



THE INFLUENCE OF FINANCING RISK, EFFICIENCY, AND PROFITABILITY ON THE MARKET SHARE OF ISLAMIC BANKS IN INDONESIA

Muhammad Mansur¹, Muhammad Arfan², Aliamin³

Universitas Syah Kuala, Banda Aceh, Indonesia

mansur2017@gmail.com¹, arfan_rais@unsyiah.ac.id², aliamin_singkil@yahoo.com³

KEYWORDS	ABSTRACT
financing risk, efficiency, profitability, market share, islamic banks.	This research aims to examine the influence of financing risk, efficiency, and profitability on market share in Islamic banks. It is a population study that includes all 14 Islamic commercial banks in Indonesia. The data source for this research is secondary data, specifically financial reports of Islamic commercial banks obtained from the statistical reports of the financial services authority and the financial reports published by Islamic commercial banks in Indonesia. The data collection technique used in this study is documentation. The analysis method employed is multiple linear regression analysis using the eviews 10 application. The results of the research indicate that financing risk, efficiency, and profitability have an impact on the market share of Islamic commercial banks in Indonesia. This research implies that the study's findings contribute to the academic literature on Islamic banking and finance, providing a foundation for further research and discussions on the relationship between risk, efficiency, profitability, and market share. This research implies that the study's findings contribute to the academic literature on Islamic banking and finance, providing a foundation for further research and discussions on the relationship between risk, efficiency, profitability, and market share.

DOI:

Corresponding Author: Muhammad Mansur
Email: mansur2017@gmail.com

INTRODUCTION

Recently, the development of Islamic banking in Indonesia shows positive growth (Fiqri et al., 2021). According to data from the Financial Services Authority (OJK) in June 2020, the total assets of Islamic banks, disbursed financing, and third-party funds (DPK) continue to increase (Kholiq & Rahmawati, 2020). The total assets experienced a growth of 9.22% with a total of Rp545.4 trillion, financing experienced a growth of 10.13% with a total financing of Rp377.5 trillion, and DPK experienced a growth of 8.99% with a total DPK of Rp430.2 trillion.

In addition, based on OJK data, the market share development of Islamic banks from 2015 to 2019 shows positive progress, but still at a very small scale. In 2015, there were 12 Islamic commercial banks with a market share of 4.91%. Then, in 2016, the number of Islamic commercial banks increased to 13 with the conversion of Aceh Bank into an Islamic bank, resulting in a growth of market share to 5.35%. Subsequently, in 2017, the market share of Islamic banks further increased to 5.79%. In 2018, the number of Islamic commercial banks reached 14 with the conversion of BPD Nusa Tenggara Barat into an Islamic bank, leading to an increase in market share to 5.97%. Finally, in 2019, the market share of Islamic banks experienced an increment, reaching 6.17%.

Based on the explanation, it can be seen that the market share development continues to increase, but some Islamic banks still face challenges. In 2019, the market share of Bank Mega Syariah, Bank Bukopin Syariah, Bank Victoria Syariah, Bank Jabar Banten Syariah, and Maybank Syariah remained very small, accounting for less than 0.1%. Furthermore, in 2019, although the market share of Bank

Muamalat Indonesia was still relatively high, it experienced a decline from 0.92% to 0.58% each year. This phenomenon indicates an initial indication that there are issues with the market share of Islamic banks in Indonesia, despite some other Islamic banks having high and increasing market shares.

One of the factors that affect market share is financing risk. This is because customers fail to fulfill their obligations to the bank as agreed (Financial Services Authority, 2016). As a result, the bank will experience a decrease in income, leading to a reduction in the profit-sharing provided to customers. This becomes a consideration for customers to place their funds in Islamic banks. Based on several studies, financing risk has a negative impact on the market share of Islamic banks, as indicated by the research of Fuadah & Hakimi (2020); Aminah et al. (2019); Siregar (2019); Rahman (2016); Sandy (2017); (Purboastuti et al., 2015). However, according research, financing risk does not have an influence on market share (Fuadah & Hakimi, 2020); (Adelia et al., 2018).

