

Financing, Cash Flow, Risk, Profitability And Islamic Social Responsibility Of Islamic Banks In Indonesia

Dwi Indriani Fidiastutik, Ahmad Roziq

Abstract: This study aims to examine the effect of financing, cash flow on Islamic social responsibility with financing risk, profitability as intervening variables in sharia commercial banks in Indonesia for the period 2015-2018. This type of research is explanatory research. The population during the observation period is 14 Islamic Commercial Banks registered with the Financial Services Authority. The sampling technique is purposive sampling and obtained 8 Islamic Commercial Banks. The analysis technique uses path analysis with SmartPLS 3. The test results show that financing does not have a significant effect on financing risk, financing risk has no significant effect on profitability while cash flow has a significant effect on financing risk, and profitability has a significant effect on Islamic social responsibility. Companies are advised to pay more attention to cash flow management in order to overcome the risk of financing and do more disclosures so as to attract investors to invest more in the company.

Keywords: Cash Flow, Financing, Financing Risk, Islamic Social Responsibility, Profitability

INTRODUCTION

Indonesia is a country with the largest Muslim population in the world so it cannot ignore the need for sharia-based financial services. Global Islamic Finance Report (GIFR) 2016 states that Indonesia ranks 6th, up to one level from the previous year from countries dealing with Islamic financial services. The Islamic Financial Country Index (IFCI) 2015 considers Indonesia to emerge as a leader in global sharia financial services along with the GCC (Gulf Cooperation Council) countries, namely the UAE, Bahrain, Kuwait, and Qatar.

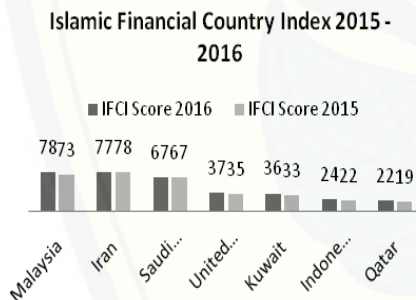


Figure 1. Islamic Financial Country Index 2015-2016

Source: Global Islamic Finance Report (GIFR) 2016

On November 1, 1991, the first Islamic sharia bank was established in Indonesia, namely Bank Muamalat Indonesia. The objectives and functions of Islamic banks were to: 1) economic prosperity, 2) socio-economic justice, 3) stability in the value of money, 4) mobilization and investment, and 5) effective services (Setiawan, 2006).

Various types of products developed in Islamic banks must adhere to two principles, namely profit-loss sharing and principle markup (Aggarwal and Yousef in Haniffa and Hudaib, 2007). In addition, sharia-based companies in carrying out their business have responsibilities towards stakeholders that include God, Prophet, Profit, People, Planet, which is also referred to as the pentuple bottom line (Triyuwono, 2016) as also explained in Sharia Enterprise Theory. sharia-based company (Triyuwono, 2006). The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) makes an index relating to social responsibility aimed at subsequent sharia-based companies. Haniffa (2002) introduces the Islamic Social Responsibility (ISR) index that includes funding and investment themes, product and service themes, employee themes, community themes, and environmental themes, next Othman et al (2009) developed Islamic Social Responsibility (ISR) by adding the theme of corporate governance. Based on the Islamic Banking Statistics (ISB) data of the Financial Services Authority in 2015 - 2018, the profitability of Sharia Commercial Banks in Indonesia which is proxied using return on assets has increased significantly with the largest number in 2018 amounting to Rp3,806 in billion.

