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The Effect of Financial Performance and Transparency on Profit Distribution Management at Islamic Commercial Banks in Indonesia

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ABSTRACT: *This study aims to analyze and apply the effect of performance and transparency on profit distribution management at Islamic Commercial Banks in Indonesia. The population in this study were all Islamic Commercial Banks in Indonesia, totaling 13 banks with the period 2021 - 2023. Sampling using purposive sampling so that 59 samples were obtained. The analysis technique uses multiple regression analysis with hypothesis testing using the F test and t test. The results showed that simultaneously the financial performance and transparency variables affect profit distribution management at Islamic Commercial Banks in Indonesia. Partially, financial performance including capital adequacy ratio, non-performing financing, net interest margin affects profit distribution management at Islamic Commercial Banks in Indonesia. While financial performance partially includes financing to deposit ratio, cost to income and loan assets have no effect on profit distribution management at Islamic Commercial Banks in Indonesia. Transparency variables partially affect profit distribution management at Islamic Commercial Banks in Indonesia.*

KEYWORDS – *Financial Performance, Transparency, Profit Distribution Management*

I. INTRODUCTION

One of the developments in Islamic banking can be seen in the increase in bank profits. Increased bank income can stimulate investor interest in making new investments. Investors can make capital investments to develop their business and achieve higher profit distribution. Therefore, the management of Islamic banks must pay close attention to the level of profit sharing through profit distribution management profit distribution management is an activity carried out by managers in managing profit distribution to fulfill the profit sharing obligations of Islamic banks to their customers (Kartika & Adityawarman, 2014).

One way to increase profit distribution is to improve financial performance while providing transparency to investors, depositors, and customers. According to Lahrech et al., (2014) company performance has a strong correlation with profit sharing which has an impact on the distribution of profits by managers to fulfill profit sharing obligations to their depositors Lahrech et al., (2014) further explained that transparency has an important effect on accounting regulations and also investor profits. Investor profits are influenced by the management of profit distribution, where the function of bank management is as an institution that collects funds and manages depositor and customer funds.

The performance of a company can be measured using ratios. These ratios are measured using data obtained from the company's annual financial statements. In addition, the ratios can also be used to monitor the financial health of the company. One of the models used to measure company performance, especially Islamic banking, is the CAMELS financial ratio model, which includes capital adequacy ratio, non-performing financing, net interest margin, financing to deposit ratio, cost to income and loan assets (Muhammadinah, 2021).

Capital adequacy is a ratio used to measure capital adequacy. The greater the capital adequacy ratio, the healthier the bank is in carrying out its functions (Rachman & Siswantoro, 2017). Based on the provisions of the Bank for International Settlements, a healthy bank must have a capital adequacy ratio of at least 8% (Sihite & Wirman, 2021). A high capital adequacy ratio allows banks to minimize the possibility of risks that cause bank managers to carry out profit distribution management wider than asset returns because the bank is in a safe condition (Yunita et al., 2019). Agency theory explains how the capital adequacy ratio affects management decisions because it reflects the company's ability to bear risk, so management must consider it when determining the amount of profit that can be distributed to shareholders in using and allocating company funds so that the higher the capital adequacy ratio, the higher the profit distribution management (Umiyati & Muthya, 2016). In research conducted Farook (2012) and Lahrech et al., (2014) found that there is a positive relationship between the capital adequacy ratio and profit distribution management. Strengthened by research Permatasari & Adityawarman, (2015) and Kartika & Adityawarman, (2014) suggests that there is a positive relationship between the capital adequacy ratio and profit distribution management.

Financing risk is used to measure the level of financing problems faced by Islamic banks (Mulyo & Mutmainah, 2019). Financing risk can be measured using the ratio of non-performing financing. The higher the number of non-performing financing ratios, the worse the quality of Islamic bank financing (Nengsih, 2020). Good quality financing means that the amount of non-performing financing is less, this makes the bank in good condition because losses due to substandard financing are smaller (Rahman et al., 2023). The existence of high financing risk prevents banks from having the opportunity to obtain income from the financing provided, which also affects profit generation and can reduce the profit sharing rate at Islamic banks. In research Rahman et al., (2023) stated that there is a positive relationship between non-performing financing and profit distribution management. Then, research Andriana et al., (2022) the greater the value or increase in NPF, the worse the impact on operational and financial performance. However, in the research of Mismiwati (2018), and Aprilianto et al., (2018) non performing financing has a negative effect on profit distribution management. The greater the value or increase in non-performing financing, the worse the impact on operational and financial performance. This happens because each Islamic bank has good financing activities, due to safe capital adequacy, reducing non-performing financing. Agency theory is relevant to non-performing financing and profit distribution management because it considers how management manages risks related to non-performing financing and its impact on profit distribution management. Agency theory emphasizes the conflict of interest between management and shareholders, where management may tend to distribute profits despite the increased risk of non-performing financing, while shareholders want the sustainability and stability of the company (Nura et al., 2023). Therefore, profit distribution management should take agency theory into account by ensuring that the profit distribution policy is adjusted to a healthy level of non-performing financing, maintaining a balance between the short-term and long-term interests of shareholders, as well as the stability of the company.

