative influence on ROA. Pinasti and Mustikawati (2018) research reveals where there is a considerable negative influence of BOPO on ROA, since if BOPO increases, efficiency reduces, and the impact on profitability (ROA) lowers. Meanwhile according to Pratiwi (2012), BOPO has a large beneficial impact on ROA.

Table 5. Determination of BUS Performance

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.036094	0.032594	1.107369	0.2718
X1_CAR	0.026584	0.040511	0.656201	0.5138
X2_BOPO	-0.072757	0.025959	-2.802807	0.0065
X3_NPF	0.132941	0.094649	1.404566	0.1644
X4_FDR	0.053846	0.026216	2.053973	0.0436
X5_INFLATION	-0.077327	0.099557	-0.776710	0.4399
X6_BI_RATE	-0.106546	0.231385	-0.460470	0.6466
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.740451	Mean dependent var		0.016524
Adjusted R-squared	0.679169	SD dependent var		0.026328
SE of regression	0.014913	Akaike info criterion		-5.396326
Sum squared resid	0.016012	Schwarz criterion		-4.896364
Likelihood logs	260.8347	Hannan-Quinn Criter.		-5.194712
F-statistics	12.08263	Durbin-Watson stat		2.415908
Prob(F-statistic)	0.000000			

FDR has a significant positive effect on ROA, with a probability value of 0.0436 <math>\alpha 0.05</math> with a coefficient value of 0.053846. This means that a high FDR value suggests a huge disbursement of capital and a greater acquisition of income that may bring benefits to the company. About the influence of FDR on regulated industries, such as Islamic banking, there are still requirements regarding a suitable FDR threshold to adhere to wise principles and good governance of banking firms that serve as community institutions of trust (Hariwibowo 2017). The effect of FDR on ROA is consistent with the findings of Akter and Mahmud (2014) and Almunawwaroh and Marlianan (2018), who found that FDR has a positive influence on ROA. This is because a high FDR can increase the allocation of funds for funding growing capital. The goal is that banks will use these cash to boost their profitability. This, however, contradicts the findings of Lemiyana (2016), which suggest that FDR has no influence on ROA. Similarly, these findings contradict Sumarlin's (2016) conclusion that FDR has a detrimental impact on banking ROA.

With a CAR probability value of 0.5138 >math>\alpha 0.05</math> and a coefficient value of 0.0265, CAR has insignificant effect on ROA. These findings imply that there is little data to suggest that a high CAR yields a greater profit potential. CAR is a capital adequacy ratio that demonstrates a bank's ability to retain adequate capital

and its management's capacity to recognize, assess, monitor, and respond to emerging risks. Almunawwaroh and Marliana (2018) found that an increase in the bank's capacity to provide funds for business expansion did not result in a significant rise in profitability. This finding is consistent with the findings of Saputra et al. (2018), which indicate that the insignificant CAR to ROA ratio is a result of BI regulations that require each bank to maintain CAR so that additional capital is provided in the form of credit expansion or loans so that the Bank's capital adequacy ratio can meet BI requirements. Nevertheless, according to Lemiyana (2016), CAR has no effect on ROA. Sumarlin (2016) demonstrates in his research that CAR has a considerable detrimental effect on ROA.

NPF has an insignificant positive impact on ROA due to the fact that its probability value is 0.1644 >math>\alpha 0.05</math> and its coefficient value is 0.132944. These data suggest that NPF has no effect and is not the primary factor in achieving ROA. This is owing to the fact that an increase in the value of the NPF results in a lost opportunity to make money from the funding supplied, which can lower earnings and have a negative influence on ROA (Wibisono, 2017). According to Kuswahariani et al. (2020), the effect of NPF is related to the fact that a high NPF level signals poor performance of Islamic banks because of numerous funding issues. According to Mawardi (2004), NPF has no discernible influence

on ROA, which is supported by these findings. This indicates that a rise in the number of Islamic banks in financial distress does not always result in a rise in profit before taxes. This study contradicts the findings of Pratiwi (2012), who found that NPF has a favorable influence on profitability. Furthermore, Sumarlin (2016) and Lemiyana (2016) found that NPF has a negative impact on ROA.

