

Bank Fundamentals and Equity Financing in Indonesia

Muchammad Rifqi Maulana^a, Sylva Alif Rusmita^{b*}, ^{a,b}Islamic Economics Department, Faculty of Economics and Business, Universitas Airlangga, Email: ^{b*}sylvalifr@feb.unair.ac.id

This study aims to analyse the influence of Bank Stability, Bank Size, Mudharabah Deposits, Profit Sharing Level, Non-Performing Financing and Operational Efficiency Ratio (BOPO) to the proportion of equity-based financing from March 2014 till March 2019. The data used for this study is secondary data gathered from Sharia Indonesia Banking Statistic on Financial Services Authority Website, which provides a quarterly report running from December 2013 till March 2019. In determining the sample, a purposive sampling method is used with 11 Islamic commercial banks as research samples. This study uses a quantitative approach with the panel data regression analysis technique. The results of this study show partially, that the variables of Bank Stability, Bank Size, Mudharabah Deposits and Operational Efficiency Ratio (BOPO) have a significant positive effect and that alternatively that the variables of Profit-Sharing Level and Non-Performing Financing have insignificant effects. Nevertheless, the variables Bank Stability, Bank Size, Mudharabah Deposit, Profit Sharing Level, Non-Performing Financing and Operational Efficiency Ratio (BOPO) have a significant effect on the proportion of equity-based financing in Sharia commercial banks in Indonesia

Key words: *Equity Financing, Bank Fundamentals, Islamic Commercial Banks, Profit and Loss Sharing Financing.*

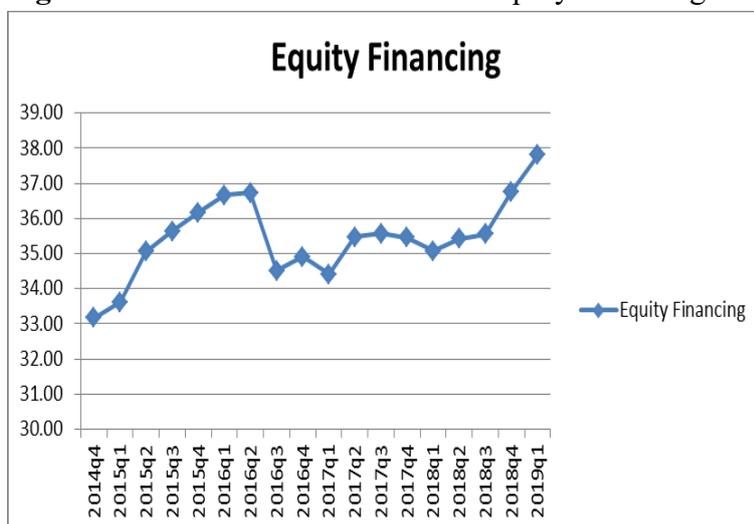
Introduction

Contemporary financial practices, including banking based on the principle of interest, are prohibited by Islam. According to Sukmana & Kholid (2013), the most idiosyncratic difference between Islamic and conventional banks is that Islamic banks reject the use of interest as a method for product pricing. The prohibition of interest has led to Islamic banks introducing alternative concepts (Khan, 2014). The alternative offered is very clear in Surah Al Baqarah verse 275.

Islamic banks conduct their functions as a fund collector, fund distributor, and banking service provider (Wangswidjaja, 2012). Based on these three functions, what is crucial to the role of banks as development agents and as the main source of income for Islamic banks is the finance function. Funding is distributed to the public for the purposes of productive business improvement or for the fulfilment of consumptive needs (Rivai & Arifin, 2010). Lisa (2012) states that it is important to understand Law No. 21 of 2008 concerning Banking article 1 (12) which states "Financing based on Islamic principles is the provision of money or bills that may be equivalent based on agreements between the Bank and another party requiring the financed party to return the money or bills after a certain period in exchange or for the results".

Classical Islamic banking theory provides models of Islamic financing instruments that can be grouped into three; namely equity-based financing, debt-based financing, and service-based financing (Ismal, 2010). However, of the three financing methods, the main characteristic underlying Islamic banking is equity-based financing or the principle of profit-sharing, because the principle of profit-sharing is a unique characteristic and the basic foundation in managing Islamic banks as a whole (Chong & Liu, 2009; Syafi'i Antonio, 2001). Therefore, ideally, equity-based financing is financing that dominates all types of financing available. However, the reality shows the opposite result. This is shown in Figure 1.

Figure 1. Islamic Commercial Bank Equity Financing Ratio



Source: Financial Services Authority (processed)

Figure 1.2 shows that the equity financing ratio has fluctuated over the past five years. The Islamic Commercial Bank equity financing ratio only reached the highest rate of 37.8% in 2019. The rest is debt financing. Warninda et al. (2019) revealed that there were three possible causes of the low proportion of equity financing in Islamic banks. First, equity financing has a higher credit risk than other forms of financing. Second, there are principal-agent problems (Aggarwal & Yousef, 2000; Dar & Presley, 2000) which lead to information asymmetries, such

as when the borrower does not provide all information relating to actual costs and income (Louati et al., 2016; Rahman et al., 2010; Siddiqui, 2008). Third, the principal-agent problem impacts expensive monitoring (Abedifar et al., 2013; Mansoor & Ishaq, 2008).

The high use of debt financing is not without criticism. Pricing is mainly based on Murabaha products using benchmark interest rates (Ibrahim & Rizvi, 2018; Zulkhibri, 2018). The trend of dominance in the use of mark-up instruments, such as debt in Islamic financial practices, supports several arguments that Islamic banking is similar to conventional banking in practical terms (Khan, 2010).

