Financial Performance And Market Share In Indonesia Islamic Banking: Stakeholder Theory Perspective

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Abstract: This research aimed to examine the influence of financial performance on market share in Indonesia Islamic Banking. We use return on assets (ROA), capital adequacy ratio (CAR), non performing loan (NPL), operating expenses-operating income (OEOI/BOPO), and financing to deposit ratio (FDR) as proxies of financial performance. Also, we apply market share as the comparison of Islamic banking total asset on total asset of Indonesia banks. This study is using stakeholder perspective analysis. How market share is influenced by financial performance, since market share is the reflection of stakeholders perception. We collect 33 Islamic Banks financial report in 2013-2015 using times series model. The result shows that ROA has positive significant effect on market share. Meanwhile, NPL and BOPO have negative significant effect on market share. Otherwise, FDR has no significant effect on market share. Based on the research findings, this study confirms that in Indonesia Islamic banking provides good news in their financial performance.

Index Terms: ratio analysis, stakeholder interest, trust

1 INTRODUCTION

Islamic banking in Indonesia is integral part of national development banking system (Andriansyah, 2009). Such of alternative choice to banking customer to invest or loan with halal system. The operation of Islamic banking in Indonesia is conducted by dual banking system. Indonesia Financial Authority (OJK) stated that in July 2016, there were 12 full pledge Islamic Banks (BUS), 22 Islamic Bank Unit Business (UUS), and 165 Rural Islamic financing banks (BPRS). They were listed in Central Bank (Bank Indonesia). Historically, Islamic Banks in Indonesia grew quite rapidly. Bank Indonesia stated that in July 2016, total assets was 30 Trillion Rupiahs or grew approximately 110 %. The growth also showed as positive trend although un followed by increasing of market share. Table 1.1 below shows the comparison of their total assets and market shares each year.

Table 1.1 *Total Aset and Market Share of Indonesia Islamic Banking Indonesia*

	2011	2012	2013	2014	2015	July 2016
Asset (Billions)	145.467	195.018	242.276	272.343	296.262	305.542
Share (%)	3,98	4,57	4,89	4,85	4,83	4,81

Source: *OJK Islamic Banking Statistics 2013 and 2016 (resumed)*

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Market share is the percentage of comparison between Indonesia Islamic banks total asset and Indonesia banks (Purboastuti, 2015). The ability to enlarge of market share indicates the successful of banking performance. Financial performance has relationship on market share since financial performance captured as the possibility of Islamic banks and news related to customers and investors. The ability of Islamic banks to create good news can be showed by ratio analysis in their financial report. Table 1.2 below shows the growth of financial ratio in Indonesia Islamic Banks.

Table 1.2 *Indonesia Islamic Banks financial ratios*

Year	ROA	CAR	FDR	NPF	BOPO
2011	2,52%	1,79%	78,41%	16,63%	88,94%
2012	2,22%	2,14%	74,97%	14,13%	100,00%
2013	2,62%	2,00%	78,21%	14,42%	100,32%
2014	4,33%	0,79%	94,16%	15,74%	91,50%
2015	4,34%	0,84%	96,83%	15,03%	92,14%

**Excluded: UUS and BPRS*
Source: *OJK, Islamic Banking Statistics 2013 and 2015 (resumed)*

The table above shows that all financial ratios were fluctuated in each years. Hence, its indicate instability of its financial performance. Financial performance is one of form performance measurement. Firm performance defined as the total value created by the firm through its activities ,which is the sum of the utility created for each of a firm's legitimate stakeholders (Freeman, 1984). Financial performance was important to several stakeholders, but it was not the only one item of important value creation (Harrison and Wicks, 2013). Firm performance in many companies were focused providing returns, for instance to profits, return on investment (ROI), economic rents, or shareholder returns (Barney, 2011). A company logic goal to its customers was to create goods and services that were perceived as providing a highly positive ratio both the utility received and its value offered (Barney, 2011). Purboastuti, et al. (2015) found that some internal determinants affect the market share, such as profitability ratio (ROA), default rate (NPF), and the liquidity ratio (FDR). Rahman (2016) also found that the default rate, operational efficiency ratio, and the capital requirement had an effect on