With a probability (p-value) of  $0.4399 > \alpha = 0.05$  and a coefficient of  $-0.077327$ , inflation has no direct effect on ROA. Inflation does not appear to have a major impact on ROA via the transmission mechanism of macroeconomic factors to the real sector, however there is a trend for a negative impact. Inflation has an effect on the rising of interest rates and profit-sharing ratios, which restricts the public's access to banking funds. As intermediaries, banks are typically susceptible to inflation risk due to the liquidity of their funds (Haramain et al. 2020). In accordance with the findings of Gunartin (2015) and Sumarlin (2016), inflation has no substantial impact on ROA, despite the fact that inflation typically has a negative effect on ROA. Fathoni (2017) also concluded that inflation had no detrimental effect on profitability. However, these results contradict the findings of Lailiyah (2017), who discovered that inflation has a beneficial influence on profitability (ROA).

ROA is unaffected by BI Rate since the probability value of BI Rate is  $0.6466 > \alpha 0.05$  and the coefficient value is  $-0.106546$ . The BI Rate has no effect on ROA because the increase in the BI Rate is offset by an increase in conventional bank interest rates, but the increase in interest rates does not directly affect banks, hence bank profitability will continue to increase even as the BI Rate increases (Hidayati, 2014). This result is consistent with the findings of Hidayati (2014), which indicate that the BI Rate has no significant effect on the increase in interest rates of conventional banks. According to Alim (2014), the BI rate had no influence on banking operations, particularly with regard to the financing and distribution of funds. This is unlikely to affect the revenue and profitability of banks. This discovery, however, contradicts the findings of Hagwiza (2014), who discovered that interest rates have a significant impact on ROA.

## Analysis of The Strategy to Improve the Financial Performance of Islamic Commercial Banks

AHP analysis is employed to select various ways for enhancing the financial performance of BUS in relation to planning, implementation, and communication control. Nine experts from Islamic banking, Bank Indonesia, Islamic economics practitioners, and academics filled out the AHP questionnaire. The AHP framework consists of five levels: the primary focus/goals, the factors that can influence the alternative strategies, the actors involved, the implicit goals to be attained from the strategy, and the primary strategic alternatives that will be implemented to enhance the financial performance of Islamic commercial banks (Figure 2).

The results of the AHP indicate that increasing customer service quality is the most important alternative approach for enhancing BUS's financial performance, with a weight of 0.321. (32.1%). Where service quality is one of the most critical indicators of a bank's success as a service provider. Thus, Islamic commercial banks can raise client satisfaction by delivering superior services; this would subsequently boost their performance (Triandini, 2013).

The second strategic priority that Islamic commercial banks might employ is to remain focused on the targeted business area, which must be consistent with the bank's intended risk (risk appetite) (0.231). Whereas, in order to improve the financial performance of Islamic commercial banks, banks must develop rules addressing risk management for liquidity, strategy formulation, and risk management limits. Banks must tailor these policies to their corporate strategy, goal, and risk tolerance (risk tolerance) (Indonesian Bankers Association, 2015). Staying focused on the products given to consumers is one sort of segmentation that banks can employ.

With a weight of 0.228, the third strategic aim for Islamic commercial banks is to continue improving the quality and productivity of their staff (22.8%). Where work productivity is the employees' ability to create output relative to the amount of input issued. With the achievement of boosting work productivity, the business will be able to increase its competitiveness (Ikhwana and Anggraini, 2021).