Equity financing is considered appropriate in encouraging the real sector, because it increases direct relations and encourages risk-sharing between investors and entrepreneurs (Ascarya & Yumanita, 2007), so that people who need capital to develop their businesses can take advantage of equity financing.

Low equity-based financing is an important issue that needs to be studied. Therefore, bank policy in determining the distribution of funds in equity financing needs to consider various factors in order to be optimised. One of them is by looking at the banks' fundamental factors. Bank fundamentals consist of CAR, asset quality, management, profitability, and liquidity (Lin & Yang, 2016). This study complements the research of Risfandy et al. (2019) which had already tested the banks' fundamental factors on equity financing. The aim of this study was to determine the effect of bank stability, bank size, Mudharabah deposits, profit-sharing rate, NPF, and BOPO deposits on the equity financing ratio in Islamic banks in the period between March 2014 - March 2019.

Theoretical Basis and Development of Hypotheses

Mudharabah Financing

Mudharabah is a business contract in which one party brings capital, and the other brings personal effort and time to a business transaction (Kusuma et al., 2018). Mudharabah financing is a financing agreement between Islamic banks as *shahibul maal* and customers as *mudharib* to run a business. Islamic banks will provide capital to invest in the business, as much as 100%, and customers provide the mind, energy and time to manage the business (Ishmael, 2011). The legal basis for Mudharabah financing refers to the Fatwa DSN-MUI Number 07 / DSN-MUI / IV / 2000 concerning Mudharabah Financing (Qiradh).

Musharakah Financing

Musharakah financing, according to Sjahdeini (2017), is financing where banks and prospective customers agree to join a partnership within a certain period. Both parties put their

capital to finance certain projects and agree to share the profits proportionally at the beginning. Sharia foundation regarding the implementation of musyarakah is contained in Fatwa DSN MUI Number 08 / DSN-MUI / IV / 2000 concerning Musharakah Financing.

Relationship between Bank Stability and Equity Financing

In general, banking stability is demonstrated by healthy banking conditions and the operation of the banking intermediation function in mobilising public deposits for distribution in the form of credit or financing (Warjiyo, 2007; Sokyna and Omayma, 2018). A stable bank has the ability to efficiently facilitate the allocation of resources, from depositors to investors. A stable bank can also ensure the allocation of economic resources as a whole and can assess and manage existing financial risks and move data well to absorb the occurrence of shocks in the banking sector and the economy.

In theory, the distribution of financing to banks is very dependent on the fundamentals of the bank itself, one of which is the stability of the bank (Risfandy et al., 2019). A stable bank will certainly be greater in providing funding than less stable banks, especially when equity financing. The more stable a bank is, the lower the bank has the risk of leverage and the risk of return volatility. Therefore, banks will tend to provide equity financing if the bank is in a safe and stable condition.

H1: Bank stability has a significant positive effect on equity financing

Relationship between Bank Size and Equity Financing

Bank size is an important determinant of equity financing. Large banks will produce economies of scale that will reduce acquisition costs and information processing (Boyd & Runkle, 1993). Large banks tend to have greater opportunities to diversify their risk through their branch network, experience and skills (Kabir & Worthington, 2018), and are not likely to only to be concentrated in certain sectors (El-Hawary et al., 2007). Čihák and Hesse (2010), Alandejani et al. (2017) and Risfandy et al. (2019) argue that large banks will use more equity financing than small banks, because large banks are superior in terms of diversification, whereas small banks only focus on small risk investments and also on services (fee-based income), which is in line with the results of research by Kurniawanti and Zulfikar (2014) and Risfandy et al. (2019) that bank size is positively related to profit sharing financing.

H2: Bank size has a significant positive effect on equity financing

Relationship of Mudharabah Deposits with Equity Financing

One of the activities of Islamic commercial banks is the collection of funds (funding) from the public, better known as third party funds. Deposits are one of the funding products. According to Gumilarty and Indriani (2016), in explaining the concept of deposits, these are collected from surplus units used for lending to deficit units. This function is called an intermediation function. According to Darsono et al. (2017), banks, in conducting intermediation activities, can use several approaches, one of which is the allocation of funds approach in which banks align their financing needs by finding suitable funding sources in terms of timeframe and amount of capital. Based on the above concepts and approaches, Islamic banks will use more deposits for medium and long-term financing such as equity financing. Risfandy et al. (2019) argue that Islamic banks will provide equity financing if they have a greater share of deposits. Pramono (2013) found Mudharabah deposits have a significant positive effect on profit-sharing-based financing. The higher the Mudharabah deposits raised by Islamic banks, the higher the equity financing that can be distributed.

H3: Mudharabah time deposits have a significant positive effect on equity financing

Relationship of Profit-Sharing Rate with Equity Financing

Uncertainty theory explains that, in business and investment, the perpetrators will be faced with one of three possibilities, namely profit, loss or no profit and no loss. These three things, can occur in equity financing, namely with mudharabah and musharakah contracts, which are part of Natural Uncertainty Contracts. Natural Uncertainty Contracts are contracts in business that do not provide a certain return in terms of both quantity and time and therefore the rate of return can be positive, negative, or zero (Karim, 2017).

