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CONTENT

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THE IMPACT OF FINANCIAL LIBERALIZATION ON ISLAMIC BANK'S EFFICIENCY IN INDONESIA

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Abstract. The Impact of Financial Liberalization on Islamic Bank's Efficiency in Indonesia. The aim of this research is analyze the state of efficiency demonstrated by foreign banks, as aggressor, as compared to that of the local banks – government banks and Islamic banks during the period 2009-2012. Data Envelopment Analysis (DEA) with intermediation approach is used as the main tool of analysis. Input variable chosen are deposit, asset, and personnel expenses. Meanwhile loan and income are chosen as output variable. To find out the difference of efficiency between foreign banks and islamic banks, this study use parametric different test of Independent Sample T-test. The study indicates that foreign banks are less efficient if compared to the local banks, especially Islamic banks and Sharia Business Units. It is also evidenced that there is no significant difference between the efficiency of foreign and Islamic banks during the period 2009-2012.

Keywords : efficiency, data envelopment analysis, foreign banks, Islamic banks

Abstrak. Dampak Liberalisasi Keuangan Terhadap Efisiensi Bank Syariah di Indonesia. Tujuan dari penelitian ini adalah menganalisis tingkat efisiensi bank asing, sebagai agresor, dibandingkan dengan bank lokal - bank pemerintah dan bank syariah selama periode 2009-2012. Teknik analisis menggunakan Data Envelopment Analysis (DEA). Variabel input yang dipilih adalah deposito, aset, dan biaya gaji. Sementara pinjaman dan pendapatan dipilih sebagai variabel output. Untuk mengetahui perbedaan efisiensi antara bank asing dan bank syariah, studi ini menggunakan uji beda parametrik Independent Sample T-test. Hasil penelitian menunjukkan bahwa tingkat efisiensi bank asing tidak lebih tinggi jika dibandingkan dengan bank lokal, khususnya bank Islam dan Unit Usaha Syariah. Penelitian ini juga membuktikan bahwa tidak ada perbedaan yang signifikan antara efisiensi bank asing dan Islam selama periode 2009-2012.

Kata Kunci: efisiensi, analisis DEA, bank asing, bank syariah

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Introduction

Increase in foreign participation in the financial sector of emerging market brings benefits the host countries in the form of better technology and financial systems as well as from increased competition stimulated by new entrants. Does foreign banks always prominent? Claessens *et al* (2001) highlights that foreign banks earn greater profits than domestic banks in developing countries, but the opposite in developed countries, because foreign banks adopt better technology compared to banks in the developing countries. The banking system plays an important role in the economic development of any countries. As intermediary institutions, banking industries are required to have good performance (Sutawijaya and Lestari, 2009). Among successful indicators of bank performance is efficiency which refers to a measure of the deviation between actual performance and desired performance (Mester, 2003). As a consequence, a bank should minimize waste and eliminate unnecessary operational costs in order to be efficient. Managements of banks are aiming at rigorously cut costs in order to improve efficiency and ultimately profitability. Efficiency brings benefits in the form of positive spread (Karimzadeh, 2012). Thus it is a kind of survival strategy for financial institution in today's no-growth worlds.

The measurement of economic efficiency lies on determining the extent of technical and possibly allocative efficiency in an organization. Efficiency can be measured using parametric approaches and non-parametric approach (Deb, 2012). The parametric technique uses a pre-specified functional form for efficiency frontier, which may result in an inaccurate efficiency measurement (Berger and Humphrey, 1997). Economists have employed frontier efficiency measurement techniques to measure the productive performance of banks. Frontier efficiency measurement techniques use a production possibility frontier to map a locus of potentially technically efficient output.

This study employs the non-parametric frontier method, Data Envelopment Analysis (DEA) to examine whether the foreign banks are relatively more efficient than the Islamic banks. The empirical results reveal that increasing foreign bank entry is associated with increasing profitability, growing overhead expenses and rising non-performing loans in Indian public sector banks (Kalluru and Bhat, 2009). Therefore, it is interest to investigate whether that condition will be happened as well as to the State-owned banks, and especially Islamic banks (*BUS*) and Sharia Business Units (*UUS*) in Indonesia.

The purpose of this study is to analyze the state of efficiency demonstrated by foreign banks compared to the local banks, which are government banks and Islamic banks. Evan, Hofler and Payne (2006) state that foreign banks have substantially better efficiency scores than all categories of domestic banks. Other researcher also

examined that foreign banks are more efficient than the local banks in developing countries, and the foreign bank entry has a rather negative impact on the local bank efficiency (see Fathi, 2010). However, different researcher finds that foreign banks are not more efficient than Islamic banks (see Saif and Yaseen, 2005, Sufian and Habibullah, 2010). To fill the research gap, this study examines to test theory related to banks' efficiency in foreign banks and Islamic banks.

Literature Review

DEA is a popular technique to evaluate bank efficiency performance and productivity improvement which combining all input and output data of the bank in a single measures (Deb, 2012).

Therefore, the DEA efficiency score for a specific firm is defined not by an absolute standard but is relative to the other firms under considerations (Tahir et al, 2009).

The efficiency of the banking technique is measured by calculating the ratio between output and input. DEA will calculate banks using n inputs to produce outputs of different m (Miller and Noulas, 1996 in Sutawijaya and Lestari, 2009). Bank efficiency is measured as follows:

$$h_s = \sum_{t=1}^{m} u_i y_{is} / \sum_{j=1}^{n} v_j x_{js}$$

DEA assumes that each DMU will have weight that maximize of efficiency ratio (maximize total weighted output/total weighted input) (Muharam and Pusvitasari, 2007). Assumption of this efficiency ratio made DEA research is using orientation output in calculating efficiency technique, but both of these assumptions would have obtained the same results (Sutawijaya and Lestari, 2009: 58). An DMU can be said as efficient relatively if it dual value equal to 1 (efficiency value of 100 percent). Contrarily when the dual value is less than 1, then DMU is considered not efficient relatively (experiencing inefficient) (Silkman, 1986; Nugroho, 1995 in Huri and Susilowati, 2004).

Measurement model engineering approach banks on the assumption frontier is divided into two types, namely (Sutawijaya and Lestari, 2009): *First,* DEA CCR model (Charnes - Cooper - Rhodes , 1978). The assumption that is used in this model is Constant Return to Scale (CRS). Some linear program transformed into ordinary linear program in term of primal or dual, as follows:

Maximization:

$$h_s = \sum_{i=1}^{m} u_1 y_{is} + U_o$$

Function limitations and constraints:

$$\sum_{t=1}^{m} u_l y_{ir} - \sum_{j=1}^{n} v_j x_j r \leq 0, r = 1, \ldots .. N;$$

$$\sum_{j=1}^{n} v_j x_{js} = 1 \text{ and } u_1 \text{ and } v_j \geq 0$$

The efficiency of each bank is calculated using linier program to maximize the amount of output that weighted from the *s* bank. Constraints weighted sum of inputs must be equal to one for *s* banks, while constraints for all banks are weighted output minus the weighted sum of inputs must be less or equal to 0. This means that all banks will be in or under reference of frontier performance which is straight line that cuts axis origin (Insukirdo in Sutawijaya and Lestari, 2009).

Second, BCC DEA models (Bankers, Charnes and Cooper, 1984). The assumption that is used in this model is Variable Return to Scale (VRS). Some linear program transformed into ordinary linear program in term of primal or dual, as follows:

Maximization

$$h_s = \sum_{i=1}^{m} u_1 y_{is} + U_o$$

Function limitations and constraints:

$$\sum_{t=1}^{m} u_l y_{ir} - \sum_{j=1}^{n} v_j x_j r \leq 0, r = 1, \ldots .. N;$$

$$\sum_{j=1}^{n} v_j x_{js} = 1 \text{ and } u_1 \text{ and } v_j \geq 0$$

Where U_o can be a positive or negative value.

Banker, Charnes and Cooper with the method of variable returns to scale (VRS) finally is known as CCR model (Charnes-Cooper-Rhodes) and BCC (Banker-Charnes-Cooper) (Amrillah, 2010). CCR assumes the existence of CRS. The mean of assumption CRS is that the proportional changes at all levels of the input will produces the same proportional change in the output level. Meanwhile, BCC assumes the existence of VRS. The mean of VRS assumption is that all the units that will produce measurable changes at various levels of output and the assumption that the scale can affect the efficiency of production. In this study will only use the input orientation approach assuming CRS, because the approach of

input orientation to find out how much reduction in inputs that to be done by the DMUs that have poor performance for improving its performance.

Determining input-output which are used to calculate efficiency is one of important phases either when using parametric method or non parametric method. Input variable is the one which if increases, the other factors being constant, the efficiency unit would decreases and if decreases, the efficiency would increase and output variable is the one which if increases, the other things being equal, the efficiency would increase and vice versa (Nia et al, 2012).

In conducting analysis of banks' efficiency, there are five main approaches for defining inputs and outputs, namely: the production approach, the intermediation approach, the operational approach, the profitability approach and the modern approach (Nia et al, 2012). Since the intermediation approach has been used extensively in determining the inputs and outputs of the bank industry, therefore this study adopts this approach. The intermediation approach accounts for the cost of resources used and price (value) of outputs produced (Cook, et al, 2000). Intermediation approach constitutes a better instrument to study efficiency, and gives a more accurate image of how efficiently a bank is using its resources to generate profit Berger and Humphrey 1997, Taylor et al, 1998 in Cook, et al, 2000).

Methods

Data employed in this research was secondary data consisted of deposit, asset, personnel expense, loan and income of Foreign banks, State-owned Banks, Islamic Banks and Sharia Business Units in Indonesia. This secondary data were obtained by using observation method on the financial statement of those banks during the observation period in 2009-2012. The source of data obtained from official website Bank of Indonesia www.bi.go.id.

The populations used in this research are the foreign banks and Islamic banks in Indonesia. The sample of this research is chosen by using purposive sampling method with the following criteria: *First,* foreign banks, State-owned Banks, Islamic Banks and Sharia Business Units listed in Bank of Indonesia during the period of 2009-2012. *Second,* banks provide financial statements during the period 2009-2012.

The analysis technique used is descriptive and comparative methods. The data analysis method of this research is data envelopment analysis (DEA) using Banxia Frontier software. Thus, three inputs under the intermediation approach: deposit, assets, personnel expenses and two outputs: loan and income are utilized to investigate efficiency of foreign banks and Islamic banks.

Discussion

A unit (bank) said to be efficient if it obtained a score of 100 percent. Banks with 100 percent efficiency rate is said to be efficient. Furthermore, the most efficient banks will become a benchmark for other units. According to the result of calculation DEA analysis with Constant Return to Scale (CRS) assumption by using Banxia Frontier software, it can be concluded that from the total of ten foreign banks as sample, only four foreign banks that can achieve efficiency score of 100 percent in 2009. Meanwhile, foreign banks are not efficient but have efficiency scores above average in 2009 was Citibank and Deutsche Bank with the efficiency of each bank is equal to 99.2 percent and 98.6 percent.

However, the efficiency score of foreign banks in 2010 declined, which only two foreign banks was perfectly efficient. While inefficient foreign banks but have efficiency scores above average in 2010 were the Bank of China Limited (98.1 percent), Citibank (94.6 percent), and The Bank of Tokyo Mitsubishi UFJ (99.2 percent). In 2010 foreign banks that concluded inefficient was Bank of America, Deutsche Bank AG., Standard Chartered Bank, Hongkong & Shanghai Banking, and the Royal Bank of Scotland.

In 2011, only two foreign banks can achieve efficiency score of 100 percent, which were Deutsche Bank AG and The Bangkok Bank Comp. Ltd. Then the bank with the lowest efficiency score in 2011 was The Royal Bank of Scotland.