Another factor that influences the market share of Islamic banks is efficiency. The more efficient a bank's operations are, the healthier its performance will be, which increases people's trust in depositing their funds in Islamic banks. This means that higher efficiency of a bank will increase its market share, while lower efficiency will reduce its market share. This is supported by research, which shows that efficiency, proxied by BOPO (Operating Expenses to Operating Income ratio), has a negative impact on market share (Fuadah & Hakimi, 2020); (Setyowati et al., 2019); (Aminah et al., 2019); (Rahman, 2016). However, according to previous research, efficiency does not have an influence on market share (Fitriyani & Nurdin, 2018).

Furthermore, profitability is another factor that influences the market share of Islamic banks. Profitability refers to a company's ability to generate profit during a specific period. The profitability of an Islamic bank increases significantly, the profit-sharing obtained by customers will also increase, leading people to trust placing their funds in that bank (Saputra, 2016). Therefore, the larger the profitability of a bank, the better its performance will be, and it will increase its market share. Conversely, lower profitability will decrease market share. This aligns with research indicating that profitability has a positive impact on market share (Aminah et al., 2019); (Purboastuti et al., 2015); (Saputra, 2016); (Sandy, 2017). However, according to previous research profitability does not have an influence on market share (Fatihin & Hadi, 2018); (Fitriyani & Nurdin, 2018).

Based on the background description above, the objective of this research is to examine the influence of financing risk, efficiency, and profitability on market share in Islamic banks. The research benefits are expected to assist Islamic banks in developing more effective business strategies, understanding the impact of financing risk on market share. Islamic banks can take better preventive and mitigation actions against financing risks that may affect the bank's performance and reputation. Furthermore, the results of this research can provide valuable input for regulators and policymakers in developing improved regulations and policies that support the development of the Islamic banking industry.

METHOD

This research uses a type of quantitative research method. This research is a census study, where the population is all Islamic commercial banks that have financial statements for the period 2015-2019, because the data reflects the current condition of the company. There are 14 Islamic commercial banks that make up the population of this study. The analytical techniques used in this study are reliability, classical assumption test, normality test, multicollinearity, heteroscedasticity, and multiple linear regression analysis.

RESULT AND DISCUSSION

Validity Testing Results

The research results indicate that all statements are valid because they have correlation values above the critical value ($N=188$), which is shown as 0.1432 (see table of the critical value correlation r product-moment) or have significant values for all questionnaire items below 5%.

Normality Testing Results

A good regression model is one that has normally distributed or approximately normal data. The normality test of data is conducted through statistical analysis using the Jarque-Bera test. If the probability value $< \alpha = 0.05$, it means that the distribution of the residual data is non-normal. On the other hand, if the probability value $> \alpha = 0.05$, it indicates that the residual data is normally distributed (Ghozali & Ratmono, 2017).

The Jarque-Bera probability value is 0.103686, which is greater than the significance level of 0.05 ($p > 0.05$). This indicates that the residual data is normally distributed. After confirming that the variables are normally distributed, further statistical tests can be conducted.

Multicollinearity Test

The multicollinearity test of the data can be conducted by examining the correlation matrix. If there are correlation coefficients < -0.9 or > 0.9 , multicollinearity is present. Conversely, if the correlation coefficients are > -0.9 or < 0.9 , there are no signs of multicollinearity (Ghozali & Ratmono, 2017).

In this study, it can be observed that there are no correlation coefficients between variables greater than 0.9 or smaller than -0.9. Based on the results of the multicollinearity test, it can be concluded that the regression model in this study is free from multicollinearity issues among the independent variables.