Profitability of Sharia Commercial Banks in Indonesia in 2015-2018 (in Millions)

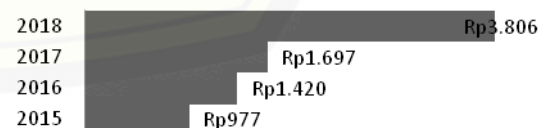


Figure 2 Profitability of Sharia Commercial Banks in Indonesia in 2015-2018

Source: SPS of the Financial Services Authority in 2015 - 2018

- Dwi Indriani Fidiastutik: indrianiwijaya40@gmail.com: University of Jember
- Ahmad Roziq: Corresponding Author: ahmadroziq.feb@unej.ac.id University of Jember

Widiawati (2012) suggests that companies that have a high level of profitability tend to make wider disclosure of information. This information includes social activities carried out by the company. But Santoso (2017) provides

empirical evidence that the magnitude of a company's profitability does not affect the level of social responsibility disclosure. Profitability in sharia commercial banks is one of them influenced by the level of risk financing (Yusuf, 2017) that the greater the financing risk ratio, the income generated by the company has decreased due to an increase in the productive asset reserve costs. However, in a study conducted by Muzakki (2014), the results showed that financing risk did not affect the level of profitability because the nominal non-performing financing (NPF) in Indonesia was not too large. Sharia Banking Statistics (SPS) of the Financial Services Authority 2015 - 2018 shows the fluctuating NPF value of Sharia Commercial Banks. The Financial Services Authority (OJK) report shows that at the end of 2018 the financing risk ratio or non-performing financing (NPF) of sharia commercial banks improved with a percentage of 3.26% from the previous year of 4.76%. Nominally in 2017 amounted to Rp9,030 in billion and decreased in 2018 to Rp6,597 in billion. One of the causes of the decline in financing risk is the improvement in the quality of credit provided by banks.



Figure 3 NPF of Sharia Commercial Banks in Indonesia in 2015-2018

Source: SPS of the Financial Services Authority in 2015 - 2018

The Financial Services Authority (OJK) through Sharia Banking Statistics shows an increase starting from 2015 to 2018 related to financing made by Islamic Commercial Banks. The financing includes profit sharing financing, accounts receivable, rental financing and salam.



Figure 4 Financing of Sharia Commercial Banks in Indonesia in 2015-2018

Source: SPS of the Financial Services Authority in 2015 - 2018

In a study conducted by Hanifah (2016) in the long term various types of financing such as mudharabah, musyarakah, ijarah, murabahah, istishna' and qardh simultaneously had an effect on the risk of proxied financing with non-performing financing (NPF). However, the

research conducted by Djatmiko and Rahman (2015) simultaneously mudharabah and murabahah financing did not affect the financing risk. Cash is the most liquid part of the company's assets. Based on data from Sharia Banking Statistics (SPS) of the Financial Services Authority in 2015 - 2018 the cash flow of Sharia Commercial Banks shows fluctuating values.

Cash of Sharia Commercial Banks in Indonesia for the 2015-2018 Period (in Millions)



Figure 5 Cash of Sharia Commercial Banks in Indonesia in 2015-2018

Source: SPS of the Financial Services Authority in 2015 - 2018

Cash is predicted to be one of the factors that influence the risk of financing, when a company is in a risky condition, the availability of adequate cash can help overcome the risk of financing. The results of Christine et al (2019) that cash flow has a significant effect. However, different results are shown by Dewi (2016) that cash flow does not have a significant effect. Because of the differences in the results of previous studies, it is expected that the results of this study will be able to fill the gap so that the objectives of this study are; 1) to know and analyze the effect of financing on financing risk, 2) to find out and analyze the influence of the current flow on financing risk, 3) to find out and analyze the effect of financing risk on profitability, 4) to know and analyze the effect of financing on Islamic social responsibility.

