

# Al Tijarah

DETERMINANT OF CONSUMER'S DECISION TO USE ISLAMIC SAVING  
ACCOUNT IN BANK SYARIAH INDONESIA POST MERGER IN 2021 PERIOD

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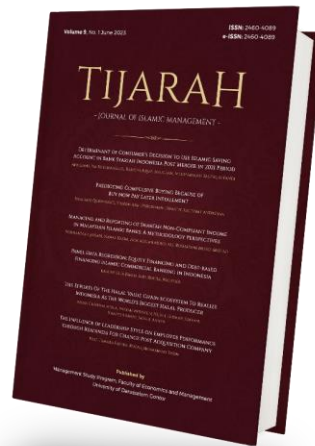
# Al Tijarah

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# Determinant of Consumer's Decision to Use Islamic Saving Account in Bank Syariah Indonesia Post Merger in 2021 Period

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## **Abstract**

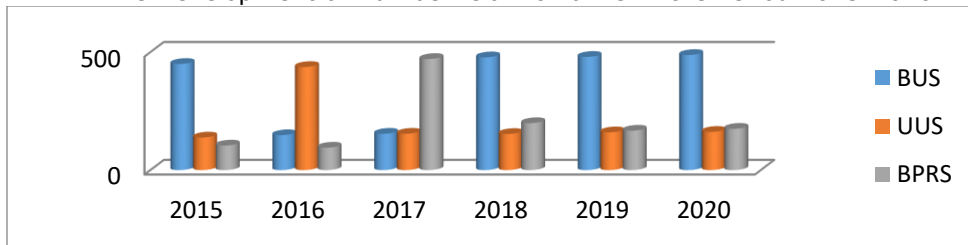
*Increasing awareness about halal products in the Islamic finance industry sector can encourage the development of Islamic economy and finance in Indonesia. The financial industry is a pillar of the national economy that is expected to advance the general welfare and global competitiveness, especially in Islamic banking which has contributed to economic growth in Indonesia. Theory of Planned Behaviour (TPB) is used to measure customers decision to keep saving in Bank Syariah Indonesia. The independent variables used in the study were trust, quality of service, religiosity, and Revenue Sharing, while the dependent variables used in the study were customer decisions to keep saving. The sample of this study was 120 respondents from Customers of Bank Syariah Indonesia located throughout Java Island. The results showed that Trust, Quality of Service, and Religiosity had no significant effect on the customer's decision to keep saving in Bank Syariah Indonesia, meanwhile revenue sharing has a significant influence on the decision of customers to keep saving in Bank Syariah Indonesia.*

**Keywords:** *Bank Syariah Indonesia, Quality of Service, Religiosity, Revenue Sharing, Saving Decisions, Trust.*

**A. INTRODUCTION**

Increasing awareness about halal products in the Islamic finance industry sector can encourage the development of Islamic economy and finance in Indonesia. The financial industry is a pillar of the national economy that is expected to advance the general welfare and global competitiveness, especially in Islamic banking which has contributed to economic growth in Indonesia. According to data from the Financial Services Authority, positive developments in assets, channeled financing (PYD), and third-party funds (DPK) of Islamic banking continue to grow. This is indicated by the development of assets in Islamic banking by 20% in 2020 (Otoritas Jasa Keuangan, 2020). Research conducted by Indri Supriani et al showed that the increase in public confidence in Islamic banking became the best alternative in overcoming the financial crisis (Indri Supriani dkk). In addition, according to the Financial Services Authority, the growth of Islamic banking showed a positive trend with asset growth reaching its highest point in 2020 of 8.98% (Otoritas Jasa Keuangan,2020).

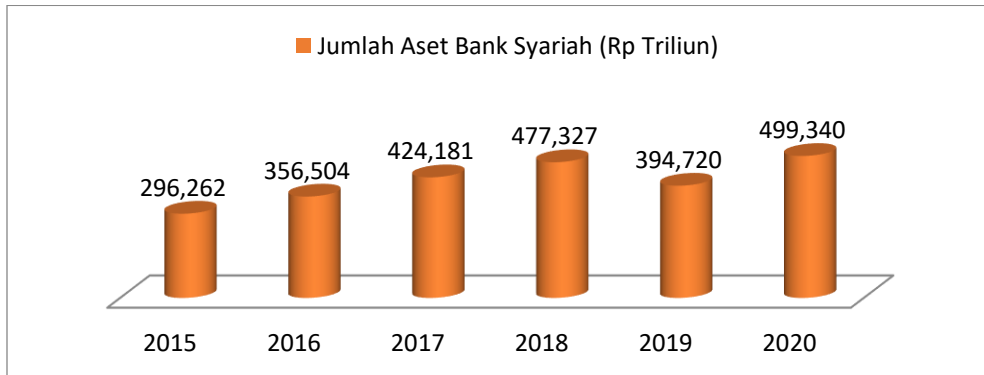
The Development of Number Islamic Banks In the Period 2015-2020



Source : Otoritas Jasa Keuangan 2015-2020

Bank Syariah as one of the Islamic financial institutions that are quite in demand and its existence is recognized by most Indonesian people has provided a change in the economic system in the era of digital globalization. As of December 2020 Total Islamic financial assets in Indonesia reached Rp1,802.86 trillion (Otoritas Jasa Keuangan, 2020). According to data from the Financial Services Authority in 2020 Islamic banking in Indonesia has total assets of 5.99%.

Total Assets of Islamic Banks in Indonesia 2015-2020



Source : Financial Services Authority 2015-2020

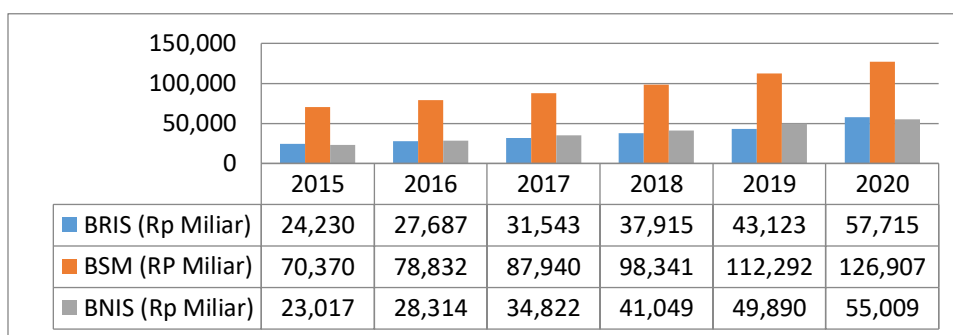
The percentage of muslim population in Indonesia 2020 reaches 87% and becomes a country with the largest number of Muslims in the world and is expected to contribute significantly to economic Indonesia. Bank Indonesia is developing several strategies, namely increasing the competitiveness of Islamic banks in the wheels of national economy that can improve the ranking of Islamic finance globally.

Bank Syariah Indonesia is the merger’s result of three Islamic banks from the Association of State-Owned Banks (Himbara), namely PT Bank BRI Syariah (BRIS), PT Bank Syariah Mandiri (BSM), and PT Bank BNI Syariah (BNIS) (Achmad, Sani Alhusain, 2021). Total assets owned by BRI Syariah were recorded at Rp57.2 trillion in 2020, an increase of 33.84% compared to 2019 (Annual Report BRI Syariah (BRIS), 2020), while the total assets owned by PT Bank Syariah Mandiri (BSM) were



Rp112,292 billion in 2019 and increased by Rp126,907 billion in 2020 (Annual Report BNI Syariah (BNIS), 2020), and the total assets owned by PT BNI Syariah (BNIS) grew by 10.06% which is Rp55.01 trillion from the previous year of Rp49.98 trillion (Annual Report BNI Syariah (BNIS), 2020). The breakthrough of the government's policy to merge three Islamic banks is expected to have a positive impact on the Indonesian economy according to Islamic perspective.

The Development of The Amount of Assets in Bank BRI Syariah, BNI Syariah, and Mandiri Syariah Period 2015-2020



Source : Annual Report BRIS, BNIS, BSM 2021

The table above shows that BSM has the largest percentage of assets compared to BNIS and BRIS, it was expected by the merger to strengthen up the structure of the Islamic banking industry, contributing to economic stability and growth and social development ([Laporan perkembangan Keuangan Syariah Indonesia, 2020](#)). The Merger of Islamic Banks is an important consolidation momentum for Islamic banking to be able to present a strong Islamic bank in capital and able to compete with the national Islamic banking industry.

The issue that will be raised in this study is the decision of customers to keep saving at Bank Syariah Indonesia after the merger in the 2021 period. The development of Bank Syariah Indonesia after the merger showed good development ([Laporan perkembangan Keuangan Syariah Indonesia, 2020](#)). As of September 2021, BSI's wadiah savings grew significantly by 16.22% yoy or reached Rp30.35 trillion. As for total savings, BSI posted growth of 11.57% yoy with a figure reaching Rp91.43 trillion in the same period.

## B. LITERATURE REVIEW

Previous research that is related to customer decisions to save at Islamic Bank included, which showed that customer decisions in choosing Islamic banks or non Islamic Banks in saving are influenced by the characteristics of Islamic banks, services, and trust. In addition, Maski's research showed that service and trust have a dominant influence on customer decisions in saving money ([Maski, 2010](#)).

Research conducted with the title Of Effect of Revenue Sharing Principles, Income Level, Religiosity and Quality of Service to Customer Saving Decisions at Sharia Banks in Banda Aceh. The results of hypothesis testing can be concluded that The principles of revenue sharing, income level, religiosity, and quality of service jointly affect the decision to save customers at Islamic banks in the city of Banda Aceh. The principle of revenue sharing has a significant influence on the decision to save customers in Islamic banks. Income levels have a significant influence on customers' saving decisions at Islamic banks. Religiosity has a significant influence on the decision to save customers in Islamic banks. The quality of service does not have a significant influence on the customer decision in saving at Islamic banks in the city of Banda Aceh. The variables of revenue sharing, income level, and religiosity in the study had a dominant influence on customer decisions in saving. Differences with previous research are variables used, namely trust, quality of service, religiosity, and revenue sharing ([Maisur, 2015](#)).

Research conducted with the title Of Customer Perception of Sharia Principles and Application of Revenue Sharing to Saving Decisions at Bank Muamalat Madiun Branch Office, shows that the three



variables used, namely customer perception of sharia principles, revenue sharing, and saving decisions that the third variable has a simultaneous influence on the customer's decision to save at an Islamic bank. Differences with previous research are the variables used amount to four, namely trust, quality of service, religiosity, and revenue sharing ([Novitasari, 2017](#)).

Research conducted with the title Of The Effect of Quality of Service and Advertising on Customer Decisions in Saving at Islamic Banks is to use service quality variables and advertising influences as independent variables, as well as the decision to save customers as dependent variables. The results showed that the quality of service and advertising influences the decision to save in Islamic banks ([Helmi, 2012](#)).

Research conducted with the title Of Effect of Promotion and Quality of Service on Saving Decisions on BSM Pabugan Products PT. Bank Syariah Mandiri Branch Office Simpang Patal Palembang uses promotional variables and quality of service. Variables in service quality and promotion have a significant positive effect on savings decisions ([Putri, 2016](#)).

### **1. Islamic Bank**

According to Law No. 21 of 2008, Islamic banks are banks that carry out their business activities based on Sharia principles. Sharia Bank based on its type consists of Sharia Commercial Bank and Sharia People's Financing Bank. Ascarya defines Islamic banks as financial institutions that serve to facilitate economic mechanisms in the real sector through investment or buying and selling activities, as well as providing deposit services or other banking services to customers (Ascarya, 2012). The differences between Islamic and conventional banks in general are as follows:

Difference between Islamic and Conventional Banks

Islamic Bank	Conventional banks
Halal investment only	Halal and haram investments
Principle of revenue sharing	Flower principle
Profit dan falah oriented	Profit oriented
Relationship with customer in the form of partnership	Relationship with customer in the form of creditor-debtor

Source: (M.Thamrin, Liviawati & Rita Wiyati, 2011)

### **2. Akad in Islamic Bank**

According to Anshori, the agreements in Islamic banks are as follows:

1. Akad wadiah is a pure deposit from one party to another, both individuals and legal entities, which must be maintained and returned whenever desired by the owner.
2. Akad murabahah is a buying and selling agreement of goods by stating the price of acquisition and profit (margin) agreed by sellers and buyers. Murabahah simply means a sale of goods worth the goods plus agreed profits.
3. Akad istishna' is a buying and selling agreement in the form of ordering the manufacture of certain goods with certain criteria and conditions agreed upon by buyers and sellers (makers). Unlike the sale and purchase of murabahah, where goods are handed over in advance while the money is paid in installments, buying and selling istishna' is done by giving goods in the back, although the money is also equally paid in installments.
4. Akad ijarah is the right to utilize goods or services in certain rewards or also called rent. According to the Fatwa of the National Sharia Council (DSN), ijarah is the agreement of transferring the right of use (benefit) to a goods or services within a certain time through the payment of rent or wages, without being followed by the transfer of ownership of the goods themselves. Akad ijarah has no change to its ownership but only the transfer of the right of use from the renter to the tenant.
5. Akad mudharabah is a business cooperation agreement between the first party (Islamic bank) that provides all capital and the second party (customer) who acts as a fund manager by dividing business profits according to a certain percentage agreed in the agreement, while losses are borne entirely by Islamic banks unless the second party makes a deliberate mistake, negligent or violates the agreement.

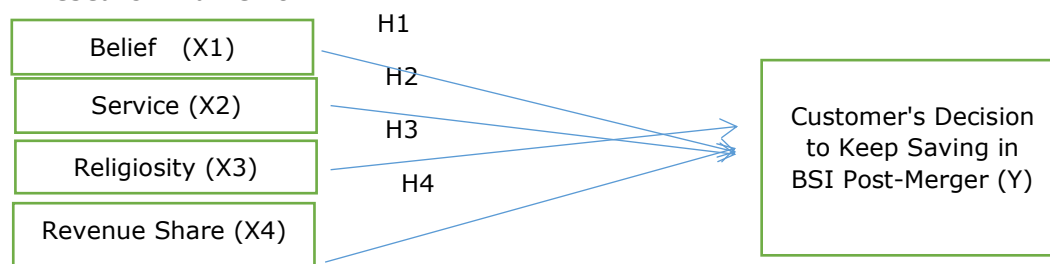
6. Musyarakah agreement is a cooperation agreement between two or more parties for a particular business where each party provides a portion of funds with the provision that the profits will be divided according to the agreed percentage, while losses will be born in accordance with the portion of each fund ([Anshori, Abdul Ghofur. 2008](#))

### 3. Saving Decision

Decision making is the selection of behavioral alternatives from both or more existing alternatives. A decision this definition has three meanings, namely there is a choice on the basis of logic or consideration, there are several alternatives that must be chosen one of the best, and there are goals to be achieved and the decision is getting closer to that goal ([A.F. Stoner. 2006](#)) This definition contains three meanings, namely:

1. There are choices on the basis of logic or consideration
2. There are several alternatives that should be chosen one of the best
3. There are goals to be achieved and the decision brings them closer to them

### 4. Research Framework



### 5. Hypotheses

- H<sub>1</sub>: Influence of trust in customer's decision to keep saving at Bank Syariah Indonesia
- H<sub>2</sub>: The effect of service on customer decisions to keep saving at Bank Syariah Indonesia
- H<sub>3</sub>: The influence of religiosity on customers' decisions to keep saving at Bank Syariah Indonesia
- H<sub>4</sub>: Impact of revenue sharing on customers' decisions to keep saving at Bank Syariah Indonesia

## C. RESEARCH METHOD

### 1. Reserch Timeline

This research is focused at customers of Bank Syariah Indonesia in Java Island. The place is chosen with the consideration that Bank Syariah Indonesia customers located on the island of Java can represent the entire existing population in determining the decision to keep saving at Bank Syariah Indonesia after the merger conducted on February 1, 2021.

### 2. Type Research

This type of research is quantitative research where data obtained in the form of quantifiable numbers, relating to the problem being examined to obtain a clear and detailed picture. According to Sugiyono, quantitative research can be interpreted as research based on the philosophy of positivism, used to examine a particular population or sample, data collection using research instruments, quantitative or statistical data analysis with the aims of describing and testing established hypotheses ([Sugiyono, 2017](#)).

### 3. Type and Source of Data

The type of research used in this research is field research. Field research, or can also be referred as empirical research, which is research whose data and information are obtained from activities in the research field. The study used primary data and data sources obtained or collected by researchers directly from the primary data source. Primary data is in the form of data collected through distributed questionnaires to respondents.

### 4. Population and Sample

According to Sugiyono, population is a generalization region consisting of objects and subjects that become certain quantities and characteristics that researchers apply to study, then draw

conclusions (Sugiyono, 2017). The population taken is a customer of Bank Syariah Indonesia who uses savings products at the bank.

According to Sugiyono, the sample is part of the number and characteristics that population, If the population is large and researchers are unlikely to study everything in the population, for example due to limited funds, energy and time, then the researcher can use samples taken from that population. This study uses non probability sampling techniques with convenience sampling. According to Sugiyono, non probability sampling is a sampling technique that does not provide the same opportunity or opportunity for each element or member of the population to be selected into a sample (Sugiyono, 2017). The technique of taking sample is convenience sampling which is a sampling technique based on convenience, namely who is a customer who saves at an Bank Syariah Indonesia that is easiest to reach or get by researchers and can be used as a sample.

**D. RESULT AND DISCUSSION**

**1. Determination Coefficient Test (R<sup>2</sup>)**

<b>Determination Coefficient Test (R<sup>2</sup>)</b>	
R Square	0.783

Source: Data Processed December 2021

The results obtained based on the table above in this study obtained the value R Square 0.783. This shows that the customer decision is affected by independent variables of 78.3%, while the remaining 21.7% is affected by other variables that are not described in this study.

**2. T TEST**

The t test is a test to show its effect of independent variables to the dependent variable model. This is intended to know how far the effect of a independent variable describes the variation of the dependent variable.

T Test

<b>T Test</b>			
<b>Variables</b>	<b>T calculates</b>	<b>T table</b>	<b>Sig</b>
Trust	1.731	2,359	.086
Quality of Service	1.413	2,359	.160
Religiosity	-.204	2,359	.839
Revenue Sharing	13.996	2,359	.000

Source: Data Processed December 2021

Hypothesis concluded before receipt have table-related explanations with significant levels of 5%:  $2 = 2.5\%$  (2-sided test) and freedom (df)  $n-k$  or  $120-5 = 115$ . Explanation for each of the free variables as follows table  $T = t(a / 2 : n-k-1)$   $a = 5\% = t(0.05 / 2 : 120-4-1) = 0.025 : 115$ , the presentation point of distribution  $t$  5% 2,359.

1) Trust

The first hypothesis about the effect of customer trust on saving decisions in Bank Syariah Indonesia has a statistical result of t test for the trust variable obtained t calculated 1,731 and table t 2,359 (df=115) with a significant rate of 0.086, because t calculates the  $< t$  table (1,731 < 2,359) and regression coefficient has a positive value of 0.117 then the hypothesis that variable trust significantly effect the customer decisions in BSI is rejected.

2) Quality Service

The second hypothesis about the effect of customer service quality on saving decisions in Bank Syariah Indonesia has a statistical result of t test for the trust variable obtained t calculated 1,431 and table t 2,359 (df =115) with a significant rate of 0.086, because t calculates the  $< t$  table (1,431 < 2,359) and regression coefficient has a positive value of 0.117 then the hypothesis that the variable Quality Service significantly effect the customer decisions in BSI is rejected.

3) Religiosity

The third hypothesis about the influence of customer religiosity on saving decisions in Bank Syariah Indonesia has a statistical result of t test for the trust variable obtained t calculated - 0.204 and table t 2,359 (df =115) with a significant rate of 0.086, because t calculates the  $t < t_{table}$  ( $-0.204 < 2,359$ ) and regression coefficient has a positive value of 0.117 then the hypothesis that the variable religiosity significantly effect the customer decisions in BSI is rejected.

4) Revenue Sharing

The fourth hypothesis about the effect of customer revenue sharing on saving decisions in Bank Syariah Indonesia has Statistical results of t test for revenue sharing variables obtained t calculated 13,996 and t table 2,356 (df =115) with significant level of 0.000, because t calculate  $t > t_{table}$  ( $13,996 > 2,359$ ) and the regression coefficient has a positive value of 0,000 then the hypothesis states that the variable share of the result significantly effect the customer decisions in BSI received.