In 2012, the most efficient foreign bank is Deutsche Bank, JP Morgan Chase Bank, The Bangkok Bank Comp. Ltd. and The Hongkong & Shanghai Banking. It can be concluded that foreign bank that can maintain the efficiency score of 100 percent during 2009-2012 was The Bangkok Bank Comp. Ltd.

Table 1. Efficiency Scores of Foreign Banks during 2009-2012

No	Bank	Efficiency %			
		2009	2010	2011	2012
1	Bank of America N.A	36.9	41.7	36.6	42.4
2	Bank of China Limited	49.7	98.1	78.9	62.6
3	Citibank N.A	99.2	94.6	79.1	86.0
4	Deutsche Bank AG	98.6	44.9	100.0	100.0
5	JP. Morgan Chase Bank, N.A.	100.0	100.0	26.0	100.0
6	Standard Chartered bank	69.8	72.5	63.7	87.9
7	The Bangkok Bank Comp. Ltd.	100.0	100.0	100.0	100.0
8	The Bank of Tokyo Mitsubishi UFJ	100.0	99.2	92.0	96.0
9	The Hongkong & Shanghai Banking	75.3	78.2	89.6	100.0
10	The Royal Bank of Scotland	100.0	49.2	25.8	57.6

Source: Data Processed by Banxia Frontier Software

In table 2., it explains that efficiency scores of foreign banks compared to the islamic banks (*BUS*) and Sharia Business Units (*UUS*). Islamic banks and Sharia Business Units was the banks that attained efficiency score of 100 percent during 2009-2012. As well as it occured to the Bank of America N.A. Third level bank that had efficiency score in above average was Bank of China Limited, which the bank can achieved 95 percent (2009), 98.1 (2010), 100 percent (2012), then 96.9 percent in 2012. The rest of sample had fluctuate efficiency score.

Table 2. Efficiency Scores of Foreign Banks, Islamic Banks, and Sharia Business Unit during 2009-2012

No	Bank	Efficiency %			
		2009	2010	2011	2012
1	Islamic Banks and Sharia Business Unit	100.0	100.0	100.0	100.0
2	Bank of America N.A	100.0	100.0	100.0	100.0
3	Bank of China Limited	95.0	98.1	100.0	96.9
4	Citibank N.A	82.9	99.3	92.0	96.0
5	Deutsche Bank AG	70.5	99.2	89.6	75.6
6	JP. Morgan Chase Bank, N.A.	68.3	40.1	79.1	73.3
7	Standard Chartered bank	64.7	68.0	77.6	73.1
8	The Bangkok Bank Comp. Ltd.	58.2	36.4	63.7	61.7
9	The Bank of Tokyo Mitsubishi UFJ	38.9	72.5	36.6	61.6
10	The Hongkong & Shanghai Banking	35.2	78.2	26.0	57.6
11	The Royal Bank of Scotland	28.3	49.2	25.8	42.4

Source: Data Processed by Banxia Frontier Software

The result of efficiency score of State-owned Banks, Islamic Banks, and Sharia Business Unit during 2009-2012 was most same with table 2. Which Islamic Banks, and Sharia Business Unit can maintain the efficiency score in 100 percent during 2009-2012. While state-owned bank that can be said as perfectly efficient bank is PT Bank BNI Tbk. during 2010-2011, Pt Bank BRI Tbk., and PT Bank BTN Tbk. in 2011. The smallest efficiency score was owned by PT bank Mandiri Tbk amounting to 64.2 percent in 2009.

Table 3. Efficiency Scores of State-owned Banks, Islamic Banks, and Sharia Business Unit during 2009-2012

No	Bank	Efficieny %			
		2009	2010	2011	2012
1	Islamic Banks and Sharia Business Unit	100.0	100.0	100.0	100.0
2	PT Bank BNI Tbk.	74.8	100.0	100.0	93.5
3	PT Bank BRI Tbk.	92.1	86.1	100.0	84.0

| 4 | PT Bank BTN Tbk. | 98.2 | 75.5 | 100.0 | 77.4 |
| 5 | PT Bank Mandiri Tbk. | 64.2 | 69.0 | 84.5 | 70.7 |

Source: Data Processed by Banxia Frontier Software

Based on the results obtained that the perfect efficient banks in 2009-2012 were The Bank of Tokyo Mitsubishi, *BUS* and *UUS*. For inefficient banks but had efficiency scores above average in 2009 was the Bangkok Bank Comp. Ltd. (95 percent) and PT. Bank BTN (93.9 percent). While there was eight inefficient banks in 2009 including Deutsche Bank, PT. Bank Mandiri Tbk., Standard Chartered Bank, Citibank, The Hongkong & Shanghai Banking, PT. Bank BNI Tbk., JP Morgan Chase Bank, and PT. Bank BRI Tbk. For inefficient banks but had efficiency scores above average in 2010 is JP Morgan Chase Bank (99.3 percent), The Bank of Tokyo Mitsubishi UFJ (99.2 percent) and PT. Bank BTN Tbk. (99.2 percent). While there ware seven inefficient banks in 2010, including Deutsche Bank, PT. Bank Mandiri Tbk., Citibank, Standard Chartered Bank, PT. Bank BNI Tbk, The Hongkong & Shanghai Banking, and PT. Bank BRI Tbk. Perfectly efficient bank in 2011 were Deutsche Bank, PT. Bank BRI Tbk., The Bangkok Bank Com.Ltd., *BUS* and *UUS*. Bank that less efficient but had efficiency scores above average in 2011 was The Bank of Tokyo Mitsubishi UFJ (92 percent). While inefficient banks in 2010 were JP Morgan Chase Bank, Standard Chartered Bank, PT. Bank BNI Tbk., PT Bank Mandiri Tbk., Citibank, PT. Bank BTN Tbk., The Hongkong and Shanghai Banking. For the banks that are less efficient but the level of efficiency was above average were The Bank of Tokyo Mitsubishi UFJ (96 percent) and PT. Bank BTN Tbk. (79.2 percent). While there are eight banks, namely Citibank, PT. Bank Mandiri Tbk., PT. Bank BNI Tbk., The Hongkong & Shanghai Banking, Standard Chartered Bank, Deutsche Bank, PT. Bank BRI Tbk., and PT. Bank BTN Tbk.

Table 4. Efficiency Scores of Foreign Banks, State-owned Banks, Islamic Banks, and Sharia Business Unit during 2009-2012

| No | Bank | Efficiency % | | | |
		2009	2010	2011	2012
1	Islamic Banks and Sharia Business Unit	100.0	100.0	100.0	100.0
2	The Bank of Tokyo Mitsubishi UFJ	100.0	100.0	100.0	100.0
3	The Bangkok Bank Comp. Ltd.	95.0	99.3	100.0	96.9
4	PT Bank BTN Tbk.	93.9	99.2	100.0	96.0
5	PT Bank BRI Tbk.	88.3	99.2	92.0	79.2
6	JP. Morgan Chase Bank, N.A.	82.9	85.1	86.7	78.6
7	PT Bank BNI Tbk.	71.6	78.2	79.9	75.6
8	The Hongkong & Shanghai Banking	70.5	74.7	77.0	73.3
9	Citibank N.A	68.3	72.5	76.5	73.1

10	Standard Chartered bank	64.7	68.0	68.4	69.6
11	PT Bank Mandiri Tbk.	61.8	68.0	63.7	65.0
12	Deutsche Bank AG	58.2	36.4	26.0	61.7

Source: Data Processed by Banxia Frontier Software

Conclusion

DEA analysis result is known that the average of efficiency local banks is better than foreign banks. Which the first rank is occupied by Islamic Banks (*BUS*) and Sharia Business Units (*UUS*), State-owned Banks and the smallest score is Foreign Banks. The average of efficiency Islamic banks during 2009-2012 is 100 percent. While the average of efficiency State-owned banks, Islamic banks (*BUS*) and Sharia Business Units (*UUS*) in sequence are 81.97 percent and 77.26 percent. The result is in line with the previous research that conducted by Sufian and Habibullah (2010), they states Islamic banks currently exist in all parts of the world and it is seen as an alternative system, which has a lot to offer.

For foreign banks and local banks are already efficient, in order to maintain its performance by minimizing the input variables at the same time increasing the output variable resulting in productivity, but with due regard to fairness is primarily concerned with the cost of labor input variables. For the banks that have not yet reached an efficiency score of 100 percent are expected to pay more attention to variables that are still not used optimally so as to avoid waste of resources and thus increases the efficiency of the bank.

For the Indonesian Bank Regulator and the *OJK*, to create rules that supports the development of the financial industry, especially Islamic finance especially in banking. Because Islamic Banking Finance, is a nascent industry in the State of RI that the majority Moslem has huge potential. For investors are expected to be able to see bank efficiency as consideration in investing their fund in the banks observed. Further research who wants to carry out the similar research is suggested to use DEA efficiency analysis with VRS (*Variable Return to Scale*) so that all units measured will make change at various outputs, which technology and production scale will influence efficiency level.

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EFFECTS OF SERVICE QUALITY, CUSTOMER TRUST AND CUSTOMER RELIGIOUS COMMITMENT ON CUSTOMER SATISFACTION AND LOYALTY OF ISLAMIC BANKS IN EAST JAVA

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Abstract. Effects of Service Quality, Customer Trust and Customer Religious Commitment on Customers Satisfaction and Loyalty of Islamic Banks in East Java. The purpose of the present study was to describe the relationships among service quality, customer trust and customer religious commitment on customer satisfaction and loyalty of Islamic banks in East Java. Respondents were Islamic banks' customers domiciled in East Java. A predetermined number of samples were taken by the use of a simple random sampling technique. Analysis was performed using the Structural Equation Modeling (SEM). Results indicated that service quality and customer trust of Islamic banks jointly had significant effects on customer satisfaction. Service quality and customer trust had direct and indirect effects on customer loyalty mediated by satisfaction of Islamic banks' customer in East Java. Religious commitment had no direct and indirect effect on customer satisfaction and customer loyalty.

Keywords: Service quality, trust, religious commitment, satisfaction and loyalty

Abstrak: Pengaruh Kualitas Layanan, Kepercayaan dan Komitmen Beragama Nasabah Terhadap Kepuasan dan Loyalitas Nasabah Bank-Bank Syariah di Jawa Timur. Penelitian ini menjelaskan hubungan antara kualitas layanan, kepercayaan nasabah dan komitmen beragama terhadap kepuasan dan loyalitas nasabah Bank-bank Syariah di Jawa Timur. Responden adalah nasabah Bank Syariah yang berdomisili di Jawa Timur. Penarikan sampel penelitian dilakukan dengan cara sampling acak sederhana, dengan jumlah yang telah ditentukan. Analisis yang digunakan pada penelitian ini adalah model persamaan struktural (Structural Equation Modeling atau SEM). Hasil penelitian ini menunjukkan bahwa kualitas layanan dan kepercayaan nasabah bank syariah secara bersama-sama berpengaruh signifikan terhadap kepuasan nasabah. Kualitas layanan dan kepercayaan nasabah berpengaruh terhadap loyalitas nasabah, baik langsung maupun tidak langsung dengan dimediasi oleh kepuasan nasabah bank syariah di Jawa Timur. Sedangkan komitmen beragama tidak berpengaruh terhadap kepuasan nasabah dan loyalitas nasabah baik langsung maupun tidak langsung.