Hypothesis Formulation And Formulation Framework

Syariah Enterprise Theory

Sharia Enterprise Theory is a theory that explains the existence of accountability carried out by the company towards stakeholders. Sharia Enterprise Theory was initiated by Triyuwono (2006) who developed enterprise theory by incorporating Islamic values in order to produce transcendental and more human theories. In this theory, God is the highest stakeholder between humans and nature. So that all behavior is based on the rules or laws of God. From the human side, it is grouped into two, namely direct stakeholders and indirect stakeholders. Direct stakeholders are parties that have directly contributed to the company both financially and non-financially while indirect stakeholders are parties who do not contribute directly but in sharia have the right to enjoy the welfare of the company. The other stakeholders are nature. Nature provides a big role in the survival of the company besides God and humans. The company uses energy and raw materials from nature. So that as a form of concern for nature, the company safeguards the sustainability of nature. Companies that operate in sharia use the teachings in Alquran (God) and Sunnah (Prophet) as the basis of sharia

law. Triyuwono (2016) developed the triple bottom line concept by adding aspects of accountability to God and the Apostle. So that accountability covers 5 aspects, namely God, Prophet, Profit, People, Planet which is also called pentuple bottom line.

Islamic Commercial Bank

Law No. 21 of 2008 regulates sharia banking in Indonesia. Article 1 paragraph 8 explains that a sharia commercial bank is a Sharia bank which in its activities provides services in payment traffic. In practice, in every sharia commercial bank, there must be a Sharia Supervisory Board (DPS) in charge of overseeing and ensuring that the operational mechanism and business of Islamic banks have been carried out in accordance with the Fatwa of the National Sharia Council (DSN) of the Indonesian Ulama Council (MUI). Article 19 paragraph 1 describes Sharia Commercial Bank business activities where all contracts are based on sharia principles, including:

- 1) raising funds in the form of Deposits in the form of Demand Deposits, Savings, based on Wadi'ah Agreement,
- 2) raising funds in the form of Investments in the form of Deposits, Savings, based on mudharabah agreement,
- 3) channeling profit sharing financing based on mudharabah agreement, musyarakah contract,
- 4) channeling financing based on murabahah agreement, greeting contract, istishna contract',
- 5) channeling financing based on qardh agreement,
- 6) channeling movable or immovable goods leasing to the Customer based on the ijarah Agreement,
- 7) take over the debt based on the Hawk Agreement,
- 8) conduct a debit card business and / or financing card based on Sharia Principles,
- 9) buy, sell or guarantee at their own risk third party securities,
- 10) buy letters valuable based on Sharia Principles issued by the government and / or Bank Indonesia,
- 11) receiving payment of bills for securities and making calculations with third parties,
- 12) depositing for the benefit of other parties,
- 13) providing a place to store goods and securities,
- 14) transferring money, both for its own benefit and for the benefit of the customer, 15) functions as Trustee based on Wakad Agreement,
- 15) providing letter of credit facilities,
- 16) carrying out other activities commonly carried out in the banking sector and in the social field insofar as they do not conflict with Sharia Principles and in accordance with statutory provisions.

Financing

Financing based on sharia principles according to Law No. 10 of 1998 concerning banking is the provision of money or equivalent bills based on an agreement or agreement between the bank and other parties by requiring the financed party to repay or the bills after a certain period of time with benefits or profit sharing . According to Mawardi (2004) financing includes: financing based on the principle of profit sharing (mudharabah), financing based on the principle of equity participation (musyarakah), financing based on the principle of buying and selling goods by obtaining profits (murabah), leasing capital goods, namely

pure rent without choice (ijarah), rent with transfer of ownership of goods rented (ijarah waliqtina or ijarah bi-tamlik). Financing used in this study is the total financing of Islamic banks (Roziq et al, 2011).

Cash flow

Cash is money and other securities that can be cashed at any time. Cash is very instrumental in determining the smooth running of the company's activities. Cash flow is the total of all cash that enters and exits a company in a given period (Kasmir, 2015). The cash flows used in this study are inflows and outflows of cash and cash equivalents.

