

Factors influencing profit distribution management of *sharia* commercial banks in Indonesia

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ABSTRACT

This study aims to determine and obtain empirical evidences regarding the effect of deposits, product asset management, and rate of inflation on profit distribution management at Sharia Commercial Banks in Indonesia during 2012-2014 periods. By using purposive sampling, 10 samples of Sharia Commercial Banks were observed on a quarterly basis, and the 120 panel data were gained. The data were analyzed by employing multiple linear regressions. The result shows that Deposits have positive significant effects on Profit Distribution Management. Productive Assets Management has negative significant effects on Profit Distribution Management. Rate of Inflation has negative significant effect on Profit Distribution Management. Deposits, Productive Assets Management, Rate of Inflation simultaneously have significant effects on Profit Distribution Management.

ABSTRAK

Penelitian ini bertujuan untuk mengetahui dan memperoleh bukti empiris perihal pengaruh deposits, productive asset management dan rate of inflation terhadap profit distribution management pada Bank Umum Syariah di Indonesia periode 2012-2014. Dengan menggunakan purposive sampling, diperoleh sampel sebanyak 10 Bank Umum Syariah yang diamati dalam periode triwulan, maka diperoleh data panel sebanyak 120. Data dianalisis menggunakan regresi linier berganda. Hasil penelitian menunjukkan bahwa Deposits berpengaruh positif signifikan terhadap Profit Distribution Management. Productive Asssets Management berpengaruh negatif signifikan terhadap Profit Distribution Management. Rate of Inflation berpengaruh negatif signifikan terhadap Profit Distribution Management. Deposits, Productive Assets Management, Rate of Inflation secara bersama-sama berpengaruh signifikan terhadap Profit Distribution Management.

1. INTRODUCTION

Sharia bank is a bank that runs the business activities based on *sharia* principles, According to the types, it consists of *sharia* commercial bank and *sharia* rural financing bank (Act of the Republic of Indonesia Number 7 of 1992 Concerning Banking as Amended by Act Number 10 of 1998). In the process of collecting and channeling the funds, *sharia* banks implement revenue and risk sharing system by performing of profit distribution or profit sharing and risk sharing (Yaya 2009). Up to this year, 2017, there have been 13 *sharia* banks in Indonesia that include Bank Aceh Syariah, Bank Muamalat Indonesia, Bank Victoria Syariah, Bank

BRI Syariah, Bank Jabar Banten Syariah, Bank BNI Syariah, Bank Syariah Mandiri, Bank Mega Syariah, Bank Panin Syariah, Bank Syariah Bukopin, Bank BCA Syariah, Bank Maybank Syariah Indonesia and Bank Tabungan Pensiunan Nasional Syariah.

The development of *Sharia* Bank in Indonesia has encouraged managements to manage good Profit Distribution Management (PDM), so that customers are satisfied with the acquired profit distribution. Based on this, a strategic step that can be taken by the *sharia* banks in Indonesia to win the competition, one of them, is by improving the financial performance. The improved financial

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performance brings a tremendous impact in the banks' efforts to maintain customers' trust to stay loyal to their bank services. The main principle that should be developed by *sharia* banks in improving financial performance in their ability in managing funds, which is the *sharia* banks' capability in distributing the optimal profit distribution to the customers or known as profit distribution management.

Profit distribution management (PDM) can be interpreted as an activity undertaken by a manager in managing the distribution of profit to meet the obligation of profit distribution of the *sharia* bank to the depositors (Mulyo and Mutmainah 2013). Several factors influencing profit distribution management include deposits, productive assets management, and rate of inflation. Deposits are the bank's capability to raise public funds. Deposits greatly affect the growth of the bank, whether in small-scale or large-scale fund raising with adequate deposition period. Depositors' funds are the funds trusted by the community to the bank under the depository agreement (Rinaldy 2008). Deposits can be measured through the presentation of depositors' funds to total assets.

