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## **Impact of Foreign Ownership, Exchange Rate, and Zakat on the Performance of Sharia Commercial Banks in Indonesia**

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### **ABSTRACT**

The main objective of this study is to examine the variables that can affect the performance of Islamic Commercial Banks. Banks are required to choose management plans that can minimize the required costs and maximize the generated profits. The variables under consideration are foreign ownership, changes in the exchange rate of the Indonesian Rupiah against the US Dollar, and corporate zakat expenditure, which will be tested for their impact on the level of profitability (ROA) and efficiency (BOPO) of Indonesian Islamic Commercial Banks. This study uses panel secondary data and a purposive sampling method, which includes eleven Islamic Commercial Banks in Indonesia from 2011 to 2014. The analysis method used is multiple linear regression. The results of this study conclude that the research model simultaneously affects the ROA and BOPO of the bank. Partially, foreign ownership has a negative impact on the ROA and BOPO of the bank. Changes in the appreciation/depreciation of the Rupiah-US Dollar have a negative impact on the ROA of the bank but a positive impact on the BOPO of the bank. In addition, corporate zakat expenditure has a positive

impact on the ROA of the bank, but it has no effect on the BOPO of the bank.

**Keywords:** Profitability, Efficiency, Return on Assets, Operational Expenses to Operating Income, Foreign Ownership, Exchange Rate, Corporate Zakat.

## INTRODUCTION

In facing increasing competition, good performance is one of the keys to success in driving the growth of the banking industry. Various stakeholders related to the Islamic banking industry, including investors, the government, and society, certainly need a picture of the performance of the banks, so an analysis of their performance is necessary. One source that can be used to analyze the performance of banks is by analyzing data from bank financial statements (Kaligis, 2013).

The assessment of banking performance through financial statements can be measured in various ways, one of which is by measuring the level of profitability. This measurement can be done by comparing the profits earned by the company with several estimates that are benchmarks of the company's success, such as company assets, sales, and investments in its financial statements, thus determining the effectiveness of financial management and company assets (Hughes and Mester, 2008). One way to see the level of profitability of a company is by looking at the ROA ratio of the company. In addition to measuring profitability, banking performance is also measured through its efficiency. Financial efficiency is essential because it improves financial stability (Hughes and Mester, 2008). They also emphasize the importance of studying banking efficiency to improve managerial performance by identifying best and worst practices. Therefore, banking entities and policy makers need to investigate aspects of the company's efficiency to improve the growth of Islamic banking in Indonesia. One way to measure the

efficiency of a bank is by looking at the Operational Cost to Operating Income (BOPO) ratio.

Several problems have arisen regarding profitability and efficiency in Islamic Commercial Banks (BUS) in Indonesia. For example, in 2013, the ROA of BUS in Indonesia decreased to 2.00%, even further down to 0.80% in 2014 (Financial Services Authority, 2015). This indicates that the lower the ROA percentage, the more problematic the company's performance, which will affect the decline/slowdown of profit growth (Brigham and Houston, 2006). Referring to the ROA standard of Bank Indonesia Regulation No. 6/9/PBI/2004 of 1.5%, the 2014 BUS ROA is considered less than ideal. In addition, in 2013, the BOPO ratio of BUS increased to 78.21%. In 2014, the ratio of operational costs to operating income (BOPO) continued to increase to 79.28% (Financial Services Authority, 2014).

Referring to Bank Indonesia Regulation No. 6/9/PBI/2004, the best BOPO standard is below 92%, indicating that BUS is still in an ideal condition. Based on the statistical data above on Islamic banking, stakeholders related to the Islamic banking industry certainly want to obtain the highest profit possible (increasing ROA percentage) and minimize operational costs (decreasing BOPO percentage). They hope that the management that manages the business can optimize the resources owned by the bank to generate the highest profit efficiently (Novado & Hartomo, 2014). Therefore, further research is needed on the factors that can affect the ROA and BOPO of Islamic Commercial Banks in Indonesia.