Financing Risk

Risk is the possibility of losses incurred in business. Funding risk arises if the bank cannot recover the principal installments and/or profit sharing/margin/rental income from the financing provided or the investment that is being made. The financing risk proxied by non-performing financing (NPF) is a comparison between the amount of problematic financing and total financing. The higher value of Non-Performing Financing (NPF) indicates that the bank is not professional in managing the financing. The NPF ratio in this study is (Mufa, 2017):

$$NPF = \frac{\text{(Total Troubled Financing)}}{\text{(Total Financing)}} \times 100\%$$

Profitability

Profitability is proxied by Return On Assets (ROA). This ratio is the ratio between net income and total assets. In addition, the ratio can be used to determine the ability of the company to generate profits during a certain period and measure the level of management effectiveness in (Yusuf, 2017). The ROA ratio in this study is:

$$ROA = \frac{\text{(Net Income)}}{\text{(Total Assets)}} \times 100\%$$

Islamic Social Responsibility

Islamic Social Responsibility (ISR) is a benchmark for implementing social responsibility carried out by sharia-based companies. The Islamic Social Responsibility (ISR) in this study uses the Othman index (2009) which includes six themes: funding and investment themes, product and service themes, employee themes, community themes, environmental themes, and corporate governance themes. The ISR ratio in this study is (Widiawati, 2012):

$$ISR = \frac{\text{(Total disclosure score fulfilled)}}{\text{(Maximum number of scores)}} \times 100\%$$

Research Conceptual Framework

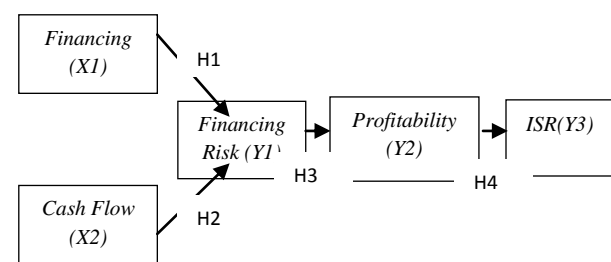


Figure 6 Research Conceptual Framework

Based on the framework that comes from the study of theory and the results of previous studies, the hypothesis proposed in this study are:

- H1: Financing has an effect on financing risk
 H2: Cash flow affects the financing risk
 H3: Financing risk has an effect on profitability
 H4: Profitability influences Islamic social responsibility

Research Methods

This type of research is explanatory research, which is a type of research that aims to test a theory or hypothesis. The population in this study were 14 Islamic public banks registered in the Financial Services Authority up to 2018. The data used in this study are data from the annual reports of Islamic Commercial Banks registered in the Financial Services Authority in 2015-2018. Sample selection is done using a purposive sampling method according to the specified criteria. The criteria for sharia commercial bank samples are:

- 1) Islamic public banks registered with the Financial Services Authority for 2015 – 2018
- 2) Publish complete annual reports for 2015 – 2018
- 3) Has complete data related to the variables used.

Table 1 Sample of Sharia Commercial Banks in 2015-2018

1	PT. Bank BNI Syariah
2	PT. Bank BRI Syariah
3	PT. Bank Mega Syariah
4	PT. Bank Muamalat Indonesia
5	PT. Bank Syariah Bukopin
6	PT. Bank Syariah Mandiri
7	PT. Bank Tabungan Pensiunan Nasional Syariah
8	PT. BCA Syariah

Source: Islamic public bank in the Financial Services Authority(OJK)

This study uses path analysis, which is a statistical analysis technique developed from multiple regression analysis. This analysis based itself on the model of relationships between variables that were previously determined by the researcher. The model equations of this study are:

$$Y_3 = \rho y_3 y_2 Y_2 + \varepsilon_1$$

$$Y_2 = \rho y_2 y_1 Y_1 + \varepsilon_2$$

$$Y_1 = \rho y_1 x_1 X_1 + \rho y_1 x_2 X_2 + \varepsilon_3$$

Information

Y_3 = Islamic Social Responsibility of Islamic Commercial Banks

Y_2 = Profitability of Islamic Commercial Banks

Y_1 = Financing Risk of Sharia Commercial Banks

X_2 = Cash Flows of Islamic Commercial Banks

X_1 = Financing Sharia Commercial Banks

Y_3 = Islamic Social Responsibility of Islamic Commercial Banks

$\rho y_3 y_2 Y_2$ = path coefficient (path analysis) which shows the magnitude of the effect of profitability on Islamic social responsibility