**3. F TEST**

F Test

F Test	
F Test Value	103.811
Sig.	.000 <sup>b</sup>

Source: Data Processed December 2021

The results obtained based on the table above the value f are calculated to get the value of 103.811. Table F shows a value of 2.68, to obtain a value of df 1 (variable number-1) or  $4-1 = 3$  and df 2 (sample number of variables or  $n-k$ ) or  $120-2 = 118$ , at f the table produces a value of 2.68 values that explain that the value f calculates greater than the table above shows that  $t_{table} = 103,811 > 2.68$ . It is concluded that variables of trust, quality of service, religiosity, and revenue sharing have a simultaneous effect on customer decisions.

**DISCUSSIONS**

**1. Influence of trust in customer's decision to keep saving at Bank Syariah Indonesia**

The results of this study show that trust does not have a significant effect on customer decisions. This research supported by Dita and Haroni who showed that belief or religiosity had no effect on the customer's decision to transact at Bank Syariah ([Pertwi, D., & Ritonga, H. D., 2012](#)). The results of the above research can conclude that the variable trust has no significant effect on the decision of customers to save in Islamic Bank of Indonesia. The results of Harahap's research showed that trust had no effect on the decision of customers to save at BMT Masalah Kebon Agung Pasuruan Branch ([Harahap, J., 2019](#)).

**2. The effect of service on customer decisions to keep saving at Bank Syariah Indonesia**

The results of this study show that service on customer does not have a significant effect on customer decisions. This research supported by Lestari et al. showed that the service had no effect on customer decisions in transacting at Bank Syariah. In addition, fast and accurate service, as well as good employee courtesy behavior did not affect the increase in customer numbers ([Lestari, A., 2015](#)). The results of the above research can conclude that the variable quality service has no significant effect on the decision of customers to save in Islamic Bank of Indonesia.

**3. The influence of religiosity on customers' decisions to keep saving at Bank Syariah Indonesia**

The results of this study show that trust does not have a significant effect on customer decisions. This research supported by Dita and Haroni which showed that belief or religiosity

had no effect on customers' decisions to transact at Islamic Banks ([Pertiwi, D., & Ritonga, H. D., 2012](#)). Firdaus' research results showed that religiosity did not significantly affect due to lack of understanding more about the concept of religiosity in Islamic banking and more thinking about getting just profit ([Firdaus, S. R., 2013](#)).

#### **4. Impact of revenue sharing on customers' decisions to keep saving at Bank Syariah Indonesia**

Based on the results of the fourth hypothesis about the effect of customer revenue sharing on savings decisions in Bank Syariah Indonesia has a statistical result of t test for variable revenues obtained t calculated 13,996 and t table 2,356 (df = 115) with a significant rate of 0.000, because t calculates the > table t (13,996 > 2,359) and regression coefficient has a positive value of 0,000 then the hypothesis states that the variable part of the result significantly affects the decision of the BSI customer received. These results can have a significant effect that customers decide to still choose Bank Syariah Indonesia as a place to transact because of competitive and fair profit sharing factors and customer learning about existing information.

The results is in line with research conducted by Novita et al. showed that the application of revenue sharing had an effect on saving decisions at Muamalat bank Madiun branch office, as well as customer perception of sharia principles and the application of revenue sharing simultaneously affect the decision to save at Bank Muamalat Madiun branch office. The results of the two independent variables, the dominant revenue sharing application variables affect the customer's decision to save at bank Muamalat Madiun branch office ([Novitasari, S., 2019](#)).

## **E. CONCLUSION**

### **1. Summary**

The research results and discussions in the previous chapter on the factors that influence the decision of customer to keep saving to Bank Syariah Indonesia after the merger in the period of 2021 can be concluded as follows:

- 1) The results of the trust variable analysis stated it trust has an insignificant effect on the customer's decision to keep saving in BSI. The results do not have a significant effect because trust not an islamic bank advantage that customers consider when deciding to keep saving at Bank Syariah Indonesia.
- 2) The results of the religiosity variable analysis stated that it does did not have a significant effect on the customer's decision to keep saving in BSI. It is because by customer decision to keep saving in Islamic banks do not pay too much attention to sharia elements in transacting.
- 3) The results of service quality variables state that it does not have a significant effect on the customer's decision to keep saving in BSI. The results do not have a significant effect because quality of service is not the profit of Islamic banks that customers consider when deciding to keep saving at Bank Syariah Indonesia.
- 4) The results of revenue share variables state that it share has a significant effect on customer's decision in BSI is received. These results can have a significant effect that customers decide to still choose Bank Syariah Indonesia as a place to transact because of competitive and fair profit sharing factors and customer learning about existing information.

### **2. Suggestions**

The research results that has been done by author, there are several suggestions for future research and related institutions:

- 1) Suggestions and inputs in this study, researchers only used questionnaires in collecting data as many as 120 respondents and used 4 research variables, namely trust, quality of service, religiosity, and revenue sharing. It would be better if in future research added other variables and sample such as social, personal, cultural, product or promotion.

- 2) Data collection techniques can be done using interviews, increasing the number of respondents, and expanding the existing customer population such as conducting interviews with Bank Syariah Indonesia as a service provider and increasing the number of respondents as a means of measuring influence decision. Data processing in this study used SPSS, futuremore the research could use SEM (Structural Equation Modeling) for data analysis techniques.

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# Predicting Compulsive Buying Because of Buy Now Pay Later Installment

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## **Abstract**

*The Covid-19 pandemic that has hit the whole world since the beginning of 2020 has changed consumer behaviour in shopping. With the development of pay-later payments in Indonesia since this pandemic period, compulsive buying behaviour is influenced by the pain of paying and the ease of payment methods. For this reason, this research has an urgency to be carried out so that people have control over their behaviour. In testing the hypothesis using the SEM-PLS technique by testing the inner model and outer model using 120 samples. The results of this study are the pain of paying and the ease of payment methods proved to affect compulsive buying. Self-control has not been shown to have a moderating effect on the relationship between the pain of paying and compulsive buying.*

**Keywords:** Pain of Paying, Compulsive Buying, pay later

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## **A. INTRODUCTION**

The Covid-19 pandemic that has hit the whole world since the beginning of 2020 has changed consumer behaviour in shopping. Online shopping activities through e-commerce have increased because people avoid shopping offline because they follow the social distancing rules implemented by the government. According to data from iDEA, online sales have increased by 25% during this pandemic ([Icube, 2021](#)). This increase in online purchases was followed by an increase in the use of the pay later payment feature. Pay later is a type of short-term loan that allows consumers to make purchases and repay them at a later date through a series of instalments ([Alcazar & Bradford, 2021](#)). The results of research from 2,000 respondents showed that respondents who used pay later more than 10 times a month increased by 22.53% ([Rumayya et al., 2020](#)).

For most consumers, making purchases on credit is a profitable choice because it can develop their identity, fulfil their lifestyle and is considered to be able to facilitate their lives ([Hjorthol & Grøtan, 2021](#)). The younger generation prefers to use pay later payments rather than using bank credit loans because they don't need to provide guarantees. In Indonesia, there is a lack of

penetration of the use of credit cards so that pay later can be easily accepted by the public. Pay later services that are often used in Indonesia to include Shopee PayLater, GoPayLater, Kredivo, AkuLaku, and Traveloka PayLater.

The convenience obtained when using pay-later payments makes it easy for people to buy the goods they want without thinking about the risks they will face in the future. When consumers take loans from pay-later service providers, most of them do not check the consumer's credit score. The policy from the consumer side is also very profitable. The increasing use of credit for the purchase of most goods has implications for the biggest cause of rising bankruptcies and debt in the younger generation (Bauer et al., 2021).

With the development of pay later payments in Indonesia since this pandemic period, compulsive buying behaviour has emerged. Compulsive buying is an irresistible urge to buy a product or service to increase their sense of self-worth (Harnish et al., 2021). They don't use the products from compulsive purchases, but they share them with other people or even throw them away. Compulsive buying is conceptualized as a psychopathological disorder that results in an uncontrollable urge to buy consumer goods, resulting in financial, interpersonal, and psychological stress. (Christenson et al., 1994).

Even with the choice of using various payments every time they make an online purchase, consumers basically don't like spending the money they have. This concept was introduced by Zellermyer in 1996 as the "pain of paying" which is a negative emotion experienced by a person when they are going to process payments for goods or services (Hjorthol & Grøtan, 2021). Consumers will not like the negative feelings that arise from the lack of money they have. Because of this negative feeling, can cause them to reduce spending on shopping. In other words, the stronger consumers feel the pain of paying, the less likely they are to enjoy the buying process.

Individual characteristics such as low self-control and lack of financial literacy have been recognized in previous research as the drivers behind the increase in credit (Hjorthol & Grøtan, 2021). For many consumers, shopping is a form of entertainment so when they are faced with many product choices, unplanned purchases often occur. Achtziger et al. (2015) state that consumers who have low self-control have a higher chance of getting into debt because they are unable to resist the temptation to buy the goods they want.

Most youths often fail to manage their financial resources due to pursuing an excessive lifestyle by spending heavily on branded goods and electronics. With the "have it now, pay later" mentality, they will be willing to go into debt to satisfy their desires so that they are trapped in debt (Sharif & Yeoh, 2018). For this reason, this research has an urgency to be carried out so that people have control over their behaviour. The number of e-commerce also makes the compulsive buying behaviour of consumers increasingly visible. This research will focus on millennial and generation Z consumers because according to data from BPS, Indonesia's population is currently dominated by this generation (Lia & Natswa, 2021).

## **B. LITERATURE REVIEW**

Previous research that is related to customer decisions to save at Islamic Bank included, which showed that customer decisions in choosing Islamic banks or non Islamic Banks in saving are influenced by the characteristics of Islamic banks, services, and trust. In addition, Maski's research showed that service and trust have a dominant influence on customer decisions in saving money (Maski, 2010).

Research conducted with the title Of Effect of Revenue Sharing Principles, Income Level, Religiosity and Quality of Service to Customer Saving Decisions at Sharia Banks in Banda Aceh. The results of hypothesis testing can be concluded that The principles of revenue sharing, income level, religiosity, and quality of service jointly affect the decision to save customers at Islamic banks in the city of Banda Aceh. The principle of revenue sharing has a significant influence on the decision to save customers in Islamic banks. Income levels have a significant influence on customers' saving decisions at Islamic banks. Religiosity has a significant influence on the decision to save customers in Islamic banks. The quality of service does not have a significant influence on the customer decision in saving at Islamic banks in the city of Banda Aceh. The variables of revenue sharing, income level, and

religiosity in the study had a dominant influence on customer decisions in saving. Differences with previous research are variables used, namely trust, quality of service, religiosity, and revenue sharing ([Maisur, 2015](#)).

Research conducted with the title Of Customer Perception of Sharia Principles and Application of Revenue Sharing to Saving Decisions at Bank Muamalat Madiun Branch Office, shows that the three variables used, namely customer perception of sharia principles, revenue sharing, and saving decisions that the third variable has a simultaneous influence on the customer's decision to save at an Islamic bank. Differences with previous research are the variables used amount to four, namely trust, quality of service, religiosity, and revenue sharing (Novita, 2017).

Research conducted with the title Of The Effect of Quality of Service and Advertising on Customer Decisions in Saving at Islamic Banks is to use service quality variables and advertising influences as independent variables, as well as the decision to save customers as dependent variables. The results showed that the quality of service and advertising influences the decision to save in Islamic banks ([Helmi, 2012](#)).

Research conducted with the title Of Effect of Promotion and Quality of Service on Saving Decisions on BSM Pabugan Products PT. Bank Syariah Mandiri Branch Office Simpang Patal Palembang uses promotional variables and quality of service. Variables in service quality and promotion have a significant positive effect on savings decisions ([Putri, 2017](#)).

### **1. Buy Now Pay Later (BNPL)**

The rapid development of technology has made the work done by humans easier, not least in the field of trade. The use of cash began to decrease which was replaced by transactions via mobile phones. Credit applications no longer need to be done through a bank, but only with an application on a cellphone, people can get loans easily. The development of e-commerce is also followed by an increase in payment methods. At first, people only knew about cash, paper money and credit card payments, then they were replaced with a new electronic-based payment system ([Lia & Natswa, 2021](#)). This electronic-based payment system is better known as pay later.

Pay later is a financial facility that allows payments to be made in instalments without using a credit card. The pay later concept itself is similar to a credit card where the service provider company will first bail out the bill payment from the consumer and then the consumer will pay the bill to the pay later application company (Prastiwi & Fitria, 2021). Credit is traditionally centred on the use of credit cards, while the BNPL mechanism targets online purchases and payments via mobile phones ([Xing et al., 2019](#)).

When consumers take credit for purchasing an item through the pay-later system, the BNPL service provider does not rigidly check the consumer's credit score. Therefore, BNPL is easier to access for consumers who want small amounts of credit and consumers whose loans are rejected by banks due to poor credit history. ([Hjorthol & Grøtan, 2021](#)). To use this service, users are only required to fill in personal data information, a photo of themselves, and a photo of identification online. BNPL credit limits tend to be low starting from one million but will increase if consumers show good performance when paying instalments on time.

The facilities offered by BNPL also contain many risks. Unlike credit card issuers, BNPL lenders do not need to consider consumers' ability to repay loans. The delay in payment of this instalment will result in a personal credit score ([Alcazar & Bradford, 2021](#)). Another potential risk is that the availability of BNPL at checkout will encourage impulse buying. BNPL products also have long-term risks, namely because BNPL users are mostly used by young people, so if they experience difficulties in paying BNPL instalments it will hamper their ability to access credit in the future. There are also many reports of identity falsification due to the existence of this BNPL.

### **2. Compulsive Buying**

Shopping activities are currently made easier by the existence of e-commerce applications. Several consumers choose to shop online because consumers can shop anywhere and anytime. In addition, consumers can browse millions of products without having to be in a physical store, and they can enjoy the same shopping pleasures. With the increasing popularity of online purchases,

compulsive and addictive buyers can become potential consumers in the internet environment ([Huang et al., 2022](#)). Compulsive buying is a psychopathological disorder in which a person has an uncontrollable urge to make a purchase, resulting in financial, interpersonal, and psychological stress. ([Harnish et al., 2021](#)).

Compulsive buying is considered a response to a disturbing impulse that leads to negative behaviour and can only be reduced when the purchase is made ([Harnish et al., 2019](#)). This is done to improve self-image even though it is then followed by guilt ([Roberts et al., 2015](#)). After making a purchase, the person's mood will be better even though the results of the purchase are usually given to someone else or thrown away (Derbyshire et al., 2014). Compulsive buying is characterized by lower self-esteem, higher levels of fantasy, and high general compulsiveness scores ([Roberts et al., 2015](#)). Compulsive buying is influenced by credit card abuse because credit cards are considered a stimulus that can increase the amount and speed of spending ([Aw et al., 2018](#)). Internet commerce has changed the way consumers shop, making compulsive buying even worse ([Manchiraju et al., 2017](#)).

### **3. Pain of Paying**

Ofer Zellenmayer was the first to describe the "pain of paying" which is an emotional experience in which a person is depressed when he takes the act of spending the money he has. ([Mazar et al., 2017](#)). When someone pays for goods with the money he has, there will be feelings of sadness or pain to part with the money. Thus, the "pain of paying" is closely related to mental accounting and mental budgeting. Pay later is a facility that can create a time lag between payment and consumption so that it allows someone to pay attention to the actual payment process. For this reason, it will reduce the feeling of the "pain of paying" which makes it easier for someone to purchase so that compulsive buying occurs ([Smith & Wedderburn, 2022](#)). Compulsive buyers reported not having a lot of money compared to non-compulsive buyers so they will experience lower pain of paying ([Harnish et al., 2019](#)).

### **H1: The pain of paying has a negative effect on compulsive buying**

### **4. Payment- Convenience**

Convenience is a significant advantage of the online BNPL scheme ([Hjorthol & Grøtan, 2021](#); [Xing et al., 2019](#)). According to Hjorthol & Grøtan (2021), Convenience is the perception of ease of use which is defined as the perception of individuals who will easily use a particular system. Consumers will tend to perceive a payment as convenient or not based on how much effort they put into making a transaction ([Teo et al., 2015](#)). So, if there are more convenient and easier payment options, it will increase consumers' willingness to buy these goods.

The BNPL scheme relies heavily on applications that have been installed on consumers' cell phones so this effect will be even stronger for consumers who have adopted this high-level technology and are considered more "mobile friendly" such as young consumer groups ([Boden et al., 2020](#)). Pay later service providers to offer easy registration of this application which can be easily accessed by anyone. In addition, pay later payments also provide consumers with a choice of various types of instalments according to consumer needs so that they will not find it difficult.

### **H2: Payment - convenience has a positive effect on compulsive buying**

### **5. Self Control**

Self-control is the ability to resist the urge to do something you don't want or have unwanted consequences ([Roberts et al., 2015](#)). According to Achtziger et al. (2015) Self-control refers to efforts to break bad habits and maintain self-discipline to be able to control their thoughts and emotions. The results show that consumers who have low self-control will be more likely to experience debt because they are unable to resist the temptation to buy an item ([Achtziger et al., 2015](#); [Horváth et al., 2015](#); [Luo et al., 2018](#)).

According to Fook & McNeill (2020), pay-later users tend to make online purchases impulsively compared to those who don't and are more likely to make purchases if the pay-later platform is



available. Gathergood (2012) found that there is a positive relationship between excessive debt and self-control. Someone who has low control will cause a decrease in the level of "pain of payment" and increase compulsive buying.

**H3: Self-control moderates the relationship between the pain of payment and compulsive buying.**

**C. RESEARCH METHOD** This study uses quantitative methods that provide researchers with the opportunity to explain and evaluate the level of association or relationship between variables ([Hair et al., 2014](#)). Primary data was obtained by using a questionnaire containing the opinions or perceptions of consumers as users of consumer products and users of pay later products about the indicator variables studied using survey methods (Ferdinand, 2006). The population of this study is all elements that collectively have the same characteristics or phenomena that are of interest to researchers in this case pay later users who enter the millennial and Z generations. Because there are several constraints such as time and cost, the sampling technique was adopted to select several members. population to represent the entire population. Determination of the number of representative samples according to Hair et al., (2014) is 5-10 times the number of indicators. In this study, the number of samples to be taken is 110 (22 indicators x 5).

The sampling technique used was non-probability sampling, which is a sampling technique that does not provide equal opportunities or opportunities for each element or member of the population to be selected as a sample. The sampling technique used is purposive sampling where the respondents used as samples in this study are someone who has used a pay later as a means of payment in online purchases and is included in the Millennial and Z generations with births between 1980 - 2005. The type of pay later used is Shopee Pay later. , GoPay Later, Akulaku. The questionnaires will be distributed in 3 cities in Central Java, namely Semarang, Salatiga, and Surakarta.

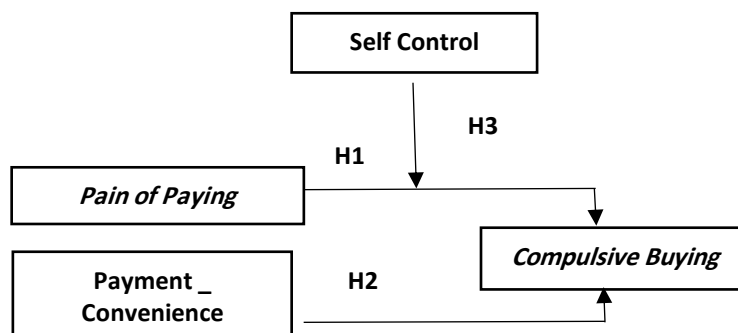
The questionnaire in this study was developed based on a review of the literature per this study. All variables were measured using a 5-point Likert scale, which was used to indicate the respondent's level of agreement or disagreement with the indicator statement. Compulsive buying using 5 indicators from Sharif & Yeoh (2018), the pain of paying using 3 indicators from dari Hjorthol & Grøtan (2021), payment convenience using 4 indicators from Hjorthol & Grøtan (2021) and self-control using 6 indicators from Hjorthol & Grøtan (2021).