In the current era of financial globalization, many foreign parties/ investors are beginning to invest in the banking industry of developing countries (Micco et al., 2004; Bopkin, 2013). As a developing country, the Islamic banking industry in Indonesia is also not immune to foreign investment. A study conducted by Alamsyah (2012), which examined three samples of Islamic banks from Indonesia, Malaysia, and the Middle

East, found that Islamic banks in Indonesia were more profitable, although their performance was not yet efficient. This is evident from the high ROA and ROE indicators of Indonesian Islamic banks, compared to other sample Islamic banks in other countries. Moreover, Indonesia is also part of the integration of the ASEAN Economic Community (MEA) 2016 and is one of the countries with the largest Muslim population. With these various factors, it is not surprising that some foreign investors are interested in investing, acquiring, and even establishing Islamic banks in Indonesia (Alamsyah, 2012). Therefore, it is necessary to further examine the influence of foreign investment on the performance of Islamic Commercial Banks in Indonesia.

Macro-economic factors in a country are believed to contribute to bank profitability, one of which is changes in currency exchange rates (Ramadhani, 2018). These changes can occur in the form of currency depreciation or appreciation. In the last six years, the depreciation of the Rupiah has been ongoing since early 2012. One of the causes of the weakening of the Rupiah from a domestic perspective is the increase in imports of various goods and services from abroad, which requires more foreign currency to pay for these import transactions, resulting in an increase in demand for foreign currency (US dollars) in the market (Alamsyah & Muchlas, 2015). In 2015, the exchange rate of the Rupiah depreciated sharply, reaching Rp. 14,000 per US Dollar, which was caused by external factors. Failure to manage changes in exchange rates, including the depreciation of the Rupiah, can have a negative impact on the financial performance and endanger the achievement of bank and economic growth in a country. According to Mutamimah & Chasanah (2012), the impact of a weak Rupiah on Islamic banks can increase the ratio of troubled financing. This is related to the smooth operation of customers financed by the bank (financing for imported products). If this happens, it will indirectly hinder bank profitability and potentially lead to losses. Therefore, the influence of changes in currency exchange rates on

the performance of Islamic Commercial Banks in Indonesia needs to be further studied.

The expenditure of zakat by companies is believed to have an influence on their performance. According to Rahman (2015), Shariah banks that have good performance generally have a good track record in paying zakat for their companies. As an Islamic-based financial institution, it is imperative for BUS to distribute zakat in accordance with Islamic regulations and laws so that the goals of welfare and blessings can be achieved (Firmansyah & Rusydiana, 2013). However, in reality, there are several BUS in Indonesia that do not regularly distribute their zakat funds (Atmahadi, 2013). According to Dzunurain (2014), only five BUS (Bank Muamalat, Bank Syariah Mandiri, Bank Mega Syariah, Bank BRI Syariah, and PT. Bank BNI Syariah) have consistently distributed zakat for their companies from 2010 to 2013. This condition is due to the fact that the majority of Shariah commercial banks in Indonesia are still new, so their operations are still in the stage of increasing market share, and all forms of expenditure, including zakat, are still being considered by management (Firmansyah & Rusydiana, 2013). Therefore, further research is needed to examine the influence of zakat expenditure by companies, specifically Shariah commercial banks, on their financial performance.

Since BUS has a different performance structure compared to conventional banks, it is necessary for BUS to deeply understand what factors can influence their performance. The findings of this research are expected to provide solutions to issues related to foreign ownership, exchange rates, and company zakat expenditure on the financial performance of Shariah commercial banks in Indonesia. Specifically, this research aims to examine the impact of foreign ownership, Rupiah exchange rate to US Dollar, and company zakat expenditure on the level of profitability (ROA) and efficiency (BOPO) of Shariah commercial banks in Indonesia.

## LITERATURE REVIEW

## Company Performance

Evaluating the performance of a bank can be done by analyzing its financial statements. Financial statement analysis refers to the assessment of a company's financial position in the past and present by examining the figures or data in the financial statements to predict its financial position in the future (Simamora, 2000). Based on these statements, financial ratios are commonly used as a basis for evaluating the level of bank performance. This research uses the ROA ratio as a measure of profitability and BOPO as a measure of bank performance efficiency.

To measure a company's profitability, a tool is needed, one of which is the ROA ratio. ROA or Return On Assets is the net profit after taxes divided by total assets to evaluate the level of return on the assets held by the company (Novado & Hartomo, 2014). The ROA value ranges from -1 to 1, where the closer it is to 1, the better the company's profitability because each asset can generate profits. In other words, the higher the ROA value, the better the company's financial performance (Novado & Hartomo, 2014). The reason why ROA is more often used as a measure of profitability is that it is suitable for evaluating banking profitability and shows the income from a bank's operations on its assets (Bopkin, 2013). According to Novado & Hartomo (2014), ROA is often used by management to measure their company's financial performance and evaluate their operational performance. Firmansyah and Rusydiana (2013) also added that the Return on Equity (ROE) ratio is often used to measure the profitability of manufacturing companies in general, while ROA is used in the banking industry.

