CURRENT ADVANCED RESEARCH ON SHARIA FINANCE AND ECONOMIC WORLDWIDE (CASHFLOW)

THE EFFECT OF PROFIT-SHARING FINANCING, SALE AND PURCHASE FINANCING AND INTELLECTUAL CAPITAL ON FINANCIAL PERFORMANCE AT ISLAMIC COMMERCIAL BANKS IN 2017-2021

Serly Nufia Juliana[1*], Rusdi[2]
[1,2]Accounting Study Program, Universitas Pamulang
E-mail: [1)] sherlyqueen72@gmail.com

Abstract

This study analyzes the effects of Profit-Sharing Financing, Sale-purchase Financing, and Intellectual Capital on Financial Performance. Profit Sharing Financing in this study is calculated using the total of Musharakah financing and Mudharabah financing, while Sale-purchase Financing is calculated based on the total of sale-purchase financing. Intellectual Capital is proxied using VACA, and Financial Performance is proxied using ROE. The population in this study consists of all Islamic banks registered with the Financial Services Authority (OJK) in Indonesia for the period 2016-2020. The technique employed is a purposive sampling technique with four specific criteria as considerations, resulting in a sample of 8 companies with a five-year period, yielding a total of 40 observational data points. The data analysis employed in this study utilizes panel data regression with the assistance of EViews 9. The partial findings of this study indicate that only the variable of sale-purchase financing has a significant effect on financial performance, while the variables of profit-sharing financing and intellectual capital do not exhibit an effect on financial performance.

Keywords: *Financial Performance, Intellectual Capital, Profit Sharing Financing, Sale-purchase Financing*

1. INTRODUCTION

According to the Republic of Indonesia Law Number 21 of 2008 concerning Islamic banking, a bank is defined as an entity that collects funds from the public in the form of deposits and channels them to the public in the form of credits or other forms to enhance people's living standards. Meanwhile, Islamic banking refers to a bank that operates based on Sharia principles and consists of types such as Islamic Commercial Banks and Islamic People's Financing Banks (Nasution, 2020).

According to Dendawijaya (2009), financial performance is a key indicator of a bank's success. One way to assess a bank's financial performance is by examining its profitability, often measured using Return On Asset (ROA). Financial performance involves presenting operational results in the form of financial figures. The current period's company performance must be compared with its past financial performance, balance sheet budgets, and average profit and loss performance of similar companies. The financial performance of a bank is a measure of the success for its management; hence, if the bank's performance is poor, it is unlikely that its management will be retained. The financial performance of Islamic Commercial Banks over the last four years has experienced fluctuations with both increases and decreases. The lowest financial

performance value was recorded in 2018 at 1.28%, while the highest was in 2019 at 1.73%.

Sale-purchase Financing is the most popular type of financing compared to others. Within this category, three contracts are commonly used: *Murabahah*, Salam, and *Istishna*. Profit-sharing principles in Islamic banking can be realized through four main contracts: *Musyarakah, Mudharabah, Muzara'ah,* and *Musaqah*. However, *Musyarakah* and *Mudharabah* are the most commonly employed. This foundational principle differentiates conventional banks, which operate on an interest-based system, from Islamic banks that operate on a profit-sharing basis (Antonio, 2001).

In terms of intellectual aspects, the workforce in the banking sector is generally more homogenous compared to other economic sectors. The use of intellectual capital plays a crucial role in achieving success in the banking industry compared to other industries. Assessing the quality of service provided by a bank relies on investments related to intellectual capital, such as human resources, image development, systems, and processes (Ismail, 2018). Consequently, this study aims to explore and provide empirical evidence regarding the influence of three key factors: Profit-Sharing Financing, Sale-purchase Financing, and Intellectual Capital, on the financial performance of Islamic banks. The study will investigate the impact of Profit-Sharing Financing on financial performance, examine the influence of Sale-purchase Financing, and identify the effect of Intellectual Capital on the financial performance of Islamic banks.

2. LITERATURE REVIEW

Agency theory designates the owner as the principal and the manager as the agent. The concept of agency theory portrays the agent as having the authority to manage the company and make decisions on behalf of the investors. Jensen and Meckling (1976) highlight that potential conflicts of interest can arise between parties involved, such as between shareholders and company managers (agency cost of equity) or between shareholders and creditors (agency costs of debt).