Kata kunci: kualitas layanan, kepercayaan, komitmen beragama, kepuasan dan loyalitas

Introduction

Islamic banking in Indonesia is growing in an exceedingly rapid pace. It is no longer a mere fulfillment of sharia obligation but has become a necessity. The proportion of Islamic banking for the next 10 years is expected to reach 15%–20% of the national banking system. In order to maintain the momentum of rapid-growing Islamic finance industry in Indonesia, various parties have been conducting several things, such as education and capacity building for Islamic finance industry and encouraging innovations in Islamic financial products to deepen the market and improve public access to Islamic financial institutions. Sharia financial industry, in particular Islamic banks, will continue to evolve with the growth of Muslim middle-class community. In addition to guaranteeing bank customer deposits, the Deposit Guaranty Institution (known as *Lembaga Penjamin Simpanan* or *LPS*) actively participates in maintaining financial stability embodied in the rescue of banks, the source of which is not the state budget, but premiums from banks. At present, there is a difference between Islamic banks and conventional banks with regard to deposit guaranty, in which the stipulation of LPS interest rate does not apply to the former. The implementation of LPS duties and functions is expected to reassure the customers of Islamic banks and consequentially facilitate the operations of Islamic banks.

Islamic banks operate in accordance with the principles of Sharia, in which they are not burdened with paying interest for customer deposits. Islamic banks only pay a share of profits in accordance with the profit-sharing ratios of Islamic banking. With the profit-sharing system, Islamic banks certainly survived the negative spread. Rather than collapsed as with the conventional banks in general, the past economic and financial crisis, instead, had positive impacts on the development of Islamic banks. Until 2007, there were 3 commercial Islamic banks,24 Islamic business units and 105 Islamic People's Credit Banks (known as BPRS or Bank Perkreditan Rakyat Syariah). Islam, as a universal and integral teaching, regulates all aspects of human life, such as the social, cultural, political, legal, defense and security as well as economic and financial aspects. Along with the development of Islamic valueswithin the society after the collapse of Soviet communism in the 1990s, Samuel Paul Hantington stated that the threat to Western world is Islamic civilization (Qardhawi, 2001). The ultimate purposes of Sharia are to bring about virtues and to prevent damage. Sharia sets five basic human needs that must be protected by law: religion, life, property, reason, and offspring. It is in this respect that Allah makes the teachings of the Prophet Muhammad *rahmatan lil alamiin* (or blessings to all).(Q.S. Al-Anbiya [21] : 107).

In the Islamic economic system, the interest rate paid by banks to depositors is replaced by a percentage or portion of profit sharing and the interest rate received by the banks (from debtors) is replaced by a percentage of profit sharing. These two forms of the ratio of profits are used as the instrument to mobilize savings and to channel it to productive business activities. Moslem economists emphasize that there is a built-in power of the Islamic economic system to ensure stability. Therefore, they argue that in the profit-sharing mechanism there will be no factor that leads to economic instability. In his analysis of the profit-sharing behavior with regard to economic stability, Nejatullah Siddiqi comments that: *"the introduction of ratios of profit sharing to replace rate of interest will not destabilize the economy and that the change in the entrepreneurial profit will not get communicated back all along the line"* (Muhammad, 2001). An economic system based on profit sharing shall better ensure allocation of economic resources and more proper distribution of income. The role of profit sharing in the achievement of economic stability should be analyzed by the use of an equilibrium approach.

Islamic banking has been providing superior products that conform to the Sharia. However, there are still many customers who are in doubt of its professionalism and service quality. Superiority in products remains in sufficient for customer satisfaction and loyalty. Banking customers are increasingly critical that the products and services provided affect banks' survival (Rahman, 2004). Superior service quality will affect customer satisfaction (Babin, et.al, 2005). Consequently, high customer satisfaction translates to higher profits for banks. Another advantage is an increased customer loyalty (Chan, et.al. 2003; Ruyter and Bloemer, 1999; Chan, et.al, 2004).There are a lot of criticisms associated with service quality of Islamic banks, especially regarding the application of the profit-sharing system. Some complained front-office service that seemed less professional. This situation should be resolved to maintain loyalty of customers who are motivated by sharia to use Islamic banks. Among the efforts to address this problem is to improve service quality of Islamic banks that involve product conformity with Islamic principles that differentiate Islamic banks from conventional banks.

Literature Review

In the context of banking service quality, service quality is a relatively special or superior service delivery to the customer's expectations (Cronin & Taylor, 1992). There are two factors that affect service quality: expected services and received services. Service quality is the extent to which reality and customers' expectations differ with regard to the services they perceive (Parasurama, 1996).

Service quality is the outcome of consumers' current evaluation and consumption experience and is expected to have a direct and positive effect on overall customer satisfaction (Parasuraman, 1996). Service quality is the level of satisfaction created by a particular transaction between the bank and the customer, which is a psychological condition generated when emotional factors encourage expectations and adapt to past consumption experience (Oliver, 1981).

Satisfying customers for a company engaged in banking services is a key point that should not be overlooked, where customer satisfaction is a strategic aspect to win the competition and maintain the company's image within the broader communities; thus, quality services to customers are of ultimate importance. Entering the competition on a global scale, Islamic banks are challenged to contribute to the national development through economic empowerment of the people. Service quality is a form of consumers' evaluation of the level of perceived services and the level of expected service. Improving service quality constitutes a realistic way for a bank to win the competition and retain customers. Hence, customer satisfaction in the service sector is an important and decisive element to develop the company in order for survival in the face of competition.

This implies that there is a difference when service quality is seen as an attitude since satisfaction is different from attitude. Customer's attitude to a product or service is relative, while satisfaction is an emotional reaction to past consumption experience. In line with the difference, service quality can also be distinguished by the level of satisfaction since perception of service quality is a result of thorough consideration or attitude in response to the excellence of a service, while the level of satisfaction relates only to a particular transaction in a relatively short period.

Trust is the belief that the action of another person or a group is consistent with their beliefs. Trust is created through a gradual and subsequently accumulated process (Pradiansyah, 1999). Consumer trust can be explained through dimensions of past experiences, information and enthusiasm. Consumer trust depends on the consumer's experience with consuming goods or services and receiving favorable information from the service provider. Thus, experience and favorable information will foster consumer trust in a product or service. This is because the experiences stored in the memory of the consumer for a product or service are capable of establishing a person's trust if the those experiences are enjoyable and satisfy them. Consumer trust will be exhibited by their response to the information delivered by the service provider. Consumer enthusiasm or attachment is their positive response to a product or service they receive.

Commitment is the motivation and engagement as well as performance and

adherence to an organization (Gunlach, 1995). Religion provides the best that human beings need to determine the purposes of their lives. Religion promises happiness and prosperity, morality, work ethics, management of justice and what human beings need in their association with their fellow human beings and all the elements of nature (Achsien, 2000).Thus, religious commitment is a form of adherence to religious teachings. To Muslims, Islam is a way of life that sets the whole aspects of life, in line with the order "O you, who have believed, enter into Islam completely…….." (Q.S. Al Baqarah [2] : 208).

Analysis of the relationship of religion and commitment with ethics does not end in religious affiliation. It is continued with religious commitment to reach religiosity. Dimensions used to measure religious commitment are: first, visits to the place of worship; second, participation in religious activities; and third, the level of personal religious faith. The levels of religious faith are captured by four items: *first, belief in God; second, belief after death; third, agreement with the idea that one has the right to question what his church teaches and fourth, agreement with the idea that one has the right of free speech includes the right to make speeches criticizing religion* (Taufik & Karim, 1989). The relationship between the customer and the bank is more than a simple functional relationship; rather, it is exceptionally emotional and the tie can be very strong (Shemwel, 1998).

Generally, banks want their customers can be retained for good. Accordingly, in the context of banking services, customer loyalty is customer commitment to a bank based on a very positive attitude and is reflected in the consistent repeat purchases (Fandi). Repeat purchase may be the result of market dominance by a bank successfully making its products the only products available. Consequently, customers do not any other option to look for other products. Besides, it can repeat purchase may be the results of continuous promotion in order to entice and lure customers to use a product. In case of no market dominance and intensive promotion efforts, only the loyal customers are committed to repeat purchase. Loyalty will be established by the habits and the long history of banking product consumption. Customer loyalty is affected by continuously accumulated satisfaction or dissatisfaction in addition to the perceived quality of a product (Boulding, et.al, 1993).

Banks capable of satisfying their customers in the long run make their customers loyal and making repeat purchases. Additionally, perceived agreement of a bank's performance is influenced by service quality of the bank concerned. If the bank is capable of providing service quality in accordance with customer expectations, the customer will be satisfied with the services provided by the bank. The more the quality of services provided by bank the more satisfied the

customer will be. The better the service quality provided by the bank the more loyal the customer to the bank will be. This is in line with studies of Cronin dan Taylor (1992), Zeithaml and Bitner (1996), Bloemer, et.al (1998), Lassar *et al.*(2000), Natalisa (2000), Holm (2000), Bei dan Chian (2001), Astuti (2001), Kadir (2001), Fullerton dan Taylor (2002), Caruana (2002), Said (2004) that concluded that service quality has significant direct and indirect effects on customer loyalty mediated by customer satisfaction.

Islamic banks can be used for cash management, i.e. management of all the financial traffics of a company. Therefore, customers will partner with only one Islamic bank, making them more easily, efficiently and uncomplicatedly managing their finances. Customers partnering with many banks may have inconvenience in managing their finances. One condition that needs to be considered in choosing which Islamic banks to be used for cash management is that the bank is capable of serving various types of transaction that the company needs. Trust and credibility constitute the main prerequisites for the bank to be chosen by customers in partnering or transacting.

Trust is to believe in a partner to a relationship due to the partner's credibility and benevolence. Credibility indicates trust gained from others due to having the desired expertise to perform a task. Additionally, trust is gained due to having good manners to other partners to a relationship. Trust arises from the ability to prove something, from reliability and from intentionality. Trust is the desire of one party to be well-treated by the other party in the hope that the other party will take necessary actions to meet the expectation, regardless of the ability to monitor or control the other party (Mayer, et.al, 1995). The components of trust are credibility, reliability and intimacy (Peppers and Roger, 1996). Commitment is the desire to maintain connectivity in the long run.

Loyalty is a behavioral response that is biased or non-random, continuously revealed by decision makers by paying attention to one or more alternative products and a number of similar products and is a function of psychological processes (Dharmesta, 1999). In contrast to repeat purchase, customer loyalty involves customer's repeated psychological feelings towards products and services for a long period of time. Loyalty will occur based on the experience with consuming a number of similar products. This experience will affect the final decision making where customers decide to be loyal to only one banking products. Bank customers have a religious commitment reflected in the customers' consumption attitudes and behaviors. This attitude is measured by way of asking the customers how they like the products offered, how strong their religious commitment to Islamic banks and their tendency to recommend the bank to others as well as

their beliefs and feelings to banking products.

Commitment is a determinant of the success of a long-term relationship between the consumer and the service provider (Hazra and Kailash, 2009). Customer commitments play a key role in the success of a long-term relationship between service providers and customers, which in turn will create customer loyalty (Ramadania, 2002). Commitment is closely connected with customer loyalty, which is intention to making a purchase and intensive repeat purchases. Repeat-purchase behavior can be described in two possibilities, loyalty and inertia (Odin, et.al, 2001). Repeat-purchase behavior in a situation of strong brand sensitivity is categorized as loyalty. Conversely, repeat-purchase behavior in a situation of weak brand sensitivity is categorized as inertia. Loyalty is long-term and cumulative (continuous) in nature; the longer the customers to be loyal, the more the profit the bank can obtainfrom the customer's banking transactions. Customers categorized as loyal are those customers who are so satisfied with a specific banking product that they are enthusiastic to introduce it to anyone they know (Tjiptono, 2004). Furthermore, customers will make repeat purchases of banking products they usually buy; even these customers will not use other banking products. The bank's strengths and weaknesses will be informed to the bank and even the customer will inform the bank's strengths to others.