Effectiveness of depositors funds is a reflection of the bank's intermediary function, namely in channeling third party funds to financing, calculated using the financing to deposit ratio (Kartika & Adityawarman, 2014). According to Bank Indonesia, the higher the financing to deposit ratio, the better the health level of the bank, because the financing channeled by the bank is smooth, so that the bank's income increases. Banking performance is expected to have a strong correlation with profit sharing (Lahrech et al., 2014). A high financing to deposit ratio indicates a high level of financing and has an impact on increasing the return that will be generated from financing. This will automatically increase the level of profit sharing. Agency theory helps in understanding the interests of agents (banks) and principals (depositors) as well as the bank's efforts to maintain a balance between the profits earned and the risks faced by depositors. Thus, Islamic banks need to utilize agency theory in managing their financing to deposit ratio in order to provide fair and balanced returns to depositors (Wahyu, 2016). According to the results of previous research conducted by Lahrech et al., (2014) suggested that there is a positive relationship between financing to deposit ratio and profit distribution management. As reinforced by research conducted by Doni & Africano, (2017), Kartika & Adityawarman, (2014) stated that there is a positive relationship between financing to deposit ratio and profit distribution management.

Cost to income ratio is a ratio that compares the cost structure with the income of a bank. The greater the cost to income ratio, the smaller the level of profit distribution. (Permatasari & Adityawarman, 2015). Permatasari & Adityawarman (2015) stated that the cost to income ratio also has a negative effect on profit distribution management. By considering the interests of agents (banks) and principals (depositors), agency theory guides Islamic banks in setting strategies that minimize the cost to income ratio without sacrificing service quality or compliance with sharia principles. Net interest margin shows the bank's ability to generate income based on the performance of Islamic banks in channeling financing, considering that the bank's operating income is highly dependent on the difference between the spread and the financing channeled (Yunita et al., 2019). According to the results of previous research conducted by Farook (2012) and Lahrech et al., (2014) who used samples of Islamic banks from various countries, suggested that there is a positive relationship between net interest margin and profit distribution management.

The asset composition of Islamic banks, particularly the exposure to fixed-rate financing, may affect the extent to which banks manage the distribution of profits to depositors (Jufra et al., 2022). The amount of asset composition determines the amount of return that will be returned, so that Islamic banking can determine the amount of profit distribution management. The ratio of loan assets to total assets determines the level at which Islamic banks apply profit distribution management to compensate for the income gap in market conditions due to fluctuations in interest rates (Farook et al., 2012). The higher the ratio of loan assets to total assets, the higher the level of profit distribution management. Research results Farook et al. (2012) found that loan assets to total assets are positively related to the level of profit distribution management. Also supported by research Mulyo & Mutmainah, (2019) and Kartika & Adityawarman, (2014) found a positive relationship between the ratio of loan assets to total assets to profit distribution management.

According to Lahrech et al., (2014) disclosure at the level of calculation of returns and profit allocation is very important to prevent banks from manipulating profits distributed to IAH_s. Transparency is expected to increase public trust in national banking (Hariyati et al., 2017). Transparency is measured using the global transparency ratio. disclosure of the global transparency ratio is to measure the overall transparency disclosure item which includes the general transparency ratio and the unrestricted investment account ratio. In research Lahrech et al., (2014) revealed that the global transparency ratio has a positive coefficient or positive relationship with profit distribution management. In research Farook et al., (2012) added that there is a relationship between the global transparency ratio and profit distribution management. In the global transparency ratio, the higher the global transparency ratio, the more transparent the data known to investors, customers and depositors

This study aims to analyze and apply the effect of financial performance including capital adequacy ratio, non-performing financing, net interest margin, financing to deposit ratio, cost to income and loan assets and transparency on profit distribution management at Islamic commercial banks in Indonesia..