Islamic banks' market share. Market share was the factors determining the Islamic banks performance. Mirzaei (2010) also stated that the market share influenced the profitability of Islamic banks. Generally, increasing in market share of Islamic banks will increase the contribution of Islamic banking to the economy. This research is different with previous studies. The raising bank' market share is related on marketing. The marketing area reflected how customers determine the amount of value they for something they want (Harrison and Wicks, 2013). So that how firm market share increased is effected by the successful in providing value to its stakeholders. Barney (2011) told in the concept of stakeholder theory, financial performance was important because of its position in the firm. Financial performance is the core of stakeholder focus which involved in firm success (Barney, 2011). So that the succesful firm to provide both two ratios will create good think on the stakeholders' perspectives. We conduct this research in stakeholder theory analysis that not yet applied in several previous researches. This research also important, because the bank need to get information about the determinant which impact market share, since market share was the key of its growth and reflect the stakeholder value creation by its financial performance. Based on the previous explanation and preliminary researches, we conduct this study to understand how financial performance effect Indonesia Islamic bank market share.

2 LITERATURE REVIEW

2.1 Stakeholder Theory

Stakeholder is a person or group that has closer relationship and hardly impacted on the firm activities (Phillip, et.al, 2003). There were so many different interpretations of basic stakeholder ideas that theory development has been difficult (Scherer & Patzer, 2011). The basic assumption of most studies in the field of stakeholder perspective was that economic measures captured the value creation through good treatment of stakeholders (Harrison and Wicks, 2013). Freeman, et al., (2007) stated that stakeholder focus in value and firms' operation increased. Freeman (1984) previously also stated that stakeholders depend on the firm and its other stakeholders to satisfy their own interests. A main focus of stakeholder theory many literatures were specific treating them well and managing for their interests. Both two firm activities can create value along a number of dimensions and was therefore good for firm performance (Freeman, 1984). Harrison and Wicks (2013) argued that there were four factors which were defined in terms of the perceived utility stakeholders by the firm; 1) stakeholder utility associated with actual goods and services, 2) stakeholder utility associated with organizational justice, 3) stakeholder utility from affiliation, and 4) stakeholder utility associated with perceived opportunity costs. Based on that argument, we can conclude that perceived utility which were expected by stakeholders was influenced how the firm act to make them satisfy. Financial performance is economic indicator that is reflected the firm responsibility to their stakeholders.

2.2 Hypothesis Development

Several previous research have conducted in the area of Islamic Banking. Airout and Airout (2017) evaluated financial performance in both Jordan Islamic Banks and Arab Islamic International Bank. By using comparison method in the filed of profit indicators, they were not found significant differences both two observation banks. Setyawati, et.al., (2017) that analyze both internal and external factors impacting Islamic banking performance in Indonesia. They also studied the influence of the global crisis on the financial performance in Indonesia Islamic banks. Their result showed that performance of Islamic banks is significantly effected by NPF and inflation. Ahmed (2017) stated that there was direct positive impact between profitability measured either by EPS, ROE, and CG. Although, corporate governance the effect of Corporate Governance. However, there was insignificant relationship both CGI and ROA. Masood, et.al., (2016) analyzed Islamic banks operating in Pakistan in 2015 perfoamnce using CAMELS rating model. The result showed that Islamic banks are satisfaction. Although, there was need to develop financial markets for treasury operations. Samhan and AL Khatib (2015) examined determinants of financial performance of Jordan Islamic Bank in 2000-2012. The financial performance is proxied by Return on Assets (ROA) Return on Equity (ROE), and Return on Unrestricted Investment Accounts (ROUIA). They found that there was positive significant relationship both ROUIA and GDP. Fuhermore, they stated there was positive in significant both ROUIA and inflation rate, total income to total assets, equity ratio, and bank size. Contrarily, there was negative significant between ROUIA and unemployment rate. Then, also negative insignificance between ROUIA and debt ratio, and liquidity ratio. Obeidat, et.al.,(2013) found that the most important internal factors of profitability were total deposit, cost of deposits, total expenditures, Mudharaba loans and restricted investment deposits. Contrarily, the main external factors were the money supply and market share. Market share was one of external factor which influenced profitability. Saputra (2014) found that ROA, CAR, and FDR were positive significantly effects the banks market share. Although, NPF and REO were not significant effect. Purboastuti, et. al., (2015) found that profitability ratio (ROA), default rate (NPL), and the liquidity ratio (FDR) were affect the market share. Furthermore, third party funds and ROA were found positive significant on market share. Zulfiah and Susilowibowo (2014) found that NPL and CAR were positive significantly effect on market share. Contrarily, ROA, BI rate and OEOI/BOPO were negative significatly effect on market share. Although, inflation was not significant effect on market share. Financial performance is the capture of financial firm situation in a periode. In the bank, this situation consist of fundings, lendings which is valued by capital adequacy, liquidity, and profitability (Jumingan, 2006). Kasmir (2012) stated that ratio analysis is the activity to compare among financial valuation. Based on the previous researches, we develop the hypothesis below,