Customer satisfaction is the level of customer feelings after comparing their perceived performance of a product or service to their expectations. Satisfaction arises when customers compare their perceived performance of a product or service to their expectations (Spreng, et.al, 1996). Thus, customer satisfaction is formed after the perception of the value of an offer. Or, in other words, the level of customer satisfaction is a function of the difference between the perceived performance and expectations. Customer satisfaction occurs when the results of evaluation of the banking products used are at least equal to or exceed customer expectations, while dissatisfaction occurs when the results of evaluation do not meet or are below customer expectations.

Most customers like banking products after using them. Repeat consumption leads to customer loyalty. Loyalty is seen as a final effect of repeat purchases made by consumers (Caruana, 2002). Repeat purchase may be due to lack of compatibility after repeated use of banking products or customers are conditioned to use one only banking products. The final effect arising from these conditions is customers that will be loyal to an improved product by repeated consumption in the long term. Loyalty can be as developing in three phases: cognitive, affective and conative.

Methods

Population in this study is all the customers of Islamic banks in East Java. Samples were representatives of the population studied (Arikunto, 2010). that were taken by the use the simple random sampling technique. A predetermined number of samples were randomly selected only in 3 major cities in East Java – Surabaya, Sidoarjo and Malang. The number of samples in this study was 150 respondents according to the sample size guideline of 100–200 (Arikunto, 2010). Fifty respondents were taken from each city.

Samples were Islamic bank's customers domiciled in East Java. East Java Province would be developed to be the largest Islamic economic region in Indonesia. Another reason was that East Java Province had the potential for the development of Islamic economy with the support of 6,000 Islamic boarding schools (known as *pondok pesantren*). The management of Islamic boarding schools also asked the government to maximize the program. All Muslim clerics (known as *kiai*) in East Java have been supporting the concept of Islamic economic restructuring. The institution of Islamic boarding school, known as one of the means of Islamic preaching, could be optimized to drive Islamic financial education in Indonesia.

Figure 1. The Structural Model
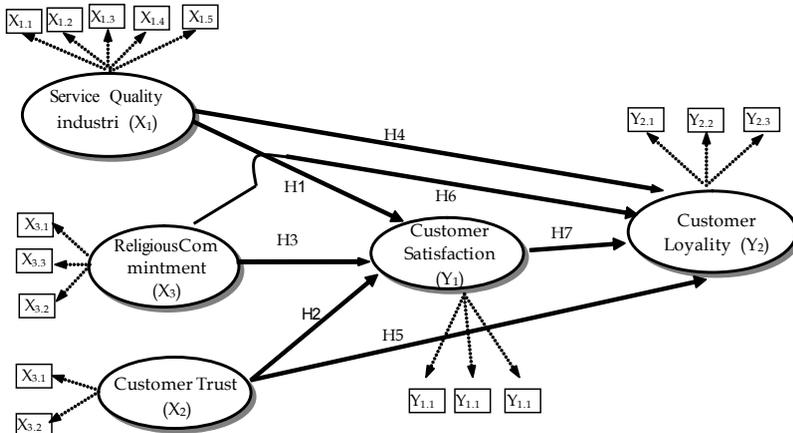
$X_{1.1}$: Tangibles
$X_{1.2}$: Reliability
$X_{1.3}$: Responsiveness
$X_{1.4}$: Assurance
$X_{1.5}$: Empathy
$X_{2.1}$: Past experience
$X_{2.2}$: Information and enthusiasm
$X_{3.1}$: Visit to the place of worship

$X_{3.2}$: Participation in religious activities
$X_{3.2}$: Level of personal religious faith
$Y_{1.1}$: Overall satisfaction
$Y_{1.2}$: Confirmation of expectation
$Y_{1.3}$: Comparison of ideal
$Y_{2.1}$: Say positive thinsg
$Y_{2.2}$: Recommed frend
$Y_{2.3}$: Continue purchasing

Hypotheses proposed in this study were:

H1: Service quality of Islamic banks had significant effects on customer satisfaction of Islamic banks in East Java;

H2: Customer trust of Islamic banks had significant effects on customer satisfaction of Islamic banks in East Java;

H3: Religious commitment of Islamic banks' customers had significant effects on customer satisfaction of Islamic banks in East Java;

H4: Services quality of Islamic banks had significant effects on customer loyalty of Islamic banks in East Java;

H5: Customer trust of Islamic banks had significant effects on customer loyalty of Islamic banks in East Java;

H6: Religious commitment of customers of Islamic banks had significant effects on customer loyalty of Islamic banks in East Java;

H7: Customer satisfaction of Islamic banks had significant effects on customer loyalty of Islamic banks in East Java.

Structural Equation Modeling (SEM) analysis was used to test the hypotheses. In order to test the goodness of fit of the model developed in the structural equation modeling, the fit index was used. If the model was not quite good, it is necessary to modify the model by adding or deleting the links so that the value of chi-square will decrease with the value of the index (Ferdinant, 2000).
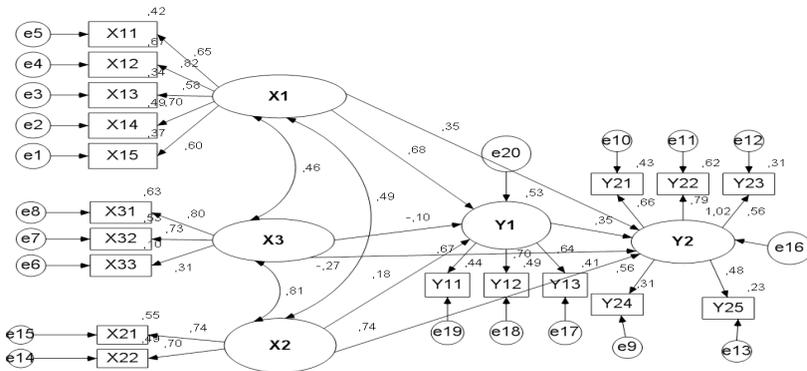
Figure 2. The Result of Structural Model

Discussion

Hypotheses of the study were tested by partially examining each path of direct effects based on the results of the Structural Equation Modeling (SEM) analysis. Indirect effectswere the byproducts of direct effects.Hypotheses of direct effect were tested based on the value of CR> 1.96 and *P*<0.05, meaning a

significant effect.Results of hypothesis testing are as follows.

Independent Variable	Dependent Variable	Direct Effect Path Coefficient	
		Koef. Std	Note
Service quality	Customer satisfaction	0,68	Significant
Customer trust	Customer satisfaction	0,18	Significant
Religious commitment	Customer satisfaction	-0,10	Non Significant
Service quality	Customer loyalty	0,35	Significant
Customer trust	Customer loyalty	0,74	Significant
Religious commitment	Customer loyalty	0,64	Significant
Customer satisfaction	Customer loyalty	0,35	Significant

After testing and analyzing the effects of service quality, customer trust and customer religious commitment on customer satisfaction and customer loyalty of Islamic banks in East Java, and after reviewing theoretical concepts and empirical supports regarding the causal relationship between the variables affecting customer loyalty of Islamic banks, the theoretical and empirical findings leading to the development of the theory generated in this study are: *First,* service quality and customer trust had effects on customer satisfaction of Islamic banks. Results showed that service quality was instrumental in creating customer satisfaction, while customer satisfaction was the dominant variable in building customer loyalty. Efforts to retain customers of Islamic banks will be realized by taking into account service quality and customer satisfaction in addition to the trust variable. Customer satisfaction was to be achieved by improving service quality provided to customers.

Superior service quality can be created by providing appropriate training to all employees on how to serve customers in accordance with their expectations. Training is provided not only to the division in charge of service encounter, but all parties should be involved in the training on service quality. Involvement of all parties will lead to excellent service quality so that the image of Islamic banks will be getting better in the eyes of customers. There is a need for evaluating the extent of customer loyalty of Islamic banks. Evaluation should be done on a regular basis so that the bank will always able to identify customer needs and respond them quickly. Customer loyalty can also be enhanced by placing an emphasis on the intimate relationship with customers. Programs long remembered in minds of customers will be able to strengthen the relationship with the customers, for example through Islamic banks' involvement in religious activities.

Second, in addition to service quality, customer satisfaction and loyalty of Islamic banks are also influenced by customer trust. Customer trust is an important element affecting the quality of a relationship. Customer trust in the Islamic banks will increase the levels of customer satisfaction with Islamic banks. Customer satisfaction will increase the likelihood that the customers make repeated consumption. The high level of trust will have an effect of reducing the possibility of customer shift to non-Islamic banks. One effort that should be carried out by the management of Islamic banks to increase customer trust in order to enhance customer satisfaction as the predictor of customer loyalty of Islamic banks is to build the capacity of bank employees in serving customers. Customer trust can also be built from the attitudes of Islamic banks' employees that promote honesty and do not take short-term advantage. Long standing relationship with customers can be well-maintained.

Third, not all study variables had significant effects on service quality. Religious commitment was shown to have no effect on customer satisfaction and customer loyalty of Islamic banks. This was due to the fact that customers of Islamic banks derived from a limited number of Muslims in East Java. Additionally, the variable religious commitment was customer personal commitment to practicing Islamic teachings. Customer religious commitment had no direct effect on service quality, but customers with their beliefs in the functions and benefits of Islamic banks straightly expressed their loyalty to Islamic banks. Customers chose and were loyal to Islamic banks based on their religious faith and obligations to apply Sharia in their everyday lives. Thus, any form of service provided did not have significant effect on customer satisfaction. Customers expressed their high loyalty to Islamic banks regardless their satisfaction as reflected by service quality of Islamic banking.

In addition to the underlying personal factors, negative relationship between religious commitment and customer satisfaction was also due to the limitations of the study. Negative effects on customer satisfaction and customer loyalty might be due to the fact that not all indicators of the variable religious commitment were able to explain comprehensively the relationships between customer satisfaction and customer loyalty. Another factor was that the short period of the study, leading to fairly limited number of observations. The study location also influenced the effects of this relationship. East Java was chosen as the study location since the province was considered as capable of implementing the program to accelerate the development of Islamic economics. Besides, as stated in the vision of Islamic economic development in Indonesia, East Java Province is to be developed as the largest Islamic economic region in Indonesia. East Java also

has the potential for the development of Islamic economics in East Java, which is supported by 6,000 Islamic boarding schools. The management of Islamic boarding schools also asked the government to maximize the program. All *kiai* in East Java have been supporting the concept of Islamic economic restructuring. The institution of Islamic boarding school, known as one of the means of Islamic preaching, could be optimized to drive Islamic financial education in Indonesia. With Islamic banking restructuring, the economic concept can be realized with low-cost, simple, and blessed financing.

Conclusion

Results showed that service quality and customer trust of Islamic banks were predictors of customer satisfaction and customer loyalty of Islamic banks. Customer satisfaction of Islamic banks was the intervening variable linking service quality and customer trust of Islamic banks to customer loyalty of Islamic banks. Customer religious commitment of Islamic banks had no direct effect on service quality of Islamic banks. This was due to the fact that customers of Islamic banks derived from a limited number of Muslims in East Java. The variable religious commitment was the customer personal commitment to practicing Islamic teachings. Results of the present study have theoretical and managerial implications. Managerial Implications recommend the banks to enhance customer loyalty by placing an emphasis on improving service quality. Future research should investigate a different object of study with regard to the form of business and location of the object of study. There is a need for considering addition of other variables which are continuation and antecedents of customer loyalty. Empirical research models should be examined from the viewpoint of service providers.