Equity financing is financing that has the highest return as a result of the high risk. Therefore, the level of profit-sharing obtained by the bank in the previous period will be an important factor for the bank in deciding the amount of profit-sharing financing that will be distributed in the next period (Gumilarty & Indriani, 2016). Thus, it can be concluded that the higher the level of profit-sharing obtained, the greater the equity financing that will be distributed by banks. This statement is supported by research (Kurniawanti & Zulfikar, 2014) showing that the level of profit-sharing shows a significant positive result in profit-sharing financing.

H4: The profit-sharing rate has a significant positive effect on equity financing

Relationship of Non-Performing Financing with Equity Financing

The continuity of operation of a bank is closely related to its productive assets. Banks, as institutions that are trusted by the public, are required to monitor and analyse the quality of productive assets owned, including the application of the precautionary principle in channelling financing to avoid problematic financing. Problematic financing, according to the Financial Services Authority Regulation Number 15/Pojk.03/2017 Concerning the Determination of Status and Follow Up of Commercial Bank Supervision, is financing that has substandard, doubtful, or bad quality. The level of problem financing in Islamic banks can be measured using the Non-Performing Financing ratio. Equity financing tends to have a higher risk compared to other financing forms, because of its uncertain nature (Natural Uncertainty Contracts). The amount of NPF can be used as a reference for the bank's policy in determining the financing channelled to minimise the risks that might occur (Gumilarty & Indriani, 2016). The statement is in line with the results of research by Furqaini and Yaya (2016) showing that NPF has a significant negative effect on the portion of profit sharing financing.

H5: Non-Performing Financing has a significant positive effect on equity financing

Relationship between Operational Efficiency Ratio with Equity Financing

Operational Efficiency Ratio (BOPO) is a ratio that shows the ability of banks to manage expenses which are expended to generate income or reflect the ability of the bank operating income to cover any operational costs (Dendawijaya, 2009). Dendawijaya (2009) states that the smaller this ratio, the more efficient the operating costs incurred by the bank concerned.

According to Sholikhah et al. (2017), a high BOPO ratio reflects that spending on net income is low; Islamic banks must increase their financing portfolios with a larger portion of equity-based financing. This financing model produces a higher return when compared to other financing modes. Thus, placing a larger portion on musharaka and mudaraba contracts will accelerate the ability of Islamic banks to generate profits to compensate for losses incurred as a result of inefficiencies in business operations. The results of research conducted by Sholikhah et al., (2017) state that the BOPO has a significant positive effect on profit sharing financing.

H6: BOPO has a significant positive effect on equity financing

Research Methodology

Empirical Model

Analysis Model and selection of variables refer to previous research on similar topics. The equation model can be written as follows:

$$EqFin_{it} = \alpha_{it} + \beta_1 LnZ-score_{it-1} + \beta_2 LnTA_{it-1} + \beta_3 LnDepMud_{it} + \beta_4 TBH_{it-1} + \beta_5 NPF_{it-1} + \beta_6 BOPO_{it-1} + \varepsilon_i$$

where i shows the bank and t shows time. EqFin is equity financing. LnZ-score $_{it}$, LnTA, LnDepMud $_{it}$ and TBH each show bank stability, bank size, mudharabah deposits, and profit sharing rate.

Data

A quantitative approach is the research approach used in this study. The type of data used in this study is secondary data sourced from the quarterly reports of each Islamic commercial bank which are published through the Financial Services Authority website for the period December 2013 - March 2019.

Population and Sample

The population used in the study is all Islamic commercial banks registered in the Financial Services Authority. The sample selection uses a purposive sampling technique with the following criteria:

1. Islamic commercial bank registered in the Financial Services Authority and has been operating in the period between December 2013 - March 2019.
2. Islamic commercial banks which have full quarterly reports which are published on the Financial Services Authority website during the period December 2013 - March 2019.

Table 1 shows the list of Islamic commercial banks used in the study sample.

Table 1: Sample of Islamic commercial banks

No	Keterangan
1	PT. Bank Muamalat Indonesia
2	PT. Bank Victoria Syariah
3	PT. Bank BRISyariah
4	PT. Bank Jabar Banten Syariah
5	PT. Bank BNI Syariah
6	PT. Bank Syariah Mandiri
7	PT. Bank Mega Syariah
8	PT. Bank Panin Dubai Syariah
9	PT. Bank Syariah Bukopin
10	PT. BCA Syariah
11	PT. Maybank Syariah Indonesia

Variable Operational Definitions

Dependent Variable

Equity Financing

Equity financing is financing based on profit-sharing agreements, namely mudharabah and musharakah contracts (Ismail, 2010). Equity financing can be calculated by two formulas, namely the total equity financing to total financing and total equity financing to total assets (Alam & Parinduri, 2017; Risfandy et al., 2019). This study only uses the first formula for simplification of analysis, as follows:

$$EqFin = \frac{\text{Total Equity Financing}}{\text{Total Financing}}$$

Independent Variable

Bank Stability

Z-score is one of the measurement tools used in measuring the level of bank stability (Abuzayed et al., 2018; Beck et al., 2013; Čihák & Hesse, 2010). The Z-score used in this study is the natural logarithm of the Z-score to extract the database (Houston et al., 2010; Laeven & Levine, 2009). A higher Z-score can be interpreted that the bank is far from bankruptcy risk or that the bank is more stable. Z-scores can be calculated using the following formula (Risfandy et al., 2019):

$$Zscore_{it} = \frac{ROA_{it} + (EQTA_{it})}{\sigma ROA_{it}}$$

Description:

Z-score : bank stability i in year t

ROA : Return on assets, net income compared to total assets

EQTA : Ratio of equity to total asset equity divided by total assets

Bank Size

Bank size can be interpreted as a bank's size. The parameter often used to indicate the size of a bank is total assets (Kihák & Hesse, 2010; Tabak et al., 2012). Bank size can be calculated with the following formula (Risfandy et al., 2019):

$$oLnTA = orthogLn(\text{Total asset})$$

Mudharabah Deposits

The definition of deposits according to Law Number 21 of 2008 concerning Islamic Banking is the investment of funds based on mudharabah or other contracts that are not in conflict with Sharia principles, which can only be withdrawn at a certain time based on the contract between the depositing customer and the Sharia bank and / or UUS.

$$oLnDepMud = orthogLn(Deposito M)$$

Profit-Sharing Rate

The profit-sharing rate is used to measure profitability in profit-sharing financing (Pramono 2013; Gumilarty & Indriani, 2016). The higher the value of the profit-sharing rate, the higher the profitability that will be obtained from the results of the financing provided. In line with the research of Gumilarty and Indriani (2016), the profit-sharing rate can be calculated using the following formula:

$$TBH = \frac{\text{Profit Share received}}{\text{Total equity financing channeled}}$$

Non-Performing Financing

Non-Performing Financing (NPF) is non-current financing ranging from substandard to non-performing (Djamil, 2012). According to Bank Indonesia Circular Letter Attachment Number 13/24 / DPNP 2011, Non-Performing Financing can be calculated using the following formula:

$$NPF = \frac{\text{Financing (KL, D, M)}}{\text{Total Financing}}$$

Operational Efficiency Ratio

Bank Indonesia uses the ratio of Operational Efficiency Ratio as an appraisal of the level of efficiency of the bank's operational performance (Muhamad, 2017). Dendawijaya (2009) states that the smaller this ratio, the more efficient operational costs incurred by the bank concerned. According to Bank Indonesia Circular Letter Attachment Number 13/24 / DPNP 2011, BOPO can be calculated using the following formula:

$$BOPO = \frac{\text{operating expenses}}{\text{operating income}}$$

Analysis Techniques

The data analysis technique used in this study is a panel data regression analysis. Panel data are data collected by cross-section and followed by a certain time period (time series). The statistical tool used is Eviews 10.0. This study uses 11 samples with a research period from March 2014 to March 2019. There are three approaches used in estimating panel data models (Basuki & Prawoto, 2016) as follows:

1. Common Effect Model (Pooled Least Square)
2. Fixed Effect Model (FEM)
3. Random Effect Model (REM)

In selecting the most appropriate model for managing panel data, there are several tests that can be carried out (Basuki & Prawoto, 2016) as follows:

1. Chow Test

Chow test is a test to determine the Fixed Effect Model or Common Effect (PLS) in estimating panel data.

2. Hausman Test

Hausman test is an approach to formally choose between Fixed Effect Model and Random Effect Model (REM).

3. Classical Assumption Test

According to Gujarati (2003), the classical assumption test is not needed in panel data analysis because panel data can minimise bias. The problem of heterogeneity and autocorrelation. In addition, panel data can provide more information, variations, and can increase the degree of freedom, which can improve the efficiency of the model. Panel data techniques can study more complexity related to the behaviour contained in the model, so testing panel data does not require the existence of a classical assumption test (Gujarati 1992). This statement is supported by Verbek (2000), Wibisono (2005) and Ajija et al. (2011).

Result and Discussion

Table 2: Descriptive Statistics

Variable	N	Min	Max	Mean	St.Dev
EqFin	231	0	0.938	0.394	0.239
LnZ-score	231	-2.262	9.254	5.061	1.389
oLnAset	231	-1.996	1.856	0.042	0.990
oLnDepMud	231	-6.939	1.052	0.000	1.002
TBH	231	0	0.389	0.062	0.036
NPF	231	0	0.135	0.027	0.017
BOPO	231	0.54	2.174	0.975	0.214

The description of the variables of this study discusses the descriptive analysis of each variable used. The statistical description of the variables is shown in Table 2 which shows the minimum value of the equity financing ratio owned by Maybank Syariah in 2014 the first and second quarter, then, from the second quarter of 2018 to the first quarter of 2019. The maximum value occurs at the Bank Panin Dubai Syariah in the first quarter of 2019, which is 9.38%.

Analysis Results

Based on the Hausman test, the most appropriate model used in regression analysis in this study is the Random Effect Model (REM). Table 3 shows the regression results using the Random Effect Model (REM).

Table 3: Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LnZ-score	0.013581	0.00381	3.569330	0.0004
oLnAset	0.105051	0.02419	4.342839	0.0000
oLnDepMu	0.016691	0.00710	2.35115	0.0196
TBH	0.111749	0.12095	0.923905	0.3565
NPF	-0.18241	0.37199	-0.49038	0.6243
BOPO	0.10370	0.02487	4.170034	0.0000
C	0.217809	0.08462	2.574123	0.0107
R-squared	0.212092	F-statistik		10.0495
Adj R-squared	0.190987	Prob > F		10.0495
Observation	231			

Discussion

The Effect of Bank Stability on Equity Financing Ratio

Based on partial testing in Table 3, the t-statistic variable *Ln-Zscore* of 3.569330 and the probability of 0.0004 show H1 is accepted; it can be explained that bank stability has a significant positive effect on the equity financing ratio. Therefore, it can be concluded that the more stable a bank is, the bank tends to channel more equity financing.