**Table 1.** Research Variables and Indicators

Variable	Indicators	Source
Compulsive Buying	<ol style="list-style-type: none"><li>1) If you have money, you will use it for online purchases</li><li>2) Often buy things when opening e-commerce without planning</li><li>3) Online shopping is a means of relaxation so you can forget about problems</li><li>4) Buying an item even though you can't afford it</li><li>5) Hiding online shopping for fear of being judged by others</li></ol>	<a href="#">(Sharif &amp; Yeoh, 2018)</a>
Pain of Paying	<ol style="list-style-type: none"><li>1) Paying using a pay later is annoying</li><li>2) Paying using a pay later is a pain</li></ol>	<a href="#">(Hjorthol &amp; Grøtan, 2021)</a>
Payment_Convenience	<ol style="list-style-type: none"><li>1) Paying using a pay later makes shopping faster and without much</li></ol>	<a href="#">(Hjorthol &amp; Grøtan, 2021)</a>

	thought	
	2) Paying using a pay later is convenient	
	3) Paying using a pay later feels hassle-free and easy	
	4) Paying using pay later is more efficient	
Self Control	1) Carefully monitor spending behaviour	( <a href="#">Hjorthol &amp; Grøtan, 2021</a> )
	2) Work effectively towards long-term financial goals	
	3) Carefully consider your needs before making a purchase	
	4) Delaying making a purchase decision before considering the effect of the purchase to be made	
	5) Able to resist temptation so as not to violate the financial budget	
	6) Responsible for groceries	

To examine the relationship between variables, the Structural Equation Model (SEM) approach was used because this method allows multivariate analysis techniques that combine factor analysis and path analysis. The relationship between independent and dependent variables can be tested simultaneously with existing indicators (Ghazali, 2018). The research hypothesis testing was carried out using Partial Least Square (PLS) software which is an appropriate analytical method for exploration and theory development and is suitable for analyzing moderating effects. The primary data that has been collected will be analyzed into two parts, namely (1) assessing the Outer model by testing Convergent Validity, Discriminant Validity and Composite Reliability and (2) assessing the inner model or structural model. In general, this research model can be described as follows



**Figure 1.** Operational Component

**DISCUSSIONS**

**Respondent Discriptions**

In the section below, the data obtained from the respondents of this research will be described. This descriptive data describes the profile or condition of the respondents that need to be considered as additional information in understanding the results of the study.

**Table 2** Respondent Characteristics

Demography	Information
Age	1. 17-20 years old: 42 respondents. 2. 19-20 years old: 47 respondents 3. 21-24 years old: 49 respondents 4. 25-28 years old: 13 respondents 5. 32-35 years old: 7 respondents 6. 36-39 years old: 11 respondents 7. 40-43 years old: 5 respondents
Gender	1. Male: 41 respondents. 2. Female: 79 respondents.
Total	120 Respondents

Source: Primary data processed using SPSS 18.0, 2022

Based on table 2, it is known that the number of respondents who have filled out the questionnaire is 120 people. The majority of respondents were aged 21-24 years as many as 49 respondents. For gender, the largest number of respondents was female as many as 79 respondents.

## 2. Outer Loading Factor

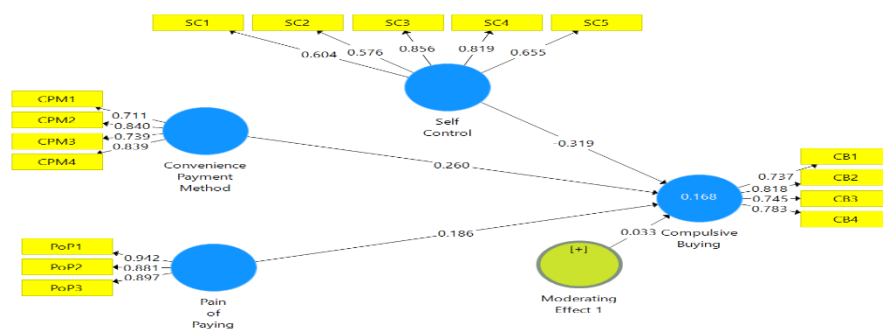
A loading factor value of 0.50 or more is considered to have a strong enough validation to explain the latent construct ([Hair et al., 2014](#)). The value of the initial outer loading on the variables of the pain of paying (PoP), payment-convenience CPM), self-control (SC), and compulsive buying (CB) can be seen in Table 3. According to Sofyan & Kurniawan (2011) indicators that have a loading factor value between 0.5 – 0.6 are acceptable.

**Tabel 3** Outer Loading

	CB	CPM	PoP	SC
CB1	<b>0.737</b>			
CB2	<b>0.818</b>			
CB3	<b>0.745</b>			
CB4	<b>0.783</b>			
CPM1		<b>0.711</b>		
CPM2		<b>0.840</b>		
CPM3		<b>0.739</b>		
CPM4		<b>0.839</b>		
PoP1			<b>0.942</b>	
PoP2			<b>0.881</b>	
PoP3			<b>0.897</b>	
SC1				<b>0.604</b>
SC2				<b>0.576</b>
SC3				<b>0.856</b>
SC4				<b>0.819</b>

SC5	<b>0.655</b>
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From the results of table 3, it can be seen that all research indicators have an outer loading value above 0.5 so they have a fairly strong validation. This research model can be seen in the following final path diagram image:



**Figure 2.** Path Diagram

Source: Research results, processed with Smart PLS 3.0, 2022. Gambar 4.1

**3. Validity and Reliability Test**

Instrument reliability in this study was measured by two criteria, namely the value of composite reliability and Cronbach's alpha. The use of Cronbach's alpha tends to estimate the reliability of variables lower than composite reliability, so it is recommended to use composite reliability (Haryono, 2017). In general, a minimal Cronbach alpha coefficient with a result of 0.6 is considered a good indication of reliability. While the variable is said to be reliable if the composite reliability value is above 0.70 (Ghozali & Latan, 2015).

**Table 4.** Construct Reliability and Validity

Variabel	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Pain of Paying	0.893	0.902	0.933	0.823
Payment-convenience	0.802	0.807	0.864	0.615
Self Control	0.801	0.763	0.833	0.506
Impulsive buying	0.778	0.798	0.855	0.595

Source: Research results, processed with Smart PLS 3.0, 2022.

Based on table 4, shows that all research variables have composite reliability above 0.70 and Chronbach's alpha above 0.60. Thus, the indicators used in this research are said to be reliable. Meanwhile, to test the validity of using the average variance extracted (AVE) value with a limit value above 0.50. Table 4 shows that all variables have an AVE value above 0.50. This means that all indicators and variables are declared valid.

A discriminant correlation test was conducted to see the correlation between the constructs with other constructs. If the value of the square root of the AVE for each construct is greater than the correlation value between the construct and other constructs in the model, it can be concluded that the construct has a good level of validity.

**Table 5.** Nilai Discriminant Validity

	<b>CB</b>	<b>CPM</b>	<b>PoP</b>	<b>SC</b>
<b>CB</b>	0.772			
<b>CPM</b>	0.205	0.785		
<b>PoP</b>	0.178	0.025	0.907	
<b>SC</b>	-0.254	0.194	0.052	0.711

Source: Research results, processed with Smart PLS 3.0, 2022.

In table 5 the comparison of the AVE root values shows that each of these values is greater than the correlation between other variables, so it can be concluded that all latent variables in the study have good construct validity and discriminant validity.

Whether or not a proposed hypothesis is accepted, it is necessary to test the hypothesis using the Bootstrapping function on SmartPLS 3.0. The hypothesis is accepted when the significance level is less than 0.05 or the t-value exceeds the critical value. The value of t statistics for the 5% significance level is 1.96.

**Table 6** Path Analysis Results

<b>Hypothesis</b>	<b>Original Sample</b>	<b>Standard Deviation</b>	<b>T-Statistics</b>	<b>P-Values</b>	<b>Hasil</b>
H1: the pain of paying has a negative effect on compulsive buying	-0.186	0.076	2.452	0.015	Diterima
H2: Payment - convenience has a positive effect on compulsive buying	0.260	0.112	2.320	0.021	Diterima
H3: Self-control moderates the relationship between pain of payment and compulsive buying.	0.033	0.095	0.345	0.731	Ditolak

Source: Research results, processed with Smart PLS 3.0, 2022.

Judging from the results of the path coefficient in path analysis in 6, it can be seen that the original sample value, p-value, and t-statistics are used as a reference for whether or not a hypothesis is accepted. The hypothesis is accepted if t-statistics > t table or p-value < 0.05.

The first hypothesis is that the pain of paying has a negative effect on compulsive buying. Based on table 6, it can be seen that the pain of paying has a significant negative effect on compulsive buying. This can be seen from the t-statistics of 2.452 > 1.98 or it can be seen from the p-value of 0.015. The originality value of the sample is -0.1861 which indicates that the direction of the relationship between the pain of paying on compulsive buying is negative. Thus the first hypothesis is accepted. The results of this study are following the results of previous studies from Smith & Wedderburn (2022). When someone has a sense of pain of paying when making an online purchase, it

will prevent him from making a purchase. Feelings of guilt after making a purchase also become an obstacle for someone to buy the thing he wants.

The second hypothesis is that the convenience of the payment method has a positive effect on compulsive buying. Based on table 6, it can be seen that the convenience of the payment method has a positive effect on compulsive buying. This can be seen from the t-statistics of  $2.320 > 1.98$  or it can be seen from the p-value of 0.021. The originality value of the sample is 0.260 which indicates that the direction of the relationship between the convenience of the payment method on compulsive purchases is positive. Thus the second hypothesis is accepted. Convenience in making payments is often the driving factor for many people to buy things that they should not buy. Purchases with BNPL payments will make someone make a compulsive purchase. The results of this study are per the results of Hjorthol & Grøtan (2021) and Xing et al. (2019).

The third hypothesis Self-control moderates the relationship between the pain of payment and compulsive buying. Based on table 6, it can be seen that self-control is not proven to moderate the relationship between the pain of payment and compulsive buying. This can be seen from the t-statistics  $0.345 < 1.98$  or it can be seen from the p-value which is  $0.731 > 0.05$ . Thus the third hypothesis is rejected. The rise or fall of compulsive buying is not related to a person's self-control. Many young people today do not do financial planning properly so their lifestyle tends to be consumptive. These results are also supported by the results of research from Hague et al. (2016).

## **E. CONCLUSION**

From the results of this study, it can be concluded that the pain of paying and the convenience of the payment method proved to affect compulsive buying. While the self-control variable is not proven to moderate the relationship between the pain of paying and compulsive buying. From these results, this research encourages BNPL product providers to provide clear information to consumers, users and the general public about this service so that they do not fall into debts that cannot be paid. Policymakers must ensure that there is great protection for consumers. This is because many credit providers are not transparent, thus disrupting consumer welfare.

## **2. Suggestions**

For future research, we suggest focusing on one of the BNPL providers so that these results can be used as a basis for their decision-making. use of mediating variables such as debt literacy and excess forest. This study, which only limits the age of the respondents from 17 years to 43 years, makes it difficult to see research by generation, so future research should focus on certain generations.

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# Managing and Reporting of Shari'ah Non-Compliant Income in Malaysian Islamic Banks: A Methodology Perspectives

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## Abstract

*Shari'ah Compliance and Governance Framework is essential to guide the banks on the regulatory requirement as it supports the growth and development of the Islamic finance industry. Section 28(1) and Section 28(3) of the Islamic Financial Services Act (IFSA) 2013, states that IFI needs to comply with the Shari'ah principles in all of their activities religiously. Managing and reporting Shari'ah Non-Compliance (SNC) for instance are crucial operational matters to the banks. In most cases, Islamic banks could be exposed to the SNC incidents due to Shari'ah non-compliance events (SNCE) or Shari'ah Non-Compliant Income (SNCI). This study will be focusing on SNCI, unblessed income that should be de-recognized from the bank's income. To investigate the end-to-end process of managing and reporting SNCI in Malaysian Islamic banks, the insight of the key functions, and the Shari'ah scholars were obtained. Besides in-depth interviews, documentation review of relevant policy documents and content analysis on the annual reports of ten Islamic banks were also performed to fulfill the delineated research objectives. Besides data source and methods triangulation, 'The Six Phases of Reflexive Thematic Analysis' was also applied to explore and develop understanding of patterned meaning across the datasets, eased by Atlas.ti. Finally, a guideline of best practices in managing and reporting the SNCI is proposed to the Malaysian Islamic banks.*

**Keywords:** *Non-complaint income; financial reporting; disclosure; Islamic banks; triangulation*

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## **A. INTRODUCTION**

### **1. Preamble**

Due to a dire study on the end-to-end process of managing and reporting Shari'ah Non-Compliant Income (SNCI) for Islamic banks, a basic study was conducted to generate more knowledge and understanding on the incidents. Although the term and incidents of SNCI are not new to the bank's key functions, the findings of this research are believed to be value-added knowledge to the interested stakeholders. It contributes further understanding on the multiple users and stakeholders especially for those who are concerned about the financial reporting in Islamic banking institutions (IBIs).

This study applies qualitative design of multiple-case study utilizing a data triangulation technique, essentially intends to enhance the accuracy of the findings using multiple sources of evidence. Triangulation is used in the research methodology both to address the research questions and for the hypotheses testing. This triangulation technique also helps to measure the observed phenomenon or issue precisely from multiple angles to ensure the consistency of measurement ([Evans et al., 2014](#)). From the works of Denzin (1978) and [Patton \(1999\)](#), there are four types of triangulation namely; methods triangulation, data sources triangulation, investigator triangulation, and theory triangulation ([Carter et al., 2014](#)).

This study applied the data sources and methods of triangulation so that a comprehensive understanding of a phenomenon can be developed ([Patton, 1999](#)). It is one of the strategies to increase the credibility of the research findings ([Denzin & Lincoln, 2008](#)). Data source triangulation involves the collection of data from different types of people, including individuals to gain multiple perspectives and validation of data.

In the context of this study, data triangulation was applied to ascertain the process of managing and reporting SNCI from the perspectives of the bank's key functions and the Shari'ah scholars. The bank's key functions and the Shari'ah scholars (the Shari'ah Committee and the Shari'ah Advisory Council) are the people who are directly involved with the subject under study. In line with the data triangulation technique, three methods were applied to address the research questions, including the face-to-face semi-structured in-depth interview, review of policy documents on Shari'ah governance policy ([BNM, 2019a](#)), ORION ([BNM, 2018b](#)) and, Financial Reporting for Islamic Banking Institutions ([BNM, 2018a; 2019b](#)) and finally, the content analysis of IB's annual reports of the ten IBs. However, this paper only focuses on a semi-structured in-depth interview with the stated informants as a proxy of the methodological perspective of this study.

### **2. Research Objectives**

This study investigates the current practices of managing and reporting the Shari'ah Non-Compliant Income by the bank's key functions and the Shari'ah Scholars in Malaysian Islamic Banks. To achieve the delineated objective, qualitative research was designed through in-depth interviews with the relevant bank's key functions represented by the Shariah Review (SR), Shariah Risk Management (SRM), and Shariah Research and Advisory (SRA), while the Shari'ah scholars represented by the Shariah Committee and the Shariah Advisory Council of Bank Negara Malaysia (BNM).

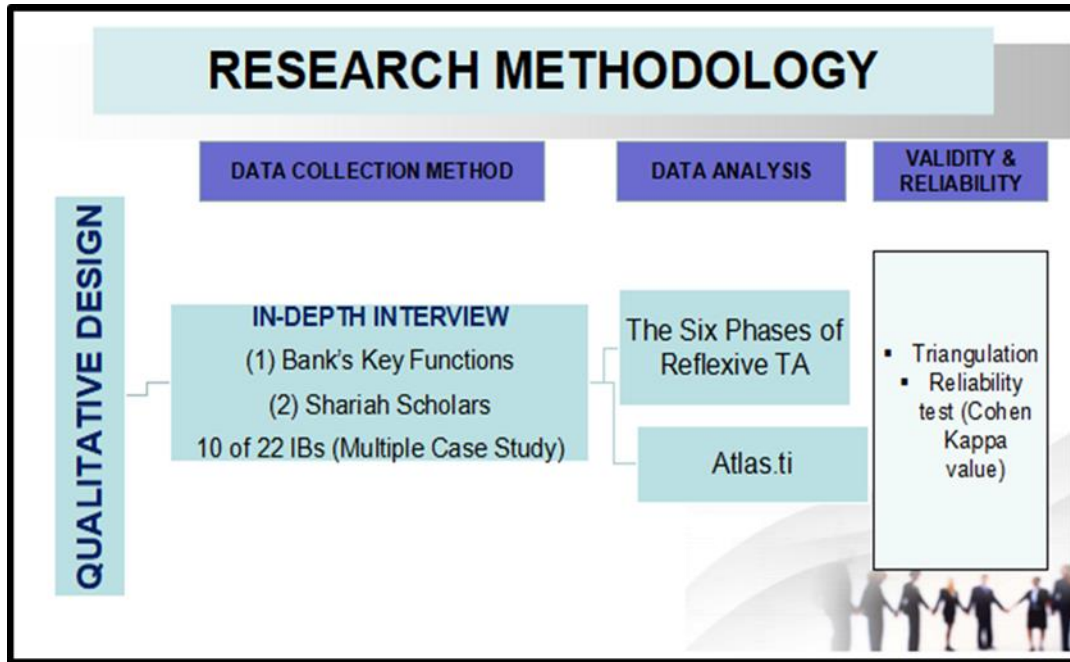
## **B. LITERATURE REVIEW**

### **1. Research Design**

This study incorporates a qualitative approach that focuses on managing and reporting SNCI obtained from in-depth interviews with the key functions of ten IBs in Malaysia. To achieve the objectives of the study, reviews of relevant literature on SNCI issues in managing and reporting SNCI were undertaken. A multiple-case study was applied as opposed to a single-case study design as a result of the latter proved that multiple-case studies were argued to be more convincing and lead to robust study ([Creswell, 2018; Yin 2014; 2018](#)). By having more than one category of IBs, comparison on the practice of managing and reporting SNCI by the bank's key functions from different aspects is visible. A multiple-case study design in this study retrieved data from the key functions of 10 IBs, that is represented by three categories of IBs; full-fledged Islamic banks (FFIB), Islamic banks subsidiary (IBS), and Development Financial Institutions (DFIs). This objective is impossible to achieve if a single case study

is applied in which it is evident that multiple-case studies are argued to be more compelling thus creating a robust study. (Stake 1995; Yin 2014).

The research samples for these multiple case studies were selected based on the purposive sampling strategy (Md Noor, 2009) whereby only the relevant key functions who were directly involved with managing and reporting of SNCI were chosen. The feedback from in-depth interviews with the relevant key functions was recorded, transcribed, and analyzed using the Computer Assisted Qualitative Data Analysis Software (CAQDAS) software, the Atlas.ti. 8.6 Software. Finally, the data was coded and themed using The Six Phases of Reflexive Thematic Analysis by Braun et al. (2018), a comprehensive method for capturing patterns (“themes”) across qualitative datasets. The summary of research methodology can be illustrated in Figure 1 overleaf:

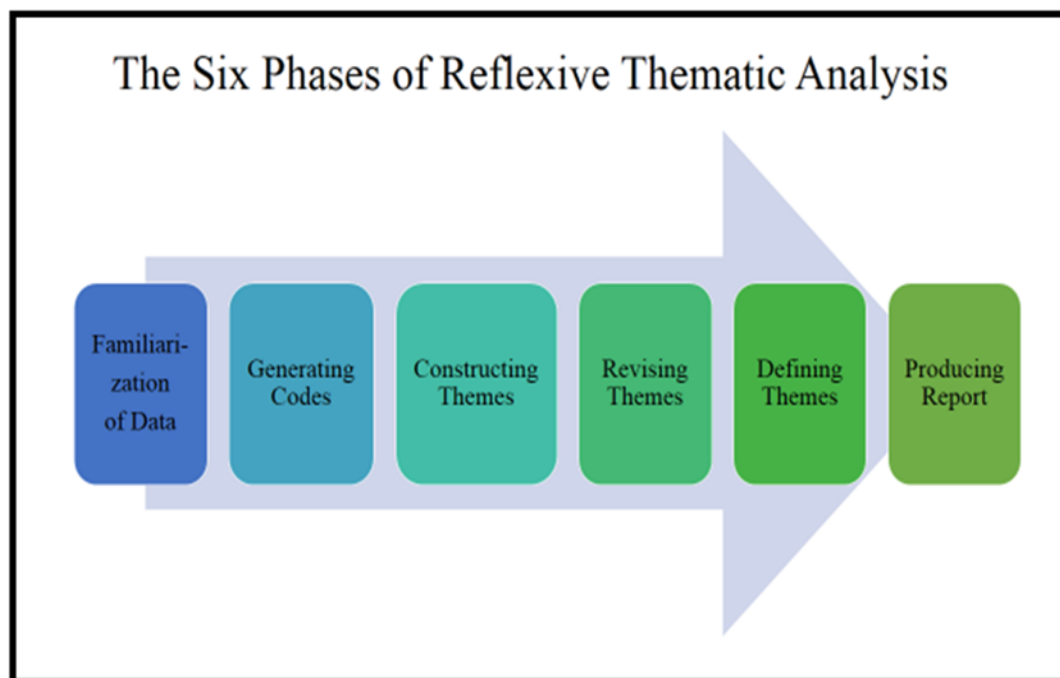


**Figure 1.** Summary of research methodology for the study

### C. RESEARCH METHODS

#### 1. Applying 'The Six Phases of Reflexive Thematic Analysis'

'The Six Phases of Reflexive Thematic Analysis developed by Braun et al., (2018) was applied aiming to provide a coherent and compelling interpretation of the excerpt, grounded in the data. This method is first time applied for this kind of study with the following details as illustrated in Figure 2 below:



**Figure 2.** The Six Phases of Reflexive Thematic Analysis

Source: Braun et al., 2018

**Phase 1:** Familiarization of data - the phase where the researcher familiarized with the data by listening to the audiotape interviews besides reading and re-reading the transcribed data of the main input from (1) the bank's key functions (the control functions) and (2) the triangulated data of the Shari'ah scholars from the Shariah Committee (SC) and the Shariah Advisory Council (SAC).