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PEER GROUP EFFECTS ON MOSLEM CONSUMER'S DECISION TO PURCHASE HALAL-LABELED COSMETICS

Muniaty Aisyah[1]

Abstract. Peer Group Effects on Moslem Consumer's Decision To Purchase Halal Labeled Cosmetics. *The purposes of this research are to analyze peer group effects on Moslem consumers'decision to purchase halal-labeled cosmetics directly and indirectly which is mediated by consumers' religious behavior. This research applies Structural Equation Model and convenience random sampling with 215 samples who have bought halal-labeled cosmeticsand live in Southern Tangerang. The findings show that: first, peer groupdirectly affect consumers' decisionto purchase halal-labeled cosmetics; second, hablumminannas behavior mediates peer group and consumers'decision to purchase halal-labeled cosmeticsindirectly, third, hablumminallah behavior has the most dominant effect on Moslem consumers' decision to purchase halal-labeled cosmetics. Based on the findings, it could be concluded that the reason of consumers' decision to purchase halal-labeled cosmetics is because their religious behavior are high. Therefore, it is suggested that government and related institutions need to implement the Security Act of Halal Products immediately in order to protect the consumer from consuming non-halal products.*

Keywords: *halal label, purchase decision, consumer behavior, structural equation model*

Abstrak. Pengaruh Kelompok Terhadap Keputusan Konsumen Untuk Membeli Produk Kosmetik Halal. *Penelitian ini bertujuan menganalisis pengaruh peer group (kelompok teman sebaya) terhadap keputusan pembelian konsumen pada produk kosmetik berlabel halal, baik secara langsung maupun tidak langsung yang dimediasi oleh perilaku religious konsumen. Penelitian ini menggunak ananalisis Structural Equation Model dan teknik convenience random sampling dengan 215 responden yang tinggal di wilayah Tangerang Selatan. Hasil penelitian menunjukkan: pertama, peer group berpengaruh langsung terhadap keputusan konsumen membeli kosmetik berlabel halal; kedua, perilaku hablumminannas konsumen memediasi pengaruh peer group terhadap keputusan konsumen membeli kosmetik berlabel halal secara tidak langsung; ketiga, perilaku hablumminallah konsumen paling dominan mempengaruhi keputusan konsumen membeli kosmetik berlabel halal. Dapat disimpulkan bahwa keputusan konsumen membeli kosmetik berlabel halal didasari oleh perilaku religiusnya Karenanya, disarankan agar pemerintah dan instansi terkait segera mengimplementasikan Undang-Undang Jaminan Produk Halal guna melindungi konsumen dari mengkonsumsi produk non-halal.*

Kata kunci: *label halal, keputusanpembelian, perilakukonsumen, structural equation model*

Introduction

Dharmmesta and Handoko (1997) explained, consumer behavior is individual's activity that is directly involved in obtaining and use of goods or services. This is based on the concept of consumer behavior and lifestyles that are formed from the internal influences (perception, learning, memory, motivation, personality, emotions, attitudes) and external influences (demographic, social status, reference groups, family, marketing events, and culture). Culture is a complex symbols and facts that created by human who handed down from generation to generation as a determinant and regulator of human behavior in society. The symbol can be tangible like home, equipment, vehicles and artworks; or intangible like attitudes, opinions, beliefs, languages and religious values.

Hawkins and David (2010) classify culturalvalues in three general categories: *first*, Other-oriented values, reflect a society's view of the appropriate relationships between individuals and groups within the society. These relationships have a major influence on marketing practice. *Second,* Environment-oriented values, prescribe a society relationships to its economic and technical as well as its physical environment. *Third,* Self-oriented values, reflect the objectives and approaches to life that the individual members of society find desirable. Such as religious values that is very much determined a person behavior in performing his daily life. Furthermore, Hawkins and David (2010) explained that religious factor,as one of the forms of culture that is based on self-oriented values, can identify consumer behavior where the values and religious teaching affiliation will greatly influence consumers' purchase decisions and their daily consumption patterns. Thus, Moslem consumers decision to purchase or to use halal-labeled cosmetics allegedly constituted by self-oriented values in order to practice the Islamic teachings that are derived from the holy Quran and hadith.

There are more than thirty verses of the holy Qur'an that mention about Moslem obligation to keep and pay attention on what to consume which also supported by hadiths that are explaining many things about *halal* (lawful) and *haram* (unlawful) products, as related to its substantials, materials, and processing procedures (Thobieb, 2002). Such as the following hadith narrated by Moslem ra: "The halal (lawful) is obvious and the haram (unlawful) is also obvious; and in between there are things that *musyta-bihat/syubhat* (doubtful, vague, not clearly lawful illegitimate), most people do not know the law. Who ever cautious about doubtful cases, indeed he had saved his religion and pride". This hadith explains that everything that is *syubhat* (doubtful) should be abandoned because whoever is keeping himself away from these,then his life and religion will survive (Amin, 2013).

Actually, there are only few things that are forbidden by Allah SWT to be consumed or used by human being. Everything on earth is basically permissible to consumed or used, except things that are explicitly forbidden according to the Quran and hadith. Nevertheless, the increasing of technological developments is allowing the use of unlawful substances as raw materials, additivesor auxiliary materials in variety of processed products. Consequently, the halalness of the products becomes unclear or doubtful. That is why the Indonesian Ulama' Assembly (Majelis Ulama Indonesia/ MUI) Fatwa Commission concluded that all processed products is basically doubtful and needs to be studied or explored furthermore before setting the status of its halal illegitimate, to provide certainty and reassuring Moslem consumers to practice their religious teachings (LPPOM MUI, 2013).

It is government's obligation to protect and provide independency to each resident to worship according to their religious teachings and believes. Especially because the circulation of non-halal products have been occurred in Indonesian markets repeatedly (Abadi and Team2011). In consequence, since it had been proposed in 2008, finally DPR (the House of Representatives) validated the Halal Product Guarantee (JPH) Act on September 25, 2014. Unfortunately, JPH Act still only regulates sanctions for halal certificate holders who violating their obligation, whereas for those who do not apply halal certification, the regulations are still not listed in JPH Act. According to the Ministry of Religion, the details of new sanctions will be regulated in a more technical regulations, either through government regulations or ministerial regulations that will be implemented in the next five years, so the whole community businesses who produce halal products essentially require to have halal products certification(Supriyanto, 2014).

In other words, although JPH Act has been validated, the movement of halal product certification and labeling will not be implemented completely in Indonesia until the next five years because the government is still responsible for issuing eight new government regulations and two new ministerial regulations to complement the JPHAct (Ichsan, 2014). Therefore, the Moslem community in Indonesia still have to be alert and ensure that the product they have been purchased is halal guaranteed by checking its halal label or certificate. Based on this background, therefore, this research intends to analyze the Moslem consumers' purchase behavior on halal-labeled cosmetics.

This research intends to advance the previous research (Aisyah, 2014) about the influence of external environments on consumer's intention to purchase halal-labeled products by further analyzing the influence of peer group on consumer's actual decision to purchase halal-labeled cosmetics. Kotler and Keller (2012) explained, one of the reference group that can directly affect consumer's attitudes and

purchasing behavior is peer group. In a phase of ourlives, the agent of socialization from childhood to adulthood mainly played by the peer group (Dariyo, 2004). Thus, the cumulative impact of individual interaction with peer group is very likely affecting one's purchasing behavior.

Based on previous research (Aisyah, 2014), there are only few consumers (12.8 to 37.7%) are aware of any potential non-halal raw materials in food products, beverages, pharmaceuticals and cosmetics. Therefore, the government's efforts to implement JPH Act should begin with educational programs to the community, both to consumers and producers, in order to promote halal certification and labeling programs through below the line and above the line campaigns. By analyzing whether there is peer group direct or indirect effects on consumers' purchase decision, will be known whether peer group as one of external environment can be used as medium or a place to conduct below the line activity campaigns about halal-labeled cosmetics especially among young consumers who are a long lifetime customers.

The halal certification and halal labeling products' movement will be implemented by the government in the upcoming October 2019. For Moslem consumers as the majority in Indonesia, the halal-haram issue is a sensitive matter because related to their religious believes. Various cases of non-halal products circulation have gotten strong reactions from Moslem communities which potentially causing social and economic chaos (Kasali, 1998). Therefore, this research aims to give a positive contribution in order to motivate government and other related institutions to be truly commited to implement the Halal Product Guarantee (JPH) Act in order to protect the public from consuming or using non-halal products, especially cosmetics, by analyzing the following research questions:

First, does peer group have positive effect on consumers' *hablumminallah* behavior, *hablumminannas* behavior, and decision to purchase halal-labeled cosmetics? *Second,* does consumers' religious behavior mediate peer group with consumers' decision to purchase halal-labeled cosmetics indirectly? *Third,* which factor has the most dominant effect on consumers' decision to purchase halal-labeled cosmetics?

Literature Review

Schiffman and Kanuk (2011) explained that referent group's approval or disapproval would constitute consumer's purchasing behavior. The higher the consumer interaction with the peer group, the higher the consumer's purchase decision on the product in question. Mansoer (2008) explained, the level of individual interaction with peer group can be measured based on the reasons for choosing peers, the intensity of positive activities with peers, and the intensity of

playing with peers.

According to Josephson et.al. (2003), peer group can influence a person attitudes and interests, how to think, how to talk, how to look, how to behave and how religious he is. Dariyo (2002) explained, if a person choose to get along with peers who has strong personality, spirit of leadership, good social control, high appreciation of education, good achievement, religious, and good morals; this peer group can constitute its member with an opportunity to exchange thoughts, solving problems, and to learn how to interact with others, how to control social behavior, how to develop skills and interests. Hence, this peer group became a place or medium that constitute useful activities and positive behavior for its member. On the contrary, if a person choose to get along with peers who is more concerned with social status, wealth, physical appearance and popularity only, this peer group can constitute its member with materialistic or hedonistic lifestyle and tend to behave badly, lazy and like to spend their time with less useful activities. In other words, the more positive the reasons for choosing peers, the greater the tendency of peer group toits members on performing useful activities and positive behavior.

The more important the role of peer group for a person, the more frequent this person will interact with his peer group. The interaction with peer group can influence positively or negatively to one's behavior depend on the amount of time and the type of activities he spent with peers. The more frequent he spend his time with peers who like to do positive activities, his behavior will become more positive (Dariyo, 2002). Positive activities in peer group that could derived positive behavior to its member are learning together, exchanging thoughts, doing exercises, doing arts, discussing social or religious issues, and many other useful activities. The higher the intensity of this person interacts with peers in positive activities, the better his behavior will be (Mansoer, 2008).

The more frequent a person interacts with peers who like to spent more time for playing, other less useful activities or even negative actions, it can impact negatively on the development of one's behavior. Playing activities with peers can be measured from activities like chatting, went to malls or shopping centers, hanging out, watching movies, playing games, etc. (Mansoer, 2008). Thus, the more positive one's considerations or reasons in choosing peers, the higher the intensity of positive activities with peers, and the lower the intensity of playing with peers; the better the behavior will be, including his religious behavior and his intention or decision to purchase halal products.

According to *Tawhidy String Relations* (TSR) methodology (Choudhury, 2006), social relationship's theme in Islam is related to the main message in the holy Qur'an that is the oneness of Allah. The knowledge inside Al Qur'an is believed as an absolute truth that concludes all human needs as a comprehensive guidelines.

Al Qur'an is implemented by the Prophet Muhammad in his daily life. In Islam, the Prophet Muhammad behavior is recorded in Hadith as the second knowledge of Islam. The holy Qur'an and Hadith are continuously generated into world's system which occurs into the life of human being's through learning process called *shuratic process. Shuratic process* shows an interactive, integrative and evolutionary learning process that interrelated with Islamic law in the world system and tends to be consultative and dynamic process that will go on until hereafter (Harahap, 2008). So it is clear that Islam as a way of life always relates world with hereafter life. Therefore, religious behavior in this research is divided into *hablumminallah* behavior and *hablumminannas* behavior.