II. LITERATURE REVIEW

2.1. Agency Theory

Agency theory is emphasised to address two problems that can occur in agency relationships. The first is the agency problem that arises when the desires or goals of the principal and agent conflict with each other and it is difficult for the principal to verify whether the agent has done something right. Second, the risk-sharing problem that arises when the principal and the agent have different attitudes towards risk (Sulastri et al., 2021).

2.2. Profit Distribution Management

Bank Indonesia explains that profit distribution is the distribution of Islamic bank profits to depositors based on the agreed ratio every month. profit distribution is one of the ways or strategies developed in the company to maintain stakeholders (Wat et al., 2019). Profit distribution management can be interpreted as an activity carried out by managers in managing profit distribution to fulfill the profit-sharing obligations of Islamic banks to their depositors (Farook et al., 2012). Profit distribution management refers to the interest rate (Sundararajan, 2005). The profit sharing distribution method is an indirect factor in determining the amount of profit sharing that will be distributed. According to Bank Indonesia, profit sharing distribution is the distribution of Islamic bank profits to depositors based on the agreed ratio every month. To calculate profit distribution management uses asset spread. Asset spread is the absolute spread between return on assets (ROA) and average return investment account holders funds which is the average return for depositors. Asset spread considers all income and expenses and provides the spread between the total asset return on bank assets and the distribution given to depositors.

2.3. Financial Performance

One of the models used to measure company performance, especially Islamic banking, is the CAMELS financial ratio model including capital adequacy ratio, non-performing financing, net interest margin, financing to deposit ratio, cost to income and loan assets (Muhammadinah, 2021).

2.3.1. Capital Adequacy Ratio

Capital adequacy ratio is a capital adequacy ratio that serves to cover the risk of losses that may be faced by the company. Capital adequacy ratio shows the extent to which the decline in bank assets can still be covered by the bank's available capital. The higher the CAR, the better the condition of a bank. The greater the capital adequacy ratio, the smaller the ratio of a bank (Patarowo Hartanto et al., 2022). The greater this ratio, the health of the bank is said to be good. This is because the amount of capital owned by the bank is able to cover the risk of losses arising from the investment of funds in productive assets that contain risk, and can be used to finance investment in fixed assets and investment. In accordance with Bank Indonesia regulation No.10/15/PBI/2008, every bank operating in Indonesia, both conventional and Islamic banks are required to have a capital adequacy ratio of at least 8% (Andriasari & Munawaroh, 2020).

2.3.2. Non Performing Financing

The value of non-performing financing is used because it is an indicator of the distribution of financing of an Islamic bank, where the distribution of financing is the main business of the bank in generating profits (Wibisono & Rodhiyah, 2012). The greater the value or increase in non-performing financing, the worse the impact on operational and financial performance. Financing risk can be calculated by using the ratio between total non-performing financing with return not according to the agreed schedule and total financing as a whole (Rahman et al., 2023).

2.3.3. Financing to Deposit Ratio

Financing to deposit ratio is the ratio between the amount of financing provided by the bank and third party funds received by the bank (Somantri et al., 2020). The financing to deposit ratio is determined by the ratio between the amount of financing provided and public funds collected, which includes demand deposits, time deposits (deposits), and savings. The financing to deposit ratio states how far the bank's ability to repay withdrawals made by depositors by relying on credit provided as a source of liquidity. The greater the credit, the higher the income earned, because the income increases automatically the profit will also increase. Based on the provisions of Bank Indonesia circular letter No.6/23 / DPNP dated May 31, 2004, Indonesia uses a standard Financing to deposit ratio of 80% to 110%. If the Financing to deposit ratio is below 80%, for example 60%, this indicates that the bank can only distribute 60% of all funds raised (Rahman et al., 2023).

2.3.4. Cost to Income

The cost to income ratio is shown to measure the bank's ability to generate net income in terms of its operating income. Cost to income is measured using total costs divided by total income. Cost to income compares the cost structure with the income of a bank (Mismiwati, 2018).

2.3.5. Net Interest Margin

The fourth factor of the CAMELS model financial ratios is earning. The earning aspect is one of the factors that show the bank's ability to earn profits seen from the resources owned. One indicator in measuring the earning factor is the net interest margin (Setiyaji & Pardistya, 2022).

