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The impact of market share and banking sector indicators to the profitability of Islamic commercial banks in Indonesia

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Abstract

This research has aimed to provide the empirical evidence from the impacts of market share of depositor funds, market share of financing, Total Equity and Size to the profitability (ROA) of Sharia commercial banks in Indonesia. Data used in this paper is secondary data panel with the samples are 4 Sharia commercial banks in Indonesia and in the period of 2010-2015. Data had been analyzed using the data panel regression. According to the result of research, it can be concluded that market share of depositor funds, Total equity and Size have positive and significant impacts to ROA, while the market share of financing has a negative and insignificant relationship to ROA.

Keywords : market share, DPK, ROA, payment, Islamic banking

Introduction

Banking sector is a pillar of Indonesia's economy and plays an important role as a financial agent. Functioned Bank has determined as prominent factor for economy itself, it brings benefits not only for bank managers but also for stakeholders such as the central bank, banker associations, and other banking authorities. Knowledge about all these factors will be beneficial to support the authorities and bank managers in formulating the future policies which increase the profits of Indonesia financial banking (Suteja & Ginting, 2014).

The efficiency and goodwill of finance performances is the main purpose which might be achieved by each bank in operating their activities. Bank capital will increase leading to rise the bank's performs. Increasing the profit is determined by the capabilities of each bank to run and this also can be achieved from the trust of shareholders and public who have invested their money like demand deposits, saving, or deposits, and other external factors which can not be influenced by bank system (Guru, Staunton, & Shanmugam, 2000).

One of indicators for assessing the financial performances of each bank is the rate of profits. According to Athanasoglou, Brissimis, & Delis (2005), the economy with the better profit performs of banking will be able to tackle the negative shock and contribute to create stabilized banking sector of countries. Based on this, for developing countries for instance Indonesia, it is a very important to monitor effectivity of bank by observing the banking performances, especially Sharia banking.

The profitability is the proper indicator to measure the banking performance. This also indicates the success rate of each bank in terms of return profit (Harahap, Wiroso, & Yusuf, 2005). Therefore, the measurement of the profitability of a company is generally using Return On Assets (ROA).

The Profitability of Sharia banking sector in Indonesia
In the Period of 2010-2015
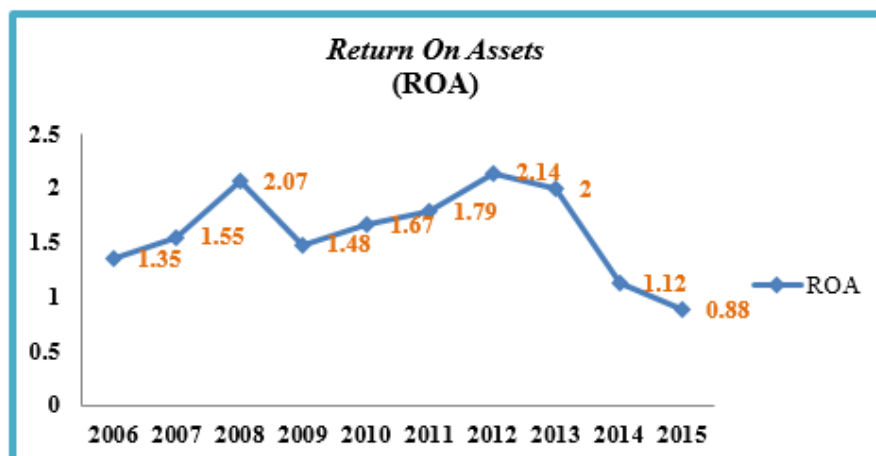
Source : The Financial Services Authority , 2016 (calculated)

By examining the profitability, there are many factors used to influence this, those ways are internal and external factors which can not be controlled by firms. According to the earlier research (Hassan & Bashir, 2005; Mirzaei, 2010; Mirzaei, Moore, & Liu, 2013) found the market share might be possibly one of significant factors which affects the profitability of banking. The companies consider the market as a key factor to analyze the power of market demand. The benefit resulting from those has indicated the profit rate since firms process whether this is market demand or the better efficiencies in achieving economy scale (Belangkaehe, Engka, & Mandeij, 2014; Talattov & Sugiyanto, 2011).