Hablumminallah behavior is Islamic religious behavior which formed from cognition, affection and conation behavior in Faith and Worship aspects of a Moslem in his relationship with God, which clearly written in two Islamic foundations, those are Pillars of Faith and Pillars of Islam (Husaini, 2013). Thus, in this research, consumers' *hablumminallah* behavior is measured from three dimensions, those are knowledge, attitudes and the implementation or practice of Faith (six Pillars of Faith) and Worship (five Pillars of Islam).

Attitudes of Faith and Worship will be measured from one's belief in receiving the truth of Islamic teachings as the outcomes of his knowledge of Faith and Worship. A Moslemwho has a broad knowledge of Faith and Worship will has positive Faith and Worship attitudes who truly beliefs the truth of Islamic teachings. In other words, the higher the Faith and Worship attitudes of a Moslem, the higher the *hablumminallah* behavior will be. On the contrary, a Moslem who has limited knowledge of Faith and Worship will has limited or even negative Faith and Worship attitudes which will causing limited or negative beliefs on Islamic teachings. A Moslem who has limited or negative Faith and Worship attitudes will has limited or even negative influence on his *hablumminallah* behavior. Attitudes or beliefs of Faith is measured from one's belief in the truth of the six Pillars of Faith which can be define from one's belief in Allah as the only creator who has

Hablumminallah behavior is not only measured from one's knowledge and attitudes aspects of Faith and Worship, but also measured from practicing the Faith and Worship in actual actions to follow God's commands and desist God's prohibition by standing firmly on the Pillars of Faith and the Pillars of Islam. The practice or implementation of Faith is measured from how often a Moslem starting and finishing jobs by mentioning Allah's name, how hard one's effort to maintain his/her five senses from doing the bad things, how hard one's effort to imitate the Prophet Muhammad's behavior, and how much his/her eagerness to do the good deeds and avoid him/herself from doing the bad deeds. Meanwhile, practice or implementation of Worship is measured from one's obedience on carrying out the

five *fardhu* (obligatory) prayers a day, carrying out congregation prayers, carrying out *sunnah* (as complement to obligatory) prayers, fasting in *Ramadhan* month, *sunnah* fasting, reading Al Qur'an, reading *shalawat* to the Prophet Muhammad, doing *zakah* (tithe), helping fellow human being who have difficulties, and one's involvement on religious social activities.

The higher the knowledge, the higher the attitudes. The higher the attitudes, the higher the implementation or his/her practice of Faith and Worship aspects. The higher the practice, the higher the *hablumminallah* behavior. The higher the *hablumminallah* behavior, the higher the *hablumminannas* behavior, which will also alleviate Moslem intention to purchase halal products as his/her actual action offaith and worship to Allah.

The concept of *hablumminannas* is precisely about everything in the world and hereafter that is essentiallyabout the fact of nature of human life, human personality, habit, event, and *ikhwal/* causes (Hidayat, 2009). According to Mansoer (2008), a Moslem behavior is internalized with Islamic values in his daily life or habit toward himself, fellow human being and natural surroundings (Mansoer, 2008). It has been mentioned before that the dimensions of Islamic teaching is about faith and worship aspects which will reflect human being praiseworthy behavior *(akhlakul karimah).* A person who is obedient in his worship, will be a praiseworthy person. A praiseworthy person will have good relationships with himself, other human being and natural surrounding which is called as *hablumminannas* behavior. Therefore, *hablumminannas* behavior is measured based on three dimensions: Islamic personality towards oneself, fellow human beings and natural surroundings (Mansoer, 2008).

Islamic personality toward oneself is measured from one's honesty, discipline, and diligence behavior. Honesty is an important manner because people is usually trying to hide their mistakes and incapable of being frankly. Honesty shows from one's courageto admit mistakes. Discipline shows from one's consistency on doing good habits in daily life, e.g. always coming on time to school or workplace, always wake up early in the morning, or always utilize his spare time by doing good thing. Meanwhile, diligence behavior shows from one's constant effort to accomplish all things that are undertaken, not easily give up when facing difficulties, try to do everything in maximum effort, not easily self-satisfied, continue to improve his achievement, and working hard. Islamic personality toward fellow human being is measured from one's sharing habit, generosity, and willing to cooperate, tolerant, caring, and respecting others. Habit of sharing shows from one's willingness to help people in need. Generosity shows from one's willingness to help people in need in the formof material, e.g. donated funds for the mosque construction, for broken bridge or road, for poor people and natural disasters victims.. Tolerant shows from one's willingness to help friends from different ethnics or religion, willing to get

involve in social activity held by friends from different ethnics or religion, willing to attend funeral of neighbor from different ethnics or religion, and respect other worshiping activities from different religion. Caring or concern for others shows from one's willingness to looking after those who unable to take care for themselves, especially sick and elderly people. Respect others shows from one's reluctance to disturb others, e.g. reluctance to disturb friend who has not finished school tasks in the classroom, reluctance to dispose garbage offhand, and willing to clean up the jammed ditch in front of his house in order to prevent flooded road.

Islamic personality toward natural surrounding is measured from his concern for nature and his effort to preserve nature. Concern for nature shows from one's willingness to treat plants and animals well, e.g. feed a hungry cat, willing to watering the plant, and having a view point that a human being does not have rights to exploit the nature. Meanwhile effort to preserve nature is measured from one's willingness to save electricity, saving energy by look after his vehicle, willing to lessen the pollution by using bicycle or public transportation, willing to save water by using enough water as needed, willing to plant tree or look after the plants, and also reluctant to destroy or damaging plants and disturbing animals.

The higher the Islamic personality toward oneself, fellow human beings and natural surroundings, the higher the *hablumminannas* behavior which will also elevated Moslem intention or decision to purchase halal products.

From the explanation above, it is concluded that a Moslem's willingness to consume or use halal products is influence by his religious behavior toward oneself, fellow human beings and natural surroundings, which come from his/her reflection of knowledge, attitudes and implementation of his/her faith and worship to Allah in order to have a secure life in the earth and hereafter. Therefore, it is suspected in this research that the higher the *hablumminallah* and *hablumminannas* behavior, the higher the consumer decision to purchased halal-labeled cosmetics.

Figure 1. Research Framework
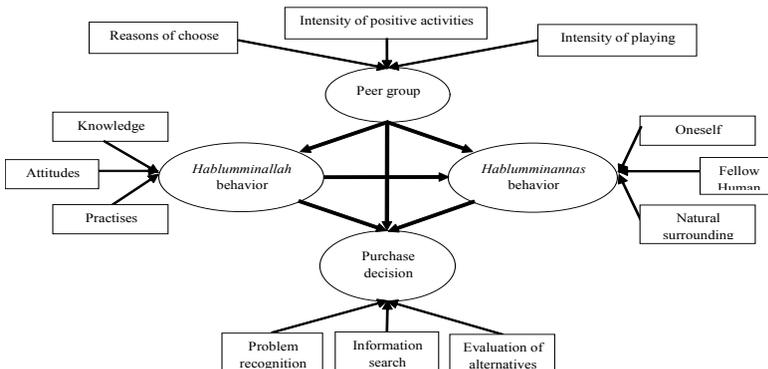
From the research framework on figure 1, the hypothesis in this research are developed as follows: *first,* peer group directly effects consumers' *hablumminallah* behavior; *Second,* peer group directly effects consumers' *hablumminannas* behavior; *Third,* peer group directly effects consumers'decision to purchase halal-labeled cosmetics; *Fourth, hablumminallah* behavior mediates peer group and consumers' *hablumminannas*behavior indirectly; *Fifth, hablumminannas* behavior mediates peer group and consumers' decision to purchase halal-labeled cosmetics indirectly.

Methods

This research uses explanatory research to analyze the causal relationship between*peer group* and consumers' decision to purchase halal-labeled cosmetics, directly and indirectly that is mediated by *hablumminallah* and*hablumminannas* behavior. Considering the object is halal-labeled cosmetics, this research only selects female Moslem consumers who have bought halal-labeled cosmetics and live in Southern Tangerang as sample, especially those over 20 to 25 years old. At this ages, they are indicated as a long lifetime customer that make them as potential target market for halal-labeled cosmetics. To be able to measure consumers'purchase decision, the respondents must have already bought halal-labeled cosmetics from any kind of brand that circulating in Indonesia market such as Wardah, Mazaya, Caring colors, La tulipe, Mustika Ratu,Sari Ayu,Viva, Moayu, or Moslemah by Sophie Paris.The cosmetic variants are lipstick, face cream, foundation, lip balm, body lotion, bathgel, and many others which already put halal-labeled on its packaging.

The sampling technics used in this research is convenience random sampling. This research uses primary data and questioners as instrument which distributed to 250 respondents who live in Southern Tangerang area. Referring to therespondent criteria thathave been set, there are 215 data available to be used in this research. Thequality of the data is tested using validity and reliability test. Validity test result showed that items from all variables are valid with anti-image correlation value> 0.500. Reliability test result also showed that all variables are reliable with coefficient of *Cronbach's Alpha* score> 0.60.

This research uses Structural Equation Model (SEM) by using AMOS (Analysis of Moment Structure) application to analyze the hypothesis because there are latent (unobserved) variables which mediate dependent and independent variables that suitable to test causal relationship between variables and its dimensions. SEM test can also examine the large of contributions of selected variables simultaneously toward other variable from the assessment of Squared Multiple Correlationsscore.

Discussion

The assessment of normality shows that multivariate (c.r.) score is 2.253 (in the range of -2.58< c.r.< 2.58), so the data is normal. From construct validity test showed that *estimate* score in *standardized regression weights* model or its *loading factor* scores are ≥ 0.5, so it is valid and able to form its construct. From convergent validity test, it is showed a *critical ratio* value which is greater than 2 times of *standard error* values so that all indicators are valid and able to measure what should be measured.

Table 1. Standardized Direct Effects

	Peer Group (X)	Hablum-minallah B. (M1)	Hablum-minannas B. (M2)	Purchase Decision (Y)
Hablumminallah B. (M1)	0.254	0.000	0.000	0.000
Hablumminannas B. (M2)	0.239	0.478	0.000	0.000
Purchase Decision (Y)	**0.166**	0.391	0.332	0.000

Goodness of fit model test shows that the model has a good fit, based on the assessment criteria such as RMR (0.022< 0.10), GFI (0.913> 0.900), AGFI (0.800 < 0.859 < 0.900), NFI (0.800 < 0.889< 0.900), RFI (0.800 <0.847< 0.900), IFI (0.928 > 0.900), TLI (0.800 < 0.899 < 0.900), CFI (0.926 > 0.900), and PRATIO (0 > 0,727 > 1). After all the assumption are fulfilled, then the hypotheses proposed in this study should be tested. The result of data analysis from the regression weight structural equation model showed that this research has establish three direct causal effects.

For hypothesis 1, p-value 0.005< 0.05 and coefficient value is 0.223, thus Peer group significantly effects consumer's *hablumminallah behavior*. It means that peer group is positively conducive as a place or medium that could constitute consumer's *hablumminallah* behavior.

Table 2. Standardized Indirect Effects

	Peer Group (X)	Hablum-minallah B. (M1)	Hablum-minannas B. (M2)	Purchase Decision (Y)
Hablumminallah B. (M1)	0.000	0.000	0.000	0.000
Hablumminannas B. (M2)	0.122	0.000	0.000	0.000
Purchase Decision (Y)	**0.219**	0.159	0.000	0.000

For hypothesis 2, p-value 0.007 < 0.05, and coefficient value is 0.178, thus, Peer group significantly effects consumer's *hablumminannas* behavior. It means

that peer group is positively conducive as a place or medium that could constitute consumer's *hablumminannas* behavior.