**Phase 2:** Generating codes - at this level, 30 codes were generated from the bank's key functions, twenty-nine codes respectively from the Shari'ah scholars (the SC and SAC) that are within the acceptable code range suggested by [Creswell & Poth \(2018\)](#). Some redundant code with similar meaning and context were re-grouped and combined before developing categories or themes based on the framework from literature.

**Phase 3:** Constructing themes - the initial code might be "split" into two or more different codes, renamed, or combined with other codes to form categories or themes, then begin to integrate these categories or themes into theoretical frameworks. Later, the researcher would construct (candidate) themes to the codes generated in Phase 2 and it requires a few times reading. After that, matching of themes was conducted with the particular underpinning theory that is believed grounded in the data. In this study, the codes generated in Phase 2 were finally categorized into 6 themes, which is within the range of the number of themes suggested by [Creswell & Poth \(2018\)](#).

**Phase 4:** Revising themes - revising the themes were performed by comparing the themes assigned with the pattern regularities, the framework from the literature, research questions and objectives and the underpinning theory grounded in the data.

**Phase 5:** Defining themes - after finalizing the themes, the "agreement" (consensus coding) between the coders were obtained using Cohen's kappa value calculation to measure the accuracy or reliability of coding. The mean value was used to determine whether the data analysis process should be proceeded or otherwise.

**Phase 6:** Producing the report - a report is produced to indicate how well the themes work, individually concerning the data set, and in the overall setting of the research. Revisiting the research question and notes from the earlier phases of familiarization is important for coding, lists of codes, and

theme definitions. Theme mapping can be useful to ensure that the final themes remain close to the data thus, answering the research question well. It is believed that the themes developed and finalized are fit to answer the research questions and objectives outlined for this study.

**2. Developing Codes and Themes**

After ‘The Six Phases of Reflexive Thematic Analysis’ was applied, then the codes and themes were compared and matched with the proposed underpinning theory. The pattern was found to be consistent with the underpinning theory; the stewardship theory thus, strengthen the validity of the study. It is in line with the findings of [Denzin & Lincoln, 1994](#); Yin, 2002, that theoretical refutation and consistency strengthen the interval validity of the study.

From this study, it was discovered that an emerging theme from the analysed data of interviews with the bank’s key functions is a new contribution to the study, thus, adding value to the Stewardship Theory. An interpretation was then conducted based on the researcher’s discussion and reflection towards the findings and, it went beyond what was said from the interview. Personal reflections were also supported by the literature that provides an alternative view of the findings, which indirectly helped make sense of this study and supported the emerging themes identified in the current study ([Alatassi & Letza, 2018](#); [Abas, 2017](#); [Chiang et al., 2015](#); [Obid & Naysary, 2014](#)).

**3. Validity and Reliability Test**

Validity of data is realized through triangulation of data gathered from the banks’ key functions and the Shariah scholars gathered from three different types of IB as stated in the earlier section. The trustworthiness or reliability subsequently be validated using the Cohen Kappa inter-reliability test. The inter-rater reliability tests were conducted by colleagues who were familiar with the research area as proposed by Merriam (2009, p. 220). The rater or coder was requested to indicate with a tick in the “agree” or “disagree” column of codes developed by the researcher. For the disagreed codes, each rater was required to indicate their suggested code for the excerpts or quotations selected. In this study, three raters were selected based on their background of Islamic banking experience and research. The formula for Kappa value and the rate calculation in this study is as follows:

K=	$\frac{fa - fc}{N - fc}$
----	--------------------------

**Equation 1.** Calculation of Cohen Kappa Value

Where,  
 K = Cohen Kappa value  
 fa = frequency of agreement  
 fc = frequency of chance (N/2)  
 N = number of units  
 Mean between raters =  $\frac{K1+K2+K3}{3}$

The calculation of Kappa value for each rater is as follows:

**Table 1.** Calculation of Kappa Coefficient (K) among the raters or coders.

Rater 1	Rater 2	Rater 3	Average value of Kappa coefficient (K)
fa = 77	fa = 75	fa = 78	K = $\frac{K1 + K2 + K3}{3}$
Fc = 78/2 = 39	Fc = 78/2 = 39	Fc = 78/2 = 39	
N = 78	N = 78	N = 78	
K = $\frac{77 - 39}{78 - 39}$ = 0.97	K = $\frac{75 - 39}{78 - 39}$ = 0.92	K = $\frac{78 - 39}{78 - 39}$ = 1.0	K = $\frac{0.97 + 0.92 + 1.0}{3}$ = 0.96

The mean value calculated in the current study is 0.96. The Kappa value is higher than 0.8, which indicates accurate or reliable coding agreement between the raters ([Braun et al., 2018](#)). Thus, the researcher proceeds with the proposed guideline as the coding scheme, categories and themes were considered valid.

## **D. DISCUSSION**

### **1. Managing the Shari'ah Non-Compliant Income**

The most crucial process in managing SNCI is the detection of Shari'ah issues after the approved products are launched by the Islamic banks. This process is considered a post-product launched where feedback was received from various stakeholders and the control functions itself after it is being operationalized. Prior detection process, the investigation process will be conducted before a decision is made by the SC and the SRM on the status of the SNC incident as approved to be actual SNCI or otherwise. These findings need to be reported internally by the SC and SRM through the Operational Risk Integrated Online Network (ORION) system before it is being reported in the annual report (external reporting).

Internal reporting requires better communication between the key functions at the bank level and the supervisory level (the SC). It is to fulfil the regulatory requirement of the regulator when the SNCI need to be reported through the Operational Risk Integrated Online Network (ORION). It also ensures the implementation of the bank's internally regulated policy. Hence, a comprehensive assurance of Shari'ah compliance at the regulatory level and the bank's level can be achieved.

### **2. Evidence from the Informants**

As said by one of the bank's key function:

*"In fact, we have our own guidelines other than what is required by BNM. We have self-regulated internal policy guidelines where we need to guide the bank on how to identify, report and rectify SNCI up to its disposal to charity."* (R1IB05).

Another bank's key function added:

*"Judgement by the SC will determine whether the issue is SNC or not, judgement and Ijtihad (carefulness) will determine whether SNC or Non-SNC."* (R1IB08).

On the other perspective, one of the SC added:

*"Compliance to SGF with regards to SNC means that an IFI is compliant if it treats SNC events as required by the regulator; potential SNC when it is found, has to be deliberated by the SC members. If it turns out to be actual compliant, report has to be escalated to BNM. Meanwhile IFI has dedicated time to mitigate the SNC. If it fails to adopt the processes, then it does not comply to the SGF."* (SCB01).

And, one of the Shariah Advisory Council (SAC) alleged that:

*"It's about the processes involved in providing assurance of all the activities to the fatwa, to the decisions and the solution of these particular committee...Shari'ah compliance is basically a process to provide assurance from Shari'ah requirement that the bank or Financial Institutions have been conducting themselves in accordance with the prescribes rules, regulations, processes, standards, either from the regulators or from the internal Shari'ah advisors to the institutions or any other bodies which has issue the standards and that should be put in practice to achieve the final assurance of Shari'ah compliance. ...Every IFI around the globe to be compliant and to be calling themselves IB and to be putting the assurance to the public at large they are actually compliant to the Shari'ah principles."* (SCR01).

The SAC further revealed that:

*"We need to start writing a very comprehensive SOP for Shari'ah compliance framework, which we don't have at the moment."* (SCR01).

It was learned from the relevant key functions feedback, that they need to manage the SNC incidents carefully. In this case, the authorized key functions need to exercise their stewardship role (accountability, transparency and disclosure, competency, independence and confidentiality) besides infusing prudence in managing the SNCI. Later, it has to be reported internally (through the ORION platform and internal reporting mechanism) and externally (in the annual report).



## **E. CONCLUSION AND RECOMMENDATIONS**

### **1. Summary**

A multiple-case study applies in this study as it is argued to be more convincing and robust compared to a single case study design ([Creswell, 2018](#); [Yin, 2014](#); [Yin 2018](#)). In this study, multiple case studies involved three categories of IBs: FFIB, IBS and DFI with triangulated methods of an in-depth interview with relevant key functions. The study believed that triangulation helps measure the observed phenomenon or issue precisely from multiple angles to ensure the consistency of codes or themes measured ([Evans et al., 2014](#)). To ensure the theoretical refutation and consistency achieved ([Denzin & Lincoln, 1994](#); [Yin, 2002](#)) thus, strengthening the interval validity of the current study is required. This study contributes to the methodology where 'The Six Phases of Reflexive Thematic Analysis' was applied to explore an understanding of patterned meaning across the datasets, eased by Atlas. ti software.

This study investigates the current practices in managing and reporting the Shari'ah Non-Compliant Income by relevant key functions in the Malaysian Islamic Bank. It is found that the key functions uphold the stewardship role to the banks and to the multiple stakeholders in discharging their responsibilities through efficient management and reporting mechanisms. Hence, it is of utmost importance to harmonize stewardship efforts with the prudence approach to promote financial stability in the Islamic banking industry ([BNM, 2019b](#)).

### **2. Suggestions**

It is suggested that other methods of validating themes or codes could be applied for future research other than 'The Six Phases of Reflexive Thematic Analysis'. A Quantitative research design is also suggested to investigate the process of managing and reporting the SNCI for Islamic banks for future research. Both recommendations may provide similar or different results from the current study.

## **ACKNOWLEDGMENT AND LIMITATION**

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# Panel Data Regression: Equity Financing and Debt-based Financing Islamic Commercial Banking in Indonesia

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## **Abstract**

*This paper investigates the impact of equity financing and debt-based financing on profitability in Islamic Commercial Banks. Panel data regression is used to determine the effect of equity-based financing and debt-based financing on Islamic commercial banks' profitability in Indonesia. The data used in this study are the aggregate financial statements of Islamic commercial banks during 2015-2019. The research findings show that partially debt and equity-based financing does not affect ROA and ROE of Islamic Commercial Banks. However, simultaneously the statistical results show a difference where debt and equity-based financing do not affect ROA. Meanwhile, debt and equity-based financing simultaneously affect ROE.*

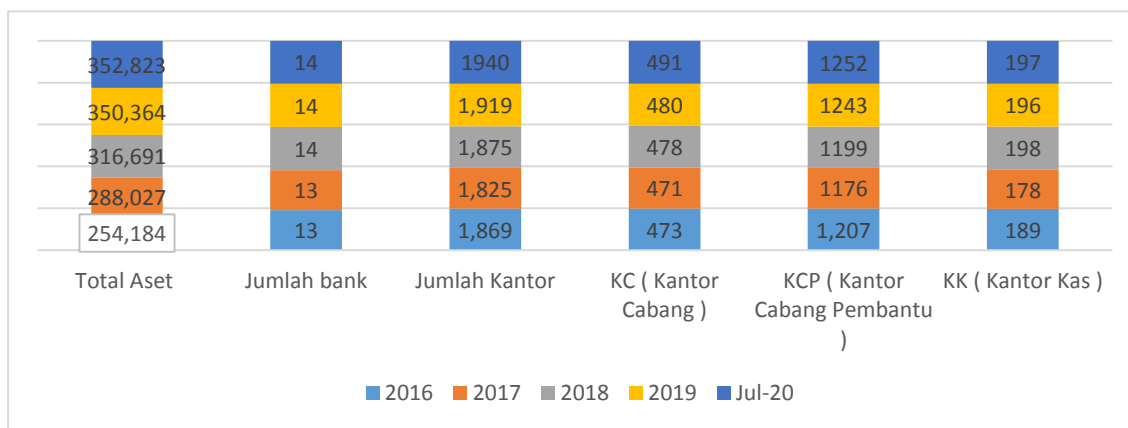
**Keywords:** *Equity financing, Debt-based financing, Islamic Commercial Bank, Indonesia*

**A. INTRODUCTION**

In Indonesia, national banking uses a dual banking structure, namely Islamic banking and conventional banking ([Isnaini & Nursyamsiah, 2019](#)). According to the Law of the Republic of Indonesia Number 21 of 2008 concerning Islamic banking, Islamic banks are banks that carry out their activities based on sharia principles. According to its type, Islamic banks are divided into Islamic Commercial Banks and Islamic People's Financing Banks (RI, 2008) Islamic banks are an institution with an intermediation function, namely, collecting funds from people who experience a surplus or excess funds from parties who are short of funds. Funds are channeled through 4 distribution patterns such as the principle of profit-sharing, buying and selling, complementary contracts, and the principle of *ujroh* ([Isnaini & Nursyamsiah, 2019](#)).

According to the Law of the Republic of Indonesia, number 21 of 2008, concerning Islamic banking based on the type of operation, Islamic banking consists of BUS, UUS, BPR Syariah. (RI, 2008). Islamic banks' function is as an intermediary institution and service provider institutions ([Haida, 2016](#)). Islamic banking in Indonesia has grown and developed rapidly both in terms of total assets, number of banks, and number of offices can be seen from figure 1, which illustrates all indicators of development of Islamic banking have increased. According to Utama (2018), the development and growth of Islamic commercial banks are supported by many factors, including the enactment of Law No. 21 of 2008 concerning Islamic banking, the Fatwa of the National Council of the Indonesian Ulema Council on Islamic financial institutions.

*Chart 1. Development of Islamic banking in Indonesia*



Sourced: The Financial Services Authority 2020

Islamic banks provide capital financing products such as financing with a profit and loss sharing mechanism (PLS) and debt-based financing products (non-PLS) ([Yusof et al., 2009 dan Nor & Ismail, 2020](#)). According to [Wahyudi et al., \(2019\)](#) Mudharabah and musyarakah are equity financing while murabahah, Istishna, Salam and Ijarah are debt based financing. Lewis, (2015) said that the ideal financing model for Islamic banks is equity financing. However, equity financing is less popular and dominant than debt-based financing ([Atal et al., 2020; Miah & Suzuki, 2020; Maulidizen, 2019](#)). [Ismal, \(2010\)](#) Mudarabah (trustee partnership), Musharakah (joint venture), Muzara'ah (for harvest yields) and Musaqah (plantation management fees based on a certain portion of the yield). Murabahah (mark up sale), Ijarah (leasing), Salam (deferred delivery sale), Istisna (manufacture-sale), and Qardh (benevolent loan).

In Islamic banking, both equity and debt-based financing have the same objective of earning income, which ultimately shows their performance ([Wahyudi et al., 2019](#)). Several studies have tried to explain the characteristics of equity and debt financing in Islamic banks, for example ([Fadhila, 2016; Faradilla et al., 2017; Rahayu et al., 2016; Putri, 2020](#)). However, very few empirical studies have explored the impact of equity and debt-based financing on performance in Islamic banks.

This study investigates the impact of equity and debt-based financing on the profitability performance of Islamic banks in Indonesia during 2010-2019. Profitability is a performance that reflects the ability of Islamic banks to earn profits, represented by the ratio of ROA and ROE ([Javaid & Alalawi, 2018](#)). The ratio was chosen because the key indicator was common, and research is often used to conduct financial condition, results, or even future forecast investigations ([Javaid & Alalawi, 2018; Jewell & Mankin, 2011](#)). This study is unique though most of the literature focuses on debt-based funding. Furthermore, Islamic banks are implementing a dual banking system in Indonesia. Besides, the observation period for the research is nine years, so the addition of the number of periods and sample banks is estimated to raise the validity of the research's measurement.

This paper is structured as follows: Section 2 provides an overview of the literature review. Section 3 discusses the methodology used to measure the impact of financing between equity and

debt-based financing on Islamic banks' profitability. Section 4 analyzes findings and provides discussion. Section 5 concludes the paper.

## **B. LITERATURE REVIEW**

Several studies focus on measuring the impact of equity and debt financing on Islamic banks' performance. For instance, Rochmanika & Rohman (2019) was investigating the impact on Islamic commercial banks' profitability in Indonesia of buying and selling financing, profit-sharing financing, and non-performing financing ratios. Multiple linear regression was used to process the data in this study, and the sample used was 6 Islamic commercial bank that were identified on the IDX for the period 2012-2017. The data collected are references in Islamic commercial bank annual financial reports from the [www.IDX.co.id](http://www.IDX.co.id) website that support this study's hypothesis by sampling technique. The findings showed that profitability was not affected by purchasing and selling financing. Meanwhile, the profitability of Islamic commercial bank in Indonesia in 2012-2017 is influenced by NPF and profit-sharing financing.

A study by [Wahyudi et al. \(2019\)](#) investigates debt and equity-based financing, size and profitability of Islamic banks; Empirical Evidence from Indonesia. The research method uses the Moderated Regression Analysis (MRA) model estimation test to see size as a moderating variable. It uses Islamic bank panel data from Islamic bank financial reports for 2008-2017. The results showed that debt and equity-based financing affected profitability, as indicated by empirical findings. The bank size does not strengthen the relationship between debt and equity and profitability.

A study conducted by [Karyadi \(2019\)](#) on the Analysis of the Effect of Murabahah, Mudharabah, and Musyarakah Financing on the Profitability of Islamic Commercial Banks in Indonesia 2012-2017 period. This research method is a quantitative approach with an associative research type. The sample used is Bank Muamalat Indonesia and Bank Syariah Mandiri, taken using the purposive sampling method. Multiple linear regression analysis, classical assumption test, and hypothesis as data analysis tools. The findings show that mudharabah, murabahah, and musyarakah financing have a significant influence on Islamic banks' profitability.

Study Romdhoni & Yozika (2018) on the effect of mudharabah, musyarakah, and ijarah Financing on the profitability of Bank Muamalat Indonesia 2010-2017. The research method in this research uses quantitative descriptive. Data collection was carried out using the documentation method from the Bank Muamalat Indonesia 2010-2017 website and multiple regression analysis as a data analysis tool. The study results partially show that ijarah and mudharabah financing do not significantly affect the profitability of Bank Muamalat Indonesia. Musyarakah financing has a negative effect on the profitability of Bank Muamalat Indonesia. Simultaneously, the ijarah mudharabah and musyarakah financing affect Bank Muamalat Indonesia's profitability.

The study conducted by [Sirat et al. \(2018\)](#) regarding the Effect of Mudharabah, Musyarakah, Murabahah, and Ijarah Financing on the Profitability of Islamic Commercial Banks (BUS) Registered in the Financial Services Authority (OJK). The research method used is multiple linear regression as a means of data analysis with purposive sampling method for sampling. The data used is secondary data, namely the annual financial statements of BUS in Indonesia for 2012-2016, which are registered with the OJK. The results showed that simultaneously financing ijarah, musyarakah, mudharabah, and murabahah affected profitability. Ijarah and mudharabah financing do not affect profitability. Musyarakah and murabahah financing affect profitability.

Asih (2018) investigated the Effect of Mudharabah, Musyarakah, Murabahah, and Ijarah Financing on the Profitability of Islamic Commercial Banks Commercial Banks in Indonesia for the 2014-2018 period. This study uses secondary data from Islamic Commercial Banks registered with the OJK, taken using a purposive sampling method. With multiple linear regression analysis as a data analysis tool, classical assumption test, and f test and t-test. The results showed that murabahah and musyarakah financing did not affect profitability. Ijarah financing harmed the profitability of Islamic Commercial Banks, and mudharabah financing had a positive effect on Islamic Commercial Banks' profitability.