Sudana & Sulistyowati (2010) discovered the market share of Sharia banking which might be an important key of the profit's bank because the percentage of market share of depositor funds is highly enough so that this helps the bank to allocate their capital into some alternative accounts such as the financing's distribution for public who need capital, purchasing of securities like Certificate of Bank Indonesia (SBI), Wadiah Islamic Certificate of Bank Indonesia (SWBI), and other alternatives of investment.

Beside the market share of depositor funds, the market payment can be the main determinant of the profitability. Based on the definition of market share from the business perceptive is the percentage of total sales of a company (from many resources) with the total selling of services or products in the industry. According to Antonio in Ranianti (2014), the fund is one of obligation's bank to facilitate the capital stock in order to overcome the deficit of their units. The income from the funding which is managed in the better way can give positive impacts for the profitability of Sharia banking sector (Ratnawati & Ranianti, 2014).

Recently the market share of Sharia commercial banking has been dominated by the large companies such as Sharia mandiri bank, Muamalat bank, BNI Sharia bank, and BRI Sharia bank. Those have the market percentage above 4 per cent. Furthermore, these large companies which dominate Sharia banking sector will influence the bank behaviours to sustain their high profit and eventually this makes the intermediate function of bank becoming not maximum which will affect the riil sector might be hampered by the payment reason. Therefore, it is necessary to do further research to study and analyze the market share which will influence the profitability of banking (Ichsan, 2013). Although, the market share is a main factor to determine the level of profitability as a result of Sharia bank to be fully operational, the management of Sharia bank should pay attention for the internal condition of firms such as total asset and capital (equity) (Jumono, Achsani, Hakim, & Fidaus, 2015). Total assets is an approach of measurement (size) to observe how far the size of bank will determine the profitability of bank itself because each country has their own standard of total asset. Furthermore, in Indonesia according to Bank Indonesia Finance Statistics, 10 banks with the largest asset in Indonesia have market share approximately 63,3 per cent of all total asset, while total equity is used to appraise how much the impacts of capital power which is gained to support bank to get the profitability.

Return on assets (ROA) has important part in improving the performances of finance either in

a company or bank. Whether it is good or bad of firm's performance, these can be monitored quickly by the ROA, when the ROA value is sufficient, this means more valuable of the profit rate which is achieved and more powerful of bank's condition in using their asset. According to Bank Indonesia letter in 2004, the good performance of ROA has the value more than 1.25 per cent (Margaretha, 2006).

From all the background above, the identification of problems in this research covers the question that what the market share of depositor funds, the market share of financing, total equity, and size of bank have an impact for the profitability (ROA). The aim of this research is to elicit the empirical evidence about the influence of those all mention before towards the latter on.

The Influences of Market Share of Depositor Funds to The Profitability

The market share dominating by large companies causes the competition among them to reach the market share and this becomes more important because more competitive in banking industry will require the Sharia banks to absorb the fund from the third parties for their operational work. The role of depositor funds in sharia banking is the main key of obtaining the profit since the high percentage of market share of depositor funds will help bank easier to divide their capital stock into some alternative accounts. Some those alternatives is the distribution of funding of the parties who need funding (Sudana & Sulistyowati, 2010). When the third parties have more fund, then the return profit gaining of Sharia banks will be higher. According to Naylah (2010), the return profit which is reached by the market share has reflected the strength of market (this is because companies manage the market demand) or better efficiencies (because the firm reaches the economy's scale). In addition, the market share is bigger and this lead to bigger possibility to earn profit.

The influences of market share of financing to the Profitability

Moreover, the definition of market share itself based on business dictionary is the percentage of total sales of a company (from all sources) and the total selling of services and products in the industry. According to Ranianti (2014), the funding is one of essential duties of a bank to provide the fund for fulfilling the deficit finance of parties. The income from the profit as a result of funding which is managed will contribute positively to the profitability of Sharia banks (Ratnawati & Ranianti, 2014).

The Influences of Total Equity to the Profitability

The capital with the strong structure is very important for the financial institutions in the developing countries. This is because the power of capital will give extra survival rate when the financial crisis have appeared and raise the security level for all customers during unstable macro economy. Furthermore, the capital ratio with lower value in financial sector identifies the leverage and higher risk so this might cause more price for the loan cost. Therefore, banks with larger amount of capital should have more value of the profitability.

Sayilgan & Yildirim (2009) and Acaravci & Çalim (2013) stated that the ratio of total equity towards the assets has a positive impact to the profitability (ROA). Abreu & Mendes (2001) who conducted the research in Portugal, Germany, Spain, and France in the period 1986-1999 had concluded the ratio of equity to the total asset influencing the ROA positively.