According to Kasmir (2019), financial performance is a reflection of a company's financial condition during a specific period, indicating whether the company has achieved its predefined targets. Financial performance is closely tied to a company's progress, as the financial aspect can serve as a gauge of its success. Strong financial performance naturally garners investor attention (Rahman et al., 2022). As more investors invest in a company's shares, the stock price increases. A rise in stock price subsequently elevates the company's overall value. To assess whether a business or company maintains good quality, two dominant evaluations are employed as reference points to assess how well the entity adheres to established principles. The financial performance is evaluated based on the financial reports owned by the respective company.

In Islamic jurisprudence, the concept of buying and selling (*buyu'*, plural of *ba'i*) involves exchanging property based on mutual consent or transferring ownership in return for something permissible. The term *al-ba'i* in Islamic jurisprudence occasionally refers to its opposite, *al-syira*, which means purchasing. Thus, al-ba'i implies both selling and buying. According to Hanafiah, the definitive understanding of buying and selling (*al-ba'i*) is the exchange of goods or desired items for something equivalent through a beneficial method.

Profit-sharing financing involves a collaborative contract between a bank and a customer, where the bank provides the capital, while the customer manages it to generate profits based on an agreed-upon ratio or arrangement. In Islamic banking, profit-sharing financing encompasses two primary contracts: *musyarakah* and *mudharabah*. Companies require three fundamental forms of capital to achieve their goals: physical capital, financial capital, and intellectual capital. Intellectual capital is a modern and novel concept that plays a crucial role within a company. Enhancing intellectual capital serves as one of the strategies a company can use to potentially increase its overall value.

In this study, several hypotheses are proposed to investigate the impact of different financial factors on a company's financial performance:

H1: Profit sharing financing, sale-purchase financing, and intellectual capital simultaneously affect financial performance.
H2: Profit sharing financing affects financial performance
H3: Sale-purchase financing affects financial performance
H4: Intellectual capital affects financial performance.

3. RESEARCH METHODS

This study employs a quantitative research approach. Sugiyono (2019) defines quantitative method as one rooted in positivist philosophy, utilized to investigate specific populations and samples. It involves collecting and employing research instruments, quantitatively analyzing data, and aims to test established hypotheses.

Data collection for this research involves gathering, recording, and examining secondary data in the form of annual financial reports from companies across all sectors listed in the Sharia Securities List of the Financial Services Authority, spanning from 2017 to 2021. These reports are relevant to the researched variables. Additionally, references from books, journals, articles, and other pertinent sources related to the research are cited. The research data is processed using E-Views 9 software.

3.1. Operational Research Variables

The dependent variable is the variable that is affected or that is the result of the independent variable. The dependent variable in this study is the financial performance of Islamic commercial banks listed on the Sharia Securities List of the Financial Services Authority. Meanwhile, the independent variable or commonly referred to as the independent variable. The independent variables in this study are profit-sharing financing, sale-purchase financing, and intellectual capital.

- Financial performance is calculated using:

$$\mathbf{ROE} = \frac{\mathbf{Profit\ After\ Tax}}{\mathbf{Total\ Equity}}\ \boldsymbol{x}\ \mathbf{100\%}$$

- Profit sharing financing is calculated using:

$$\mathbf{Ln} = \mathbf{Musyarakah\ Financing} + \mathbf{Mudharabah}$$

- Sale-purchase financing is calculated using:

$$\mathbf{Ln} = \mathbf{Sale\ and\ Purchase\ Financin}$$

- Intellectual capital is calculated using:

$$\mathbf{VACA} = \frac{\mathbf{VA}}{\mathbf{CA}}$$

3.2. Sampling Technique

The sample used in this research consists of financial reports and annual reports of Islamic banks, specifically Islamic Commercial Banks (ICBs), registered with the Financial Services Authority (OJK) during the period of 2017-2021. The sample selection was conducted using purposive sampling method, with specific criteria set as follows:

a. Islamic Commercial Banks (ICBs) registered with the Financial Services Authority (OJK) during the period of 2017-2021, including both open and closed banks.
b. Islamic Commercial Banks (ICBs) that have published complete annual reports during the period of 2017-2021.
c. Banks with financial reports containing components related to the researched variables.
d. Islamic Commercial Banks (ICBs) that publish financial reports in Indonesian Rupiah currency.