[Fianto, Gan, Hu, & Roudaki, \(2018\)](#) explores two financing groups in Islamic microfinance, equity, and debt-based financing. A two-year panel dataset and a multiple difference approach to difference were used to examine the impact of two Islamic microfinance groups on Indonesia's rural households. The study also evaluates sharia compliance based on Indonesia's national sharia board. The study results show that both financing groups show positive results and significantly impact rural household income, but equity financing performs better than debt-based financing. Also, the evaluation of sharia compliance shows that clients receive financing comparable to Indonesia's national sharia board.

A study conducted by Firdaus & Prasetyo (2017) on the impact of Debt financing and equity financing on the profit expense ratio of Islamic general banking for the period 2011-2015. The research method uses a quantitative approach. The data uses the quarterly reports of Bank Muamalat Indonesia, BRI Syariah, and Bank Mandiri Syariah for 2011-2015, with a total sample of 60 taken using purposive sampling and panel regression analysis as data analysis tools. The results showed

that equity financing and partial debt financing affected the profit ratio's cost of profit. Equity and debt financing has a significant effect on the profit expense ratio.

Julianto et al. (2016) analyzed the effect of buying and selling financing and profit-sharing financing on the profitability of Islamic commercial banks in Indonesia for the period 2013-2015. This study uses all Islamic Commercial Banks registered in BI as the study population and uses secondary data in quarterly financial reports, which are taken using documentary study methods and purposive sampling. The results showed that the simultaneous financing of profit sharing and buying and selling affects Islamic Commercial Banks' profitability. Partially, buying and selling financing and profit-sharing does not affect Islamic Commercial Banks' profitability in Indonesia.

Based on the description of the theoretical study and literature review, the hypothesis and framework of this research are as follows.

- H<sub>1</sub> : Debt-based financing has a positive and significant effect on ROA
- H<sub>2</sub> : Debt-based financing has a positive and significant effect on ROE
- H<sub>3</sub> : Equity-based financing has a positive and significant effect on ROA
- H<sub>4</sub> : Equity-based financing has a positive and significant effect on ROE

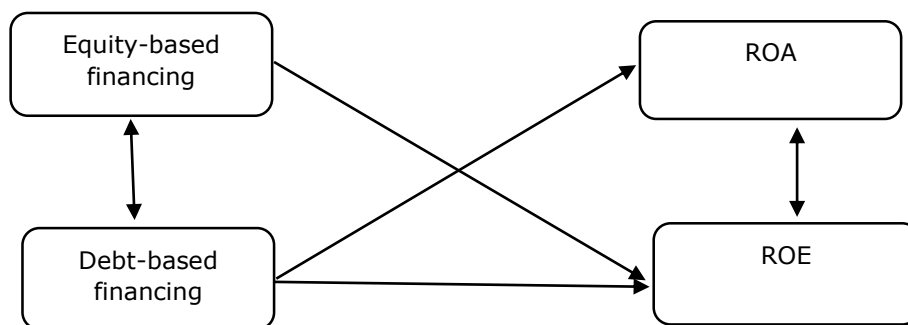


Figure 1. Proposed Research Model

**C. METHODOLOGY**

This research is a quantitative research associative approach. This study's independent variable is Debt and Equity financing, and the dependent variable is profitability with ROA and ROE indicators. This study's population are all Islamic Commercial Banks (BUS) in Indonesia. The sample in this study was 14 BUS during 2010-2019. This study uses secondary data obtained from annual reports. Sampling using a non-probability sampling methodology with a purposeful sampling process, where the data are taken only according to the researchers' characteristics and parameters, including; BUS, which is registered with the OJK, publishes 2010-2019 annual reports and it has a debt and equity-based financing composition. Based on the sampling criteria, the number of research samples was 8 BUS, shown in table 1.

Table 1. Sample list

Bank Umum Syariah	Code
Bank Muamalat Indonesia	BMI
BRISyariah	BRIS
BNI Syariah	BNIS
Bank Syariah Mandiri	BSM
Bank Mega Syariah	BMS
Bank Panin Dubai Syariah	BPDS
BCA Syariah	BCAS
Bank Syariah Bukopin	BSB

Panel data is used in this study to estimate the Pooled Least Square (common effect model), Fixed Effect model (FE), and Random Effect model (RE). To determine the panel data estimation model, the Chow test or Hausman test, and the Lagrange multiplier test is required. Furthermore, hypothesis testing was carried out, including the t-test, f test, and R2 test.

**D. RESULTS AND DISCUSSION**

Panel Data Regression Model Selection

The stages of selecting the panel data regression model in the estimation are as follows:

a. Model Estimation

Table 2. Common Effect (ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.222476	5.825623	0.209845	0.8343
Debt (X1)	0.009968	0.059700	0.166967	0.8678
Equity (X2)	-0.014675	0.060056	-0.244356	0.8076

Sourced: Eviews 9

Table 3. Common Effect (ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	34.81580	32.44861	1.072952	0.2866
Debt (X1)	-0.177585	0.332530	-0.534042	0.5949
Equity(X2)	-0.433735	0.334510	-1.296628	0.1986

Sourced: Eviews 9

Table 4. Fixed Effect (ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.139481	6.996872	-0.162856	0.8711
Debt (X1)	0.034520	0.071982	0.479564	0.6330
Equity (X2)	0.008890	0.073902	0.120292	0.9046

Sourced: Eviews 9

Table 5. Fixed Effect (ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	20.56819	38.96666	0.527841	0.5993
Debt(X1)	-0.063460	0.400881	-0.158301	0.8747
Equity(X2)	-0.242913	0.411571	-0.590208	0.5570

Sourced: Eviews 9

Table 6. Random Effect (ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.222476	5.891428	0.207501	0.8362
Debt (X1)	0.009968	0.060375	0.165102	0.8693
Equity (X2)	-0.014675	0.060734	-0.241627	0.8097

Sourced: Eviews 9

Table 7. Random Effect (ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	34.81580	32.81027	1.061125	0.2920
Debt(X1)	-0.177585	0.336237	-0.528155	0.5989
Equity(X2)	-0.433735	0.338238	-1.282336	0.2036

Sourced: Eviews 9

b. Model Significance Test

1. Chow Test

Based on the results of the Chow test table 8 and 9 in choosing the panel data model, it can be seen that the probability value of the dependent variable ROA and ROE respectively is 0.6260, 0.6234 and these values are more significant than 0.05%, so that it means that they both accept H0, then the Common Effect model is chosen. In the chow test significance test.

Table 8. Chow Test (ROA)

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.755642	(7,70)	0.6260
Cross-section Chi-square	5.827628	7	0.5600

Sourced: Eviews 9

Table 9. Chow Test (ROE)

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.758832	(7,70)	0.6234



Cross-section Chi-square	5.851352	7	0.5572
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Sourced: Eviews 9

2. Hausman Test

Based on the results of the Hausman test in tables 10 and 11 in choosing the panel data model, it can be seen that the probability values of the dependent variable ROA and ROE are 0.8193, 0.6950 and these values are more significant than 0.05%, so that it means that they both accept H0. The Random Effect model is selected in the Hausman significance test.

Table 1. Hausman test (ROA)

Test Summary	Chi-Sq.	Statistic	d.f.	Chi-Sq.	Prob.
Cross-section random	0.398598		2		0.8193

Sourced: Eviews 9

Table 2. Hausman Test (ROE)

Test Summary	Chi-Sq.	Statistic	d.f.	Chi-Sq.	Prob.
Cross-section random	0.727665		2		0.6950

Sourced: Eviews 9

3. Lagrange Multiplier Test

Based on the results of the Lagrange table 13 and 14 Multiplier test in choosing the panel data model, it can be seen that the value of the Breusch-Pagan dependent variable ROA and ROE are 0.4282, 0.2920 and these values are more generous than 0.05% so that it means that both accept H0, so the model is chosen Random Effect.

Table 3. Lagrange Multiplier Test (ROA)

	Cross-section	Time	Both
Breusch-Pagan	0.435154	0.192674	0.627828
	(0.5095)	(0.6607)	(0.4282)

Sourced: Eviews 9

Table 4. Lagrange Multiplier Test (ROE)

	Cross-section	Time	Both
Breusch-Pagan	0.523153	0.587353	1.110506
	(0.4695)	(0.4434)	(0.2920)

Sourced: Eviews 9

**Selected Estimation Model**

Based on the results of the Chow test, Hausman test and Lagrange multiplier test, the selected estimation model is the Random Effect Model for the ROA and ROE indicators in tables 15 and 16:

Table 5. Random Effect Model (ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.222476	5.891428	0.207501	0.8362
DEBT (X <sub>1</sub> )	0.009968	0.060375	0.165102	0.8693
EQUITY (X <sub>2</sub> )	-0.014675	0.060734	-0.241627	0.8097
Effects Specification				
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			2.608233	1.0000
Weighted Statistics				
R-squared	0.042058	Mean dependent var		1.206625
Adjusted R-squared	0.017177	S.D. dependent var		2.601539
S.E. of regression	2.579100	Sum squared resid		512.1852
F-statistic	1.690333	Durbin-Watson stat		2.102055
Prob(F-statistic)	0.191230			
Unweighted Statistics				
R-squared	0.042058	Mean dependent var		1.206625
Sum squared resid	512.1852	Durbin-Watson stat		2.102055

Sourced: Eviews 9

Tabel 6. Random Effect Model (ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	34.81580	32.81027	1.061125	0.2920
DEBT (X <sub>1</sub> )	-0.177585	0.336237	-0.528155	0.5989
EQUITY (X <sub>2</sub> )	-0.433735	0.338238	-1.282336	0.2036
Effects Specification				
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			14.52565	1.0000
Weighted Statistics				
R-squared	0.139313	Mean dependent var		7.144750
Adjusted R-squared	0.116958	S.D. dependent var		15.28731
S.E. of regression	14.36554	Sum squared resid		15890.38
F-statistic	6.231725	Durbin-Watson stat		1.793333
Prob(F-statistic)	0.003101			
Unweighted Statistics				
R-squared	0.139313	Mean dependent var		7.144750
Sum squared resid	15890.38	Durbin-Watson stat		1.793333

Sourced: Eviews 9

**Hypothesis testing**

F test

Tables 15 and 16 illustrate that the simultaneous test results of equity and debt-based financing together have no effect on ROA profitability and jointly affect ROE profitability. In this case, it is shown by the respective values of 2.102055 and 1.793333.

T-test

Tables 15 and 16 illustrate that equity and debt-based financing does not affect ROA, where the probability value of 0.8693 and 0.8097 is shown. Likewise, with ROE, which is shown the probability value of 0.5989 and 0.2036, respectively.

R<sup>2</sup> test

In Table 15, it can be seen that the R-square of equity and debt-based financing to ROA is 0.042, or 4.2% of the independent variables contribute to ROA. In comparison, the remaining 95.8% is explained by other variables not included in this study. Furthermore, table 16 of the R-square value of equity and debt-based financing to ROE of 0.139 or 13.9% of the independent variables can contribute to ROE. In comparison, 86.1% is explained by other variables not included in this study.

Effect of Debt and Equity Based Financing on ROA

Based on the research results, partially Debt-based financing has no positive effect on Islamic Commercial Banks' ROA during the period 2010 - 2019. The results of the probability show it. 0.8693 (Debt) where the value is more than 0.05% with a coefficient value. 0.009968 and Equity-based financing does not have a negative effect on ROA for Islamic Commercial Banks during the period 2010 - 2019. It is shown by the results of prob.0.8097, where the value is more than 0.05% with a coefficient value. -0.014675 and the R-square value of Debt and Equity-based financing to ROA is only 0.042058 or 0.42% in explaining ROA, and other variables explain the rest. Simultaneously, Debt and Equity-based financing together does not affect ROA indicated by the probability value of F-statistic 0.191230 more than 0.05%.

The results of this study support several previous studies, such as [Julianto et al. \(2016\)](#) partially. Buying and selling financing and profit-sharing do not affect ROA, but simultaneously it is different; namely, buying and selling financing and profit-sharing together affect profitability (ROA). The results of this study are the differences and similarities in previous research. The non-impact of

Debt and Equity-based financing on ROA explains that the decline and increase in Debt and Equity-based financing did not result in ROA for Islamic Commercial Banks for the 2010-2019 period.

Debt-based financing does not affect ROA. It can be caused by the risks possessed by Debt-based financing, namely installments of wrong customers or even not returning funds provided by Islamic commercial banks through Debt-based financing. This research supports Asih's study (2018) Sa'adah et al., 2017). Ridha Rochmanika (2019), namely buying and selling financing, does not affect ROA. Equity-based financing does not affect ROA. It is suspected that a large enough risk causes it, and an unclear ratio will be obtained or not, and if there is a loss, the bank will bear the loss. This research supports research ([Azhar & Nasim, 2016](#); [Inayatillah & Subardjo, 2017](#)). Namely, the results' financing does not affect profitability (ROA).

#### **Effect of Debt and Equity-based Financing on ROE**

Based on the study results, partially Debt-based financing has no significant negative effect on ROE Bank Syariah General during the period 2010 - 2019. The results of probability show it. 0.5989 (Debt) where the value is more than 0.05% with a coefficient value. -0.177585 and Equity-based financing has no significant negative effect on ROE Bank Syariah General during 2010 - 2019. The results of probability show it. 0.2036 where the value is more than 0.05% with a coefficient value of -0.433735 and the R-square value of Debt and Equity-based financing to ROE is only 0.139313 13.9% in explaining ROE. Other variables explain the rest. Simultaneously, Debt and Equity-based financing jointly affect ROE indicated by the F-statistical probability value of 0.003101 less than 0.05%.

Debt-based financing does not affect ROE due to several factors, including the risk of non-performing financing and funds not being returned by customers. Equity-based financing does not affect ROE, which means that equity-based funding fluctuation does not affect profitability (ROE). Equity-based financing with a profit-sharing ratio with a reasonably long period so that it does not adequately contribute to ROE This research supports the research of [Audyta & Afridani \(2019\)](#) and [Inayatillah & Subardjo \(2017\)](#).

#### **E. CONCLUSIONS AND SUGGESTIONS**

This study examines the effect of equity and debt-based financing on Islamic Commercial Banks' profitability in Indonesia. Based on panel data regression's statistical test, the selected model estimation is the random effect model. As a result, simultaneously, equity and debt-based financing do not affect ROA, but it has a simultaneous effect on ROE. The next researcher is suggested to add other variables that can potentially affect the level of profitability and expand research objects such as BPR Syariah or Sharia Business Units.

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# The Efforts of the Halal Value Chain Ecosystem to Realize Indonesia as the World's Biggest Halal Producer

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## Abstract

*Prior research has investigated the role of Islamic values in community-based enterprise. The authors contributed to this line of research by exploring a community-based perspective. Using the resource-based view theory fundamental lens, this study aims to reveal the origins and unique characteristics of Islamic community-based enterprise. This research is an exploratory research with qualitative case study research involving 9 participants, all of whom are founders of a community-based business that uses Islamic principles. This study uses in-depth interview and observation as methods. The results show there are 3 origins of Islamic community-based enterprises, all of which have differences with conventional community-based enterprises. As for the characteristics, there are unique characteristics of Islamic community-based enterprise that are not found in conventional literature. The authors contribute to uncovering a new variant of the idea of Islamic entrepreneurship and community. This study reveals the birth of the idea of an Islamic community-based enterprise as a breakthrough concept that integrates entrepreneurship, community functions and Islamic values. This research also opens a form of Islamic entrepreneurship, which in previous studies is more prominent in the individual perspective. This study provides an in-depth lens to see Islamic entrepreneurship from a community perspective.*

**Keywords:** *Islamic community-based enterprise; community-based enterprise; community entrepreneurship; Social Entrepreneurship; Islamic entrepreneurship*

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## **A. INTRODUCTION**

As a country with the largest Muslim population in the world, which reaches 87.18% of a population of 232.5 million people according to the Global Islamic 2018/2019 Economic Report, Indonesia has a very large market share based on products and services in, the sharia economy is very large compared to other countries ([Fatmawati & Santoso, 2020](#)). In the real sector, the application of Islamic economics is growing in the form of the halal industry which covers various sectors such as halal food and beverages, Muslim fashion, Muslim-friendly tourism, halal medicines and cosmetics, and other halal industries ([Indonesia, 2020](#)). Therefore, the halal industry has a strategic role in improving the economy of Indonesia. Seeing this, of course, Indonesia has a great opportunity in the development of Islamic economics and Islamic finance. Especially in developing the Islamic economy through strengthening the halal industrial sector or in the halal value chain ecosystem.

For this reason, it should continue to be developed in Indonesia. The halal value chain ecosystem is a new concept offered in the Islamic economic system. The halal value chain is an ecosystem or halal supply chain that includes several upstream to downstream industrial sectors ([Zahroh, 2020](#)). This concept plays an important role in economic progress in Indonesia. Strengthening the concept of the halal value chain to be included in one of the 2019-2024 Islamic Economic Masterplans. The halal industry related to the Muslim population is divided into several clusters, such as the food and beverage cluster, the halal tourism cluster, the Muslim fashion cluster, the halal media and recreation cluster, the halal pharmaceutical and cosmetics cluster, and the renewable energy cluster ([Muslihati, 2020](#)).

The steps taken in developing Islamic Economics and Finance are the government developing Islamic boarding schools to replicate the implementation of the Islamic economic and financial development ecosystem. This policy is a form of the government's commitment to increasing financial inclusion, including Islamic finance. Trends in food (eating and drinking) have developed quite rapidly in Indonesia in the current era. The many movements that are aware of halal products are not only from Indonesia but in any part of the world that has a Muslim population.

Halal Value Chain is part of an effort or strategy in the halal industry sector for producers to be able to compete in the same industry, in Indonesia focusing on halal value chains in 6 sectors including the halal food and beverage sector, halal tourism, Muslim fashion, halal media-recreation, pharmaceuticals halal cosmetics and halal energy. However, this research focuses on one of the sectors in the halal value chain, namely the food and beverage sector. The purpose of this halal value chain is to maintain and maintain halal products in the hands of consumers or buyers.

This research is a new study but still requires several journal references including several literature reviews from other studies. The goal is that researchers get information related to this research and can deepen the problems being analyzed by researchers. In addition, what is being studied or studied from all source's results? So that the data collected by researchers can be used as relevant research. The literature review taken or presented in this study comes from journals. One of them is a journal written by Karina, Chairunnisyaha, Marlya, and Hubbul conducting research in 2020, regarding "The influence of religiosity on the interest of Muslim women in Medan in the consumption of halal food products". This research is quantitative. The results obtained show that there is a positive and significant influence on the interest of Muslim women in the city of Medan in consuming halal products ([Chairunnisyah et al., 2020](#)).

The halal value chain is the government's strategy to make Indonesia the center of the sharia economy and the world's halal industry. One way is to make Indonesia the world's halal producer. The adaptive way is seen through fulfilling the demand for the domestic halal market which is currently dominated by global players. Fulfilling market demand will also be more effective due to the development of high domestic demand for halal products. This can also contribute to strengthening the balance of payments.

## **B. RESEARCH METHOD**

This research includes library research using a descriptive analysis method approach. Data collection techniques from the existing literature review. After that, the data is understood, researched, and studied, then described according to the needs needed in the research. So from that, research can find the implications of halal products.

The descriptive analysis method is a statistic that is used to analyze data by describing or describing the data that has been collected as it is without intending to make general conclusions or generalizations.

This study aims to describe or describe in general how the halal value chain is instilled in Indonesia. Then analyze related state laws that regulate the course of the halal value chain in Indonesia.

According to Ahmad Tanzeh in his book *Introduction to Research Methods*, data sources are classified as primary and secondary data. Here's the explanation:

1. Primary Data is data that is directly taken by the person concerned or who uses the data. Data was obtained through sources of information by way of observation (observation) and interviews. In this study, the primary data was taken from the statement of the Ministry of Economy through data presented in the mass world.
2. Secondary data is data that is not directly obtained by those who are interested or who use the data. The secondary data the researcher got from the literature study.

The techniques used by researchers are:

1. Observation

According to Margono in his book, observation is defined as systematic observation and recording of the symptoms that appear on the object of research. While understanding observation in general is a technique or way of collecting data by making observations of ongoing activities. This method the researchers used to collect data relating to the concept of the halal value chain which was also initiated by the government. Halal value channel will be realized if the system is implemented from now on.

2. Literature View or literature study

In this study, researchers also used the literature view and also made the main data collection technique. This method was carried out to gather data on the halal value chain which is oriented towards making Indonesia the center of the world's sharia economy and finance by implementing certain policies, methods, and rules.