Heteroscedasticity Test

Heteroscedasticity indicates that the variance among residuals is not homogeneous, resulting in inefficient estimation. This study employs the Glejser test technique to detect heteroscedasticity. The Glejser test is conducted by regressing the independent variables against the absolute residuals. If the probability values of each independent variable and the F-test probability value are less than 0.05 (p -value < 0.05), it indicates the presence of heteroscedasticity in the regression model. However, in this study, none of the probability values for the independent variables are less than 0.05, and the F-test probability value is also greater than 0.05. This indicates that the research model is free from heteroscedasticity.

Multiple Linear Regression Analysis

Based on the regression equation, it can be stated that the constant (α) is equal to 1.429931. This means that if financing risk, efficiency, and profitability are considered constant, the market share achieved by Islamic commercial banks in Indonesia during the period 2015-2019 will increase by 1.429%. Meanwhile, the regression coefficient of financing risk (β_1) is 0.691799. This implies that a 1% increase in financing risk will increase the market share of Islamic commercial banks in Indonesia during the period 2015-2019 by 0.69%. Furthermore, the regression coefficient (β_2) is -2.345648. This means that a 1% increase in efficiency will decrease the market share of Islamic commercial banks in Indonesia during the period 2015-2019 by 7.32%. Moreover, the regression coefficient of efficiency (β_3) is 0.143917. This indicates that a 1% increase in profitability will increase the market share of Islamic commercial banks in Indonesia during the period 2015-2019 by 0.14%.

The Influence of Financing Risk on Market Share

The findings of this research contradict the theories and studies which state that financing risk has a negative and significant impact on market share (Saputra, 2016); Rahman (2016); (Sandy, 2017);

(Rohman & Karsinah, 2016). However, this research is supported by research which states that the level of financing risk has a positive influence on market share in Islamic commercial banks in Indonesia (Fatihin & Hadi, 2018). The positive influence of financing risk on Islamic commercial banks is attributed to the fact that the average financing risk is still below 5%, which is within the reasonable limit according to OJK regulations. Therefore, it does not significantly affect the increase in market share of Islamic banks (Setyowati et al., 2019). The results of this research reject the first hypothesis.

In this research, the variable of financing risk, proxied by the Non Performing Financing (NPF) ratio, has a regression coefficient of 0.691799 with a probability value of 0.0000. This indicates that the NPF variable has a positive and significant influence on market share in Islamic commercial banks in Indonesia during the period 2015-2019.

The influence of efficiency on market share

The findings of this research are consistent with the theories and studies which state that efficiency has a negative and significant impact on market share (Aminah et al., 2019); (Fuadah & Hakimi, 2020). The results of this research support the second hypothesis. Based on the statistical testing results of the regression model in this research, the efficiency variable measured by the ratio of Operational Expenses to Operational Income (BOPO) has a regression coefficient of -2.345648 with a probability value of 0.000. This indicates that BOPO has a significant negative influence on market share in Islamic commercial banks in Indonesia during the period 2015-2019.

The influence of profitability on market share

The results of this study are consistent with the theory and research, which state that profitability has a positive and significant influence on market share (Aminah et al., 2019) (Saputra, 2016); (Purboastuti et al., 2015); (Sandy, 2017). These findings support the eighth hypothesis. Based on the statistical results of the regression model in this study, the profitability variable represented by the Return on Asset (ROA) ratio, has a coefficient of regression of 0.143917 with a probability value of 0.0013. This indicates that the profitability variable has a positive influence on the market share of Islamic Commercial Banks in Indonesia during the period of 2015-2019.

CONCLUSION

The conclusion of this study indicates that collectively, Financing Risk, Efficiency, and Profitability have a significant influence on the market share of Indonesian Islamic Commercial Banks for the period 2015-2019. Financing Risk has a positive impact on the market share of Indonesian Islamic Commercial Banks for the period 2015-2019. Efficiency has a negative impact on the market share of Indonesian Islamic Commercial Banks for the period 2015-2019. Profitability has a positive impact on the market share of Indonesian Islamic Commercial Banks for the period 2015-2019.

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