Productive Assets Management demonstrates the bank's capability to generate revenue from interest by looking at the performance of the *sharia* bank in channeling financing, given that the bank operational revenue is highly dependent on the interest margin (spread) of the distributed financing. Productive assets management can be calculated using Net Interest Margin (NIM). NIM of a healthy bank should be above 2% (Muljono 1999). Overall, the cost to incur by the bank will determine how many percent the bank should set the interest rate of financing given to the customers to gain bank's net revenue. In this case, the interest rate will determine the magnitude of NIM.

The rate of Inflation is an increase of general price level in an economy that runs continuously over time. There are at least two main effects caused by inflation, namely redistribution and distortion. Inflation leads to the effects of revenue distribution and prosperity due to the differences in assets and debts held by the public. Inflation causes distortion effect because the economy is experiencing efficiency problems and total output valuation issues. Most economists argue that inflation can lead to inefficient allocation of production factors. It will lead to the high-cost economies activities for factories in the business sector, which in turn can reduce the profit distribution of the *sharia* banks.

Some researches that have studied profit distribution management that include Bacha (2004); Farook, Hassan, and Clinch (2012); Lahrech, Lahrech, and Boulaksil (2014) who proves that the changes in the conventional bank interest rates have impact on rate of rate (profit distribution) of *sharia* banks. A study conducted by Mawardi (2005); Vustany (2007); Azmy (2009); Aisiyah (2010); Wafaretta, Rosidi, and Rahman (2016) concludes that interest rates have positive effect on profit distribution. Managers of *sharia* banks perform profit distribution management (PDM) which refers to conventional bank interest rates (Shaharuddin 2010; Ahmed 1996). This is closely related to the types of customers in Indonesia. Approximately, 70% of the *sharia* bank customers are those in floating segment who are sensitive to profitability (Karim 2003). A research on deposits is done by Kartika (2012) who concludes that the variable of Deposits (DEP) statistically gives negative insignificant effect on profit distribution management. Kartika (2012) also concludes that productive asset management affects on profit distribution management. This finding by Kartika (2012) has also been confirmed by a study done by Aprilia (2016) which confirms that productive asset management affects on profit distribution management. Furthermore, Kartika (2012) sums up that Rate of Inflation (RI) variable has no significant influence on profit distribution management.

Based on the previous research findings, it implies that it is important for *sharia* banks to maintain the quality of profit distribution level. Customer will always aware of and calculate the profit distribution rate obtained in their investments in the *sharia* banks. Logically, if the profit distribution rate is much lower compared to the other banks, especially to the conventional bank interest rates, the depositors' satisfaction will decrease and most likely the customers will transfer their funds to other banks. Indirectly, the *sharia* banks are required to perform profit distribution management that refers to the interest rates.

Based on the background of the problems, the issues that arise are (1) Do the deposits affect the Profit Distribution Management? (2) Does the Productive Assets Management affect the Profit Distribution Management? (3) Does Rate of Inflation affect Profit Management Distribution? The purpose of this research is to determine whether Deposits, Productive Assets Management, and Rate of Inflation give effect on profit distribution management at Shari Commercial Banks in Indonesia during 2012-2014 periods.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Profit Distribution Management (PDM)

Profit Distribution Management (PDM) is an activity undertaken by managers in managing the distribution of profit to meet the obligation of profit distribution of *sharia* banks to their customers. To calculate the Profit Distribution Management (PDM) that refers to interest rate, Asset Spread can be used. Asset Spread can be formulated as follows (Farook, Hassan, and Clinch 2012):

$$\text{Asset spread} = (\text{ROA} - \text{Average ROIAH}). \quad (1)$$

Where,

ROA : Return on Assets

ROIAH : Return on Investment Account Holder

Calculated as Average ROIAH =

$$\frac{\text{Revenue should be distributed}}{\text{Average Balance of depositors' profit distribution instrument}} \quad (2)$$

Asset Spread is the most powerful indicator for calculating profit distribution management. Asset spread takes into account all revenues and expenses and provides spread between total asset return of the bank's assets and the distribution provided to the depositors. The higher asset spread indicates the availability of profit distribution to the depositors that is distantly from asset return. This reinforces to take PDM in action that refers to the interest rates in accordance with Sundararajan (2005) and Farook, Hassan, and Clinch (2012).