### **C. DISCUSSION**

Many research titles have examined issues related to the halal value chain. The research conducted by Muhammad Syafi'i Antonio ([Antonio et al., 2020](#)), conducted a review of the literature which raised the issue of halal value chains in the aspects of Islamic economics and finance. The study carried out a bibliometric mapping to map the extent of the development of halal value chain research. During the period 2008 to 2020, 163 documents were collected in various forms, both in the form of scientific articles, book chapters, monograph books, preprints, and proceedings. From the form of written publications on halal value chains, more were published in the form of scientific journal articles with a total of 128 documents, followed by chapters (19 documents), proceedings (13 documents), preprints (2 documents) and monographs books (1 document) ([I. permata Sari et al., 2019](#)).

Based on the research mapping results related to the halal value chain as a whole, it shows that the research topics that are often raised are more identical to those related to the halal supply chain. The halal supply chain is very closely related to food products, especially related to the need for halal food (food ingredients, hygiene, safety, health, nutrition, and quality), the slaughter process for meat food, as well as halal logistics and marketing. In the current era of modernization, the existence of a halal supply chain is inseparable from the use of technology to support the process ([I. permata Sari et al., 2019](#)). Meanwhile, several popular writers are active in publishing related to halal value chains in the economic and financial fields. Islam, namely Tieman M from 2011 to 2019, followed by writers Zailani S (2010 – 2017), Jaafar HS (2011 – 2016), and Ali MH (2014 – 2016).

Meanwhile, the research topics raised in this field also continue to develop along with the development of the issue of halal products from time to time. In 2011, the topic of understanding the halal value chain was more widely discussed in the fields of Islamic economics and finance. Furthermore, in 2013, research in this field raised more topics related to principles, guarantees, and halal consumers. Research halal value chain has explored more about risks, the Indonesian state, and halal services.

Other findings from the research show that Malaysia is the country with the most correspondence in research on the theme of halal value chains. This finding is not so surprising, considering that since 2010, Malaysia has occupied the position of being a halal center in the Southeast Asian region. This has made Malaysia a leader in the halal industry, as well as setting global standards for halal certification ([Warto & Samsuri, 2020](#)). Besides Malaysia, Indonesia also has the potential to follow in Malaysia's footsteps in the halal industry as home to the majority of the world's Muslim



population. With its natural wealth, Indonesia has great potential to become a halal food market, as well as a halal food producer.

The Indonesian government is also very supportive of the development of the halal industry in Indonesia through the establishment of SNI (Indonesian National Standard) regulations to monitor food quality in Indonesia. The Indonesian government has also appointed LPPOM MUI (Institute for the Assessment of Food, Drugs and Cosmetics-Indonesian Ulema Council) to set halal standards for products that comply with Islamic law. Apart from Malaysia and Indonesia, the UK is also known as a country that has produced a lot of research related to the halal value chain ([Komunikasi, 2018](#)).

### **The vision Islamic Economics**

A vision of Islamic economics in Indonesia is developed from the vision and goals to be achieved by the Republic of Indonesia in the future by considering the changes that are taking place both locally and globally. In the Indonesia 2045 document issued by Bappenas, the vision for Indonesia 2045 is an Indonesia that is sovereign, advanced, just, and prosperous. Indonesia like illustrates independence to achieve goals and the desire of the state to protect the entire nation and all of Indonesia's bloodshed, promote public welfare, and educate the nation's life.

In addition, Indonesia is also committed to implementing a world order based on freedom, lasting peace, and social justice which are the characteristics of civil society. Furthermore, globally, sharia economics has received world attention in both Muslim and non-Muslim countries. This is marked by the Islamic banking industry and the halal industry growing rapidly which is a world trend. Therefore, many countries have begun to reorient their economic policies to pay more attention to the halal industry ([Komite Nasional Keuangan Syariah, 2018](#)).

In several Islamic countries, the development of this sector has also become a national policy with consistent and ongoing support from the central and regional governments. However, until 2018, Indonesia was still listed as the largest consumer or market for halal products/services and had not yet become a major player in the economy world sharia. Compared to other countries, Indonesia is still unable to increase literacy and awareness of the importance of the halal industrial sector which is carried out by government policies. Therefore, the vision to be achieved by this Masterplan is to make Indonesia self-reliant, prosperous and civilized by becoming the center of the world's leading sharia economy.

In addition to considering the various matters above, the formulation of this vision is also based on the desire to make the halal industry and sharia economy a pillar of the national economy, and to become an important part of realizing the aspirations of the nation as a just, prosperous and sovereign country. In addition, the vision of the Islamic economy in Indonesia is based on Islamic values, the basic principles of Islamic economics, and the current potential of the Indonesian Islamic economy.

The detailed explanation of this vision is as follows ([Komite Nasional Keuangan Syariah, 2018](#)):

#### **1. Independent**

If seen from the existing potential, Indonesia can drive its economy with domestic strength and empowerment, especially with abundant natural resources. This country has an identity as a nation that is self-sufficient in various fields. Therefore, the meaning of 'Independence' is Indonesia which does not depend on other countries for its life, especially to meet the basic needs of its people. In the context of the halal industry, an independent economy can be driven by local potential and resources. Especially those that have local wisdom and are not owned by other countries, so that becomes an advantage ([Purwoko et al., 2021](#)). This independence can also be interpreted as being able to know the supporting and inhibiting factors encountered in building a sustainable economy. This definition also means that independent halal industrial business activities are those that can overcome value chain problems and can move this sector on their own.

Regarding the halal industry, independence can be seen from the upstream process, including the halal value chain. The value of independence will be created if the chain of all halal industry sectors can be interrelated and can take advantage of one another ([Okdinawati et al., 2021](#)). An ecosystem that can be established will also be a prerequisite for realizing economic independence in the halal industry. Indonesia can have an ecosystem that can boost the halal industrial business sector ([Isnaini et al., 2021](#)). Then with the support of top-down government policies the independence of the sharia economy can be felt by the wider community.

On the other hand, the meaning of economic independence is an Islamic financial service business that can drive the halal industry sector. The alignment of Islamic financial institutions is very

influential in pushing this sector forward. Therefore, the attention and cooperation of Islamic financial institutions are not just financing but also being able to prove Islamic financing for the independence of the halal industry, both at the top and bottom levels.

2. Prosperous

Prosperity is the main goal of a national economic order ([Keskin, 2021](#)). A prosperous economy means the welfare of the people and reducing economic inequality. Fundamentally, prosperity will be realized when all the main needs of the people can be met. Needs in this context are physical ones such as clothing, food, shelter, and inner peace in the form of peace of mind. Broadly speaking, prosperity means feeling comfortable, trusting, and caring for others. Prosperity demands that all resources be used to realize the goals of sharia, namely meeting the needs of human life, especially the basic (primary) ones, such as food, education, and health.

Brotherhood and justice also demand that resources be distributed fairly among all people. In the context of the halal industry, prosperity is a resource ([Hassan & Salma Binti Abdul Latiff, 2009](#)). Its use for producing and consuming this industry is by sharia values so that the process and use of goods and services in it provide the maximum benefit to consumers and producers. Furthermore, in the context of the state, a prosperous economy begins with the rapid growth of the halal industry. All levels of society enjoy it so that it can encourage export activities in this sector. Simultaneously the industry also reduces its dependence on imports. In this way, the problem of the current account deficit can be reduced and prosperity realized.

3. Civil society,

In theory, civil society is a manifestation of community values into economic life which is a shared value. Economy and civil society are characteristics as well as goals of Islamic economics. The failure of the conventional economy is due to the inability of civil society to move economic values according to changing times and noble principles. They have a level of civilization and can change their lives by building, living, and giving meaning to their lives through Islamic values.

Civilized halal industry activities are driven by people with a high level of literacy and awareness, thereby increasing welfare ([Idris et al., 2018](#)). This is marked by an improvement in the Gini ratio and reduced social economic inequality. From this perspective, civil society is oriented toward the stability of the community's economic life by upholding values and principles that are following Islamic teachings. Indonesia with a majority Muslim population makes it possible to have economic activities mobilized by civil society. Thus, Indonesia with a civilized economic vision is a manifestation of religious values into economic activity ([Utama et al., 2020](#)).

### **The concept of Halal Value Chan by the Ministry of Economic Affairs**

The halal value chain is included in the 2019-2024 Indonesian Economic Master Plan (MEKSI). The main strategy in this Master Plan is to strengthen the entire value chain of the halal industry in Indonesia, from upstream to downstream. This is done for all priority clusters and is measured in the Global Islamic Economy Report ranking, and for clusters/aspects required by the national economy ([Sosianika & Amalia, 2020](#)). According to the National Sharia Economic and Finance Committee (KNEKS), to build a halal value chain according to MEKSI, all elements and institutions of the Islamic economy must work hard.

In the 2019-2024 National Development Planning Agency (Bappenas) MEKSI, there are at least five excellent programs to strengthen the halal value chain, namely ([Annisa, 2019](#)):

- a. Building halal industrial parks and halal hubs in various regions by the comparative advantages of each leading region.
- b. Strengthening infrastructure to increase the effectiveness and standardization of the halal certification process in Indonesia (Halal Center, Halal Assurance Agency, BPJPH representatives, Halal Information System, and others).
- c. Increasing outreach through socialization/public education on the halal lifestyle.
- d. Incentive program for local and global players to invest in supporting comprehensive HVC development (starting from raw materials, production, distribution, and promotion).
- e. Strengthening cooperation and international recognition to expand the market for Indonesian halal products, including through standardization and harmonization with the establishment of an international halal center in Indonesia.

According to a report from the State of The Global Islamic Report there is around 1.8 billion Muslim population in the world who are consumers of the halal industry ([The State Of Islamic Global Economy Report 2019/20, 2019](#)). This number will continue to grow and is predicted to increase in 2030 to reach 2.2 billion Muslims. This creates a huge potential for Indonesia to maximize its production to meet the needs of the halal industry. Indonesia, as a country with a majority Muslim population, should be able to become a center for the development of the sharia economy by becoming the world's halal producer.

### **Efforts of the Ministry of Religion in Guaranteeing Halal Products**

The Indonesian Halal Label has been stipulated by the Ministry of Religion's Halal Product Assurance Organizing Agency (BPJPH) and is valid nationally. This stipulation is contained in the Decree of the Head of BPJPH Number 40 of 2022 concerning the Determination of Halal Labels as the implementation of the mandate of Article 37 of Law Number 33 of 2014 ([Desy Kristiane, 2021](#)).

So, what about the halal label that has been used so far? The Head of BPJPH Muhammad Aqil Irham explained that the BPJPH Head's Decree was effective starting March 1, 2022. Since then, the Indonesian Halal Label must be used as a sign of product halalness by applicable regulations. "However, business actors who have products that have been halal certified before the operation of BPJPH and still have stock of packaging with a halal label and a halal MUI determination number, are allowed to spend on packaging stock first," explained Aqil Irham in Jakarta. After that, they must immediately adjust the inclusion of the halal label on their products by the provisions in the Decree of the Head of BPJPH Number 40 of 2022," he continued. This policy, continued Aqil, is a form of convenience from the government for business actors in the transition period of implementing halal certification from what was previously voluntary to mandatory." The government certainly understands the conditions in the field. Many business actors have produced product packaging with the MUI halal label. Therefore, for business actors who will produce product packaging for new stock, please use it according to the provisions," he said ([Humas Kementrian Agama, 2022](#)).

Halal standard products should become an integral part that cannot be separated from global trade and economic practices that demand international standards and quality standards to gain the trust of consumers across countries. Thus the flow of goods, services, capital, and knowledge between countries becomes easier. International trade has a very large influence on the economies between these countries which can create a conducive climate that is mutually beneficial to reciprocal trade, it is even more efficient in producing and marketing goods. Many experts conclude that the benefits of cross-border trade outweigh the benefits of military competition and territorial expansion. Meeting the necessities of life in halal is a basic right for every Muslim. This is not only related not only with religious beliefs but also related to the dimensions of health, economy, security, and religious needs. As a Muslim-majority country, the state should exist without being asked to protect its citizens in fulfilling their citizens' fundamental rights. In line with that, business actors (producers) should also protect consumers ([Karia & Asaari, 2016](#)). For this purpose, a more active role of the state is demanded in regulating the economic system which is described in the strategy carried out by the state in carrying out business instruments including through regulation. Indonesia has the largest Muslim consumers in the world. At least, 87 percent of the approximately 260 million Muslims in Indonesia need guarantees of security, comfort, protection, and legal certainty regarding the halalness of the products consumed or used or used.

As a country with the largest Muslim population, Indonesia certainly provides a very large market for halal products ([Warto & Samsuri, 2020](#)). Indonesia is a country that has a comparative advantage as an agricultural and maritime country which has the enormous economic potential to be developed into value-added activities. Halal products have an average growth rate of seven percent per year, as well as growing Muslim consumer awareness of halal products and an increasing Muslim population which has reached 1.8 billion out of 6 billion people in the world's population. With the above developments, halal producers and business people already have plans to expand the market internationally, including the expansion of the Indonesian halal product market ([Annisa, 2019](#)).

In addition, Indonesia is the 1st ranked Halal Food Consuming country in the world (Dorfleitner et al., 2020). Based on the records of the Global Islamic Economy Report 2018/2020, spending by the global Muslim population on products and services in the halal economic sector reached more than USD 2.2 trillion in 2018. Indonesia ranks first as the largest consumer of halal products in the food and beverage sector, namely by total sector expenditure of USD 170 billion ([Shahbandeh, 2020](#)). Indonesian halal products have a great opportunity to be able to compete with other countries. Business actors, both Indonesian producers, and exporters, who have pocketed halal certificates, their products will be

more easily accepted by consumers of halal products in other countries simply by looking at the halal label attached to their products.

For example, if a consumer of halal products in another country wants to buy canned food and there are two choices of similar canned food, then these consumers will tend to choose a product that has a halal label attached because they feel guaranteed that the product they are going to consume is lawful and good. For animal meat, for example, slaughter is done by cutting the animal's neck to take the meat. Islamic slaughter is defined as slaughter according to Islamic law. Meat produced from Islamic slaughter produces meat that is rich in taste, soft, safe, and hygienic. This is what makes non-Muslim consumers interested in products with a halal guarantee ([Desy Kristiane, 2021](#)).

As a Muslim-majority country, Indonesia should become a center for sharia economic development in the world. The potential to go there already exists, starting from halal certification, concern for Muslim-friendly products, services that make it easier for Muslims to practice their faith, and many more. The strategy to achieve Indonesia's vision as the world's leading Islamic economic center is strengthening the halal value chain. In it there are several industries related to the needs of the Muslim community which are divided into the following clusters (Komite Nasional Keuangan Syariah, 2018).

### 1. Halal food and drink

These two things are the basic needs of every human being. For Muslims, halal food and drinks are a must, because their consumption illustrates obedience to the Creator. The Qur'an, as in Surat An-Nahl (16): 114, mentions the necessity of consuming halal and good food and drink. Consumption of these two things that contain these two values will affect the quality of nutrition and the clarity of the heart that determines attitudes.

Halal food in this country abounds, especially in areas where the majority of the population is Muslim. Various typical Indonesian dishes, such as rendang, curry, vegetables, and baked goods, are available with a variety of extraordinary delights. West Sumatra offers these delicious dishes. Other regions also have the uniqueness of various mouth-watering dishes, so they become an attraction for the world community to come to Indonesia.

### 2. Halal tourism

This has become an attraction for various countries in the world. Mesi is not a Muslim majority, like several countries in Europe, they are now developing halal tourism. This is a genre of tourism that is Muslim-friendly. This includes Muslim-friendly destinations, where there is historical or Islamic value in them, such as al-Hambra in Granada, and various Islamic dynastic heritage sites there. Others are Muslim-friendly services, such as hotels that provide prayer equipment, Qibla direction, the Koran, and of course halal food. Indonesia has developed this kind of tourism. Halal tourism areas in this country are growing rapidly in West Nusa Tenggara (NTB), for example. There is the Mandalika special economic zone (SEZ), which showcases the beauty of its coast.

### 3. Muslim Fashion Muslim Clothing

Is the main attraction for designers and Muslims in various parts of the world. They want an elegant style that enhances their appearance, thereby increasing their confidence. Indonesia is now a benchmark for this development. Several Muslim fashion designers were born and grew up in this country.

The hijab community has also emerged as an association that pays attention to and consumes the latest Muslim fashions. This trend is a gathering place that strengthens brotherhood and gives birth to ideas and movements that support the development of world Muslim fashion trends. Their interactions take place face-to-face and also online through social media.

### 4. Halal media and recreation

Creative industries with Muslim nuances are the main attraction for Indonesian people. Among them are creative works in the form of films and animations originating from novels. An example is the Verses of Love. Initially, it was a work of fiction written by Habiburrahman Syirazi. Then it was developed into a film that aired on the big screen and attracted the attention of the national public. Various soap operas also include Islamic values in a number of their scenes, thereby demonstrating the proximity of these products to the majority of the population in this country who embrace Islam.

### 5. Halal pharmaceuticals and cosmetics Drug and cosmetic

Products are now increasingly attractive if they are labeled as halal. Indonesian Muslims are reluctant to consume these two products if they contain substances that are not halal. This can be seen clearly in the attitude of Muslims towards the meningitis vaccine several years ago. When they heard that the vaccine contained pork, they rejected it. The Indonesian Ulema Council then examined what the contents of the vaccine were like, and in the end, gave it a halal label. Muslims who want to perform Umrah and Hajj consume these commodities.

## 6. Renewable

Energy Fossil energy will decrease, due to increasing consumption. Renewable energy is an alternative to world needs so that people's mobility remains high. This energy comes from plants and scientific engineering developed by scientists. Next, the global and national conditions of each cluster will be explained, as the challenges and obstacles faced and the main strategies and proposed action plan programs.

The issue of halal products and services will always be attached to Muslim consumers. In the Koran, the word halal is a general term that refers to permissible categories. While haram means prohibited under Islamic law. Halal products are spread across several industries, including foodstuffs, cosmetics, fashion, and health care. However, halal sensitivities will increase when it comes to food-related matters. The scope of halal food includes meat, poultry, sweets, canned and frozen foods, milk, bread, organic foods, herbal products, and beverages.

Halal is interpreted more broadly. Not only permissible but also healthy so it is suitable for consumption. For Muslim consumers, halal food is a product that has gone through a halal certification process. This is indicated by the inclusion of the halal symbol on the packaging. For Muslims, the halal symbol indicates that the product meets the requirements set by sharia law so that it is suitable for consumption. Whereas for non-Muslims, the halal logo represents a symbol of cleanliness, quality, purity, and safety (Sosianika & Amalia, 2020). This symbol has now become a world standard and barometer that determines product quality. Therefore, currently halal has become a universal phenomenon that is appreciated by various nations (Moira et al., 2015).

The Indonesian Halal Label has been determined by the Halal Product Guarantee Organizing Agency (BPJPH) of the Ministry of Religion and is valid nationally. This provision is contained in the Decree of the Head of BPJPH Number 40 of 2022 concerning the Determination of Halal Labels as the implementation of the mandate of Article 37 of Law Number 33 of 2014 ([Desy Kristiane, 2021](#)). Forms of Internalization of Government Efforts on Law No. 33 of 2014 and Law No. 11 of 2020

In the era of civilization that has developed today, the processing of food and beverages, as well as medicines and cosmetics involves complex processes and contains various mixing ingredients, so this is not a simple matter anymore and is of course very vulnerable. In food products themselves, there are various types. Currently, there are many types of food in the form of ready-to-eat food, as well as processed foods that are processed in a modern and traditional way.

In food processing production, gelatin, enzymes, animal fat, and meat-based raw materials are widely used, and so on. These materials are very vulnerable from a halal point of view because they can be made or contain materials that are forbidden or come from halal animals that are not slaughtered according to Islamic law, and other haram elements. For example, on products made or produced by Micro, Small Enterprises. That what we have to pay attention to is how the product is processed and processed not mixed with non-halal materials ([Agustina et al., 2019](#)). Since the beginning of the production process, the halal product must be considered.

It is stated in the foundation of our country, namely Pancasila, that Indonesia is a religious country. In Indonesia, there are various kinds of religions and beliefs that are adhered to by the Indonesian population. In the 1945 Constitution of the Republic of Indonesia, Article 29 paragraph (2) states: "The state guarantees the freedom of each resident to embrace their religion and to worship according to their religion and beliefs" ([Wulan, 2019](#)). In addition, the laws and regulations in Indonesia have also guaranteed that every consumer has the right to obtain all information about everything related to the product.