In principle, there are two techniques or approaches to measuring bank efficiency, namely using financial ratios such as ROA, ROE, and BOPO (Wijayanto and Sutarno, 2010) and using Operational Research (OR) such as Data Envelopment Analysis (DEA), Stochastic Frontier Approach (SFA), Distribution Free Approach (DFA), and Recursive Thick Frontier Approach (RTFA) (Wagenvoort and Schure, 2002). However, this

study chooses to use the BOPO ratio as a measure of efficiency for Islamic banks. This is based on Bank Indonesia Regulation No. 14/26/PBI/2012 Article 21 regarding the achievement of bank efficiency levels measured by the ratio of Operational Costs to Operational Income (BOPO). The BOPO ratio (Operational Costs to Operational Income) which is commonly referred to as the efficiency ratio, is used to measure the bank management's ability to control operational costs against operational income. The smaller this ratio, the more efficient the operational costs incurred by the bank (Hendrayanti and Muharam, 2013).

### **Bank Ownership**

A bank, in terms of ownership, is any party that participates in establishing the bank. The ownership of a bank can be seen from the articles of incorporation and the shareholding control it possesses (Novado & Hartomo, 2014). The classification of bank types based on shareholding control is divided into two, namely domestic and foreign banks. A domestic bank is a bank whose share ownership is more than 50% (Awdeh, 2005; Berger & di Patti, 2006) or 60% (Bopkin, 2013) owned by domestic entities, whether by the government or national private parties. A foreign bank is a bank whose share ownership is more than 50% (Awdeh, 2005; Berger & di Patti, 2006) or 60% (Bopkin, 2013) owned by foreign entities, whether foreign private parties or foreign governments. According to Prayoga & Almilialia (2013), foreign ownership is defined as individual foreign nationals, foreign business entities, or foreign governments that invest in the territory of the Republic of Indonesia. According to Simamora (2000) and the Financial System Stability Bureau, Bank Indonesia (2004), foreign-owned banks in Indonesia are divided into three groups, namely: operating as a branch office, operating as a subsidiary (joint venture with domestic banks or through merger and acquisition in domestic banks, called mixed banks), and operating as a representative office.

### **Exchange Rate**

Exchange rate is the exchange between two different currencies, which is a comparison of the value or price of the two currencies. Exchange rate is one of the important prices in an open economy because it is determined by the balance of supply and demand that occurs in the market (Muchlas & Alamsyah, 2015). Exchange rate is subject to change. These changes can be caused by inflation, interest rates, and the amount of money circulating in society. These are macroeconomic variables that always follow the economic conditions in a country (Muchlas & Alamsyah, 2015).

### **Zakat Expenditure**

Soemitro (2009) explains that in the context of Islam, zakat means the obligation of a Muslim to give a portion of their net worth, which exceeds one nisab, to the mustahiq according to certain predetermined conditions. Zakat is mandatory for all Muslims who possess wealth above the exemption limit or have saved an amount equivalent to at least 85 grams of 24-carat gold at the time of annual zakat payment (Anas & Mounira, 2009). Zakat collection is no longer limited to individual muzakki (zakat payers), but is also mandatory for institutional entities such as companies or corporations. Corporate zakat is a new phenomenon and is unlikely to be found in classical fiqh books. Contemporary scholars establish the legal basis of corporate zakat through qiyas, which equates corporate zakat with trade zakat. The criteria for corporate zakat are almost the same as for trade and investment zakat, with the difference being that corporate zakat is collective. The participating scholars of the International Muktamar likened corporate zakat to trade zakat. Therefore, its nisab is the same as the nisab for trade zakat, which is 85 grams of gold (Mustofa, 2014).