The influences of Size to the Profitability

The size of company with the total assets reveals how many the assets which have owned by a company. A company with the large quantity of assets will optimize its resources to earn the maximum profit, and vise versa for a company with a small quantity of assets will gain the profit as much as its assets.

Hypotheses

Based on the elucidation above, in this research the hypotheses is proposed below: 1) Market share of depositor funds has a positive influence to the profitability 2) Market share of financing has a positive impact to the profitability 3) Total Equity has a apositive correlation to the profitability 4) Size or total asset has influenced positively to the profitability

Table 1.
Definition of Variable Operational

No.	Variable	Definition	Measurement
1	*Return On asset*	This ratio used to estimate the profitability of banking sector	$ROA = \dfrac{Laba\,Sebelum\,Pajak}{Total\,Asset} \times 100\%$
2.	Market share of financing	Ratio used to calculate the market share of financing of banking for a year	$MSP = \dfrac{\sum Pembiayaan\,yang\,diberikan\,Bank}{\sum Seluruh\,pembiayaan\,yang\,diberikan\,BUS}$
3.	Market share of depositor funds	Ratio used to estimate the market share of depositor funds of banking sector for a year	$MSDPK = \dfrac{Total\,Dana\,Pihak\,ketiga}{Total\,DPK\,seluruh\,BUS}$
4.	Total Equity	The amount of privilege or claim of company's owner for the total equity or this is also can be stated that the total equity netto which is owned by acompany	$Total\,Equity = \dfrac{Total\,Equity}{Total\,Asset} \times 100$
5.	*Size*	Variable of Size describes the amount of assets which is owned a bank	$ASSET = Total\,Aset\,of\,Bank\,i$

Sources : Dendawijaya (2009), Sudana & Sulistyowati (2010)market share deposits became a crucial factor in banking sector. This research purposed to study the impact of market share deposits to return on assets at commercial bank from 2003-2005 in Indonesia with capital adequacy ratio (CAR, Suteja & Ginting (2014)

Research Methodology

The type of research is explanatory which refers to the research to evaluate the casualities between identified variables (causal relationship) (Sekaran & Bougie, 2010). For the purpose of research, this method is an analytical research and it is likely well-known as explanatory research due to not only this methodology does explain varieties of variable but also it analyze and measure all correlations among those variables. Moreover, this research can be also identified as quantitative research if we concern from the process's perceptive since we collect and analyze numerical data and evaluate it using relevant test statistics.

Data used in the research is secondary data which covers the finance report quarterly of Sharia banks for period 2010-2015. The population for this is Sharia banks in Indonesia for the same period. Specifically, the table for population and samples are described below:

Table 2.

No.	Sampling	Information
1.	population	Sharia banks in Indonesia for period 2010-2015
2.	Sample methodology	Purposive sampling
3.	Sample criteria	Sharia banks which have the market share more than 4% The finance report which has been announced contains basic variables in relating to the research.

From the table above, the total samples which are sufficient in the research is about 4 large companies with the greatest market share such as Bank Muamalat Indonesia, Bank Sharia

Mandiri, Bank BNI Sharia, Bank BRI Sharia.

This research to examine the influence of market share of depositor funds funding, market share of financing, total equity, and size to the profitability (ROA). Testing of the model using the data panel regression model which combined cross section data and time series. The first stage is by determining the data panel model Pool Least Square (PLS) Model, Fixed Effect (FE) Model, and Random Effect (RE). The second step is through classic assumption demonstrating that the model being used to be clear from the autocorrelation of the disturbance and heteroscedasticity. Finally, there was the examination to observe the correlation beween independent variables to dependent variable. The software to statistics testing is STATA 13.