As stated in Article 4 letter c of Law Number 8 of 1999 concerning Consumer Protection, consumers have the right to correct, clear and honest information regarding conditions and guarantees of goods and or services ([Rahmawati, 2017](#)). Apart from consumers, business actors also must provide correct, clear, and honest information regarding the conditions and warranties of goods and/or services and provide explanations. Therefore, to ensure that every adherent of a religion worships and carries out his religious teachings and beliefs, the state is obliged to provide protection and guarantees about the halalness of the products consumed and used by Muslim consumers. One of them is outlined in the regulation regarding the enforcement of halal certification.

Halal certification is an activity or process carried out to meet or achieve certain standards. The ultimate goal of halal certification is formal legal recognition that the products issued comply with halal requirements ([Rahmawati, 2017](#)). Every business actor who will put a halal label on his packaging must first obtain a certificate. Determination of halal certification is very necessary as the principles of the Islamic religion that halal and haram are the most important things in Islamic law, and are also included in the substance of Islamic law. This requires the public to know clear information about the level of



halal food itself, as a form of guaranteeing the safety of Muslims. That is where the importance of halal certification is on a product.

So far, MUI halal certificates are still not fully effective in protecting Muslim consumers, because according to previous regulations, applications for halal product certification by business actors are only voluntary. So far, business actors' concern for halal certification is still limited to large-scale business actors large. Meanwhile, small and medium business actors have not made halal certification a priority. For MSME actors themselves, there are still several processed food products, including household preparations that have not been labeled halal, and only use the P-IRT (Household Industry Food) number issued by the Health Service. Both are sold in small shops and stalls to minimarkets ([Fadiryana & Chan, 2020](#)). Simply including the P-IRT label on food product packaging makes consumers feel safe because consumers already have the label giving them a sense of security. After all, they have passed the health test process.

The obligation for halal certification for all food and beverage products is strictly stated in Article 4 of Law Number 33 of 2014 concerning Guaranteed Halal Products, which reads "products that enter, circulate, and trade in the territory of Indonesia must be halal certified." This means that it is clear that business actors who produce and trade food products in Indonesia must be halal-certified and have a halal logo printed on their packaging are also necessary as a strong legal umbrella for the government that has the authority to regulate halal products in Indonesia.

Halal certification is a written fatwa issued by the Indonesian Ulema Council. MUI halal certificate is a certificate stating information in the form of a written statement regarding the halalness of the product mentioned in the certificate. This halal certificate is included in the requirements for business actors to obtain permission to put a halal label on product packaging from the authorized government agency. Article 1 Number 10 of Law Number 33 of 2014 concerning Guarantees for Halal Products states: "Halal certification is an acknowledgment of the halalness of a product issued by BPJPH based on a written halal fatwa issued by the MUI" ([Khakim, 2018](#)).

As we all know, MSMEs are a group of business actors, especially business actors who mostly carry out the production process so that sales are carried out simply or businesses with a housing business scale, especially in food processing. The application of mandatory halal certification rules applies to all food and beverage products, including those produced by Micro, Small, and Medium Enterprises (MSMEs) as stipulated in Law Number 33 of 2014 concerning Guaranteed Halal Products.

Based on Law Number 33 of 2014 concerning Guarantees for Halal Products, this Law only mentions in general, namely, business actors do not specifically mention business actors, while we all know that products produced by MSMEs are products made/ processed on a home industry (IRT) scale ([Mu'awanah et al., 2021](#)).

Law Number 33 of 2014 concerning Halal Product Guarantee, has been amended by Law Number 11 of 2020 concerning Job Creation, wherein the amended Articles insert an Article that requires micro and small business actors to have a halal certificate for their processed products ([Yuwita et al., 2021](#)). To have/put a halal label on processed products, of course, there must be a certification stating that a product can be declared halal. In issuing certificates, based on Article 44 of Law Number 33 of 2014 concerning Halal Product Guarantees, the financing of halal certification is borne by business actors, while in the case of micro and small business actors, the government and institutions can facilitate it.

The criteria for micro and small businesses are based on the provisions of laws and regulations governing the field of micro and small businesses. In terms of charging fees for business actors with large businesses, there is no problem in submitting an application for a halal certificate, both in terms of costs and the conditions that must be met ([M. K. Sari, 2020](#)).

It's different when it comes to micro and small business actors. Only the majority can apply to make the halal certificate. This is due to, among other things:

- a. The costs that they have to pay in the management.
- b. Requirements that must be met to get the halal certificate.

In connection with charging fees, with the issuance of Law Number 11 of 2020 concerning Job Creation, at this time it is not a problem because Article 44 of Law Number 33 of 2014 concerning Guarantees for Halal Products has been amended by Law Number 11 of 2020 concerning Job Creation "Article 44 paragraph (2) "In the event that an application for Halal Certification submitted by Micro and Small Business Actors is free of charge". With the issuance of this Law, there are no more obstacles in terms of charging fees ([Shahbandeh, 2020](#)). Another thing that must be considered, there are requirements that must also be fulfilled by micro and small business actors as regulated in the provisions of Article 21 and Article 22 paragraph (1) "Business actors who do not separate the location, place and PPPH tools as Article 21 paragraph (1) subject to administrative sanctions, in which the article states that PPH locations, places, and tools must be kept clean and hygienic, free from uncleanness and free

from non-halal items ([Kholid, 2018](#)). As we all know, micro and small business actors with a home industry scale for PPH locations, places, and tools are still one with the business actor's main house.

In relation to the two matters above, how can the objectives of implementing Law Number 33 of 2014 concerning Halal Product Assurance as amended by Law Number 11 of 2020 concerning Job Creation be achieved and the application of halal certification to processed food products for micro and small business actors can increase in scope and run as it should, it is the obligation of all parties from the central government, regional governments, business actors and the community to implement statutory provisions in accordance with their duties and functions.

## **E. CONCLUSION**

Based on the presentation of the discussion as a whole, it can be concluded that the results of the research show that the halal industry must go through a stage of certification so that the product does not depart from Islamic principles. Certification includes tracing activities on the halal value chain of products to be distributed. This is to the vision of the sharia economy, including independent, prosperous and civilized. This research found a halal Value Chain concept by the economic sector, namely with the main strategy of forming a supporting ecosystem. These strategies include strengthening regulation and governance, developing research and development capacity, increasing the quality and quantity of human resources, and increasing public awareness and literacy.

One of them is by creating a real sector index as a reference for determining the amount of profit sharing for Islamic banks. Until now, institutions and industries in the Islamic financial system still apply frameworks and refer to conventional economic indicators. Therefore, it is hoped that this strategy will enable the Islamic financial system to function effectively and efficiently, as well as be able to comprehensively internalize Islamic values. So the efforts initiated by the government are law number 33 of 2014 concerning guarantees for halal products, then amended and perfected through law number 11 of 2020 concerning job creation, and PP 39 of 2021 concerning the implementation of the field of guarantees for halal products.

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# The Influence of Leadership Style on Employee Performance through Readiness for Change Post Acquisition Company

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## ***Abstract***

*The current period of acquisition strategy is an effective and efficient way to relocate assets in the economy, especially the banking sector. The acquisition brought many changes to the organization. The research aims to answer the influence of post-acquisition Leadership Style on employee performance through Readiness for Change as an intervening variable. This research method uses Partial Least Square (PLS). This study uses a non-probability sampling method to collect data. Primary data is used in this study by distributing 100 sample questionnaires to employees at BRI AGRO bank. The finding is that leadership style has a significant effect on employee performance post-acquisition through readiness for change. The results of the study, can be concluded that in order to improve the performance of employees at Bank BRI AGRO, they can maintain and improve their leadership style. In addition to mediating research variables, Readiness for Change also has a direct influence on employee performance.*

**Keywords:** *Leadership style; employee performance; readiness for change; acquisition*

**A. INTRODUCTION**

In an era of rapid technological advancement and market globalization, business people universally views mergers and acquisitions (M&A) as some of the especially visible in business development strategies ([Febriani, 2018](#)). Likewise in Indonesia, it has become commonplace that mergers and acquisitions can be a solution to overcome various changes in the business environment. Some companies carry out mergers and acquisitions in an effort to align with new rules and policies ([Pratiwi, 2008](#)) or to reduce financial risk. All organizations that carry out mergers and acquisitions must have concepts, goals that are expected to promote value for the organization, especially in the banking sector.

Mergers and acquisitions include modify events that have the possible to affect the attitudes, behavior and subsequent performance of employees within an organization ([Cartwright & Cooper, 2013](#)). After the mergers and acquisitions have been carried out, further restructuring will be followed in the area of change with the aim of improving company performance. Mergers and acquisitions are considered effective and efficient ways of relocating economic assets for the company's business development ([Gaughan, 2013](#)). The company can thrive in the existing market by taking over the market share of its competitors.

Previous research have recognize strategic fit as a guidance determinant of successful inter-firm integration. However, the results of mergers and acquisitions remain inconsistent according to [Haleblan et al., \(2009\)](#) thus there is a need to study the factors of the work environment that affect mergers and acquisitions ([Weber, 2015](#)). The Government of Indonesia and the Financial Services Authority encourage banks in Indonesia to immediately meet their minimum capital requirements. Several banks have responded to this policy by conducting mergers and acquisitions to increase capital so that banks will have high and stronger competitiveness ([Goksoy, 2014](#)). The following is a list of names of Banks that have succeeded in making acquisitions, seen in table 1.

**Table 1.** List of Acquisition Banks from 2000 in Indonesia

No	Date	Bank Taking Over	Foreclosed Bank
1	March 31, 2003	Bank OCBC NISP	Keppel Tat Lee Buana Bank
2	December 19, 2007	PT. Bank Rakyat Indonesia Tbk	PT. Bank BRI Syariah d.h PT. Bank Jasa Arta
3	June 12, 2009	PT. Bank Central Asia Tbk	PT. Bank BCA Syariah d.h PT. Bank Utama Internasional Bank
4	March 3, 2011	PT. Bank Rakyat Indonesia Tbk	PT. Bank Agroniaga Tbk
5	October 31, 2019	PT. Bank Central Asia Tbk	PT. Bank Royal Indonesia
6	11 December 2019	PT. Bank Central Asia Tbk	PT. Bank Rabobank International Indonesia

Source: CNBC Indonesia (2020)

The success of these six banks in making these acquisitions, which has stimulated other banks to do the same, is evidenced by the presence of several banks that have adopted an acquisition strategy in the period 2003 to 2019. One of the banks that succeeded in making acquisitions was PT. Bank Agroniaga Tbk acquired 88.65% shares by PT. Bank Rakyat Indonesia Tbk in 2011 which later replacement its name to Bank Rakyat Indonesia Agroniaga (better known). The horizontal acquisition was carried out between Agroniaga bank and Bank Rakyat Indonesia because both were engaged in the same field, namely banking.

The focus of the BRI Agro bank is in the agribusiness sector and the shares of Bank Agroniaga were purchased with a total acquisition value of Rp 330.3 billion, of which the Bank's loan portfolio is

mostly (50% - 70%) in the agribusiness sector, both on farm and off farm. The dynamics of the economy and the banking industry are currently experiencing a slowdown, this acquisition is the right step. Bank BRI will benefit from excellent microcredit distribution, then Bank Agro Niaga will acquire an experienced parent so that the bank's performance will be better. BRI Agro after the acquisition took the initiative to make a complete overhaul. This is a manifestation of BRI Agro's commitment to continue to achieve sustainable growth in the future.

Credit distribution to the agribusiness sector itself was recorded at 56% with the largest distribution in palm oil commodities. Existing business development has been carried out, currently BRI Agro is also collaborating with various Start Ups from various types of business fields, one of which is from the field of Financial Technology (Fintech) Services in an effort to increase lending to the public through digital platforms. PT Bank Rakyat Indonesia Agroniaga Tbk (BRI Agro) was yet capable to take a net profit of Rp 31.26 billion in 2020. In line with the company's strategy to reduce the Cost of Fund (COF) which reached 5.97% in 2020 from the previous by 7.02% in 2019 ([Walfajri & Mahadi, 2021](#)).

These data indicate that the performance of BRI Agro has developed quite well. Ideally, a bank that has made an acquisition should have an influence on regenerate its performance followed by the commitment of its organizational resources. Very complex organizational events with several factors can lead to success and failure in post-acquisition companies. One of the reasons for failure lies in negligence regarding human resource issues. Acquisition events can be traumatic for employees because of possible layoffs, identification of new management styles and new business array. The acquisition also escalates employee unpredictability, leading to reduced commitment to the company and the performance of organizational tasks.

On the other hand, the leadership style of companies involved in merger and acquisition activities shows an increased survival rate seen from employee performance ([Strobl et al., 2020](#)). Changes in organizational and leadership styles that occur due to company acquisition conditions often cause employees to encountered struggling and tightness in keeping going on the previous level of performance while adapt to organizational performance. ([Carter et al., 2012](#)). According to Nemanich & Vera (2009), the impact of changes in leadership style on company performance after the acquisition only occurs in developed countries.

The inconsistency of the findings for companies that make acquisitions causes the study to include the Readiness for Change variable to close the gap. Inside the organizational context, readiness for change describe the reach to which employees depend that change is required inside the organization ([Holt, 2007](#)). Readiness to change has an important impact on the success of acquisitions, so it is necessary for companies to know how acquisitions are shaped by the element of readiness for change. The existing literature shows deficiencies in this regard especially regarding the intra-organizational rather than inter-organizational level ([Kirrane et al., 2017](#)).

This study examines whether there is an impress of leadership style on employee performance via Readiness for Change in post-acquisition companies at PT. BRI Agroniaga Tbk. The systematics of writing in this research, first define the background and purpose of the research. Second, literature review is connected to research. Third, the research method used. Finally, the results in the research then clarify the conclusions, suggestions and implications of the research that has been carried out.

## **B. LITERATURE REVIEW**

### **1. Employee Performance**

Performance is the behavior of way the goal is accomplished. Employee performance is the quantity or quality produced or services providing that by someone who makes the job ([Nugroho et al., 2019](#)). Meanwhile, as stated by to [Sedarmayanti \(2007\)](#), employee performance is the yield of employee labor through a management process or the organization as an entire where the yield of their work can be demonstrated by concert and measurable evidence. Employee performance is affected by substantial factors, both from internal employees, the organization, and from external factors of the organization.

Internal factors which may affect employee achievement suchlike work competence, work commitment, job satisfaction, engagement, work climate, organizational culture, and so on.

Employee performance is based on efficacy, quality, and efficiency of work results. Performance also contributes to the assessment as much as the importance of an employee for the organization. Each employee is a serious investment for the company, so that reversion be given each employee must be significant. according to [Aisah & Wardani \(2020\)](#), performance is a conception of the stage accomplishment of execution of one of the activities or policies inside actualize the goals, objectives, vision, and mission of the organization as outlined in the strategic purpose of the organization. So it can be concluded that employee performance will show the extent to which a person or employee can do his job and is full of responsibility.

## **2. Leadership Style**

The role of leadership is very prominent inside organization be like a determinant of fruitfulness in achieving the vision, mission and goals of an organization. The development of organizational strategy lies in how its leadership. A leader must be able to provide insight, generate pride and cultivate an attitude of respect and trust from his subordinates. Leadership is a social problem that is found in the interaction between those who are led and those who are led to achieve common goals by means of affect, blandish, motivate and coordinate. ([Aisah & Wardani, 2020](#)). The progress and development of education is a determining factor for the success of a nation in producing ideal leaders, and therefore an education system is needed that is able to produce the next generation of a nation who is moral and has noble character, upholds religion as the foundation of life ([Fajar Surya et al., 2022](#)).

[Muizu, \(2019\)](#) said that the most effective leadership style varies with employee readiness, readiness as a desire to excel, willingness to accept responsibility, and abilities related to tasks, skills and experience. Goals and knowledge of subordinate are important variables in determining an effective leadership style. Leadership style is measured by decision making, leader behavior, and leadership orientation. This is done because every management needs to manage and know the performance of its employees, whether it is in accordance with the company's performance standards or not. This knowledge of performance is an easy step in knowing effectiveness and employee development success Reinforced by research [Agustin, \(2021\)](#) where the better the application of leadership, the more optimal the achievement of employee performance will be.

$H_1$  : Leadership Style has a positive effect on Employee Performance

## **3. Readiness for Change**

Readiness to change is defined as a comprehensive manner entirely affected by the rate of the change (what is changed), the process of change (how the change is implemented), the context of the change (the circumstances in which the change occurs) and the individual attributes (characteristics required to change) involved in change ([Asbari et al., 2021](#)). If there is a failure of change in an organization, then employee anxiety will arise. For this reason, readiness for change is included in an important role because it is able to bridge the successful implementation of change management strategies.

Readiness for change in employees in an organization is very important. [Veronika & Prihatsanti, \(2017\)](#) said that to make ready employees to change in the organization, it is necessary to understand the ways that can be used to get bigger readiness for change. There are two things that organizations can do, namely to establish employee readiness to change and settle the problem of resistance to change. Another thing that affects readiness for change is leadership style. A leadership style that tends to motivate, coordinate and stimulate subordinates will become greater the motivation and performance of their subordinates by creating them more conscious of the account of tasks in an organization. Of course, things like this can be an example for subordinates by paying attention to the needs of their

higher-level subordinates. In line with research [Pranowo & Prihatsanti, \(2016\)](#) said that transformational leadership style has a positive influence on readiness to change.

Achievement in organizational change is the readiness of employees to change. Changes that happen in the organization are respond to differently by each member. When organizational modification is visible as a dare, the compensation will trigger a positive response, while when change is seen as a threat it will touch of a negative response. Organizations that are about to make changes really need the support of employees who are available, well willing and disposed to change. The importance of the role of employees in the change process, so employees need to be prepared to be more open to changes that will be made and more ready to change. If employees are not ready to change then they will not be able to keep up and will find it difficult with the speed with which organizational change is taking place ([Yani & Soehardi, 2017](#)).

$H_2$  : Leadership Style has a positive effect on Readiness for Change

$H_3$  : Readiness for Change has a positive effect on Employee Performance

### Previous Study

There are several findings from several previous studies regarding the importance of leadership style in creating employee performance which are described in table 2 as follows:

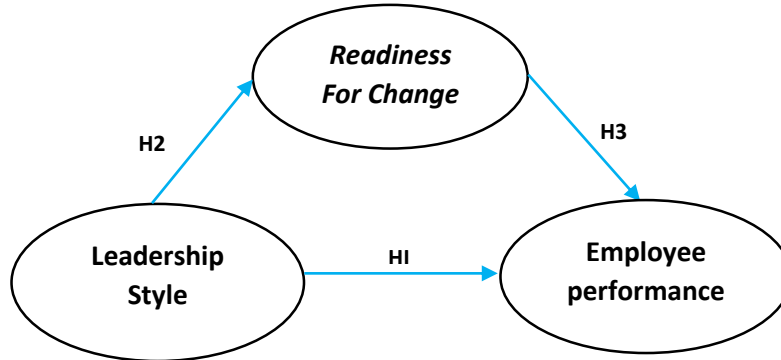
**Table 2.** Research gap

Variable	Influence	Result
The influence of leadership style on employee performance	Significant	Transformational leadership has a key role in influencing employee performance. This leadership style shows a positive and significant relationship with two employee performance variables ( <a href="#">Savovic, 2017</a> ).
		Transformational leadership is positively related at the level of individual and team analysis and objective team performance in post-acquisition firms ( <a href="#">Braun et al., 2013</a> ).
		There is evidence that the leadership style of companies that are regularly involved in merger and acquisition activities show an increased survival rate in terms of employee performance ( <a href="#">Strobl et al., 2020</a> ).
	Not significant	Not all dimensions of leadership style have a significant influence on employee performance ( <a href="#">Schweizer &amp; Patzelt, 2012</a> ).
		Leadership can support integration and acquisition success but must be mediated by value creation after acquisition ( <a href="#">Zhang et al., 2015</a> ).
		Transformational leadership has an impact on the company's post-acquisition performance but this can only happen in developed countries ( <a href="#">Nemanich &amp; Vera, 2009</a> )
		Changes in the organization and leadership style that occur often cause employees to experience trouble and strain to hold previous levels of performance while adapting to organizational performance ( <a href="#">Carter et al., 2012</a> )

Source: Previous research processed (2021)

Some of the studies above still show differences in results or findings from various previous studies that have been carried out so that there are inconsistencies in the results and there is a research gap. So that in this research the Readiness for Change variable was chosen to close the gap or gap that occurred between the differences in the results of previous studies. In the organizational context,

readiness for modify is defined as the extent to which employees believe that change is necessary in an organization (Holt, 2007). Employee perceptions and level of readiness to change remain a very plausible reason for the level of opposition among employees. Readiness to change has a necessary impact on the success of acquisitions, so it is necessary for companies to know how acquisitions are shaped by the element of readiness for change. The existing literature shows deficiencies in this regard especially regarding the intra-organizational rather than inter-organizational level (Kirrane et al., 2017)



**Figure 1.** Research Framework (2022)

**C. RESEARCH METHOD**

The quantitative approach used in this study is presented with data in the form of "amounts" or numbers to investigate existing phenomena or symptoms (Brannen, 2016). Hypothesis testing was carried out using a Structural Equation Model (SEM) based on Partial Least Square (PLS). This research was conducted at Bank BRI AGRO located on Jl. Warung Jati Barat No.139 Pancoran South Jakarta. The primary data used in this study were obtained through a questionnaire. The questionnaire consists of several questions related to the identity of the respondents and the variables to be studied. Secondary data was obtained through several research instruments as well as several documents obtained from Bank BRI AGRO. Non-probability sampling technique with purposive sampling was used in sampling. The sample criteria were taken from employees with permanent employee status with 3 years of service at BRI Agro bank. The number of samples in this study were 100 respondents.