The results of this study are consistent with the opinion (Warjiyo, 2007) that a stable bank is shown by healthy banking conditions and the ongoing intermediation function in mobilizing public deposits to be distributed in the form of credit or financing. Stable banks have the ability to efficiently facilitate the allocation of resources from depositors to investors, the allocation of economic resources as a whole, and can also assess and manage existing financial risks and can move well to absorb the occurrence of turmoil in the banking sector and economy (Latumaerissa, 2011).

A more stable bank will provide more equity financing, because a stable bank is reflected by adequate capital conditions and stable profits, so that the bank is already in a safe condition to provide equity financing which at the moment has a high enough risk. Conversely, less stable banks will provide financing with low risk or financing with certain benefits, such as debt financing to stabilize their profits. However, the results of this study are not in line with the results of study (Risfandy et al., 2019), which conversely show that bank stability has a negative effect on equity financing. The reason is that not all financing proposals will be accepted by a bank. Banks that are more stable tend to be tight in providing financing, especially equity financing because higher risk will endanger the current bank situation. Therefore, an unstable bank will naturally try to take advantage of the situation to offer financing to customers who have been rejected by the previous bank.

The Effect of Bank Size on Equity Financing Ratio

Based on partial testing in Table 3, t-Statistics *oLnAset* variable of 4.342839 and a probability of 0.0000 show H2 is accepted; it can be explained that the size of a bank has a positive and significant effect on the ratio of equity financing. Therefore, it can be concluded that the bigger a bank, the more a bank can channel higher equity financing.

The results of this study are in line with research (Risfandy et al., 2019). Large banks tend to provide more equity financing than small banks because large banks are superior in terms of diversification, whereas small banks will tend to choose financing with little risk and focus more on fee-based income (Alandejani et al., 2017; Ihih & Hesse, 2010; Risfandy et al., 2019). The advantage of diversification can be interpreted that large banks will provide equity

financing not only in one sector (El-Hawary et al., 2007), for example, only construction financing, but Islamic banks also provide financing in other sectors. It aims to avoid the risk of sector concentration. Large banks also have more branch networks, experience and skills (Kabir & Worthington, 2018), which provide various benefits. Banks with a branch network can raise more public funds so that it affects the amount of equity financing provided. The network also allows banks to be more efficient in monitoring equity financing.

The Effect of Mudharabah Deposits on Equity Financing Ratio

Based on partial testing in Table 3, t-Statistics $oLnDepMud$ variable of 2.35115 and the probability of 0.0196 show H_3 is accepted; it can be explained that mudharabah deposits have a positive and significant effect on equity financing ratios. Therefore, it can be concluded that the higher the deposits that can be collected by Islamic banks, the banks can channel higher equity financing.

The results of this study are in line with the results of findings (Pramono, 2013; Risfandy et al., 2019) that mudharabah deposits have a significant positive effect on equity financing. According to Gumilarty and Indriani (2016), deposits are collected from surplus units used for lending to deficit units. This function is called an intermediation function. The results of this study also support the theory of allocation of funds, where banks will harmonize financing needs by finding appropriate funding sources in terms of timeframe and the amount, so that what is done by Islamic banks is to obtain investment projects to be funded first, then to find suitable funding. Islamic banks will use more deposits for medium and long-term financing, such as equity financing, because there is timeliness between funding and its suppliers. Risfandy et al. (2019) also believe that Islamic banks will provide equity financing if they have a greater share of deposits.

The Effect of Profit Sharing Rate on Equity Financing Ratio

Based on partial testing in Table 3, t-Statistics TBH variable of 0.923905 and the probability of 0.3565 show H_4 is rejected; it can be explained that the level of profit-sharing has a non-significant positive effect on the ratio of equity financing. Therefore, it can be concluded that the increase or decrease in the profit-sharing rate does not have a significant impact on the increase or decrease of the equity financing ratio.

The results of this research are in line with Nurbiaty (2015), Furqaini and Yaya (2016), Gumilarty and Indriani (2016) and Sania Asri and Syaichu (2016). Equity financing is included in Natural Uncertainty Contracts (NUC), wherein the theory of uncertainty, contracts, such as mudharabah and musharaka, do not provide certainty of return, both in terms of the amount and time, because they depend on investment results (Karim, 2013). Therefore, banks do not

see revenue as the main target in providing equity financing because it is very dependent on the results of their business.

Another possible reason for banks to provide equity financing is stated by Risfandy et al. (2019). In that, the existence of the Sharia Supervisory Board tends to suggest the use of equity financing because the contract is the main characteristic of Islamic banks. The use of PLS contracts can also help start-up businesses and economic progress. So, in this case, the level of profitability is not the ultimate goal.

Another reason for the insignificant effect of the profit-sharing rate on equity financing is because the profit-sharing rate in this study has a trend. This is proved by where the first quarter is always small and will experience an increase in the second, third and fourth quarters. However, when stepping on the first quarter of the following year, it will experience a decline, then increase again in the second quarter and so on. However, this study is not in line with the research of Kurniawanti and Zulfikar (2014) wherein the profit-sharing rate has a significant positive effect on profit sharing financing.

The Effect of NPF on Equity Financing Ratio of Islamic commercial Banks

Based on partial testing in Table 3, t-Statistics NPF variable of -0.49038 and the probability of 0.6243 show H₅ is rejected; it can be explained that the Non-Performing Financing ratio has an insignificant negative effect on the equity financing ratio. Therefore, it can be concluded that an increase or decrease in the NPF ratio does not have an impact on the increase or decrease of the equity financing ratio.