### **Literatur Penelitian Dahulu**

Yeyati & Micco (2007) examined the penetration of foreign banks and its impact on banking competition in eight Latin American countries. The results showed that foreign penetration seemed less competitive. This suggests that foreign banks in the region are more susceptible to



bankruptcy due to higher leverage ratios and unstable income levels. Sucianti & Naomi (2009) conducted research aimed at identifying differences in stock and financial performance between banks dominated by foreign shares and government-owned banks. The findings explained that there were no significant differences between the two types of banks in terms of both financial performance and stock performance.

Bopkin (2013) conducted a study on the effect of ownership structure and corporate governance on the efficiency of 25 banks in Ghana during the period of 1999-2007. The efficiency measurement was carried out using the Stochastic Frontier Analysis (SFA) technique. The results showed that foreign banks were more efficient and profitable than domestic banks. Novado & Hartomo (2014) researched the influence of ownership on banking performance in Indonesia during the period of 2005 to 2011. The research objects included 21 samples of domestic, foreign, government-owned, and private banks listed on the Indonesia Stock Exchange. It was found that both foreign and domestic banks did not have a significant influence on profitability level. This was due to the absence of different regulations for government and private (domestic) banks compared to foreign banks in conducting their operational activities, which was evidenced by the lack of significant performance differences between the two types of banks (ROA and NPL performance).

Rahmadhani (2010) conducted research to test the influence of listed, institutional share ownership, and exchange rates on the profitability of 62 domestic banks in Indonesia. This was motivated by the decline in profitability that occurred in 2005 and 2007. It was found that public ownership of banks (Tbk) could increase banking profitability (ROA), while institutional ownership could not. Additionally, fluctuations in the Rupiah exchange rate against the US dollar did not affect the increase in banking profitability (ROA).

Dwijayanthi & Naomi (2009) examined the influence of inflation rates, interest rates, and exchange rates on the profitability of banks listed

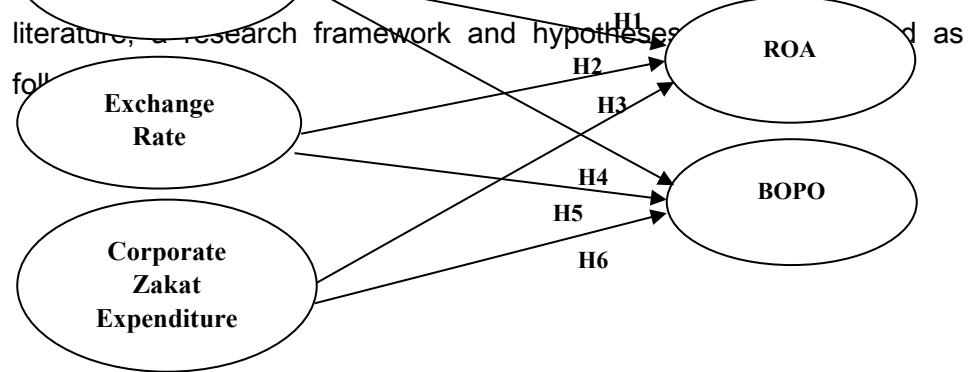
on the Indonesian Stock Exchange and LQ45 during the period from 2003 to 2007. The findings revealed that exchange rates have an impact on bank profitability. According to them, the influence of exchange rates on bank profitability is identified when exchange rates experience appreciation or depreciation, which will affect the bank's foreign exchange obligations at maturity. Kamau et al. (2015) studied the impact of exchange rate risk on the performance of 40 multilateral banks operating in several developing countries during the period from 1998 to 2006. The results showed that there is no significant influence of exchange rate risk on the financial performance of multilateral banking.

Amirah and Raharjo (2014) examined the impact of zakat payments on the financial performance mediated by Third Party Funds (DPK) of four Islamic banks, namely Bank Syariah Mandiri, Bank Muamalat, BRI Syariah, and Bank Mega Syariah during the period from 2009 to 2012. The results showed the impact of zakat fund allocation on the performance of Islamic banking that uses DPK as a mediating variable. It was found that zakat has a significant influence on the financial performance of the four Islamic banks. DPK fully mediates the influence of zakat on the financial performance of Islamic banking.

Artisa et al. (2014) examined the effect of Corporate Social Responsibility (CSR) on the operational costs and profitability of textile and garment companies listed on the Indonesian Stock Exchange during the period from 2011 to 2012, with a sample of 32 companies. The measurement of CSR was conducted using the Corporate Social Responsibility Disclosure Index (CSRDI) method. The results showed that CSR has no influence on the operational costs or profitability of textile and garment companies in Indonesia.