Regression model formulated to test the hypotheses is explained following:

$$ROA = b_0 + b_1 \text{ MS DPK } it + b_2 \text{ MS Payment } it + b_3 \text{ TE } it + b_4 \text{ SIZE } it + \mu \text{ } it$$

Which:

ROA	= Return On Asset (The Profitability)
MS DPK it	= Market Share of Depositor Funds
MS Payment it	= Market share of Financing
b_3 TE it	= Equity to total asset
b_4 SIZE	= Total Aset / Size

Result

The descriptive Analysis

The descriptive analysis for each variable in this research can be explained below:

VARIABLE		Mean	Std. Deviation	Min	Max
ROA	Overall	0.0114052	0.014005	0.0005	0.1289
	Between		0.051394	0.0060917	0.0177333
	within		0.0132711	0.0042281	0.1271219
MSDPK	Overall	0.0178339	0.0114464	0.0006	0.04
	Between		0.127787	0.0069646	0.0331292
	within		0.0026945	0.010813	0.0247047
MSP	Overall	0.061	0.0088354	0.0001	0.0269
	Between		0.0096271	0.0005	0.0204625
	Within		0.002797	-0.00587	0.0125375
EQUITY	Overall	0.1013583	0.0922239	0.547	0.9435
	Between		0.404486	0.0710082	0.1573583
	within		0.852365	0.0297	0.8875
SIZE	Overall	16.93234	0.7959852	15.184	18.0753
	Between		0.7539711	16.23652	17.72383
	within		0.4502781	15.77597	17.64662

Return On Asset (ROA) has the smallest (minimum) which is approximately 0.05% and the largest (maximum) about 12.8% with the average 1.4%. When it has referred to the standard of ROA based on Bank Indonesia regulation Number 6/9/PBI/2004 which is about 1.5%, then the

average of ROA of the Sharia commercial bans might have not good enough and this has to be risen more.

Market share of depositor funds (MSDPK) has the lowest value (minimum) about 0.66% and the largest (maximum) 4% and the average about 1.80%. Meanwhile, the standard deviation is about 1.44%. This shows that the average of MSDPK of Sharia commercial banks in Indonesia for the last five years (2010 – 2015) is about 1.80% which can be described as small enough and should be risen.

Market share of financing (MSP) has the lowest value (minimum) is 0.01% and the largest (maximum) 2.69% and the average about 6.1%. Meanwhile, the standard deviation is about 0.88%. This shows that the average of MSP of Sharia commercial banks for the last five years (2010 – 2015) is about 6.1% which can be described as small enough and should increase.

The Total Equity ratio for the smallest value (minimum) is approximately (maximum) 94.5%. Following the order in the Total Equity from the Bank Indonesia rule Number.8/10/DPBS/2006 the average of Total Equity for Sharia commercial banks which is around 10.13 % can be categorized as adequate.

Size Ln has the lowest of (minimum) is 15.1% and the highest (maximum) is 18.07% also the average is 16.9%. On the other hand, the stardard deviation is about 0.79%. By the average of size in the last five years (2010 – 2015) which has reached 16.09% shows the Total assets from all Sharia commercial banks quite enough and it is converted costly more than 200 trillion rupiah.

From the explanation above, it shows that as average for overall variables have the tendencies to increase, all variables has fluctuated from month to month. From the table, as can be seen that the standard deviation from each variable has the patern as same as the tendency of average value from these variables.

Classical Assumption Test

In the regression of data panel, the classic assumption which had been removed is heteroscedasticity and autocorrelation. From the testing of homoskedastic using Breusch-Pagan LM Test Independence, the result was about 0.0118 p-value < 0,05 which represented the model in this research carrying heteroscedasticity phenomenon. After we were doing log in the data, the regression model might passed out the heteroscedasticity problem.

Next step, there was autocorrelation testing. This test used Wooldridge Test Autocorrelatio. From the estimation of woldridge test, it shows that the value of chi-square significantly (p-value 0,1140 more than 0,05) which means the testing succeeded removing the autocorrelation problem.

Model Analysis

The analysis of the regression model for data panel, in this research used Fixed effect as the fittest model. The regression model testing also used analysis of varians (ANOVA) test which was discovered by fisher (known as F test). This method is the tool of analysis which explains how many the variances explained by the regression lines/model (Gujarati & Porter, 2009). The result of F test using stata 13 software can be described as Fixed Effect model following:

Table 3.

The result fixed effect regression

Model	Coefficient	t.	Sig
MSDPK	1.158035	5.61	0.000
MSP	.3348226	1.64	0.105
Total equity	.1366136	21.12	0.000
Size	.0060926	4.78	0.000
_cons	-.1282982	-5.65	0.000

Based on the result of Fixed Effect model, it is clearly that the regression model:

$$\text{ROA} = -0,1282982 + 1,158035\ \text{MSDPK}_{it} + 0,3348226\ \text{MSP}_{it} + 0,1366136$$
$$\qquad\qquad\qquad (0,000) \qquad\qquad (0,105) \qquad\qquad (0,000)$$
$$\text{TE}_{it} + 0,060926\ \text{SIZE}_{it}$$
$$\qquad (0,000)$$

From the regression model testing in Fixed Effect resulted by 0.4206 or about 42.06% which has impact to ROA of syariah banking in Indonesia. This means 42% can be explained by variable of market share of depositor funds, and market share of financing, total equity, and size, while it has remaining about 57.94 per cent can be influenced by other variables which are not included in the model.