3.3. Data Analysis Technique

This research employs quantitative analysis technique and utilizes descriptive method, supported by the use of EViews 9 software. The various stages of the analysis include:

a. Descriptive Statistical Analysis
   Descriptive statistical analysis provides an overview or description of the data, including mean, minimum, maximum, and standard deviation values present in the research.
b. Estimation of Panel Data Regression Model
   The panel data regression model is employed to predict the extent of change in the dependent variable's value when the independent variable's value is increased or decreased. There are three models used in this testing: Common Effect, Fixed Effect, and Random Effect.
c. Selection of Panel Data Regression Model
   This testing aims to choose the best model among the three panels data regression model estimations. The tests conducted for this purpose are the Chow test, Hausman test, and Lagrange Multiplier test.
d. Classic Assumption Testing
   Classic assumption testing is conducted to determine whether the regression model can be used or not. These assumptions tests include: Normality Test, Non-Multicollinearity Test, Non-Heteroskedasticity Test, and Non-Autocorrelation Test.

4. RESULTS AND DISCUSSION

4.1. Result

4.1.1. Chow Test

The Chow Test results show the cross-section F probability value of 0.0734> 0.05. Then it means that the appropriate model is the common effect model. The result can be seen in the table below:

Table 1. Chow Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.583680	(7,29)	0.1799
Cross-section Chi-square	12.949012	7	0.0734

4.1.2. Hausman Test

Table 2. Hausman Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.922968	3	0.0192

The Hausman Test results in the table above show the cross-section F probability value of 0.0192 <0.05. Then it means that the appropriate model is the fixed effect model.

4.1.3. Lagrange Multiplier Test

Table 3. Lagrange Multiple Test

Test Hypothesis			
Cross-section		Time	Both
Breusch-Pagan	0.028057	0.039364	0.067421
	(0.8670)	(0.8427)	(0.7951)

The test results show the cross-section F probability value of 0.7951> 0.05. Then it means that the appropriate model is the common effect model.

4.1.4. Normality Test

Table 4. Normality Test Result

	Value	Description
Jarque-Bera	0.130183	
Probability	0.936982	Data is Normally Distributed

Based on the value of Jarque-Bera which is 0.130183 with a probability of 0.936982> 0.05. Thus, it can be concluded that the data is normally distributed, which means that the regression model has met the assumption of normality.

4.1.5. Heteroscedasticity Test

Table 5. Heteroscedasticity Test Result

Dependent Variable: RESAB
Method: Panel Least Squares
Date: 01/10/23 Time: 06:31
Sample: 2017 2021
Periods included: 5

Cross-Sections Included: 8

Total Panel (balanced) Observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.538952	2.567997	0.209873	0.8350
X1	-0.055928	0.108387	-0.516000	0.6090
X2	0.050360	0.082104	0.613374	0.5435
X3	0.132706	0.198264	0.669340	0.5075

The Glejser method heteroscedasticity test, shows the probability value of each independent variable is greater than 0.05. So, it can be concluded that the data has met the requirements and there is no heteroscedasticity problem.

4.1.6. Multicollinearity Test

Table 6. Multicollinearity Test Result

	Y	X1	X2	X3
Y	1.000000	0.011592	0.470947	-0.147441
X1	0.011592	1.000000	0.546870	0.257804
X2	0.470947	0.546870	1.000000	0.267273
X3	-0.147441	0.257804	0.267273	1.000000

The Multicollinearity Test results show that the probability value of each independent variable is less than 0.90. So, it can be concluded that each independent variable is not infected with multicollinearity problems.

4.1.7. Autocorrelation Test

This Autocorrelation test is obtained from the Durbin-Watson calculation which shows a value of 1.876137. The value is then compared with the du and 4-du values. The du value is taken from the D-W table with the number of samples (n) = 40 and the number of independent variables (k) = 3. Based on the D-W table, the lower limit value (dl) is 1.3384 and the upper limit value (du) is 1.6589, so that a value of 4-du = 2.342 is obtained. Because du < d w≤ 4-du (1.6589<1.876137≤ 2.342). From these provisions it can be concluded that the data used does not occur symptoms of autocorrelation. The detail result can be seen in the table below:

Table 7. Autocorrelation Test Result

Dependent Variable: Y
Method: Panel Least Squares
Date: 01/09/23 Time: 06:44
Sample: 2017 2021
Periods included: 5

Cross-sections included: 8

Total panel (balanced) observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.017189	0.669258	-1.519877	0.1373
X1	-0.054802	0.028247	-1.940098	0.0602
X2	0.094728	0.021397	4.427055	0.0001
X3	-0.095697	0.051670	-1.852066	0.0722
R-squared	0.368287	Mean dependent var		0.035680
Adjusted R-squared	0.315644	S.D. dependent var		0.148550
S.E. of regression	0.122889	Akaike info criterion		-1.260425
Sum squared resid	0.543665	Schwarz criterion		-1.091537
Log likelihood	29.20849	Hannan-Quinn criter.		-1.199360
F-statistic	6.995956	Durbin-Watson stat		1.876137
Prob(F-statistic)	0.000794			