Rahman (2015) conducted a study to examine the relationship between the board of directors (consisting of board size, board composition, CEO duality, and chairman composition), investor account holdings (IAH), and social contributions (zakat) in 40 Islamic banks

operating in the GCC countries during the period from 2008 to 2011. The findings showed that both board size and composition have a negative effect on bank performance. On the other hand, the separation of CEO and chairman roles and IAH have no influence, while the chairman's influence has a positive impact. Meanwhile, the distributed zakat has no significant influence on bank performance. Based on previous research



**Figure 1. Research Framework**

Hypotheses:

- H1: Foreign stock ownership has a positive influence on BUS's ROA.
- H2: Changes in currency exchange rates have a negative influence on BUS's ROA.
- H3: Zakat expenditure has a positive influence on BUS's ROA.
- H4: Foreign stock ownership has a positive influence on BUS's BOPO.
- H5: Changes in currency exchange rates have a positive influence on BUS's BOPO.
- H6: Zakat expenditure has a negative influence on BUS's BOPO efficiency.

The regression model analysis used in the study consists of two stages, which are conducted separately. Both will be expressed in linear regression as follows:

$$ROA_{it} = a + \beta_1 X_{1it} - \beta_2 X_{2it} + \beta_3 X_{3it} + e \dots\dots\dots (1)$$

$$BOPO_{it} = a + \beta_1 X_{1it} + \beta_2 X_{2it} - \beta_3 X_{3it} + e \dots\dots\dots (2)$$

Where:

ROA = Return on Assets

BOPO = Operational Expenses to Operational Revenue

a = constant

$\beta_1$ –  $\beta_2$  = regression coefficients

$X_1$  = foreign stock ownership

$X_2$  = Rupiah currency exchange rate against the US dollar

$X_3$  = Zakat expenditure of the Bank

i = company/Islamic Commercial Bank

t = period/year

e = error

## RESEARCH METHODS

### Population and Sample

The population used in this study is all Sharia Commercial Banks in Indonesia that presented financial reports as of December 31 during the period of 2011-2014 and reported to Bank Indonesia. The sampling in this study uses purposive sampling technique, which is taking samples from the population based on certain criteria, namely banks that have established or separated from conventional units (not as Sharia Business Units) and become Sharia Commercial Banks in Indonesia during the period from 2011 to 2014; Sharia Commercial Banks that have published consecutive financial reports from 2011 to 2014; Sharia Commercial Banks that have complete data related to the variables being studied. Based on these criteria, eleven Sharia Business Units (SBUs) were obtained that met the criteria to be studied.

### Measurement of Variables

Foreign Ownership. To measure the amount of foreign ownership in a Sharia Commercial Banks, the percentage of foreign shares in the total share ownership is used.

Foreign Ownership = Percentage of Foreign Shares

Changes in Rupiah-US Dollar Exchange Rates. The exchange rate is approximated by the Bank Indonesia Middle Rate, which is the average of the sum of the Selling Rate and the Buying Rate that applies at the end of the annual report period sourced from Bank Indonesia (Mutamimah & Chasanah, 2012). Since the nominal data is in thousands, the data needs to be transformed to convert the measurement scale of the original data into another form so that the data can meet the assumptions underlying the analysis of variance (Rosadi, 2012).

Exchange rate = (Selling rate - Buying rate) / 2

Corporate Zakat Expenditure. Zakat expenditure in this study is the amount of corporate zakat paid by the Sharia Commercial Bank per year. The total zakat expenditure of the Sharia Commercial Bank per year, which has a very large value, will be proxied into Logarithm. This is intended to prevent non-linearity in testing with other variables (Dzunurain, 2014).

Zakat = Total Zakat Expenditure

Profitability. The indicator to measure the level of Return On Assets is by comparing the profit obtained with the total assets owned by the company (Dzunurain, 2014).

Return On Assets = (Net profit after tax) / (Total assets)

Efficiency. BOPO ratio is a bank efficiency ratio that measures operational expenses to operational income (Amirah and Raharjo, 2014). Operational expenses are expenses incurred by banks in carrying out their activities, while operational income is all forms of income obtained from bank activities (Hendrayanti and Muharam, 2013).