According to t test analysis using the STATA 13 software, it can be shown that the correlation of each independent variable to the profit rate of Sharia commercial banks. The regression coefficient testing which held partially showing:

From the research, the variable of market share of depositor funds (DPK) has the value t estimation by 5.61, while the value of t table 1.98637 (t_estimation > t_table) and the coefficient value 1.158035, then those show that market share of depositor funds (MSDPK) has influenced positively to Return On Asset (ROA). The probability with lower than 0.05 is about 0.000, which means that the variable of market share of depositor funds (MSDPK) has no significant impact to ROA.

From the observation, the variable of market share of financing has the value t estimation by 1.64, while the value of t table 1.98637 (<) and the coefficient value 0.3348226, then those show that the measurement of market share of financing (MSP) has a negative correlation to Return On Asset (ROA). The probability with lower than 0.05 is about 0.105, which means that the variable of market share of financing (MSP) has no subtantial impact to ROA.

From the observation, the variable of Total Equity had been obtained so t estimation about 21.12, while the value of t table is1.98637 (<) and the coefficient value 0.1366136, then this proved that total equity (TE) has positive influence to Return On Asset (ROA). The probability with lower than 0.05 is about 0.000, which means that the variable of total equity has significant influence to ROA.

From the observation, the variable of size which is obtained as t value approximately 4.78 whilst the value for t table is about 1. 98637 (<) and the coefficient value 0.0060926, then this shows size has a positive relationship to Return On Asset (ROA). The probability with lower than 0.05 is about 0.000, which means that the variable of size has significantly affected to ROA.

Discussion

Simultaneously, the variable of market share of depositor funds, market share of financing, total equity, and size have influenced in the profitability (ROA). The value of is about 0.4206 or 42.06 % has influenced in ROA of Sharia commercial banks in Indonesia. This means 42% can be explained by the variable of market share of depositor funds and market share of financing, total equity, and size, meanwhile the remaining of 57.94% is affected by other variables which are not included in the model.

The influences of market share of depositor funds to the Profitability

The result of this hypothesis shows the variable of market share of depositor funds (MSDPK) has given impacts positively and significantly to return on asset with the level of significance 5%. This show when the percentage of third parties funding of BUS increases, then the ratio of ROA of BUS will increase as well.

Putranto, Herwany, & Sumirat (2012) reported the market share of depositor funds (MSDPK) has the positive correlation since higher percentage of third party funds owned by bank will optimize the offering of products from sharia banking sector. This is relevant to Taswan's statement (2010) that by raising the amount of fund from the third party as the main resources of funding, bank managed the funding to be productive activa, for instance the financing. Placement in the payment will contribute the nisbah income for bank which will affect the profitability (the bank's profit).

This result is also supported by Hardi's research (2012) which stated that the market share of depositor funds (DPK) has tendency to increase, followed by the internal factors in the company. Those factors such as services and good security will be more beneficial to stimulate and attract people to invest their money in the bank. More valuable and more appropriate the services so more funding the third parties which can be earned by bank then this also can increase the profitability of BUS.

The influences of market share of financing to Profitability

The result of these hypothesis shows that variable of market share of financing has influenced negatively and not significantly with the level of confidence more than 5% so that the high level of market share of financing in Sharia banking sector is believed disfunctioning to the increase of ROA. This fact could be concluded because of many aspects, one of them is the amount of the risks from financing which has being borne by Sharia banks in Indonesia. The high level of NPF would probably deter Sharia banks to get the maximum profit. This is also relevant to Sari's research (2015) which stated that when the financing rate of banking becomes higher, so the financing risk (credit risk) also increases.

Dendawijaya (2009) suggested that the availability of higher NPF causes loss of opportunity to obtain the income from the financing services so this also reduces the bank's profit and influences negatively to the profitability of banking in general. The solution of this problem is controlling the risks caused by debts in the distribution process as the instruction in PBI Number 14/23/PBI/2011 which obligated that doing the migitation risks through evaluating the behaviours, capabilities, capitals, guarantees, and prospectus which are known as 5C principles (character, capital capacity, collateral, and condition of economy) and 7P (personality, purpose, prospect, payment, profitability, and protection) and construct in Sharia banking sector (Ramadiyah, 2014).