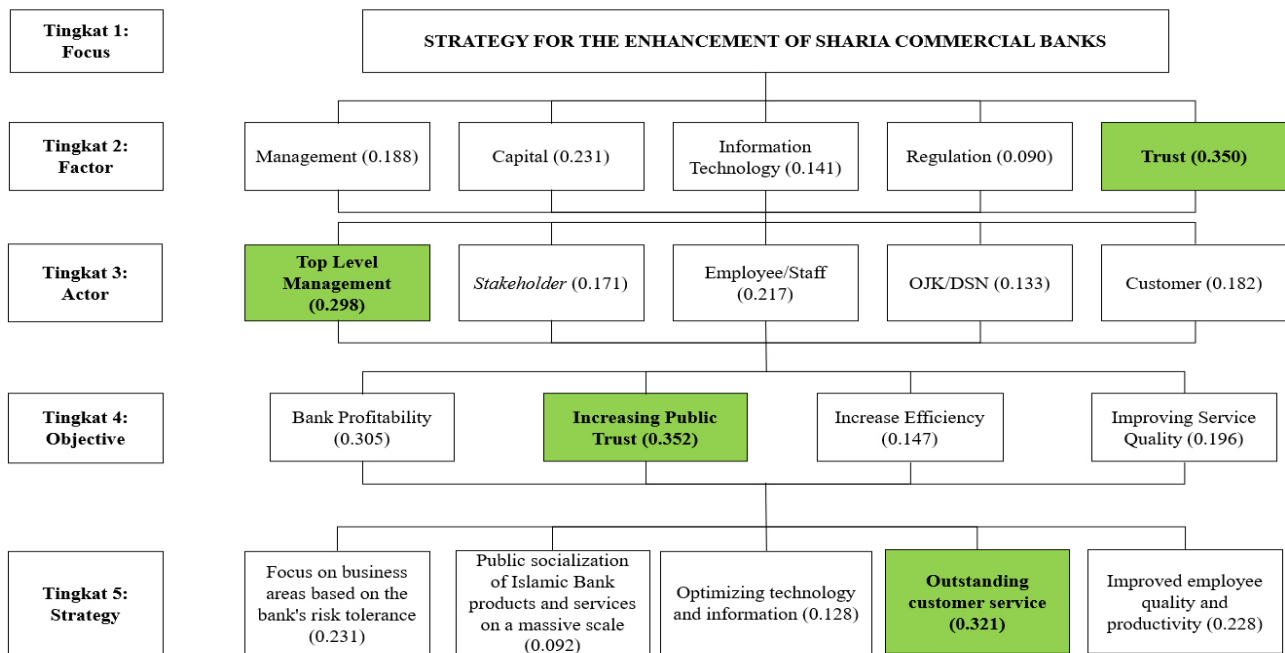


Figure 2. BUS financial performance improvement strategy

The fourth strategy with a weight of 0.128 (12.8%) is IT optimization, while the fifth strategy with a weight of 0.092 is huge product and service socializing (9.2%). Where the strengthening of technology and information infrastructure is a form of banking efforts in strengthening services, including by increasing the dependability of access to banking services so that customers feel convenience, there is an aspect that must be optimized to encourage higher performance. Because a bank is considered good if the storage of transaction data is secure and reliable, including the maintenance of client personal information (Ronny, 2018).

Determination of strategies to improve the performance of Islamic banking is tied to several factors that directly have an influence on improving the performance of Islamic banking, the factor that has the greatest influence is the trust of stakeholders and shareholders towards Islamic banks which has a weight of 0.350 (35%), the second factor is the influence of capital Islamic bank itself with a weight of 0.231 (23.1%), Islamic bank management with a weight of 0.188 (18.8%), while the fourth and fifth factors respectively are information technology and Islamic banking regulations with each weight of 0.141 (14.1%) and 0.090 (0.90%). In determining a plan to improve the performance of Islamic banking, it is evident that maintaining and enhancing the confidence of stakeholders and

shareholders is of utmost importance. This trust issue is regarded to be one of the primary reasons for the stagnant expansion of Islamic banking's market share, as well as the inclusion or exclusion of the community towards Islamic banks.