For hypothesis 3, p-value 0.044 < 0.05, and coefficient value is 0.167, thus, Peer group significantly effects consumers' decision to purchase halal-labeled cosmetics. It means that peer group is positively conducive as a place or medium that could constitute consumer's decision to purchase halal-labeled cosmetics.

Table 3. Standardized Total Effects

	Peer Group (X)	Hablum- minallah B. (M1)	Hablum- minannas B. (M2)	Purchase Decision (Y)
Hablumminallah B. (M1)	0.254	0.000	0.000	0.000
Hablumminannas B. (M2)	0.360	0.478	0.000	0.000
Purchase Decision (Y)	0.385	0.550	0.332	0.000

For hypothesis 4, based on Table 1 and 2, the value of standardized direct effects of peer group on consumers' *hablumminannas* behavior (X - M2) is 0.239, while the value of standardized indirect effects of peer group on *hablumminannas* behavior through consumers' *hablumminallah* behavior (X - M1 - M2)is 0.122. Because direct effects' value is greater than indirect effects, it is concluded that *hablumminallah* behavior (M1) is not an intervening variable, so *hablumminallah* behavior does not mediates peer group and consumers' *hablumminannas* behavior indirectly. But, for hypothesis 5, the value of standardized direct effects of peer group on consumers'decision to purchase halal-labeled cosmetics (X - Y) is 0.166, while the value of standardized indirect effects of peer group on consumers' decision to purchase halal-labeled cosmetics through *hablumminannas* behavior (X - M2 - Y) is 0.219. Becausedirect effects' value is lesser than indirect effects, it is concluded that *hablumminannas* behavior (M2) is an intervening variable, so *hablumminannas* behavior mediates peer group and consumers' decision to purchase halal-labeled cosmetics indirectly. Based on standardized total effects (Table 3) it can be concluded that *habulumminallah* behavior has the most dominant effect (0.550) on consumers' decision to purchase halal-labeled cosmetics, the second is peer group (0.385) and the lowest is *hablumminannas* behavior (0.332).

From *multiple squared correlations* result shows that: *first,* peer group has simultaneously role of 6.5% to consumers' *hablumminallah* behavior, while the rest are explained by other variables; *Second,* peer group and *hablumminallah* behavior have simultaneously role of 34.4% to consumer's *hablumminannas* behavior, while the rest are explained by other variables; *Third,* peer group, *hablumminallah* and *hablumminannas* behavior have simultaneously role of 50.4% to consumers' decision

to purchase halal-labeled cosmetics, while the rest are explained by other variables.

According to Magill (1993), religious behavior is attitudes, intensity and a person way to become religious. Social-culture system and religious values which develop and grow in a family, schools and societies that gain through a learning process and experiences, either deliberately or not, will slowly form one's religious soul or behavior. In other words, religious behavior will show from someone's personality if he grows in environments that cultivating, educating and adapting Islamic teachings on their daily lives. Islamasasystemof life can also be interpretedas away of lifethat is basedon*sharia*(law) of Islamwhich is based onthe Qur'anandhadith(Temporal, 2011). Antonio (2006) explained that Islam as a way of live is a human effort to achieve welfare in his life and hereafter. Allah already gave guidance through His messengers that include everything humans need in order to obtain their welfare in accordance to *aqidah* (faith), *akhlak* (manner) and *sharia*. *Aqidah* and *akhlak* are constant and not changing from time to time. Meanwhile, *sharia* is always changing accordance with the people needs and civilization which appropriate in every different messengers period of time. *Sharia* in Islamic teaching emphasizes on *ibadat* (worshiping God) and *muamalat* (human interaction) with a good and proper way by understanding its etiquette and implement them in everyday life in order to be a good Moslem (Antonio, 2006). *Ibadat* emphasizes on Islamic provisions and procedures of human interaction with God *(hablumminallah* behavior*)*. Meanwhile, *muamalat* emphasizes on Islamic provisions and procedures of human interaction with others *(hablumminannas* behavior*)*.

Consumers' purchase decision is the final decisions of individuals or households to purchase goods/ services that need to be consumed. Consumer's purchase decision process consists of five stages: problem recognition, information search, evaluation of alternatives, purchase decision and post-purchase behavior. Purchase decision process begins with problem recognition. The recognition of a need is likely to occur when consumer is faced with problem. The need may have been triggered by internal stimuli (such as hunger or thirst) or external stimuli (such as advertising or word of mouth). Once the need is identified, it's time for the consumer to search information about possible solutions to the problem. Consumer will search more or less information depending on the complexity of the choices to be made and the level of consumer involvement.Consumers will seek informationto guide their choices and decision-making process with internal and external information**.** Internal information is already present in the consumer's memory that comes from previous experiences. External information is a product or brand information received from and obtained by friends, family or reviews from other consumers, the press or advertising (Kotler and Keller, 2012).

Once the information collected, the consumers will be able to evaluate the different alternatives that offer to them, evaluate the most suitable to their needs and choose the one they think best for them. Consumers will evaluate different products or brands on the basis of alternative product attributes - those which have the ability to deliver the benefits that customers are seeking. Two factors that intervene at this stage are attitudes of others and anticipated situational factors. The extent to which another person's attitude reduces one's preferred alternative depends on the intensity of the other person's negative attitude toward the consumer's preferred alternative, and the consumer's motivation to comply with other person's wishes. The anticipated situational factors may erupt to change the purchase intention. A consumer could think that some other purchase might become more urgent, or a store salesperson may turn the customer off (Kotler and Keller, 2012).

Now that consumers have evaluated the different solutions and products available for respond to their needs, they will be able to choose the product or brand that seems most appropriate to their needs. Then proceed to the actual purchase itself. Once the product is purchased and used, the consumer will evaluate the adequacy with his/her original needs (those who caused the buying behavior). And whether the consumer has made the right choice in buying this product or not. Consumer will feel either a sense of satisfaction for the product (and the choice). Or, on the contrary, a disappointment if the product has fallen far short of expectations. This experience will influence consumer future decisions and buying behavior. If the product has brought satisfaction to the consumer, he/she will then minimize stages of information search and alternative evaluation for the next purchases in order to buy the same brand which will produce customer loyalty. On the other hand, if the experience with the product was average or disappointing, the consumer will repeat the 5 stages of the consumer purchase decision process during the next purchase but by excluding the brand from his/herevoked set. Positive or negative, consumer will also be able to share his/her opinion on the brand. Whether in their family or by word-of-mouth. Or on a much broader scale now with social networks or on consumer product review websites. A tendency not to be overlooked because now with the Internet, an unhappy customer can have a strong power to harm for a brand. Therefore, post-purchase evaluation may have important consequences for a brand (Kotler and Keller, 2012).

From the explanation above, it can be concluded that consumer purchase decisionprocess is divided into two categories which are Processing (including problem recognition, information search and alternative evaluation) and Outcomes (including purchase decision and post-purchase behavior). In order to measured consumer's purchase decision, this research uses the Processing category as its

dimensions.Furthermore, Hawkins and Mothersbaugh (2010), Hawkins, Best and Coney (2004), Solomon (2011) in Zickermann (2014) explained that consumers' purchase decision depends on attribute-based and attitude-based choice process. Attribute-based choice requires the knowledge of specific attributes at the time the choice is made, and it involves attribute-by- attribute comparisons across brands. Meanwhile, attitude-based choice involves the use of general attitudes, summary impressions, intuitions, or heuristics. There can be also be combinations of these forms.

In this research, halal-labeled is the attribute that is believed and considered as an important matter by Moslem consumers. Islamic teachings considers food and other products that are consumed or used by humans as a matter of urgency in addition to worshiping Allah. Everything that is consumed or used by humans will have a major impact on human physical and spiritual development. Physical impacts of consuming unlawful goods will be bad for human health, regardless of his religion. While spiritual impact of consuming unlawful goods cannot be measured from material only because the consequences of violating Islamic law will have an impact on having miserable life onearth and punishment in the hereafter. Thus, halal-haram issue is important for Moslem consumers as related to their religious beliefs which make halal label as an attribute or element of a product which is believed and considered essentially by Moslem consumers to ensure that the product they used or consumed is halal guaranteed.

Conclusion

From the findings, it is concludedthat empirically, peer group effects consumers' purchase decision on halal-labeled cosmetics positively, as well as consumers'*hablumminallah* and *hablumminannas* behavior. Thus, peer group environment can be used as a conducive place or medium forabove and below the line campaigns of halal-labeled products socialization program, especially among young generation. The government and other relevant institutions such as Indonesian Ulama' Assembly (MUI), together with the consumers protection agencies, Islamic organizations, and business communities, could promoted the Halal-labeled products campaigns through below the line campaigns in the peer group environment such as malls,shopping centers, sport stadiums, youth mosque assembly and other youth organizations, by involving active participation of Ulamas, community leaders, and young public figures, in order to make the Halal-labeled products campaigns successfully socialized to various levels of society, including young generations.

It is also can be concluded that consumers' *hablumminallah* behavior level is high and has the most dominant influence on consumers' decision to purchase halal-

labeled cosmetics. Therefore, the Halal Product Guarantee (JPH) Act which has been approved on 25 September 2014, is a strong legal framework that could mandate government to protect and provide independency to every citizen to embrace his own religion and its teaching. Halal-labeled products is not only beneficial to protect Moslem consumers, but also benefitting for non-Moslem consumers who want to ensure that the product has been guaranteed as clean, healthy, high quality and safe to use or to consume. Therefore, the halal certification and labeling program, which is targeted to be implemented in the upcoming 2019, is absolutely a necessary. By completing the implementation of Halal Product Guarantee (JPH) Act immediately, various cases of the circulation of non-halal products in Indonesian markets which always got strong reactions from the public and often potentially causing social, political and economic turmoil, is expected not to be repeated, so that the Moslem community can be fully protected from consuming non-halal products in order to provide certainty and reassuring Moslem consumers to worship according to their religious teachings and believes.

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THE INTELLECTUAL CAPITAL EFFECT ON
FINANCIAL PERFORMANCES AT ISLAMIC INSURANCE

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Abstract. *The Intellectual Capital Effect on Financial Performances at Islamic Insurance*. *The research has analyzed the intellectual capital effect of the Islamic insurance company's financial performance. Intellectual capital is quantified by VAIC^{TM} (Value Added Intellectual Capital), for efficiency components are physical capital coefficient (VACA), human capital coefficient (VAHU), and structural capital coefficient (STVA). Financial performance is quantified by ROA and RBC. Data is given from seven Islamic insurance companies during 2009-2013. Data analysis used is PLS (Partial Least Square). The result shows that intellectual capital factors had an affect the company's financial performance. Intellectual capital relation to financial performance parameter value estimated coefficient 0,845 with t-statistic 46,771. VAIC^{TM} enables to elucidate financial performance variable 71, 6%, is by finding the R-square PERF value (financial performance) 0,716.*

Keyword: *Intellectual capital, financial performance, Partial Least Square (PLS)*

Abstrak. *Pengaruh Modal Intelektual Terhadap Kinerja Keuangan pada Asuransi Syariah*. *Penelitian ini menganalisis pengaruh modal intelektual terhadap kinerja keuangan di industri asuransi syariah. Modal intelektual dijelaskan dengan VAIC^{TM} (Value Added Intelectual Capital), sedangkan komponen efisiensi ialah koefisien modal fisik (VACA), koefisien modal manusia (VAHU), dan koefisie modal structural (STVA). Kinerja keuangan dikuantifikasikan dengan ROA dan RBC. Data yang digunakan ilah dari tujuh perusahaan asuransi syariah selama 2009 – 2013. Data dianalisis dengan partial least square. Hasil yang ada menunjukkan bahwa faktor modal intelektual memiliki pengaruh terhadap kinerja keuangan perusahaan. Modal intelektual memiliki hubungan terhadap parameter kinerja keuangan dengan nilai estimasi sebesar 0,845 dengan nilai t-hitung sebesar 46,771. VAIC^{TM} mampu mendorong variabel kinerja keuangan sebesar 71,6%, hal ini diperlihatkan dengan nilai R^2 sebesar 0,716.*

Kata Kunci: *Modal intelektual, kinerja keuangan, partial least square*

Introduction

Knowledge based industries concept leads to new business view. It exposes old paradigm of business view which is dominant on labor based business view. Ambar Widyaningrum (2004) figure out that knowledge based industries is transformation, capitalization and knowledge transfer process as a media to get earning. It can be new reference of knowledge based industries concept and it is crucial in uplifting company's performance, especially in finance reporting.