Regression Equation of Panel Data with Common Effects Model on the Dependent Variable of Financial Performance is as follows:

$$\mathbf{Y = -1.017189 - 0.054802X1 + 0.094728X2 - 0.095697X3 + \varepsilon}$$

a. The constant value from the panel data regression model result is -1.017189. If dividend policy, inflation, interest rates, and exchange rates are all valued at zero, then the stock price would be -1.017189.
b. The coefficients in the panel data regression model are -0.054802 for profit-sharing financing (X1), 0.094728 for sale-purchase financing (X2), and -0.095697 for intellectual capital (X3). Hence, an increase of one unit in profit-sharing financing would lead to a decrease of -0.054802 in financial performance, an increase in sale-purchase financing would result in an increase of 0.094728 in financial performance, and an increase in intellectual capital would lead to a decrease of -0.095697 in financial performance.
c. The Prob (F-statistic) value of 0.000794 < 0.005 indicates that profit-sharing financing, sale-purchase financing, and intellectual capital collectively have a significant simultaneous influence on financial performance.
d. The value of profit-sharing financing (X1) at 0.0602 > 0.05 means that the variable does not significantly affect financial performance. The value of sale-purchase financing (X2) at 0.0001 < 0.05 indicates that the variable significantly affects financial performance. The value of intellectual capital (X3) at 0.0722 > 0.05 suggests that the variable does not significantly affect financial performance.

e. The coefficient of determination (R^2) in this study is 0.315644 or 31.56%. This implies that 31.56% of financial performance is influenced by profit-sharing financing, sale-purchase financing, and intellectual capital. The remaining 68.44% is influenced by other variables not examined in this study.

4.2. Discussion

4.2.1. The Influence of Profit-Sharing Financing, Sale-purchase Financing, and Intellectual Capital on Financial Performance Simultaneously

The first hypothesis of this study is that profit-sharing financing, sale-purchase financing, and intellectual capital collectively have a significant simultaneous influence on financial performance. This can indicate that higher levels of profit-sharing financing, sale-purchase financing, and intellectual capital will lead to higher financial performance in Islamic commercial banks. The better a company's ability to generate profit through its operations and financing, the better its financial performance. Financial performance is the outcome or achievement resulting from a company's endeavors.

4.2.2. The Influence of Profit-Sharing Financing on Financial Performance

The second hypothesis of this study is that profit-sharing financing does not significantly influence financial performance. Utami and Utami (2021) state that profit-sharing financing does not have a partial impact on financial performance. The negative relationship between profit-sharing financing and financial performance arises because customers receive profit-sharing financing from the bank, and these funds might not be repaid within the same year. This implies that the repayment of the financing is spread over subsequent years. Consequently, this impacts the opportunity for the Islamic bank to increase its profit earnings through the profit-sharing margin, leading to reduced profits received by the bank in the year the loan was granted.

4.2.3. The Influence of Sale-purchase Financing on Financial Performance

The third hypothesis of this study is that sale-purchase financing significantly influences financial performance. Sale-purchase financing can enhance financial performance because the funds channeled are mostly used for productive purposes and can be developed further. Ultimately, customers repay the funds, and the Islamic commercial bank gains profit as its income, thus resulting in higher financial performance. Financing will impact the bank's improved profitability, as reflected in profit acquisition.

4.2.4. The Influence of Intellectual Capital on Financial Performance

The fourth hypothesis of this study is that intellectual capital does not significantly influence financial performance. This also suggests that the sampled banking companies in this study have not yet effectively and efficiently managed the resources in the form of capital assets owned by the company. The high value of capital employed has not led to an increase in the financial performance of the company.

5. CONCLUSION

Overall, the findings indicate that profit-sharing financing, sale-purchase financing, and intellectual capital collectively have a significant influence on the financial performance of Islamic Commercial Banks during the period of 2017-2021. However, further analysis unveils that, on an individual basis, profit-sharing financing does not have a significant impact on financial performance. This might suggest that changes in profit-sharing financing do not directly affect the financial performance of these banks.

On the other hand, the results demonstrate that sale-purchase financing has a positive and significant effect on the financial performance of Islamic Commercial Banks. This finding underscores the importance of strategies focused on developing sale-purchase financing as a driver for improving financial performance. These conclusions provide valuable guidance for refining strategies and more effective financial management in the context of Islamic banking.

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