BOPO = (Operational expenses) / (Operational income)

## RESULTS AND DISCUSSION

### Model Specification Test

To estimate the model parameters with panel data, there are several techniques available, namely the Common Effect Model, Fixed Effect Model (FEM), and Random Effects Model (REM) (Firdaus and Irawan, 2009). To choose the appropriate model, several comparison tests need to be conducted among these three models, namely Chow test, Hausman test, and Lagrange Multiplier test. After conducting the model comparison tests, the following results were obtained. For the dependent variable ROA, the selected model is the fixed effect method. For the dependent variable BOPO, the selected model is the common effect method.

### **Classical Assumption Test**

**Normality Test.** For the regression equation of the dependent variable ROA, it was found that the Jarque-Bera (JB) probability value exceeded the significance level of 5%. Thus, the regression data for ROA is normally distributed. However, for the dependent variable BOPO, it was found that the Jarque-Bera (JB) probability value was less than the significance level of 5%. Thus, the regression data for BOPO is not normally distributed. This is due to the fact that this research examined more than one bank with different characteristics of company data, resulting in high skewness, kurtosis, and JB values. Therefore, the violation of the normality assumption in this study can be ignored (Gujarati, 2006).

**Multicollinearity Test.** Both the ROA and BOPO regression equations showed that the data is free from multicollinearity. This can be seen from the correlation coefficient values between the independent variables, each of which is below 0.80.

**Autocorrelation Test.** By using the Durbin Watson Table test, the calculated D-W value for the ROA regression is located in the area where there is no autocorrelation. Thus, it is assumed that the data for the ROA regression is not affected by autocorrelation. For the BOPO regression, the calculated D-W value is located in the area where no conclusion can be drawn, indicating that the data for the BOPO regression does not meet

the assumption of being free from autocorrelation. To overcome this issue, one solution is to use the Differentiation Transformation method (Prahutama, 2014). After performing the transformation and regression again, the calculated DW value is located in the area where there is no autocorrelation. Therefore, the autocorrelation issue has been resolved.

### Hypothesis Test

Table 1 and Table 2 present the regression test results for ROA and BOPO respectively.

**Table 1. Regression Test Results for ROA**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SA	-0.063495	0.031061	-2.044205	0.0498
LOGKURS	-0.029979	0.007709	-3.888786	0.0005
LOGZAKAT	0.000645	0.000191	3.378557	0.0020
C	0.288922	0.069974	4.129000	0.0003
R-squared	0.668469	Mean dependent var		0.007990
Adjusted R-squared	0.524805	S.D. dependent var		0.008125
S.E. of regression	0.005601	Akaike info criterion		-7.278370
Sum squared resid	0.000941	Schwarz criterion		-6.710674
Log likelihood	174.1241	Hannan-Quinn criter.		-7.067841
F-statistic	4.653013	Durbin-Watson stat		1.696425
Prob(F-statistic)	0.000247			

Source: Authors' estimation.

**Table 2. Regression Test Results for BOPO**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SA	-0.165202	0.058428	-2.827438	0.0073
LOGKURS	0.612607	0.187685	3.264023	0.0023
LOGZAKAT	0.000628	0.001969	0.318829	0.7515
C	-4.782454	1.727496	-2.768431	0.0085
R-squared	0.317451	Mean dependent var		0.840254
Adjusted R-squared	0.266260	S.D. dependent var		0.165449
S.E. of regression	0.141721	Akaike info criterion		-0.983399
Sum squared resid	0.803399	Schwarz criterion		-0.821200
Log likelihood	25.63477	Hannan-Quinn criter.		-0.923247

F-statistic	6.201278	Durbin-Watson stat	1.413302
Prob(F-statistic)	0.001463		

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Source: Authors' estimation.

### **Coefficient of Determination Test**

This test was conducted using the Eviews 8 program. Based on the multiple regression test results using the fixed effect model for ROA in Table 1 and the fixed effect model for BOPO in Table 2, the coefficient of determination (adjusted R<sup>2</sup>) values obtained were 0.525 and 0.266, respectively. This indicates that 52.5% of the ROA variable can be explained by its independent variables, and similarly for the BOPO variable, its influence explained by independent variables is 26.6%. The rest can be explained by other factors that can affect ROA and BOPO outside of this research model.