The Effect of Deposits to Profit Distribution Management

A deposit is a variable that describes the level of a bank's dependency on the customers' funds. A deposit (DEP) is a variable formulated with total third party funds (TTPF) divided by total asset of *sharia* bank. In his research, Kartika (2012) concludes that DEP is statistically gives negative insignificant effect on PDM. Hence, the higher DEP proxied by deposits formulation, i.e. total third party funds (TTPF) divided by total asset of a *sharia* bank cannot become a benchmark of an increase or decrease of profit distribution management (PDM).

Farook, Hassan, and Clinch (2012) argues that a *sharia* bank with a smaller proportion of the third party funds compared to the shareholders' tends to not to manage the profit distribution management (PDM) referring to the interest rates. The *sharia* bank is more likely to provide profit distribution management (PDM) that is consistent to asset returns earned (Ahmed 1996; Shaharuddin 2010). When it is related to the stakeholder's theory where bank will manage the depositors, the level of profit

distribution management (PDM) will also increase in line with the rise of the depositors. Based on the elaborations, a hypothesis can be formulated as follows:

H1: Deposits affect on profit distribution management.

The Effect of Productive Assets Management to Profit Distribution Management

Productive Assets Management (PAM) displays the bank's capability in generating revenue by looking at the performance of the *sharia* bank in distributing the financing; given that the bank's operational revenue is highly dependent on the interest gap (spread) of the distributed financing. Kartika (2012), in his research concludes that productive assets management affects on profit distribution management. Productive assets management (PAM) can be calculated using Net Interest Margin (NIM). Thus, the higher productive assets management proxied by Net Interest Margin (NIM) of a bank can become a benchmark of profit distribution management (PDM) increase.

The similar result is also confirmed through a research conducted by Ezohoa (2011) that utilizes NIM at conventional banks as an indicator to measure bank assets efficiency. The smaller spread taken by the bank suggests that the bank is more efficient and competitive in channeling the funds. Therefore, if associated with stakeholder theory, *sharia* bank managers will calculate the spread between profit distribution and financing margin prudently. Thus, they did not lose profit margin. The increased profit margin will also affect the increasing profit distribution management (PDM) as NIM increases. It is also confirmed by Aprilia (2016), concluding that productive assets management gives effect on profit distribution management. Hence, a hypothesis can be drawn as follows:

H2: Productive Assets Management affects on profit distribution management

The Effect of Rate of Inflation (RI) to Profit Distribution Management (PDM)

A high rate of inflation may cause costs to rise continuously. It may affect on the economy as it can reduce the corporate earnings, including the *sharia* banks', which consequently, the profit distribution rate to the depositors can be reduced. Another impact of inflation is the efficiency effects. Inflation leads to the increasing demand for various goods which then leads to the increase of the goods' productions. The condition may bring high-cost economies activities for factories in business sector

which in turn can reduce the profit distribution revenue of *sharia* banks. Indonesia's macroeconomic condition relatively has not been able to provide a positive business climate for the *sharia* banking industry. When it is related to the theory of stakeholder, the high rate of inflation results in the profit distribution rate of *sharia* banks tends to decrease.

Variable of Rate of Inflation (RI) is the rate of inflation from year to year in Indonesia as can be seen through percentage of changes of Consumer Price Index (CPI). Kartika (2012) concludes that Rate of Inflation (RI) variable gives negative insignificant effect on PDM. Hence, the lower RI proxied by percentage of changes of Consumer Price Index (CPI) cannot become a benchmark to the increase of profit distribution management (PDM). Based on those elaborations, a hypothesis is drawn as follows:

H3: Rate of Inflation affects on profit distribution management.