Non-Performing Financing (NPF) is a ratio used as a measure of the level of problematic financing experienced by Islamic banks. The cause of financing problems is when customers experience financial difficulties so that they are unable to repay the principal, as argued by Arifin (2009).

The results of this study are supported by the results of several studies (Giannini, 2013; Kurniawanti & Zulfikar, 2014; Nurbiaty, 2015; Sania Asri & Syaichu, 2016), but not in line with the results of Furqaini and Yaya's (2016) research wherein NPF has a negative effect on financing for the results. This result is also not in accordance with research by Gumilarty and Indriani (2016) and Effendi et al. (2018) where NPF has a positive effect on profit-sharing financing.

One reason for the insignificant ratio of Non-Performing Financing to profit-sharing financing ratio is because the level of Non-Performing Financing (NPF) is still at a safe level with an average of 2.7%, whereby the figure is still smaller than the provisions allowed by the Financial

Services Authority Number 15 / POJK.03/2017 Concerning the Determination of the Status and Follow Up of Commercial Bank Supervision Article 3, which explains that the net NPF ratio must be below 5%.

The Effect of Operational Efficiency Ratio (BOPO) on Equity Financing Ratio of Islamic Banks

Based on partial testing in Table 3, t-Statistics BOPO variable of 4.170034 and the probability of 0.0000 show H_6 is accepted; it can be explained that BOPO has a positive and significant effect on equity financing ratios. Therefore, it can be concluded that the more inefficient a bank is, the bank tends to channel higher equity financing than other financing forms.

The results of this study are in line with the research by Sholikhah et al. (2017) explaining that a high BOPO ratio implies that the costs incurred are higher than the profits earned; thus, Islamic banks must increase their financing portfolios with a larger portion of equity-based financing. This financing model produces a higher return when compared to other financing models. Thus, placing a larger portion on musharaka and mudharaba will accelerate the ability of Islamic banks to generate profits to compensate for losses incurred as a result of inefficiencies in business operations. Risfandy et al. (2019) also argue that banks that are more efficient in terms of operations tend to reduce equity financing because the financing has a higher risk than other modes of financing. As such, a more efficient bank will take the safer way than having to bear the risk, which subsequently adds to the burden of more suspicion. However, the results of this study are not in line with Effendi et al. (2018) wherein the BOPO ratio has no significant effect on equity financing.

Conclusion

This research is conducted to find out internal bank factors that can affect equity financing. Our results show that bank stability, bank size, mudharabah deposits and BOPO are very influential in increasing equity financing. The results of this study are expected to contribute to Islamic banking policy to take on more equity financing proxies and become an evaluation for regulators regarding the low use of profit-sharing models on the asset side.

REFERENCES

- Abedifar, P., Molyneux, P., & Tarazi, A. (2013). Risk in Islamic banking. *Review of Finance*, 17(6), 2035–2096. <https://doi.org/10.1093/rof/rfs041>.
- Abuzayed, B., Al-Fayoumi, N., & Molyneux, P. (2018). Diversification and bank stability in the GCC. *Journal of International Financial Markets, Institutions and Money*, 57, 17–43. <https://doi.org/10.1016/j.intfin.2018.04.005>.
- Aggarwal, R. K., & Yousef, T. (2000). Islamic Banks and Investment Financing. *Journal of Money, Credit and Banking*, 32(1), 93. <https://doi.org/10.2307/2601094>.
- Ajija, S. R. (2011). *The Smart Way to Master Eviews*. Jakarta: Salemba Empat. (In Bahasa)
- Alam, N., & Parinduri, R. A. (2017). Do Islamic banks shift from mark-up to equity financing when their contracting environments are improved? *Applied Economics Letters*, 24(8), 545–548. <https://doi.org/10.1080/13504851.2016.1210759>.
- Alandejani, M., Kutan, A. M., & Samargandi, N. (2017). Do Islamic banks fail more than conventional banks? *Journal of International Financial Markets, Institutions and Money*, 50, 135–155. <https://doi.org/10.1016/j.intfin.2017.05.007>.
- Arifin, Z. (2009). *Dasar-Dasar Manajemen Bank Syariah*. Jakarta: Azkia. Publisher.
- Ascarya, A., & Yumanita, D. (2007). Looking for Low Financing Solutions for Results in Shariah Banking Indonesia. *Buletin Ekonomi Moneter Dan Perbankan*, 8(1), 7–43. <https://doi.org/10.21098/bemp.v8i1.127>. (In Bahasa)
- Basuki, A. T., & Prawoto, N. (2016). *Regression Analysis in Economic & Business Research: Equipped with SPSS & EVIEWS Applications*. Depok: PT RajaGrafindo Persada. (In Bahasa)
- Beck, T., Demirgüç-Kunt, A., & Merrouche, O. (2013). Islamic vs. conventional banking: Business model, efficiency and stability. *Journal of Banking & Finance*, 37(2), 433–447. <https://doi.org/10.1016/j.jbankfin.2012.09.016>.
- Boyd, J. H., & Runkle, D. E. (1993). Size and performance of banking firms. Testing the predictions of theory. *Journal of Monetary Economics*, 31(1), 47–67. [https://doi.org/10.1016/0304-3932\(93\)90016-9](https://doi.org/10.1016/0304-3932(93)90016-9).
- Chong, B. S., & Liu, M. H. (2009). Islamic banking: Interest-free or interest-based? *Pacific Basin Finance Journal*, 17(1), 125–144. <https://doi.org/10.1016/j.pacfin.2007.12.003>.