### **F-Statistic Test (Simultaneous)**

Based on the ROA regression test results in Table 1, the F-statistic probability value obtained was 0.000247, which is smaller than the significance value of 0.05. This means that all independent variables (SA, Kurs, and Zakat) included in the model have a significant effect simultaneously on the dependent variable (ROA). In addition, for the BOPO regression test results in Table 2, the F-statistic probability value obtained was 0.001463, which is smaller than the significance value of 0.05. This means that all independent variables have a simultaneous effect on the dependent variable (BOPO).

### **t-Statistic Partial Test**

Hypothesis 1: Foreign Share Ownership (SA) has a significant negative effect on ROA because its coefficient value is negative at -0.063495 and the t-statistic probability value is 0.0498 (less than 0.05). This rejection of the first hypothesis supports the research of Yeyati and Micco (2003), who found a significant negative impact of foreign ownership on bank profitability (ROA). This result is different from the findings of Novado and Hartomo (2014) and Suciarti and Naomi (2009), who found no impact of foreign ownership on banks or companies. Moreover, this



result is different from the research by Bopkin (2013) and Wiranata and Nugrahanti (2013), who found a significant positive impact of foreign participation on bank or company profitability.

This result indicates that Sharia Commercial Banks in Indonesia with a majority of foreign share ownership may not necessarily exceed the performance of Sharia Commercial Banks whose shares are still dominated by domestic/national shares, whether owned by the state (BUMN), private sector, or the public. Additionally, it is known that Sharia Commercial Banks with majority domestic/national ownership are more profitable than those with majority foreign ownership.

Hypothesis 2: The exchange rate of the Rupiah to the US Dollar (KURS) has a significant negative effect on ROA because its coefficient value is negative at -0.029979 and the t-statistic probability value is 0.0005 (less than 0.05). This also indicates that if there is a Rupiah depreciation (weakening of the currency), the ROA ratio of a Sharia Commercial Bank will also decline. This means that the second hypothesis of the study is accepted.

This result supports the research of Dwijayanthi and Naomi (2009), who found that exchange rates have an impact on bank profitability when there is a depreciation. This can be interpreted as a Sharia Commercial Bank experiencing a decrease in profitability (ROA) if it does not take hedging or protective measures against the effects of exchange rate fluctuations. This result is different from the research of Rahmadhani (2010) and Kamau et al. (2015), who found no impact of exchange rate changes on bank profitability.

Hypothesis 3: The variable of Zakat Expenditure by Banks (ZAKAT) has a significant positive effect on ROA, as the coefficient value is positive at 0.000645 and the t-statistic probability value is 0.0003 (less than 0.05). This also indicates that if the zakat expenditure value of a bank increases, the ROA ratio of the bank will also increase. Therefore, hypothesis 3 of this study can be accepted. This finding supports the findings of Fauzi

(2014) and Amirah and Raharjo (2014) who found that the positive effect of zakat expenditure by banks can improve their performance, especially their profitability. However, this finding is different from the previous studies by Artisa et al., (2014) and Rahman (2015) who did not find any effect of social contribution, whether it be CSR or zakat, on the profitability of a company or bank.

This finding can be interpreted that the more a company pays its zakat periodically, the less it will reduce the profitability level of the company. In fact, its profitability level will increase significantly or directly proportional to its zakat expenditure. In line with the opinions of Fauzi (2014) and Amirah and Raharjo (2014), periodic payment of zakat can attract the interest and increase the confidence of customers and potential customers in using the company's services. This indirectly can increase the level of income, which affects the profitability of the company.

Hypothesis 4: The variable of Foreign Ownership of Shares has a significant negative effect on BOPO, as the coefficient value is negative (-0.165202) and the t-statistic probability value is 0.0073 (less than 0.05). This also indicates that if the value of foreign shares decreases, the BOPO ratio of a bank will increase. This indicates that hypothesis 4 of this study is accepted. This result is supported by previous research conducted by Bopkin (2013), who found that foreign banks are more efficient and profitable in managing bank assets compared to domestic banks. This finding is also supported by Micco et al. (2004), who found that the entry of foreign banks is associated with increased efficiency (lower overhead costs). In addition, foreign banks are also associated with new technology and low entry barriers. This result is different from the previous research findings by Novado and Hartomo (2014) and Suciarti and Naomi (2009), who did not find any effect of foreign ownership on a bank or company.