3. RESEARCH METHOD

Variables

Profit Distribution Management (PDM), is an activity performs by a manager in distributing profit to meet the obligations of profit distribution from the *sharia* bank to the customers. To calculate PDM that refers to interest rate, Asset Spread introduced by Farook, Hassan, and Clinch (2012), as discussed in the previous section, can be applied. This variable has also been used by Mulyo and Mutmainah (2013).

Deposits (DEP), is a variable that reflects the level of bank's dependence on customers' funds. Deposits (DEP) is formulated with total funds of third party (DPK) divided by total assets of *sharia* bank, as follows:

$$DEPOSITS = \frac{\text{Third Party Funds}}{\text{Total Asset}} \quad (3)$$

Productive Assets Management (PAM), indicates the bank's ability to generate revenue from interest by looking at the *sharia* bank performance in channeling financing, given that the bank operating income is highly dependent on interest gap (spread) of the financing disbursed. Productive Assets Management can be calculated with Net Interest Margin (NIM), as follows:

$$NIM = \frac{\text{Net Interest Income}}{\text{Average Earning Assets}} \times 100\% \quad (4)$$

The higher the NIM, the better the cost control of a bank.

Rate of Inflation (RI), is the increasing level of general prices that continuously take place from time to time. The inflation rate from year to year in Indonesia can be measured by percentage of change of Consumer Price index (CPI).

Population and Sample

The population was the *Sharia* Commercial Banks listed in Bank Indonesia during 2012-2014 with 12 *Sharia* Commercial Banks. The sample was taken by purposive sampling with the following criteria: (1) *Sharia* Commercial Banks which issued the financial statements for quarterly period during 2012-2014 and have been published on website of Bank Indonesia (BI) or on each website of the *sharia* banks. (2) *Sharia* Commercial Banks, which had the required data related to the measurement of variables used for the research during 2012-2014 period. Based on those criteria, there were 10 samples of *Sharia* Commercial Banks listed in Bank Indonesia; hence, the research data that could be processed were 120.

Technique of Analysis

Hypothesis testing used multiple linear regression statistics and the equation is as follows:

$$PDM = a + b1DEP + b2PAM + b3ROI + e \quad (5)$$

Where:

PDM = Profit Distribution Management

a = Constants

b1-b3 = Regression coefficients of each independent variable

DEP = Deposits

PAM = Productive Assets Management

RI = Rate of Inflation

e = Error

The technique of Analysis used include: (1) classical assumption test to examine the feasibility of regression model application. The classical assumption test itself consists of multicollinearity test, heteroscedacity test, and autocorrelation test. (2) Multiple regression method that includes t test (partial) and F test (simultaneous).

4. DATA ANALYSIS AND DISCUSSION

Results of Regression Analysis

In applying the multiple linear regression analysis, this study considers figuring out whether the application of multiple linear regression models has met the qualifications of classical assumptions, This is to examine the feasibility of the model used. The testing result showed that the multiple linear regressions qualified for use because it does not deviate from classical assumptions. The results of multiple regression analysis can be seen in Table 1.

Based on the multiple regression analysis results, the equation for multiple linear regressions is as follows:

$$PDM = 0.005 + 0.091DEP - 0.001PAM - 0.001RI + e$$

Where:

PDM = Profit Distribution Management

DEP = Deposits

Table 1
Multiple Regression Analysis Results

	Unstandardized Coefficient	Standardized Coefficient	t
Constant	0.005		6.007*
DEP	0.091	0.597	7.782*
PAM	-0.001	-0.087	0.247
RI	-0.001	-0.087	0.257

F : 21.382* R Square : 0.356

* Significances at 1% level.

PAM = Productive Assets Management

ROI = Rate of Inflation

e = Error.