- ROA has significant effect on market share
- CAR has significant effect on market share
- NPL has significant effect on market share
- OEOI/BOPO has significant effect on market share
- FDR has significant effect on market share

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3 RESEARCH METHODOLOGY

This research used secondary data which were collected from Islamic banks financial reports, Bank Indonesia, and Islamic Bank Statistics of OJK from 2013-2015. We collected data based on purposive sampling. Firstly, we only gathered full-pleged Islamic banks (BUS). We excluded Islamic banks Unit Business (UUS) since its financial report cannot be separated to its holding company. Islamic Bank Unit Business (UUS) is the unit business conducted by holding company which is conventional banks or unit business in the branch of international conventional bank. So that, the financial report of UUS can not be consiidered as similiar as financial report of BUS. We also excluded Rural Islamic banks (BPRS) because of different banking system. BPRS is Islamic bank which is activity does not provide bank payment such as clearing. This differences also can not make this financial institution to be act "apple to apple" in this research. Secondly, we get 12 Islamic banks for 2013, 2014, 2015. We excluded 1 sample since incompletion for 2013. Finally, we had 11 Islamic banks for samples and 33 observations (11 samples in 3 years). For statistics method, we used descriptive analysis, simple linear regression. We run all data using SPSS. Variable definition can be showed in table below.

Table 3.1 *Variable definition*

Variable	Definition	Formula
Market share	percentage of comparison between Indonesia Islamic banks total asset and Indonesia banks (Purboastuti, et.al., 2015).	$\text{market share} = \frac{\text{Islamic bank total assets}}{\text{Indonesia banks total assets}} \text{ x } 100\%$
(Return on assets) ROA	Ability of banks to obtain company income by managing its assets (Kasmir, 2012).	$\text{ROA} = \frac{\text{income before tax}}{\text{total assets}} \text{X}100\%$
Capital Adequacy Ratio (CAR)	Ratio that showed how many risky activities in the firm which is included in equity cost (Yuliani, 2007).	$\text{CAR} = \frac{\text{equity}}{\text{risk weighted assets}} \text{ x } 100\%$
Non Performin g Financing (NPL)	The comparison between total fault loan and total loan	$\text{NPF} = \frac{\text{total default loan}}{\text{total loan}} \text{ x } 100\%$
Operating Expenses Operating Income (OEOI/) BOPO	The comparison between total operating expenses and total operating income	$\text{OEOI} = \frac{\text{operating expenses}}{\text{operating income}} \text{ x } 100\%$
Financing to Deposit Ratio (FDR)	The comparison between total loan and total third party funds	$\text{FDR} = \frac{\text{total loan}}{\text{total third party funds}} \text{X } 100\%$

Source: *Kasmir (2012)*

4 RESEARCH RESULT

4.1 Descriptive statistics

Descriptive statistics result stated that ROA of PT Maybank Syariah in 2015 is the lowest for only -20,13% (loss). Conversely, its ROA is the highest among other for 3,61%. Mean for ROA in this observation is 0,15 % lower than Bank Indonesia'standard such up to 1,5 %. Meanwhile, deviation standards (σ) for ROA is 3,80% more than mean value, indicate that its distribution is not appropriate in statistical criteria. For CAR, minimum value of CAR for 11,10 % is resulted by PT Bank Syariah Bukopin in 2013. The result is more than Bank Indonesia standard for 8%. Contrarily, the maximum, CAR is gained by oleh PT Maybank Syariah Indonesia in the same obervation year for 59,41%. Mean value for CAR is 20,46%. It means that in this observation period, capital of Islamic banks is more than Bank Indonesia' standard. For NPL, the lowest score is gained by PT BCA Syariah in 2013 for 0,10%, otherwise, PT Maybank Syariah Indonesia in 2015 gained the highest score for 35,15%. Bank Indonesia' standard for NPF is 5%, so that PT Maybank Syariah Indonesia is overload. Mean value for NPF in this observation is 4,87 %, lower than Bank Indonesia standard. For OEOI/BOPO has minimum score of 67,78% which is resulted by PT Maybank Syariah Indonesia in 2013, while that firm also has the maximum score of 192,60% in 2015. Mean value of OEOI/BOPO is 95,85%, higher that Bank Indonesia' standard for 85%. For FDR, minimum score is obtained by Bank Syariah Mandiri in 2014 for 81,92%, whereareas PT Maybank Syariah Indonesia in 2015 obtains maximum score for 157,77%. Meanwhile, Bank Indonesia' standard for FDR is 85%. Mean value for FDR is 96,63% also higher than Bank Indonesia' standard. The lowest market share is PT Bank Victoria Syariah in 2015 for only 0,02%, otherwise, the highest market share is PT Bank Syariah Mandiri in 2013, for 1,29%.