Obviously, efforts to improve the performance of Islamic commercial banks cannot be implemented without the participation of the key actors. The most significant contributors to the sequential improvement of Islamic banking performance are the Directors who have the highest weight of 0.298 (29.8%), then employees or staff with a weight of 0.217 (21.7%), then in the third position, namely customers with a weight of 0.182 (18.2%). While the order of the rest of the actors can be seen in Figure 2. The main objectives implicitly to be achieved from the strategy of improving the performance of Islamic commercial banks are to increase public trust and confidence (0.352), increase bank profits (0.299), improve service quality (0.305), and the last goal to be achieved is to increase efficiency (0.192).

### Managerial Implications

An understanding of the character of the Islamic banking industry and its determinants of financial performance in the industry is expected to improve the quality of decision making for management, investors

and regulators. The findings of this study reveal that BOPO and FDR have a considerable impact on BUS's profitability, which is the primary metric of its primary financial performance, while CAR and NPF have an insignificant impact. The non-reserve financing component (non-NPF) has an effect on profitability, and it is management's obligation to create efficiency programs that lower operational costs. Management of fund collection and financing has also been shown to affect profitability. Therefore, management must develop a strategy for achieving optimal FDR through asset liability management (ALMA), fund raising programs (deposits), and financing in conjunction with an effective profit-sharing ratio policy. This approach must be supported by the program for service excellence and the use of information technology in several BUS business programs and strategies. The service excellence program must be founded on the premise that banking is a trust-based institution, and that a breach of trust will undermine business continuity. This approach must be supported by the program for service excellence and the use of information technology in several BUS business programs and strategies. The service excellence program must be founded on the premise that banking is a trust-based institution, and that a breach of trust will undermine business continuity. This approach must be supported by the program for service excellence and the use of information technology in several BUS business programs and strategies. The service excellence program must be founded on the premise that banking is a trust-based institution, and that a breach of trust will undermine business continuity.

It is anticipated that the findings will inspire regulators to pay greater attention to the achievement of efficiency efforts, good governance, and management in the program for collecting and financing BUS money. The greatest issue for regulators in establishing Islamic banking is how to raise market share, which will remain at 6.51% until the end of 2020. Taking into consideration the majority of the Muslim population in Indonesia, the market share growth of Islamic banking is still quite open, and the regulator (OJK) as one of the stakeholders has a significant impact on the market share growth. Investors can use the findings of this study to make investment decisions on sharia-compliant financial instruments. By gaining an understanding of BUS's financial performance, particularly BOPO and FDR.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

Based on the state of Islamic commercial banks in Indonesia, BTPN Syariah has the best financial performance, while Bank Muamalat has the lowest. Internal factors that have a substantial impact on the profitability of Islamic Commercial Banks are limited to BOPO and FDR. BOPO has a substantial negative effect on ROA, but FDR has a substantial positive effect. The profitability of Islamic commercial banks is largely unaffected by external factors such as inflation and the BI Rate. The most appropriate method for increasing the finances of Islamic commercial banks is the establishment of service excellence for clients, with a focus on the targeted business areas that must be consistent with the bank's risk appetite.

### Recommendations

This study employs financial performance metrics such as CAR, BOPO, FDR, and NPF as internal factors and macroeconomic data such as inflation and BI Rate as external factors to examine the determinants of Islamic commercial bank profitability. Islamic commercial banks are included in the regulated business, therefore future study can model using characteristics associated with good governance. To pay attention to important corporate action events in the Islamic banking industry in Indonesia, namely the merger of BSM, BNI Syariah, and BRI Syariah into Bank Syariah Indonesia (BSI), it is interesting to conduct research on the merger event and its impact on BSI's financial performance following the merger.

