Profit-Sharing Financing for Islamic Banks in Indonesia in Human Resource and Finance Point of View

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Abstract

This study aims to investigate the impact of Third Party Funds, non-performing financing, and Human resources on profit-sharing financing. To investigate the direction of the influence relationship between variables, a threshold autoregressive estimation is carried out with a monthly research period from January 2019 to January 2021 uses secondary data obtained from the Indonesian Financial Services Authority. we found that Third-party funds affect bank profit-sharing financing is not significant in Indonesia. Non-performing Financing (NPF) has an impact on profit-sharing financing performance in Indonesia. Human resources have an impact on profit-sharing financing in Indonesia. It is implied that Third-party funds have an inverse or negative impact on profit-sharing financing where the larger Third-party funds actually make profit-sharing financing decrease, but this is not significant or the meaning cannot be said to have happened or is still ambiguous. However, non-performing loans have a significant negative impact on profit-sharing financing, this indicates that non-performing financing has a negative impact on bank performance because bank performance relies on financing.

Keyword : E-Money, Banking, Absolute Income Theory, Transformation Of Money.
JEL Classification : C10, G21, M40, M41

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Background

Islamic banks act as Islamic financial institutions that act as institutions to collect public funds and distribute them to the community so that they can help the community's economic activities. Islamic banks in distributing funds collected from the public must be in accordance with Islamic principles so that the profit-sharing system is commonly used in Islamic bank financing. Financing with a profit-sharing system is able to encourage economic growth and facilitate community service needs in community economic activities (Bougatef et al., 2020).

The profit-sharing financing system is able to encourage the addition of new entrepreneurs (Afkar, 2017). However, Islamic bank financing in Indonesia is still dominated by buying and selling financing instead of profit-sharing financing (Hidayat et al., 2020). Financing with a profit-sharing system has not yet dominated in Indonesia. Islamic banks are still considering the advantages and risks of business in financing with a profit-sharing system (Afkar, 2017). Islamic bank financing with a profit-sharing system is still considered high risk, especially when the recipient of financing with this profit-sharing system suffers losses (Ferhi, 2018).

Third-party funds have an impact on financing and any financing to banks is at risk of creating Non-performing Financing. Non-performing Financing has an impact on overall financing performance

(Grira & Labidi, 2021).Third party funds are a factor in encouraging financing in Islamic finance in Indonesia (Lisa, 2016)

Problematic financing becomes non-performing financing (NPF). Non-performing financing can arise as a result of the selection process carried out by banks that have not met expectations or have not been good (Ernawati, 2016). In principle, Islam adhered to by Islamic banks upholds the value of justice and mutual benefit between Islamic banks and recipients of financing. So that procedures are needed to protect Islamic Banks from all things that do not want to happen (Adamu, 2018). There are many obstacles in the implementation of the screening procedure for customers receiving financing in Indonesia (Abdul-rahman and Nor, 2016; Ernawati, 2016).

Human resources and human capital factors are key factors in making financing decisions at Islamic banks (Zulkhibri, 2018).Organizational performance depends on the performance of its human resources. Human capital is reflected in the performance of all employees or humans who work in an organization (Fanani & Irawan, 2021). Research by Iskandar and Indrayanto (2021) in Indonesia found that the human capital attached to human resources has an impact on organizational performance.

Based on previous research, the following research questions can be formulated:
Rq: How do Third-party funds, Human Resources, and Non-performing Financing influence Profit-Sharing Finance?

Literature Review

Financing disbursed by Islamic banks will have an impact on credit risk so it is necessary to apply prudence (Nugraheni and Muhammad (2019). In Islamic Banks, profit-sharing financing, in general, is financing in the business and productive sectors where Islamic Banks as capital owners provide capital or funds collected from public funds to business owners or managers who need capital from Islamic banks for business or business capital purposes. The running business process is expected to earn profits and the profits are shared with the bank so that Islamic banks act as investors (Abdul-rahman and Nor 2016) With this profit-sharing system, Islamic Banks can encourage the growth of various industries in the business sector which is the locomotive of economic growth (Bougatef et al., 2020; Chowdhury et al., 2018).

In Indonesia, the demand for money in the form of financing has an impact on the money supply. Where banks act as money collectors in the community and make money available to be offered to people who ask for money (Dinonasih, 2021). Money supply has an impact on credit or financing and public savings in Indonesia (Garcia & Puspaningtyas, 2021). Financing in the business sector to support people's productive activities encourages and stimulates the economy in Indonesia. So that financing in the business sector is an important financing in the economy in Indonesia (Rizal & Sasongko, 2021).

The human resources sector and the financial sector influence each other in shaping organizational performance in Indonesia (Damayanti & Rusminingsih, 2021). Torabi's research (2016) explains that human resources are an important factor in the banking industry. Research by Dartey-Baah et al (2020) explains that human resources play an important role in bank operations

Islamic banks in productive financing refer to profit-sharing financing (Fakir et al., 2019). NPF has an impact on Islamic bank financing (Wasiaturrahma et al, 2020). Islamic bank financing in Indonesia has the risk of non-performing financing. Non-performing financing has an impact on the performance financing itself (Priyadi et al., 2021).