Hypothesis Testing

Hypothesis 1: The Effect of Deposits to Profit Distribution Management

The result indicates that Deposits (DEP) give positive effect on Profit Distribution Management (PDM). Based on the analysis results can be seen that Deposits (DEP) have coefficient of 0.091 and significant of 0.000 smaller than 0.05. It indicates that the variable of Deposits has a positive effect on Profit Distribution Management. This result support the qualitative research done by Ahmed (1996) in Faysal Islamic Bank in Sudan.

Unfortunately, this study does not support the research by Kartika (2012) that concludes that DEP statistically gives a negative insignificant effect on profit distribution management. Farook, Hassan, and Clinch (2012) who stated that *sharia* commercial banks with a greater proportion of third party funds than the shareholders’ manage the profit distribution management that refers to interest rates. This can be attributed to theory of stakeholder where the banks will manage their depositors’ funds, and then the level of profit distribution management will also increase along with the deposits growth.

Hypothesis 2: The Effect of Productive Assets Management on Profit Distribution Management

The result shows that Productive Assets Management (PAM) gives negative insignificant effect on Profit Distribution Management (PDM), where, based on the result of regression test, the Productive Assets Management has coefficient value -0.001 and significant level 0.247.

The result of this study differs to the research results found by Kartika (2012) and Aprilia (2016) who conclude that productive assets management gives effect on profit distribution management. In essence, the higher productive assets management proxied by Net Interest Margin of a bank can become a benchmark to increase profit distribution management. Then, if it is attributed to the theory

of stakeholder, manager of a *sharia* bank will calculate the spread between profit distribution and financing margin accurately so that the *sharia* bank does not lose profit margin. The increasing profit margin will also impact on the increase of profit distribution management (PDM) in line with the growth of Net Interest Margin (NIM).

Hypothesis 3: The Effect of Rate of Inflation on Profit Distribution Management

The finding indicates that Rate of Inflation (RI) has negative insignificant effect on profit distribution management (PDM), in which, based on the result of regression test, Rate of Inflation has coefficient value -0.001 and significant level 0.257.

This finding supports the research by Kartika (2012) which concludes that Rate of Inflation variable gives negative insignificant effect on profit distribution management. The lower the Rate of Inflation proxied by percentage of change of Consumer Price Index (CPI) cannot become a benchmark of Profit Distribution Management increase. This happens when associated to the theory of stakeholder; the high rate of inflation results in the profit distribution rate of *sharia* bank tends to decrease. Whereas, the economic growth of Indonesia is not high and strong enough to drive the real sector which is the source of profit distribution revenue of *sharia* banks.

Simultaneous Test (F Test)

F-statistic test was used to examine the significant level of regression coefficient of independent variables simultaneously to the dependent ones. The Table shows the results of F test statistic calculation at 21.382 with probability 0.000. For the probability is much less than 0.05, it means that Deposits, Productive Assets Management, Rate of Inflation together significantly affects on Profit Distribution Management.

Determination Coefficient Test (R²)

The test is intended to determine the best level of accuracy in the regression analysis expressed by determinant coefficient (R²). The number of Determinant Coefficient (R²) is 0.339. The number can be

used to see the amount of influence of the three variables, namely Deposits, Productive Assets Management, and Rate of Inflation to Profit Distribution Management which is at 0.339 or 33.9%, while the remaining 66.1% is influenced by other variables which are not studied here.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

This study aims to prove factors that affect the profit distribution management at *Sharia* Commercial Banks in Indonesia. Based on the data analysis and discussion described, conclusions can be drawn as follows: Deposits have positive significant effect on Profit Distribution Management. Productive Assets Management has negative significant effect on Profit Distribution Management. Rate of Inflation has negative significant effect on Profit Distribution Management. Deposits, Productive Assets Management, Rate of Inflation simultaneously provide significant influence on Profit Distribution Management. This finding can be attributed to theory of stakeholder where the banks will manage their depositors' funds, and then the level of profit distribution management will also increase along with the deposits growth.

Determination coefficient of regression equation is at 33.9%. The future research could use another variables which were not used in this study. Good Corporate Governance can be used as a independent or moderating variables. Due to sample limitation, future study should add more samples.

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