4.2 Regression

Based on the regression result, we detail it into the paragraph below. ROA is resulted as positive significant on market share. With value of t-sig. is 0.039 (lower than 0,05). This result show that the higher in ROA the higher in market share. Increasing profitability will increase public trust for saving in the bank, also because of the bank revenue sharing income. This finding is in line with Zulfiah and Susilowibowo (2014), Saputra (2014), and Purboastuti, et al. (2015). In the stakeholder theory perspective, ROA was reflected the ability of the firm in creating value. This finding can help management to be more focus on creating value, because stakeholder will easily influenced to be more satisfy on its higher performance. (Sachs & Riihli, 2011). So that, the more ROA will support the more satisfy of the stakeholder. Firms that tend to create their stakeholders better will be able to get their support and participation and thrive over time (Freeman, 1984). CAR showes that there is also positive significant on market share, for 0.025 t-sig. value (less than 0,05). The larger CAR of banks, the larger its ability to manage their risks. Low value of banks CAR is caused by imbalance between increasing asset expansion and capital additions, so that the banks loss their public trust. High score of capital in the banks will create public trust since the customer protection in financial services, Hence, it will increase market share. The finding is line with Zulfiah and Susilowibowo (2014) and Saputra (2014). When, the firm influence one of group stakeholder by its value, it will create the greater influence of other relationship taken separately (Ekeh, 1974). The ability of the bank to create customer protection by its good score CAR, it will support them feel safe to be its stakeholders. What they need is the best value possible as perceived, for example the sufficient utility to receive, continued warrant, and cooperative engagement with the firm (Harrison and Wicks, 2013). The statistics captured that NPL found negative significant effect on market share for t-sig. as 0,007 (lower than 0,05). It means that the higher of default loan of the banks, the lower public trust to their management. In the other words, default loan increase the risk of customer to saving, so that the third party of funds will decrease because of public distrust. This finding is in line with Zulfiah and Susilowibowo (2014) and Purboastuti, et al. (2015). Trust was defined as the willingness of one party to be vulnerable to another with the expectation of non-opportunistic behavior. Trust was important to both reciprocity and generalized exchange and was fostered by the presence of faimess in relationships among parties, (Mayer, et.al., 1995), such as stakeholder and the firm. The public distrust –which indicated by high score of economic scale, NPL-will decrease their market share. The result shows that OEOI/BOPO is also found negative significant effect on market share for t-sig. only 0.027 (less than 0,05). The less of OEOI/BOPO of banks, the more efficient in operating management system. Hence, OEOI have to be decreased to be more efficient and can increase public trust. This finding support Zulfiah and Susilowibowo (2014). The stakeholder preferences come from perceptions regarding how transactions, relationships and interactions with the firm (Harrison and Wicks, 2013). So that, when the bank make effeciency in operational activities, they preferences on the bank will be high, because the bank is specifically treating them well and managing for their interests. (Freeman, 1984, Freeman, et.al., 2007). FDR is found negative insignificant effect on market share for t-sig. reaches 0.086 (more than 0,05),. FDR has insignificant effect on market share means that FDR is not the main variable which influence market share in Indonesia Islamic Banking. This finding contrary with the study of Purboastuti, et al. (2015).

5 CONCLUSION AND SUGGESTION

The result shows that ROA and CAR have positive significant effect on market share, so that Indonesia Islamic banks have to pay attention on this two variables. The higher ROA and CAR, will create the higher market share. Also, for NPF and BOPO that captured as negative significant effect on market share. Both two variables also have to be managed well, since the lower of both will make the higher market share. The last variable, FDR, although its result is found insignificant result, the banks have to be careful in this variable. The third party fund is also the main focus of funding in the bank firm. The key point of this analysis is how to increase stakeholders trust and satisfaction by providing good news via financial report as the practice of stakeholder theory. This research has limitation, such as the simple model can be replace with another model, the model have not yet represent the customer perception to choose Islamic Bank, etc.

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