Hypothesis 5: The variable of Rupiah to US Dollar exchange rate (KURS) has a significant positive effect on BOPO, as the coefficient value is positive (0.612607) and the t-statistic probability value is 0.0023 (less

than 0.05). This indicates that if the Rupiah strengthens against the US Dollar (nominal Rupiah weakens), the BOPO ratio of a bank will decrease. This confirms hypothesis 5 of this research. This result supports Dwijayanthi and Naomi's (2009) study, which found that the exchange rate has an impact on banks' performance, as appreciation (strengthening of Rupiah) will affect it. The strengthening of the Rupiah is believed to assist BUS financing customers who rely on imported raw materials for production. As a result, these customers will not have difficulty repaying the loan and can reduce operational costs for productive asset loss provisions, and lower the risk of default BUS financing. These findings differ from Rahmadhani's (2010) and Kamau et al.'s (2015) studies, which did not find any influence of exchange rate changes on banking performance.

Hypothesis 6: The variable of Zakat expenditure by the bank (ZAKAT) does not have a significant effect on BOPO, as the coefficient value is positive at 0.000628, and the t-statistic probability value is 0.7515 (more than 0.05). This indicates that hypothesis 6 of this research is rejected. This finding supports Artisa et al.'s (2014) and Rahman's (2015) research, which found no influence of social contribution, either in the form of CSR or Zakat, on the efficiency of a company or bank. This may be due to BUS's failure to maximize Zakat expenditure activities as a replacement for promotional activities to attract potential investors or customers. Zakat expenditure by the bank is only to fulfill the company's Zakat obligation. Furthermore, whether the Zakat expenditure by BUS is regular or not is believed not to increase operational costs. This is also reinforced by the fact that Zakat reports are presented as separate items from revenue and expenses (profit and loss reports). This separation aims to show that Zakat is not a burden for companies or banks in their effort to generate revenue (Amirah and Raharjo, 2014).

## CONCLUSION

The results of this research conclude that the research model simultaneously affects the ROA and BOPO of banks. Partially, foreign ownership negatively affects the ROA and BOPO of banks. Changes in Rupiah-US Dollar appreciation/depreciation negatively affect the ROA of banks but positively affect the BOPO of banks. In addition, corporate zakat expenditure has a positive effect on the ROA of banks but has no effect on the BOPO of banks.

There are several limitations in this study. The research object is limited to Islamic Commercial Banks in Indonesia that meet the criteria for sample selection. The time span of this research object is limited to the period of 2011 to 2014, due to some banks that were newly formed into an Islamic Commercial Bank from an Islamic Business Unit. This impacts the incompleteness of the financial reports of the intended bank, thus not included in the criteria for sample selection. In addition, the use of annual financial statements results in a small sample size. This study only uses three independent variables that are expected to affect the profitability (ROA) and efficiency (BOPO) of Islamic Commercial Banks in Indonesia. Furthermore, the selection of independent variables is not focused on one scope of the problem, either internal or external banking factors. This can be seen from the coefficient of determination value of this research model, which is still small for the ROA model (52.5%) and the BOPO model (26.6%).

Based on the conclusions and limitations of this study, suggestions can be given to the management of Islamic Commercial Banks in Indonesia. Islamic Commercial Banks with majority foreign ownership need not fear competing with those with majority domestic/national ownership. Although they are less profitable, Islamic Commercial Banks with foreign ownership still excel in terms of operational cost efficiency. Changes in exchange rates are unavoidable external factors for banks. Therefore, anticipation needs to be made to minimize risks, such as hedging by providing foreign currency exchange services. Islamic Commercial Banks are recommended to allocate corporate zakat every

year in accordance with religious rules and regulations applicable in Indonesia. This is believed not to affect the bank's operational costs but even increase the profitability of an Islamic Commercial Bank.

Based on the limitations of this research, it is hoped that future research will examine samples that carry out financial activities based on Islamic principles in Indonesia besides Islamic Commercial Banks, such as Islamic Business Units or Islamic People's Credit Banks. This aims to compare their performance with Islamic Commercial Banks. In addition, future research can also extend the research period to obtain a larger sample size, so that the research results are much better and do not cause bias. Finally, further research can add variables that have not been included in this study related to the performance of Islamic Commercial Banks in Indonesia. Furthermore, the scope of the problem needs to be focused on either internal factors (such as Non-Performing Financing and Third Party Funds) or external bank factors (such as Inflation and BI rate).

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