2.3.6. Loan Asset To Total Asset

Financing is one of the main tasks of the bank, namely the provision of funding facilities to meet the needs of parties who are deficit units (Mismiwati, 2018). Financing is the provision of money or bills that can be equated with it, based on approval Asset composition of an Islamic bank, especially those with fixed interest rate financing exposure, can affect the extent to which the bank manages profit distribution to depositors. Asset composition is calculated using the ratio of loan assets to total assets. Islamic banks' loan assets to total assets refers to fixed-rate financing (receivables side). This type of financing uses a price and profit level agreed at the beginning of the contract. As long as the contract is ongoing and payments are made in installments, time is running out. loan assets and total assets can be seen in the statement of financial position.

3. Transparency

Transparency is needed in various companies in this study, namely Islamic banks, is needed as a place for accurate disclosure, and also as relevant information in a timely manner. Such disclosures should be in the form of quantitative as well as qualitative information that will enable the parties involved to make a proper assessment of the bank's operational activities. In addition, to be able to evaluate the level of risk involved in its operations (Lahrech et al., 2014). This shows the importance of disclosure items in determining the level of transparency in Islamic banks.

In this study, transparency is measured using information disclosure items that list the main standards set by the IFSB relating to transparency in general and disclosure of profit distribution. A number of standards are set by the IFSB, also known as the Islamic financial services board, which are useful in providing references to improve transparency among Islamic institutions.. The IFSB standards measure capital structure as an assessment of the entity's financial health, assess the overall risk profile by reviewing the level of capital adequacy, assess Islamic financial institutions in terms of risk to investment account holders (IAH_s), and assess the risk to Islamic financial institutions in terms of the level of capital adequacy (Doni & Africano, 2017).

Based on existing theory and supported by previous research, the hypotheses in this study are:

H1 : Capital adequacy ratio has a positive effect on Profit Distribution Management
H2 : Non-performing financing has a positive effect on Profit Distribution Management
H3 *:* Financing to Deposit Ratio has a positive effect on Profit Distribution Management
H4 *:* Cost to Income has a negative effect on Profit Distribution Management
H5 *:* Net Interest Margin has a positive effect on Profit Distribution Management
H6 *:* Loan Asset/Total Asset has a positive effect on Profit Distribution Management
H7 *:* Transparency has a positive effect on Profit Distribution Management
H8 : Financial Performance and Transparency have a positive effect on Profit Distribution Management

III. METHOD

The population for this study is all Islamic commercial banks for the 2021-2023 period, namely 13 Islamic commercial banks. The sample is part of the population that is considered to represent its characteristics (Sekaran & Bougie, 2017). The sampling technique used is purposive sampling, namely ways of sampling using predetermined criteria in accordance with the research objectives. The data analysis technique used to answer the problem formulation uses multiple regression analysis techniques with hypothesis testing using the t test, F test and coefficient of determination (R^2).

IV. FIGURES AND TABLES

4.1. Descriptive Statistics

Table 1. Descriptive Statistics of Research Variables

Variables	N	Minimum	Maximum	Mean
Capital Adequacy Ratio	59	.1512	5.0643	.463144
Non Performing Financing	59	.0000	.0883	.024395
Financing to Deposit Ratio	59	.0000	1.5206	.778727
Cost to Income	59	.3462	4.1339	.738959
Net Interest Margin	59	.0047	.2732	.065468
Loan Asset to Total Asset	59	.0000	.7406	.315522
Transparansi	59	.4516	.8387	.724440
Profit Distribution Management	59	-.0892	.0713	.005922

Based on table 1, it can be explained that the minimum value of the Capital Adequacy Ratio owned by Islamic Commercial Banks is 15.12%, the maximum value is 506.43% and the average value is 46.3144%. The average value of the Capital Adequacy Ratio of 46.3144% indicates that in general the capital adequacy ratio owned by Islamic Commercial Banks in Indonesia which functions to cover the risk of losses it may face is in good condition in accordance with the provisions set by Bank Indonesia of at least 8%.

The minimum value of non-performing financing is 0.00%, the maximum value is 8.83% with an average value of 2.4395%. The average value of 2.4395% indicates that the ratio of non-performing financing owned by Islamic Commercial Banks in Indonesia is in good condition in accordance with the provisions set by Bank Indonesia at a maximum of 5%.

The minimum value of financing to deposit ratio is 0.00%, the maximum value is 152.06% with an average value of 77.8727%. The average value of 77.8727% indicates that the ratio of the ability of Islamic Commercial Banks in Indonesia to channel funds has not functioned properly because it is not in accordance with the provisions set by Bank Indonesia ranging from 80% - 110%.