Based on previous research, the following hypothesis can be formulated:
H1. Third-party funds affect bank profit-sharing financing (Lisa, 2016; Dinonasih, 2021; Garcia & Puspaningtyas, 2021; Grira & Labidi, 2021).
H2. Non-performing Financing (NPF) has an impact on profit-sharing financing performance (Ernawati, 2016; Wasiaturrahma et al, 2020; Priyadi et al., 2021).
H3. Human resources have an impact on profit-sharing financing (Damayanti & Rusminingsih, 2021; Zulkhibri, 2018)

Research Method

This study aims to investigate the impact of Third Party Funds, non-performing financing, and Human resources on profit-sharing financing. To test the hypothesis, we use an auto-regressive threshold to see the behavior of data from third-party funds, non-performing financing, and human resources towards profit-sharing financing. In analyzing behavior data, we use an estimate threshold autoregressive model with the following model equation:

$$PSF_t = ((\beta_1 + \beta_2 HR_{t2} + \beta_3 NPF_{t3} + \beta_4 TPF_{t4} + \beta_5 + \beta_6 HR_{t6} + \beta_7 NPF_{t7} + \beta_8 TPF_{t8}) \text{ x @LOGIT } \beta_9 PSF_{t9}) + e_t$$

PSF is profit-sharing financing.HR is the total number of employees of Islamic banks throughout Indonesia.NPF is the amount of non-performing financing.TPF is Third Party Funds.

This study uses secondary data obtained from the Indonesian Financial Services Authority with a monthly research period from January 2019 to January 2021 with variable descriptions as follows:

Table 1. Variable Description

Variable	Description	Unit of Analysis	Data source
NPF	NPF is the amount of non-performing financing for all Islamic banks in Indonesia	Billion Rupiah	Indonesian financial services authority
TPF	TPF is Third Party Funds. TPF is calculated by adding up all public funds that have been collected by All Islamic banks throughout Indonesia every month.	Billion Rupiah	Indonesian financial services authority
PSF	PSF is profit-sharing financing calculated by adding up all Islamic Bank financing throughout Indonesia	Billion Rupiah	Indonesian financial services authority
HR	HR is the total number of employees of Islamic banks throughout Indonesia	Billion Rupiah	Indonesian financial services authority

Result and Discussion

This study aims to investigate the impact of Third Party Funds, non-performing financing, and Human resources on profit-sharing financing. To investigate the direction of the influence relationship between variables, a threshold autoregressive estimation is carried out. The estimation results are presented in table 2

Table 2. Estimation Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.

Threshold Variables (linear part)				
C	49435.27	24856.82	1.988801	0.0682
HR	1.440373	1.312433	1.097483	0.2923
NPF	-3.407228	2.249362	-1.514753	0.1538
TPF	0.459723	0.108128	4.251647	0.0009
Threshold Variables (nonlinear part)				
C	97068.18	160778.7	0.603738	0.5564
HR	6.677664	30.28208	0.220515	0.8289
NPF	-0.868628	2.838761	-0.305988	0.7645
TPF	-0.428291	0.159973	-2.677272	0.019
Slopes				
SLOPE	0.001076	0.000441	2.43939	0.0298
Thresholds				
THRESHOLD	82205.28	540.2313	152.1668	0
R-squared	0.871584	Mean dependent var		82696.75
Adjusted R-squared	0.851911	S.D. dependent var		5975.481
S.E. of regression	1310.381	Akaike info criterion		17.49304
Sum squared resid	22322274	Schwarz criterion		17.98674
Log likelihood	-191.17	Hannan-Quinn criter.		17.61721
F-statistic	49.38682	Durbin-Watson stat		1.144772
Prob(F-statistic)	0			

In the estimation of the linear part by human resources, it has a significant positive relationship with profit-sharing financing with a coefficient value of -1.440373 and a probability of 0.2923. Non-performing loans have a significant negative relationship with profit-sharing financing with a coefficient value of -3.407228 and a probability of 0.1538. Third-Party Funds on the linear part have a positive and insignificant relationship with profit-sharing financing with a coefficient value of 0.459723 and a probability of 0.0009

In the non-linear part, Human resources have a significant positive impact on profit-sharing financing with a coefficient value of 6.677664 and a probability value of 0.8289. Non-performing loan financing has a significant negative impact with a coefficient value of -0.868628 and a probability of 0.7645. Third-Party Funds have an insignificant negative impact on profit-sharing financing with a coefficient value of -0.428291 and a probability value of 0.019.

From the estimation results, it can be concluded that the hypothesis can be accepted but Third-party funds have no significant effect on profit-sharing financing. And the influence of human resources and non-performing financing on profit-sharing financing has a significant effect.

Conclusion

Third-party funds affect bank profit-sharing financing is not significant in Indonesia. Non-performing Financing (NPF) has an impact on profit-sharing financing performance in Indonesia. Human resources have an impact on profit-sharing financing in Indonesia. It is implied that Third-party funds have an inverse or negative impact on profit-sharing financing where the larger Third-party funds actually make profit-sharing financing decrease, but this is not significant or the meaning cannot be said to have happened or is still ambiguous. However, non-performing loans have a significant negative impact on profit-sharing financing, this indicates that non-performing financing has a negative impact on bank performance because bank performance relies on financing.

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