- Čihák, M., & Hesse, H. (2010). Islamic Banks and Financial Stability: An Empirical Analysis. *Journal of Financial Services Research*, 38(2), 95–113. <https://doi.org/10.1007/s10693-010-0089-0>.
- Dar, H. a, & Presley, J. R. (2000). Lack of Profit Loss Sharing in Islamic Banking : Management and Control Imbalances. *International Journal of Islamic Financial Services*, 2(00), 9–12. Retrieved from <http://www.iefpedia.com/english/wp-content/uploads/2009/09/Lack-of-Profit-Loss-Sharing-in-Islamic-Banking-Management-and-Control-Imbalances.pdf>.
- Darsono, A. S., Ascarya. (2017). *Islamic Banking in Indonesia, Institutions and Policies and Challenges for the Future*. Edisi 1, Cetakan 2. Depok: Rajawali Pers. (In Bahasa)
- Dendawijaya, L. (2009). *Banking Management*. Jakarta: Ghalia Indonesia. (In Bahasa)
- Djamil, F. (2012). *Troubled Financing Settlement at Islamic Banks*. Jakarta: Sinar Grafika. (In Bahasa)
- Effendi, J., Kamilia, S., Sabiti, M. B., & Nursyamsiah, T. (2018). The determinant of equity financing in sharia banking and sharia business units. *Economic Journal of Emerging Markets*, 10(1), 111–120. <https://doi.org/10.20885/ejem.vol10.iss1.art12>.
- El-Hawary, D., Grais, W., & Iqbal, Z. (2007). Diversity in the regulation of Islamic Financial Institutions. *Quarterly Review of Economics and Finance*, 46(5), 778–800. <https://doi.org/10.1016/j.qref.2006.08.010>.
- Furqaini, N., & Yaya, R. (2016). Factors Affecting the Volume and Portion of Profit Sharing Funding Based on Sharia Banking in Indonesia. *Jurnal Riset Akuntansi & Komputerisasi Akuntansi*, 7(1), 22–38. (In Bahasa)
- Giannini, N. G. (2013). Factors Affecting Mudharabah Financing at Islamic Commercial Banks in Indonesia. *Accounting Analysis Journal*, 2(1), 1–4. <https://doi.org/10.15294/aa.v2i1.1178>. (In Bahasa)
- Gumilarty, G. R. M., & Indriani, A. (2016). Analysis of the Effect of DPK, NPF, ROA, Fund Placement in SBIS, and Rate of Profit Sharing on Profit Sharing Financing. *Diponegoro Journal of Management*, 5(4), 1–14. (In Bahasa)
- Houston, J. F., Lin, C., Lin, P., & Ma, Y. (2010). Creditor rights, information sharing, and bank risk taking. *Journal of Financial Economics*, 96(3), 485–512. <https://doi.org/10.1016/j.jfineco.2010.02.008>.
- Ibrahim, M. H., & Rizvi, S. A. R. (2018). Bank lending, deposits and risk-taking in times of



- crisis: A panel analysis of Islamic and conventional banks. *Emerging Markets Review*, 35, 31–47. <https://doi.org/10.1016/j.ememar.2017.12.003>.
- Ismail. (2011). *Sharia Banking*. Jakarta: Kencana Prenada Media Group. (In Bahasa)
- Ismal, R. (2010). Volatility of the returns and expected losses of Islamic bank financing. *International Journal of Islamic and Middle Eastern Finance and Management*, 3(3), 267–279. <https://doi.org/10.1108/17538391011072453>.
- Kabir, N., & Worthington, A. C. (2018). Do Islamic Banks Have Higher Credit Risk? *SSRN Electronic Journal*, 1–35. <https://doi.org/10.2139/ssrn.2479136>.
- Karim, I. A. (2017). *Islamic Bank: Fiqh and Financial Analysis*. 5th edition. Depok: PT RajaGrafindo Persada. (In Bahasa)
- Kasmir. (2014). *Banking Basics*. Revised Edition, Twelfth Printing, Jakarta: PT. RajaGrafindo Persada. (In Bahasa)
- Khan, F. (2010). How “Islamic” is Islamic Banking? *Journal of Economic Behavior and Organization*, 76(3), 805–820. <https://doi.org/10.1016/j.jebo.2010.09.015>.
- Khan, F. (2014). *Islamic Economic Essays*, Terj. Suherman Rosyidi. Jakarta: Rajawali Press. (In Bahasa)
- Kurniawanti, A., & Zulfikar. (2014). Islamic accounting and banking. 1 95. *Seminar Nasional Dan Call for Paper Program Studi Akuntansi-FEB UMS*, 95–112. (In Bahasa)
- Kusuma, K. A., Iman-Santosa, N. E. T., Mursinto, D., & Ryandono, M. N. H. (2018). Profit Sharing Ratio Determination of Mudharabah Contract in Indonesia Islamic Banks. *Opción*, 34(85).
- Laeven, L., & Levine, R. (2009). Bank governance, regulation and risk taking. *Journal of Financial Economics*, 93(2), 259–275. <https://doi.org/10.1016/j.jfineco.2008.09.003>.
- Latumaerissa, J. R. (2012). *Bank dan Lembaga Keuangan Lain*. Jakarta: Salemba Empat.
- Lin, C. C., & Yang, S. L. (2016). Bank fundamentals, economic conditions, and bank failures in East Asian countries. *Economic Modelling*, 52, 960–966. <https://doi.org/10.1016/j.econmod.2015.10.035>.
- Lisa, O. (2012). Determinants Distribution of Financing and the Implications to Profitability: Empirical Study on Cooperative Sharia Baitul Maal wa Tamwil (BMT) in Indonesia. *Asian Journal of Accounting Research*, 1(2), 44-51.