The minimum cost to income ratio value is 34.62%, the maximum value is 413.38% with an average value of 73.8959%. The average value of 73.8959% indicates that the ratio of the ability of Islamic Commercial Banks in Indonesia to make expenses of 73.8959% to generate operating income.

The minimum net interest margin value is 0.47%, the maximum value is 27.32% with an average value of 6.5468%. The average value of 6.5468% indicates that the ratio of the ability of Islamic Commercial Banks in Indonesia to generate net income is functioning properly because it is in accordance with the provisions set by Bank Indonesia above 2%.

The minimum value of the loan asset to total asset ratio is 0.00%, the maximum value is 74.06% with an average value of 31.5522%. The average value of 31.5522% indicates that the asset allocation ratio of Islamic Commercial Banks in Indonesia in the form of loans is 31.5522%.

The minimum value of transparency is 45.16%, the maximum value is 83.87% with an average value of 72.444%. The average value of 72.444% indicates that the transparency index of Islamic Commercial Banks in Indonesia is only 72.444%.

The minimum value of the profit distribution management ratio is -08.92%, the maximum value is 7.13% with an average value of 0.5922%. The average value of 0.5922% indicates that the profit distribution of Islamic Commercial Banks in Indonesia to customers is only 0.5922%.

4.2. t Test

Table 2. t-Test Results

Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-2.295	.362		-6.332	.000
	Capital Adequacy Ratio	.268	.058	.875	4.599	.000
	Non Performing Financing	11.734	1.777	.468	6.605	.000
	Financing to Deposit Rasio	.011	.009	-.112	-1.264	.212
	Cost to Income Rasio	.010	.007	..297	1.452	.153
	Net Interest Margin	.104	.030	.324	3.472	.001
	Loan Asset to Total Aset	.008	.010	.073	.752	.456
	Transparency	.027	.012	.114	2.138	.037

Based on table 2, it is known that the significance value of the Capital Adequacy Ratio variable is 0.000 <0.05, which means that the hypothesis is accepted. This shows that the Capital Adequacy Ratio variable has a significant effect on Profit Distribution Management.

The significance value of the Non Performing Financing variable is 0.000 <0.05, which means that the hypothesis is accepted. This shows that the Non Performing Financing variable has a significant effect on Profit Distribution Management.

The significance value of the Financing to Deposit Ratio variable is 0.212> 0.05, which means that the hypothesis is rejected. This shows that the Financing to Deposit Ratio variable has no significant effect on Profit Distribution Management.

The significance value of the Cost to Income Ratio variable is 0.153> 0.05, which means that the hypothesis is rejected. This shows that the Cost to Income Ratio variable has no significant effect on Profit Distribution Management.

The significance value of the Net Interest Margin variable is 0.001 <0.05, which means that the hypothesis is accepted. This shows that the Net Interest Margin variable has a significant effect on Profit Distribution Management.

The significance value of the Loan Asset to Total Asset variable is 0.456> 0.05, which means that the hypothesis is rejected. This shows that the Loan Asset to Total Asset variable has no significant effect on Profit Distribution Management.

The significance value of the Transparency variable is 0.037 <0.05, which means that the hypothesis is accepted. This shows that the Transparency variable has a significant effect on Profit Distribution Management.

4.3. F Test

Table 3. F Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	**Regression**	.025	7	.004	48.407	.000b
	Residual	.004	51	.000		
	Total	.029	58			

Based on the results of the F statistical test presented in table 3, it is known that the significance value is 0.000 <0.05, which means that the hypothesis is accepted. This shows that simultaneously the financial performance variables which include capital adequacy ratio, non-performing financing, net interest margin, financing to deposit ratio, cost to income, loan assets and transparency affect Profit Distribution Management.

V. CONCLUSION

Based on the results of the data analysis that has been done, the conclusions in this study are that partially financial performance which includes Capital Adequacy Ratio, Non Performing Financing, Net Interest Margin Transparency has a positive effect on Profit Distribution Management at Islamic commercial banks in Indonesia. Partially, financial performance which includes Financing To Deposit Ratio, Cost to Income, and Loan Asset / Total Asset has no effect on Profit Distribution Management at Islamic commercial banks in Indonesia. Partially, transparency has a positive effect on Profit Distribution Management at Islamic commercial banks in Indonesia. Simultaneously, financial performance and transparency have a positive effect on Profit Distribution Management at Islamic commercial banks in Indonesia. This research is only limited to Islamic Commercial Banks, therefore further research is carried out in all banks in Indonesia, both Islamic Banks and Conventional Banks.

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