$\rho y_2 y_1 Y_1$ = path coefficient (path analysis) which shows the magnitude of the effect of financing risk on profitability

$\rho y_1 x_1 X_1$ = path coefficient (path analysis) which shows the magnitude of the effect of financing on financing risk

$\rho y_1 x_2 X_2$ = path coefficient (path analysis) which shows the magnitude of the effect of cash flows on financing risk

ε_1 = first residual value

ε_2 = second residual value

ε_3 = third residual value

RESULTS AND DISCUSSION

Descriptive Statistics Analysis

Table 2 Descriptive Statistics

	Mean	Median	Min	Max
TF	19701806375	11909417000	2975500000	67752797000
CF	4813140	3340601	280890	15213534
NPF	0.035516	0.03225	0.0032	0.0854
ROA	0.014763	0.0078	0.0008	0.124
ISR	0.80	0.81	0.64	0.86

Source: SmartPLS 3

Based on the results of descriptive statistical analysis, it can be seen that the financing variable has a mean value of Rp. 19,701,806,375. The median value of Rp. 11,909,417,000. The minimum value of Rp2,975,500,000 belongs to BCA Syariah Bank in 2015. The maximum value is Rp.67,752,797,000 owned by Bank Mandiri Syariah in 2018. Based on the results of descriptive statistical analysis, it can be seen that the cash flow variable has a mean value of Rp. 4,813,140. The median value of Rp.3,340,601. The minimum value of Rp.280,890 for BCA Syariah Bank in 2018. The maximum value of Rp15,213,534 belongs to Bank Syariah Bukopin 2017. Based on the results of descriptive statistical analysis, it can be seen that the non-performing financing variable has a mean value of 0.036. The median value of 0.032. The minimum value of 0.0032 owned by BCA Syariah Bank in 2017. The maximum value is 0.085 for Bank Syariah Bukopin in 2017. Based on the results of descriptive statistical analysis, it can be seen that the variable profitability as measured by return on assets has a mean value of 0.015. The median value of 0.008. The minimum value of 0.0008 belongs to Bank Muamalat 2018. The maximum value is 0.124 belong to Bank Tabungan Pensiunan Nasional Syariah. Based on the results of the descriptive statistical analysis, it can be seen that the Islamic social responsibility variable has a mean value of 0.80. The median value of 0.81. The minimum value of 0.64 for BCA Syariah Bank 2015. The maximum value is 0.86 for Bank BRI Syariah in 2018.

Research Model with SmartPls 3

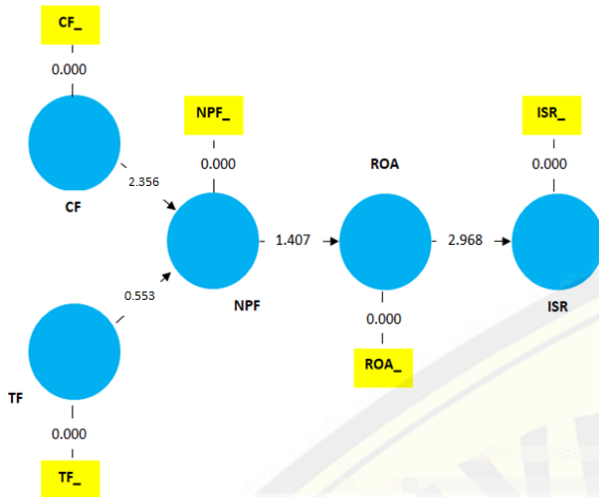


Figure 7 Research Model with SmartPls 3
Source: SmartPls 3

Table 3 Inner Weight

	Original Sample Estimate	Mean of Sub samples	Standard Deviation	T Statistic	Info
TF-NPF	-0.202	-0.138	0.366	0.553	Not Sig.
CF-NPF	0.852	0.777	0.361	2.356	Sig.
NPF-ROA	-0.243	-0.211	0.173	1.407	Not Sig.
ROA-ISR	0.284	0.271	0.096	2.968	Sig.