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Hendro Sasongko &lt;hendro.sasongko@unpak.ac.id&gt;

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## Hasil Review JMA

5 messages

Jurnal Manajemen dan Agribisnis &lt;jma.mbipb@gmail.com&gt;

Sat, Jul 2, 2022 at 8:09 AM

To: hendro.sasongko@unpak.ac.id, Hendro Sasongko &lt;hendrosngk@gmail.com&gt;

Kepada Yth.

**Hendro Sasongko et al.**

Kami informasikan bahwa Redaksi Jurnal Manajemen & Agribisnis (JMA) telah mendapatkan hasil *review* (terlampir) artikel berjudul " STRATEGI PENINGKATAN KINERJA KEUANGAN BANK UMUM SYARIAH (BUS) DI INDONESIA " yang ditulis oleh Bapak et al. Kami mohon kesediaan penulis untuk melakukan perbaikan sesuai hasil permintaan pada hasil review tersebut dan mengirimkan kembali hasil revisi kepada kami selambat-lambatnya pada **10 Juli 2022** untuk diproses lebih lanjut sesuai dengan prosedur yang berlaku sebelum dinyatakan diterima untuk diterbitkan.

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Tue, Jul 5, 2022 at 7:35 AM

To: Jurnal Manajemen dan Agribisnis &lt;jma.mbipb@gmail.com&gt;

Cc: Hendro Sasongko &lt;hendrosngk@gmail.com&gt;

Yth. Redaksi JMA

Terima kasih telah memberi kesempatan kepada kami untuk memproses lebih lanjut artikel kami di JMA.

Kami ingin menyampaikan penjelasan sebagai berikut:

1. Kami telah melakukan revisi sesuai arahan Reviewer JMA, termasuk plagiarism-checking dengan Turnitin, yang menghasilkan tingkat similarity adalah 14%.

2. Kami telah melakukan komunikasi dengan Sdri. Rini Puspitasari, yang merupakan ex Mahasiswa dari Bapak Dr. Hamzah Bustomi di UIN Syarif Hidayatulah, yang tema tesisnya menjadi inspirasi kami untuk menyusun Artikel. Format dan substansi artikel sudah berbeda dengan tesis yang disusun oleh Sdri. Rini dan kami yakin telah memenuhi kaidah keilmuan dan persyaratan publikasi karya ilmiah. Pernyataan dari Sdri. Rini perihal persetujuan kepada kami untuk menggunakan tema tesisnya, telah disampaikan kepada kami via email kami (termasuk kepada email Bapak Dr. Hamzah Bustomi yang menjadi pembimbing Sdri. Rini).

Atas dasar penjelasan kami tersebut, izinkan kami menyampaikan Artikel kami hasil revisi, disertai dengan hasil plagiarism-checking dengan turnitin.

Izinkan pula kami forward email persetujuan dari Sdri. Rini Puspitasari perihal penggunaan tema tesis-nya oleh kami sebagai inisiasi menyusun artikel kami.


Atas perhatian Bapak/Ibu Redaksi, kami haturkan terima kasih.

hendro sasongko

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Tue, Jul 5, 2022 at 7:45 AM

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Tue, Jul 5, 2022 at 7:47 AM

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Tue, Jul 5, 2022 at 1:50 PM

terima kasih pak, segera kami proses lanjut ke tahap proof by editor.

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Hendro Sasongko &lt;hendro.sasongko@unpak.ac.id&gt;

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Kepada Yth.  
 Penulis JMA July 2022

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Sun, Jul 31, 2022 at 11:36 AM

Yth. Tim Redaksi JMA

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Wed, Jul 27, 2022 at 5:51 AM

Kepada Yth. Tim Redaksi JMA



Kami haturkan terima kasih atas tanggapan/masukan terhadap artikel kami.  
Bersama ini kami sampaikan draft artikel yang telah dikoreksi/direvisi sesuai masukan dari Tim Redaksi, khususnya terkait dengan relevansi sitasi dan daftar pustaka.  
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