- Louati, S., Louhichi, A., & Boujelbene, Y. (2016). The risk-capital-efficiency trilogy: A comparative study between Islamic and conventional banks. *Managerial Finance*, 42(12), 1226–1252. <https://doi.org/10.1108/MF-01-2016-0009>.
- Mansoor Khan, M., & Ishaq Bhatti, M. (2008). Development in Islamic banking: a financial risk-allocation approach. *The Journal of Risk Finance*, 9(1), 40–51. <https://doi.org/10.1108/15265940810842401>.
- Muhammad. (2017). Sharia Bank Fund Management. Issue 1. 3rd printing. Depok: Rajawali Press. (In Bahasa)
- Nurbiaty, N. (2015). Factors That Affect Distribution of Financing Based on Profit Sharing in Bank Syariah Mandiri Indonesia Period 2003-2015. *Jurnal Online Mahasiswa Fakultas Ekonomi*, 4, 783–797. (In Bahasa)
- Pramono, N. H. (2013). Optimization of Profit Sharing Funding Based on Sharia Banks in Indonesia. *Accounting Analysis Journal*, 2(2), 154–162. <https://doi.org/10.15294/aaj.v2i2.1437>. (In Bahasa)
- Rahman, R. A., Tafri, F. H., & AlJanadi, Y. (2010). Instruments and risks in Islamic financial institutions. *Malaysian Accounting Review*, 9(2), 11–21.
- Risfandy, T., Harahap, B., Hakim, A. R., Sutaryo, S., Nugroho, L. I., & Trinugroho, I. (2019). Equity Financing at Islamic Banks: Do Competition and Bank Fundamentals Matter? *Emerging Markets Finance and Trade*, 00(00), 1–15. <https://doi.org/10.1080/1540496X.2018.1553160>.
- Risfandy, T., Trinarningsih, W., Harmadi, H., & Trinugroho, I. (2019). Islamic Banks' Market Power, State-Owned Banks, and Ramadan: Evidence from Indonesia. *The Singapore Economic Review*, 64(02), 423–440. <https://doi.org/10.1142/S0217590817500229>.
- Rivai, V., & Arviyan, A. (2010). Islamic Banking: *Sebuah Teori, Konsep, dan Aplikasi*. Jakarta: Bumi Aksara.
- Sania Asri, A., & Syaichu. (2016). Analysis of Factors Affecting Profit Sharing Funding Based on Sharia Banking in Indonesia for 2010-2014. *Diponegoro Journal Of Management*, 7(1), 22–38. Retrieved from <http://ejournal-s1.undip.ac.id/index.php/dbr>. (In Bahasa)
- Sholikhah, Z., Pramuka, B. A., & Adawiyah, W. R. (2017). Determinant of the equity based financing volume : A case of Islamic banks in Indonesia. *Research Journal of Finance and Accounting*, 8(1), 30–39.
- Siddiqui, A. (2008). Financial contracts, risk and performance of Islamic banking. *Managerial*

Finance, 34(10), 680–694. <https://doi.org/10.1108/03074350810891001>.

- Sjahdeni, S. R. (2014). *Islamic Banking Products and Aspects. The law*. Jakarta: Prenadamedia Group. (In Bahasa)
- Sukmana, R., & Kholid, M. (2013). An assessment of liquidity policies with respect to Islamic and conventional banks: A case study of Indonesia. *Qualitative Research in Financial Markets*, 5(2), 126-138.
- Sokyna, M.A.-Q. and M.A. Omayma, 2018. Exploring the use of light and colour to detract and enhance the plot of 3D rendered scenes. *International Journal of Innovation, Creativity and Change*, 4(1): 74-94.
- Syafi'i Antonio, M. (2001). *Bank Sharia dari Teori ke Praktik* (1st ed.).
- Tabak, B. M., Fazio, D. M., & Cajueiro, D. O. (2012). The relationship between banking market competition and risk-taking: Do size and capitalization matter? *Journal of Banking and Finance*, 36(12), 3366–3381. <https://doi.org/10.1016/j.jbankfin.2012.07.022>.
- Wangsaawidjaja. (2012). *Islamic Bank Financing*. Jakarta : PT. Gramedia Pustaka Utama.(In Bahasa)
- Warjiyo, P. (2007). Banking System Stability and Monetary Policy: Linkages and Their Development in Indonesia. *Buletin Ekonomi Moneter Dan Perbankan*, 8(4), 429–454. <https://doi.org/10.21098/bemp.v8i4.144>. (In Bahasa)
- Warninda, T. D., Ekaputra, I. A., & Rokhim, R. (2019). Do Mudarabah and Musharakah financing impact Islamic Bank credit risk differently? *Research in International Business and Finance*, 49, 166–175. <https://doi.org/10.1016/j.ribaf.2019.03.002>.
- Zulhibri, M. (2018). The impact of monetary policy on Islamic bank financing: bank-level evidence from Malaysia. *Journal of Economics, Finance and Administrative Science*, 23(46), 306–322. <https://doi.org/10.1108/JEFAS-01-2018-0011>.