Source : SmartPls 3

Effects of Financing on Financing Risk

Based on the results of calculations in table 3 by using a significance test (t) to find the effect of financing variables partially on financing risk obtained t count of 0.553 while the value of t table is 2.052, which means the value of t count is smaller than t table for df 28 with a level 5% significance. Based on these data it can be seen that the financing variable is not significant to the risk of financing. So H1 is rejected. The results of this study support the results of the research of Djatmiko and Rahman (2015). Financing risk in banks is a condition that cannot be avoided from Islamic bank transactions but this risk can be managed and controlled by the efforts of the company's management. So as long as the banking operates, the financing risk will always appear. However, the results of this study do not support the results of the Hanifah study (2016) showing that in the long run, the financing has an effect on the risk of financing. Funding risk arises if the company cannot recover the principal installments and / or profit sharing from the loan given or the investment being made.

The Influence of Cash Flow on Financing Risk

Based on the results of calculations in table 3 by using a significance test (t) to find the effect of the variable cash flow partially on financing risk obtained t count of 2.356 while the value of t table is 2.052, which means the value of

t count is greater than the t table for df 28 with 5% significance level. Based on these data it can be seen that the cash flow variable is significant to the financing risk. So H2 is accepted. The results of this study support the results of the study of Christine et al (2019) showing that cash flows have an influence. Cash is very instrumental in determining the smooth running of the company's activities. The amount of cash reflects the company's ability to survive. So that the more cash flow, the more likely the company will survive the greater risk. However, the results of this study do not support the research results of Dewi (2016) and Setiawan et al (2017). The bank is at risk of financing when the bank is indicated not to have received a refund, this refers to the potential losses suffered by the bank

Effect of Risk Financing on Profitability

Based on the results of calculations in table 3 by using a significance test (t) to find the effect of financing risk variables partially on profitability obtained t count equal to 1.407 while the value of t table is 2.052 which means the value of t count is smaller than the value of t table for df 28 with level 5% significance. Based on these data, it can be seen that the financing risk variable is not significant for profitability. So that H3 is rejected. The results of this study support the results of the Muzakki study (2014). Non-performing financing of sharia commercial banks is low so it does not affect profitability. This is in line with the risk control efforts carried out by banks. As done by Bank BNI Syariah, which controls risk, one of them is by channeling financing through a selective selection of sectors and customers. But the results of this study do not support the results of Yusuf (2017) 's research showing that financing risk has an effect on profitability. Financing risk reflects the amount of problematic financing that exists in the company. The greater the number of problematic financing will reduce the number of profits generated by the company because the company suffered losses because it was unable to obtain the margin from the transaction.

Effect of Profitability on Islamic Social Responsibility

Based on the results of calculations in table 3 by using a significance test (t) to find the effect of financing variables partially on financing risk obtained t count of 2.968 while the value of t table is 2.052 which means the value of t count is greater than the value of t table for df 28 with the level 5% significance. Based on these data it can be seen that the variable profitability is significant towards Islamic social responsibility. So that H4 is accepted. The results of this study support the results of the study of Widiawati (2012), Widiyanti (2017) that companies that have profitability tend to do more social disclosure, this is shown to attract more investors to invest in the company. The Return on Assets (ROA) ratio shows the management's ability to manage the company. Companies that have higher profits tend to do more disclosures, including social responsibility. However, this study does not support the results of the research conducted by Santoso (2017) providing empirical evidence that the magnitude of a company's profitability does not affect the level of disclosure of social responsibility.