**Table 3.** Definition of Operational Variables

Variable	Definition	Sub-Indicator
Employee Performance (Y)	The extent to which a person or employee can do his job with full responsibility (Altındağ & Köseadağı, 2015).	<ol style="list-style-type: none"> <li>1. Meet the quality set by the company</li> <li>2. Have responsibility for his work</li> <li>3. Finish the job early for</li> <li>4. Meet the quantity set by the company</li> <li>5. Maximize the use of organizational resources</li> <li>6. Have a work commitment</li> </ol>
Leadership Style (X)	Transformational leaders can through increasing awareness of the importance of values in planning their achievements, establishing good relationships with all members or employees, being able to distinguish between needs and desires that will be prioritized. (Beck-Tauber, 2012).	<ol style="list-style-type: none"> <li>1. Motivate employees to contribute to the organization</li> <li>2. Inspire subordinates with organizational plans and goals</li> <li>3. Provide a clear vision and mission of the organization to follow.</li> <li>4. Encouraging employees to have passion at work</li> <li>5. Willing to listen to the difficulties experienced by employees.</li> <li>6. Strive to improve the self-development of employees.</li> </ol>
Readiness For Change	Employee readiness for change needs to be reviewed before making changes (Maria, 2014)	<ol style="list-style-type: none"> <li>1. Change is right for the organization</li> <li>2. Change benefits the organization</li> <li>3. Have the ability to deal with change</li> <li>4. Complete tasks related to change</li> <li>5. Management leaders have commitment</li> </ol>



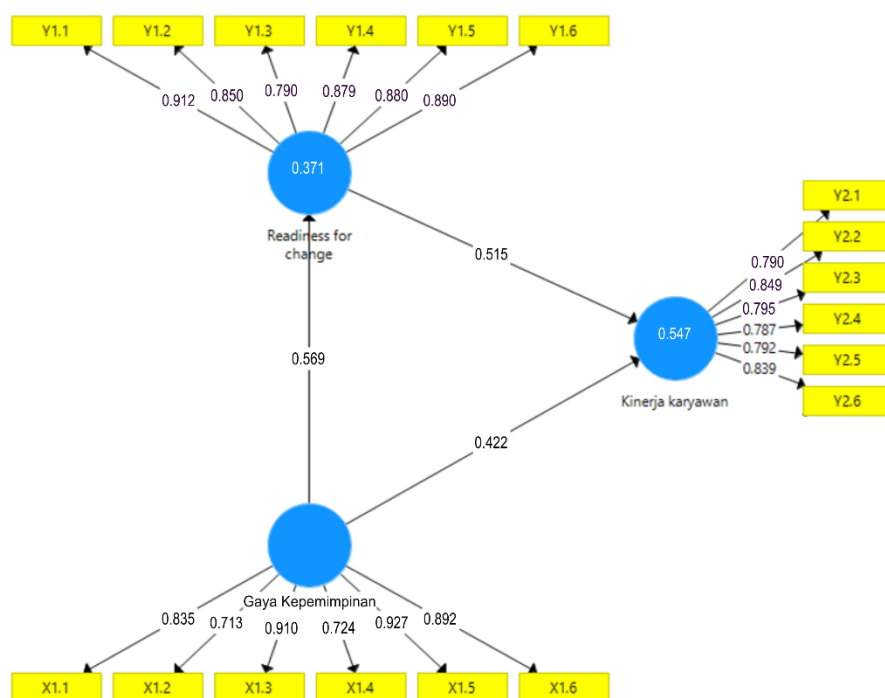
Variable	Definition	Sub-Indicator
		6. Management leaders support change implementation
		7. Benefit from change
		8. Implementing changes brings long-term benefits

Source: Previous Research Journal Processed (2021)

#### D. DISCUSSION

##### Testing the Measurement Model (Outer Model)

Convergent validity is seen based on the correlation among item scores which are estimated using PLS software version 3.2.8. Figure 2. below is the result of the outer loadings of the study. Based on testing the 18 indicators used, all of them have a value > 0.7. So that the measurement model that has been set is mostly consistent with the research results.



**Figure 2.** Outer Research Model  
Source: Data processed using PLS (2021)

##### Convergent Validity Test

Table 4. Outer loadings can test convergent validity. Convergent validity is said to be eligible if it has a loading factor threshold value > 0.7. If there is a loading factor value < 0.7, then convergent validity does not meet the requirements and the construct is dropped from the analysis (Ghozali, 2008). The following are the outer loading values of the research variable indicators, including:

**Tabel 4.** Outer Loadings (Measurement Model)

Employee Performance	RFC	Leadership Style
X1.1		0.835
X1.2		0.713
X1.3		0.910

Employee Performance		RFC	Leadership Style
X1.4			0.724
X1.5			0.927
X1.6			0.892
Y1.1		0.912	
Y1.2		0.850	
Y1.3		0.790	
Y1.4		0.879	
Y1.5		0.880	
Y1.6		0.890	
Y2.1	0.790		
Y2.2	0.849		
Y2.3	0.795		
Y2.4	0.787		
Y2.5	0.792		
Y2.6	0.839		

Source: Data processed by PLS (2021)

In the table the value of the first model loading factor has reached convergent validity, this can be visible from all indicators that have a loading factor value of < 0.7. So it can be said that the validity of the instrument is fit with the available data.

#### **Discriminant Validity Test**

[Ghozali \(2015\)](#), states that the method of measuring discriminant validity is to test discriminant validity with reflective indicators which can be known by estimating the cross loading value of each variable to be > 0.7. The value of cross loading in this study is described in the following table:

**Table 5.** Cross Loading

	Employee Performance	Readiness for change	Leadership Style
X1.1	0.451	0.433	0.835
X1.2	0.340	0.380	0.713
X1.3	0.469	0.439	0.910
X1.4	0.328	0.317	0.724
X1.5	0.519	0.489	0.927
X1.6	0.626	0.445	0.892
Y1.1	0.715	0.912	0.551
Y1.2	0.594	0.850	0.478
Y1.3	0.615	0.790	0.508
Y1.4	0.605	0.879	0.573
Y1.5	0.581	0.880	0.466
Y1.6	0.569	0.890	0.527
Y2.1	0.790	0.443	0.509
Y2.2	0.849	0.588	0.474
Y2.3	0.795	0.482	0.601
Y2.4	0.787	0.451	0.497
Y2.5	0.792	0.664	0.535
Y2.6	0.839	0.613	0.458

Source: Data processed by PLS (2021)

Based on table 5, every indicator of the research variable has the largest cross loading value on the variables it forms compared to the cross loading value on other variables. Thus, the research indicators can be said to be good or valid in compiling their respective variables because they have a discriminant validity value > 0.7.

**Reliability Test**

The reliability value of a construct can describe the validity and reliability criteria. Measurement of the reliability of research constructs with reflective indicators can be evaluated using two types of measurements, namely composite reliability and Cronbach's alpha (Ghozali & Latan, 2015). In the table below, the overall AVE value is > 0.50, then composite reliability or Cronbach's alpha is > 0.70. Then, Ghozali & Latan (2015) states that the AVE value is said to meet the reliability requirements if the value is > 0.50. In addition to the AVE value, composite reliability, and Cronbach's alpha also meet the requirements for reliability or can be said to be reliable because the overall construct value is > 0.70.

**Table 6.** Value of Composite Reliability, Cronbach's Alpha, and AVE

<b>Variable</b>	<b>Cronbach's Alpha</b>	<b>rho_A</b>	<b>Composite Reliability</b>	<b>Average Variance Extracted (AVE)</b>
Employee Performance	0.927	0.928	0.936	0.660
<i>Readiness for change</i>	0.944	0.946	0.950	0.755
Leadership Style	0.862	0.895	0.906	0.608

Source: Data processed by PLS (2021)

**Structural Model Testing (Inner Model)**

The next step is testing the structural model by looking at the R Square, Inner Model, and Standard path coefficient values.

**R Square Analyze**

Table 7. Below shows that the leadership style variable has an influence on employee performance of 0.547 or 54.7%. Meanwhile, 45.3% is influenced by variables not examined in this study. The leadership style variable has an effect on Readiness for Change of 0.361 or 36.1%. Meanwhile, 63.9% is influenced by variables not examined in this study.

**Table 7.** R-Square

<b>Variable</b>	<b>R Square</b>	<b>R Square Adjusted</b>
Employee Performance	0.547	0.548
<i>Readiness for change</i>	0.361	0.363

Source: Data processed by PLS (2021)

In the figure below, the largest path coefficient value is shown in the influence of leadership style on readiness for change of 7.315. The second largest effect is shown by the effect of readiness for change on employee performance of 6.294. The third largest influence is shown by the influence of leadership style on employee performance of 3.108. The following are the results of the inner model test using the SmartPLS 3.2.8 analysis tool.

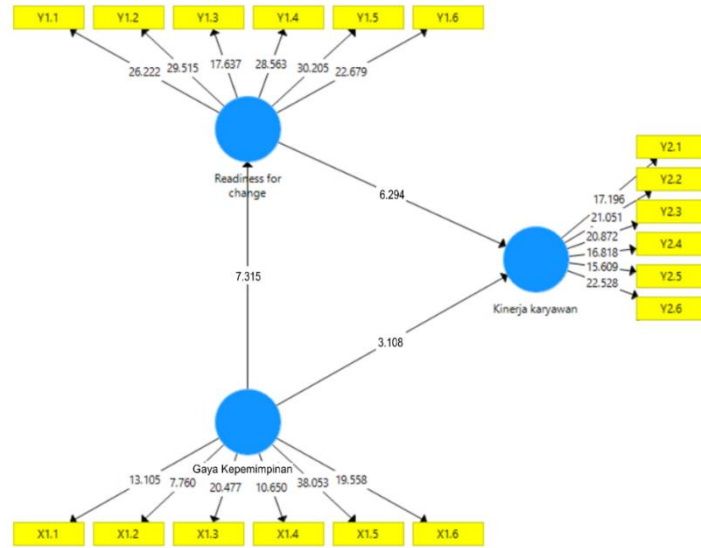


Figure 3. Inner Model

Source: Data processed by PLS (2021)

Path Coefficient Standard

Table 8. Standard Path Coefficient

Influence	Coefficient	T statistic	P value
Dirrect effects			
Leadership Style → RFC	0.569	7.315	0.000
Leadership Style → Employee Performance	0.422	3.108	0.003
RFC → Employee Performance	0.515	6.294	0.000
Indirect effect			
Leadership Style → RFC → Employee Performance	0.327	4.261	0.000
Total effect effect			
Leadership Style → RFC	0.617	6.512	0.000
Leadership Style → Employee Performance	0.639	8.708	0.000
Readiness for change → Employee Performance	0.487	5.483	0.000

Source: Data processed by PLS (2021)

Hypothesis Test

Style of leadership have a significant effect and influence toward employee performance because it has a probability value of 0.003 (0.3%) which is <5%, with a coefficient of 0.422 so that H1 is accepted. Leadership style has an effect on readiness for change because it has a probability value of 0.000 (0.0%) which is <5% with a coefficient of 0.569 so that H2 is accepted. Readiness for change has an effect on employee performance because it has a probability value of 0.000 (0.0%) with a coefficient of 0.515 and is <5%, so H3 is accepted.

The direct effect of leadership style on readiness for change has an effect of 0.569. The direct effect of leadership style on employee performance has a result of 0.422. For readiness for change has a direct influence on employee performance of 0.515. The magnitude of the total effect resulting from the direct and indirect influence of leadership style on employee performance through readiness for change is 0.327. The leadership style variable on employee performance through readiness for change has a probability value of 0.000 (0.000%) and is < 5%. This means that the readiness for change variable is able to mediate the influence of leadership style on employee performance.

## **DISCUSSION**

### **The Influence of Leadership Style on Employee Performance**

The influence of leadership style on employee performance is significant because the probability value is 0.003 (0.3%) and is < 5%, so the hypothesis is accepted. Acceptance of the hypothesis means that the leadership style that has been applied at Bank BRI Agro is able to improve employee performance. The results support the research [Savovic, \(2017\)](#) which shows up that the types of leadership, especially transformational leadership that supports employees, tend to be associated with higher organizational performance and can reduce staff turnover and high turnover. In line with research conducted by [Nemanich & Keller, \(2007\)](#) shows that leadership and organizational climate play an important role in employee performance. This is because a leader who can encourage, stimulate and motivate employees will create a dominantly good work environment so as to improve employee performance.

The loading factor value of the leadership style and employee performance indicators is quite positive, which means that the indicators on the variables used are interrelated. Then, it can be seen that the largest loading factor value on the leadership style indicator that affects performance lies in the indicator "Willing to listen to the difficulties experienced by employees". Employees who feel lethargic at work due to various difficulties resulting from the company's post-acquisition will feel helped by this kind of leadership. Where leaders want to listen to the difficulties experienced by their employees. In addition, knowing the goals of the company will feel directed at work so that they have high productivity because they know the tasks that must be done within the company.

The lowest loading factor value is on the indicator "Inspire subordinates with organizational plans and goals". Leaders need to find more ways to inspire their subordinates regarding the plans and goals of the organization. This kind of thing is to be able to provide encouragement, appreciation and recognition to employees. As is known, the respondents of this research are employees, some of whom have a working period of more than 5 years and can be said to be very loyal to the company. If they feel that the leader does not inspire employees, the level of employee performance will decrease considering what the employee has contributed for a long period of work.

### **Influence of Leadership Style on Readiness for Change**

Leadership style has an effect on readiness for change because it has a probability value of 0.000 (0.0%) and is <5%, so the hypothesis is accepted. That is, the more transformational a leadership style that can motivate, direct and stimulate employees, the better the readiness of employees to face a change. Previous research concluded that transformational leadership has no significant effect on readiness to change ([Susyanto, 2019](#)). However, the results of this study are in line with the results of research conducted by Sari, (2018) shows that change is often associated with leadership.

In line with the results of the identification of several aspects that encourage readiness for change at the individual level, it comes from the leadership and perceptions of each employee in the context of readiness for change ([Yuwono et al., 2020](#)). Employees will easily accept readiness for change and reduce resistance to readiness for change. According to [Mahessa, \(2016\)](#) the results of the study prove that leadership has a positive and significant influence on employee readiness to change. This is in line with the research conclusions given by [Fitriana & Sugiyono, \(2019\)](#) that with good leadership will have a good effect of readiness to change as well. Answers from respondents that employees have skills and abilities that have a relationship with change.

The loading factor indicator values for leadership style and readiness for change both have positive values which indicate indicators between variables are interrelated. The value of the largest readiness for change loading factor lies in the "Change is right for the organization" indicator. This shows that the employees of Bank BRI Agro are prepared and make change as something that is right for the organization to happen. The right leadership style will increase employee motivation so that employees are better prepared to face changes that occur in the organization. Meanwhile, the smallest value of the readiness for change loading factor is in the indicator "Has the ability related to change". This relates to the capabilities possessed by employees are still not comprehensive and still require adjustment if there is a change in an organization. Achieving success in implementing change, the organization is in a condition that is ready to change. Organizational readiness to change is supported by employees who have an open attitude towards change and can prepare themselves and everything so that they are ready to face change.

### **Effect of Readiness for Change on Employee Performance**

Readiness for change affects employee performance because it has a probability value of 0.000 (0.0 %) and is < 5%, so the hypothesis is accepted. In line with the results of research by [Novitasari et al., \(2020\)](#) that readiness for organizational change has a positive and significant correlation with employee performance. Where employees who have skills related to a change, based on respondents' answers regarding employee performance can be said to be good. It is said to be good because employees certainly have a commitment to their work so that they can have a good performance set by the company.

The value of the largest employee performance loading factor lies in the indicator "having responsibility for his work". Research result [Kamar et al., \(2020\)](#) supports that employee readiness for organizational change has a positive and significant correlation with employee performance. [Asbari et al., \(2020\)](#) states that employees have the ability to deal with change so that they have a good work commitment to carry out the performance that has been set. The conclusion of this research supports what has been established in prior research, that readiness to amendment has a positive and significant effect on performance ([Banjongprasert J, 2017](#)). Research by [Tsirikas et al., \(2020\)](#) confirm that readiness for change has a positive correlation with employee performance.

Employees at BRI Agro bank have a high commitment in completing their work and can improve their performance because they are armed with individual readiness. Employees who have the capital of readiness to change, especially psychologically, will have more potential in taking perspective, assessing situations and circumstances more positively, adaptively, increasing enthusiasm, dedication, and appreciation in improving their performance. Where this shows that employees at Bank BRI Agro have a high commitment to completing work in accordance with company regulations. The higher the readiness for change that exists in individuals within the organization, the higher the chances of an organization's success will be.

## **E. CONCLUSION**

### **1. Summary**

Leadership style and Readiness for Change in post-acquisition companies have a significant positive effect on employee performance. Leadership style has a significant positive effect on Readiness for Change. That is, the better the leadership style in an organization, the better the readiness of employees to face change. A good leadership style of an organization can be seen from the physical and non-physical work environment that can increase the Readiness for Change of Bank BRI Agro employees in improving their performance. Briefings and meetings that are often held by leaders are able to raise awareness and strong belief in employees that changes that occur in the organization will not affect the company's performance, on the contrary, the company will be stronger. In addition, the leader in this case is transformational so that it provides motivation and confidence that after the acquisition, the company will have more performance because it is able to see new opportunities in the future.

In this study, it is proven that Readiness for Change also fully mediates the relationship between leadership style and employee performance. In an effort to improve employee performance in post-acquisition companies, the leadership style variable through Readiness for Change has a bigger role,

because the value of the leadership style variable mediated by the Readiness for Change variable on employee performance has a high value when compared to the value of the leadership style variable without being mediated. Mediation through Readiness for Change. The leadership style in Bank BRI Agro can support the performance of its employees when viewed from the work environment such as colleagues, salaries which can have an impact on the performance of employees. The existence of a transformational and "friendly" leadership style can also have a good influence on employee performance. Readiness for Change must also be maintained by the company after the acquisition. As it is known that apart from mediating the research variables, Readiness for Change also has a direct influence on employee performance.

## **2. Suggestions**

After conducting research at Bank BRI Agro, there are still several things that become obstacles and limitations in this research. Some of these limitations are the length of time for data collection because the time of data collection coincided with the Covid-19 pandemic and the enactment of company regulations from the government to limit activities that could result in the spread of the virus. In addition, the collection of respondents' answers through the distribution of online questionnaires, where the answers given by respondents sometimes do not show the actual situation. In future research, it is better to use other variables related to employee performance in post-acquisition companies. Thus, it can provide a broader picture of what factors can affect employee performance other than leadership style and Readiness for Change.

PT. Bank BRI AGRO is expected to be able to have a good leadership style after the acquisition so that employee performance remains optimal. In addition, an adaptive culture to the rapidly changing business environment must be instilled in every employee. Readiness for Change is proven to have an effect on employee performance, which is the basis for management in creating a work culture that is adaptive, proactive and supports every major goal of the organization. For further researchers, it is hoped that they will be able to provide supporting theories so that they will be able to provide a new picture of the impact of acquisitions on employee and organizational performance.

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