Another factor which affects the market share of financing of small companies is the lack of variety of products (Newstren.com,2016). This statement is relevant to the previous research conducted by Hardi (2012) and Jumono et al. (2015), revealed that Sharia banking sector might have produced the innovative products which are appropriate with the customer's need so more people will be engaged with the services.

The influences of Total Equity to the Profitability

The result of research in the hypotesis shows that variable of Total Equity has positive and significant impacts to Return On Asset with the level of confidence about 5 per cent. This can be shown by the increase of Total Equity will raise the profitability of company (ROA). This data is relevant to the previous research which were conducted by Suteja & Ginting (2014), Sufian & Chong (2008), in which the equity total assets has positive and significant influence to the profitability (ROA). In addition, this is also fitted with other research from Staikouras && Wood (2004), Goddard, Molyneux, & Wilson (2004a, 2004b), Pasiouras & Kosmidou (2007), Dietrich & Wanzenried (2011, 2014), and Petria, Capraru, & Ihnatov (2015) which stated that generally the companies with the high equity would have the lower risks of bankruptcy and then have diminished their costs.

The increase of Rasio Total Equity will rise the company's profitability (ROA). Banks with larger Total Equity ratio will be much easier to expand their operational using their own equity. They

can enlarge their scale to increase their profitability, therefore the high equity in the banking sector will reduce the total costs in the company's operation. When the companies have lower equity, this will affect their efforts to expand the operational scale. In order to develop their scale, the companies require more fund from the third party in which they also spend higher costs to cover it, then the companies should have the sufficient equity.

The adequate capital has important role for the financial institutions in the developing countries which are vulnerable towards the financial crisis from other countries. The capital will give the additional support for surviving in the crisis and also improve the security to deposit during the unstable macro economy's situation. Besides, lower capital ratio in the finance industry has indicated the leverage and risks with higher level so this causes the debt's cost becoming higher.

The Influences of Size to The Profitability

The result of hypothesis shows the variable of size affected positively and significantly to Return On Asset with the level of confidence 5 per cent. This indicates the increase of size or Total Asset of Sharia banks will rise the company's profitability (ROA).

This result is consistent with the research which were conducted by Suteja & Ginting (2014), Sudana & Sulistiyawati (2010), Ruziqa (2013), and Menicucci & Paolucci (2016) and declared that variable of size has the positive relationship with the bank's profitability (ROA). The companies with large size have big opportunity to obtain the funding from difference resources, so their chances to get funding from creditors will be higher since these companies have higher probability whether they want to compete or to survive in the industry. By measuring the size of company with their assets determines how much the amount of properties which are belong to a company. The companies with the great amount of assets will use their resources as much as they can to gain maximum and efficient of the return profit. On the other hand, the companies with the small amount of assets will earn the return profit with small quantity.

According to data from the Financial Services Authority, the total assets of Sharia commercial banks have more than 300 billion rupiah. This is still below standard comparing to the total assets owned by the conventional banks. One of factors for that is due to the lack of support from the government. According to Infobanknews.com commented that if the government can probably formulate the appropriate regulation and also invest its capital into accounts in Sharia commercial banks through providing some projects, then these banks will have not a large gap comparing to the conventional banks. Therefore, in the future Sharia commercial banks are expected to improve their systems so those might distribute the varieties of products with the proper targets and beneficial for public so its discrepancies are not as much as the conventional banks.

Conclusion

From this research can be concluded that the market share of depositor funds (MSDPK) has influenced positively and significantly to return on asset (ROA). This shows that when the percentage of the market share increases, this will also raise the ratio of ROA. Moreover, this research also discovered that the market share of financing (MSP) might have the negative and no significant impacts to return on asset (ROA). Although the percentage of market share of financing for Sharia commercial banks increases, this fact has no influences to the ratio of ROA. This research has proved that the total equity (TE) affects positively and dramatically to return on asset (ROA). The evidence is when the percentage of total equity ratio increases, the ROA ratio also rises. Finally, the research also depicts that the bank size has positively and significantly in correlation to return on asset (ROA). This can be described as when the total equity of Sharia commercial banks becomes larger, the ROA ratio increases.

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