CONCLUSION

Based on the results of path analysis testing with the SmartPLS 3 program, it can be concluded that financing does not have a significant effect on financing risk with a calculated t value of 0.553 < t value of table 2.052. Cash flow has a significant effect on financing risk with the value of t count 2.356 > t table 2.052. Financing risk does not have a significant effect on profitability with t count 1.407 < t table 2.052. Profitability has a significant effect on Islamic social responsibility with a value of t count of 2.968 > t table value of 2.052.

SUGGESTION

Companies are advised to pay more attention to the management of cash flows in order to overcome the risk of financing because the availability of adequate cash flow can increase the company's resilience to the existing risks. After that, companies with high profitability are advised to do more disclosures including social responsibility disclosures. So that this can be used as an attraction to investors to invest more in the company. For the next researcher, it is expected to extend the research period so that the scope of the observation is broader and uses a combination of Islamic Social Responsibility indexes from some previous researchers.

BIBLIOGRAPHY

- [1]. Cristine, et al. 2019. Effects of Profitability, Leverage, Total Cash Flow and Firm Size on Financial Distress in Property and Real Estate Companies Listed on the Indonesia Stock Exchange in 2014 - 2017. *Journal of Islamic Economics & Economics*. Volume 2. No. 2.
- [2]. Dewi, Kartika. 2016. Effect of Profit, Cash Flow, Liquidity, Leverage, Company Size, Institutional Ownership and Managerial Ownership on Financial Distress (Study of Manufacturing Companies Listed on the Stock Exchange for the Period of 2010 - 2015).
- [3]. Djatmiko, Rachman. 2015. Effect of Mudharabah and Murabahah Financing on Non-Performing Financing (NPF) (Case Study of Sharia Commercial Banks in Indonesia). *Study and Accounting Research*. 1-9.
- [4]. Hanifah, Mutiara. 2016. Effect of Financing Based on Types of Agreements Against Non-Performing Financing of Sharia People Financing Banks in Indonesia Period 2011 to 2015. Thesis. Bogor Agricultural University.
- [5]. Muzakky. 2014. Influence of CAR, NPF, ROE and FDR Against the Profitability of Sharia Commercial Banks. *Scientific articles*. Perbanas Surabaya College of Economics
- [6]. Roziq, Ahmad., Ibnu Aburizal N Ms. 2011. Effect of Financing and Cash on Corporate Social Responsibility Through Profit As an Intervening Variable in Islamic Commercial Banks in Indonesia. *Jember Accounting Journal*.
- [7]. Santoso et al. 2017. Determination of Disclosure of Islamic Social Reporting at Sharia Commercial Banks in Indonesia. *Journal of Dynamics of Accounting and Business* Vol. 4 (2), 2017, pp. 125-142.
- [8]. Setiawan, A.B. 2006. Islamic Banking: Challenges and Opportunity for Development in Indonesia. *Coordinate Journal*, VIII (1).
- [9]. Triuwono, Iwan. 2016. Taqwa: Deconstructing Triple Bottom Line (TBL) to Awake Human Divine Consciousness. *Pertanika J. Soc. Sci. & Hum.* 24 (S): 89 - 104 (2016).
- [10]. Law of the Republic of Indonesia Number 21 of 2008 concerning Islamic Banking
- [11]. Widiawati, Septi., Raharja, Surya. 2012. Analysis of Factors Affecting Islamic Social Reporting of Companies - Companies that Are Listed in Sharia Securities. *Diponegoro Journal Of Accounting* Volume 1. Number 2.
- [12]. Yusuf, Muhammad. 2017. Impact of Financial Ratio Indicators on Profitability of Sharia Commercial Banks in Indonesia. *Journal of Finance and Banking*. Volume 13. Number. 2