In this research, it will be appeared quantifying of Intellectual capital by "Value Added Intellectual Coefficient" (VAIC™). Ante Public offered a measure unit to asses value added efficiency as a result of company intellectual ability. Primary components of VAIC™ are comprises of physical capital (VACA – value added capital employed), human capital (VAHU – value added human capital) and structural capital (STVA – structural capital value added). Furthermore, Ante Public said that intellectual ability (VAIC™) indicates how both of human resource (physical capital and intellectual capital) has already used by some companies efficiently.

The role of human resource in Islamic insurance have important role, is agent to uplift up selling. On the other research also indicating that area of information technology (IT), marketing and human resource of Islamic insurance are needed to develop, because it will affect company profit. Those indicate that if company would invest in developing human resource, infrastructure, or marketing, those will become intellectual capital and value added of the company.

Indonesian insurance have no identify yet intellectual capital seriously as important factor. Till know, several companies in Indonesia have tend to use conventional based in forming their business. So that, products were produced meritless technology touching. Some instances are human capital, structure capital and customer capital. Those are indicated by many cases of fraud agent, claim matter. Those are difficult to break out and technology use have not maximized yet. Those matters come up a research challenge of intellectual capital problematic. Based on problems above, in this research will be elucidated: first, How to do treating, measuring and exposing intellectual capital of insurance company in Indonesia? Second, How to report intellectual capital which is able to affect for finance performance of Islamic insurance company?

Literature Review

Intellectual capital has many definitions. According to Sveiby (1998) (Sawarjuwono and Kadir, 2003) intellectual capital is the invisible intangible part of the balance sheet can be classified as a family of three, individual competence, internal structural, and external structure. Kadir (2003), figure out that intellectual

capital is the results of three main organization elements (human capital, structural capital, costumer capital) have relation to knowledge and information rendering value added and eminency for company to compete.

Ante Public submitted that efficiency measure for assessing of value added is the result company intellectual ability (Ihyaul Ulum, 2009). VAIC™ model quantified intellectual capital to create value depend on the third relation of main components are physical capital, human capital, and structural capital. The first relation of VA using physic capital (CA) is called "value added capital coefficient" (VACA). It is indicator that is VA created by a physic capital. VACA draws how many value added of company created from capital used. In finance commentary, capital employed for equity accounting. If a unit of CE generating return bigger than other companies, means the company better in employing its CE. So that, CE employing for IC forming effort better. Human Capital Coefficient (VAHU) describes how much VA enables to deliver through expended fund for employs. The relation between VA and HC identified capability of HC to compose company value. HC is represented by employs expense in finance commentary for personnel expense. The third relations are Structural Capital Coefficient (STVA) that emerging structural capital (SC) contribution to form value. STVA assesses SC total needed to yield one rupiah from VA and it indicates how successful SC in creating value. Value Added Intellectual Coefficient (VAIC™) ratio created from additional coefficients like VACA, VAHU, and STVA.

According to Fahmi (2006), performance is work achievements. It used for an organization or on a unit of organization. So that, if connect to the definition, it can be drawn a simple definition that finance performance can be understood as outcome of managers in accomplishing them loaded task which having relation to company finance managing.

The research aimed to quantify finance performance using two ratios: a. Return on asset (ROA) indicates how much net profit acquired by company if quantified from active value. (Harahap, 2010). Firer and Williams in Ihyaul Ulum (2009) have already verified that intellectual capital quantified with VAIC™ and having positive effect for company finance performance. Besides that, it also demonstrates that intellectual capital has positive impact and company profitability is significance. It is indicated by ROA. Risk Based Capital (RBC) is fund sufficient risk ratio to endure and become a main indicator to quantify insurance of company finance balancing, especially relate to solvability.

Based on the theories, the conceptual framework of this research is to find relation between intellectual Capital (VAIC™) as exigent variable and company performance as endogen variable.

Figure. 1. Conceptual Framework
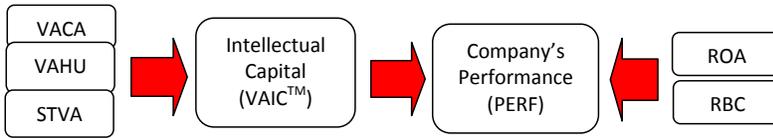
Intellectual Capital (VAIC^TM) counted from VACA, VAHU and STVA are exigent variable. Exigent variable will affect endogen variable. Company performance is quantified by ROA and RBC endogen variable. The company performance will be affected by intellectual capital as exigent variable.

The first time intellectual capital studies began of Stewart article on 1991, Brain Power – How Intellectual Capital Is Becoming America's Most Valuable Asset. It arranged intellectual capital to being management agenda (Ihyaul Ulum, 2009). Stewart defines intellectual capital as intellectual matters (knowledge, information, intellectual property, experiencing) are valuable to have wealth. It is a thought collective power or useful set of insight. The research of Intellectual Capital offered some definitions. According to Moeheriono (2012), intellectual capital knowledge and ability have had by social collectivity: intellectual organizations, professionals and resource delegations of have high value and ability to run as knowledge.

Besides that, Sveiby (1998) in Sawarjuwono (2003), "The invisible intangible part of the balance sheet can be classified as a family of three, individual competence, internal structural and external structure". Kadir (2003), defines: Intellectual capital as the result of three main elements of organizations: human capital, structural capital, costumer capital. They relate to knowledge and technology has more valuable for companies by privilege organization competing (Sawarjuwono and Kadir, 2003).

One of definitions most used to describe intellectual capital is Organization for Economic Cooperation and Development (OECD) on 1999 told that intellectual capital is an economic account among two intangible asset categories: first, organizational (structural) capital refers to software system, distribution network and circle of availability. Second, human capital comprises of human resource in the organization (employs) and external resources are consumer and supplier (Ihyaul Ulum, 2013).

Furthermore, Edvinson and Malone in Ulum (2013), identified intellectual capital is hidden value of business. Hidden term is defined that intellectual capital has knowledge asset. In this case, knowledge divided into three categories: employs' knowledge (human capital), consumers' knowledge (customer or relation capital), and companies' knowledge (structural or organizational capital). The third categories

formed an intellectual capital for companies.

Human capital refers to knowledge point; skill, innovation, and experience are owned by companies' member. Many experts describe as owned knowledge of companies' employs through training and education process. Human capital has important role for intellectual capital because it is being a customer capital invention process on human capital component and it is helped by structure capital. Human capital has interacted with customers to identify knowledge, skill, ability, and expected value by customers (Sangkala, 2006). Edvinson dan Manole exposes human capital as knowledge, skill, innovation and companies members' ability to settle up tasks.

VAIC^{TM} method is promoted by Ante Public on 1997. Primary components of VAIC^{TM} can be seen from companies sources based physic capital, human capital, structural capital. Moreover, the model designed to provide information of value creation efficiency companies' intangible asset. It began with companies ability to invent value added (VA). VA is being the most objective indicator to assess successful business and it represented companies ability in inventing value. VA is accounted as deviation among output and input.

In Tan et al. (2007) Output (OUT) represented revenue and included all products are sold in market. There is accounting of operational and non operational income in commentary finance. Input (IN) includes all expenses are used to get revenue. The important point of this model is labor expenses does not include IN because has active role in processing in IN, are value creation, intellectual potential (representing labor expenses) unaccounted as cost and not include in IN component. Therefore, the keyword of Ante Public's model is to treat employs as value creating entity. VA is affected by human capital efficiency (HC) and Structural Capital (SC).

Physical capital use or value added capital coefficient is being indicator that VA is yielded by a unit of physic capital. VACA represented how much companies' value added have been invented from capital used. There are accounting equities in finance commentary capital employed. If a unit of CE delivering return better from other companies, means companies better to employing their CE. Thereby, CE utilization might be being efforts to form better IC.

Human Capital Coefficient (VAHU) indicates how much VA produced through expensed fund for employs. The relation between VA and HC indentified HC ability to invent companies' value. HC is represented by employs' expense in personnel accounting finance commentary.

Structural capital is companies' capability to reach out market, hardware, or

software for companies supporting. Simply, it is supporting tool for employs. In this case, even though employs have high intelligence, but if they do not supported by adequate tools to apply some innovation, the capability would not employing intellectual capital. The third relations are structural capital coefficient (STVA) figure out structural capital in scoring. STVA quantifying SC total needed to deliver one rupiah from VA and it indicates how successful of SC in scoring.

Ante Public presented that SC are not independent standard as HC. It is dependent to value creation or as big HC contribution to value creation, as small SC contribution to it. Furthermore, Public said that SC is VA minus HC, it verified by empirical research on traditional industry sector. Value Added Intellectual Coefficient (VAIC™) ratio yielded from coefficient addition of VACA, VAHU and STVA. Public method's has intrigue to gain data easily and lead to furthermore which will be conducted to other data resources. Data are needed to get standard ratio from various finance numbers audited and usually it is from companies finance reporting. Alternative IC measurement is limited to engage finance and non finance indicators are adjusted with individual companies' profit (Roos et al., 1997 in Tan et al., 2007). Those indicators are unavailable or unwritten by other companies, especially non finance. The impact, capability to realize alternative IC steps have various samples for comparative analysis being lack consistent (Firer and Williams, 2003 in Tan et al., 2007).

Methods

This research is using quantitative approach to verify intellectual capital theories which affecting to finance performance. Intellectual capital is counted using VAIC™ method and verified using partial least square method. Moreover, intellectual capital results are described and analyzed as data found and interpreted as real condition. Secondary data used are finance reporting yearly, such as balance sheet, income statement and statement of funds companies financial health of the latest fund on 2009-2013 from insurance companies have being object of the research.

Data collection technique of the research is using documentation technique. This method covers data and information collecting through bibliofigurey study and literatures exploration. Finance reporting publications are taken from companies' website that has already being sample of the research. Insurance books on 2009-2010 from Badan Pengawas Pasar Modal dan Lembaga Keuangan's website www.bapepam.go.id, insurances books on 2011-2013 from Otoritas Jasa Keuangan's web www.ojk.go.id

Discussion

Referring the table indicates that ROA value growth is invented by each Islamic insurance companies for 2009 until 2013, ROA figures out companies management ability to draw income from asset management owned. Besides that, it can be seen that ROA value on 2009 until 2013 of highest to lowest: (1) Prudential Syariah by average of ROA 0, 36%, (2) AXA Mandiri Syariah 0, 32%, (3) Avrist Syariah 0, 16%, (4) BNI Life Syaria 0 ,07%, (5) AIA Syariah 0, 05%, (6) Allianz Syariah 0,04% and (7) Takaful Keluarga by average of ROA 0, 01%.

Table 1. The accounting of return on asset (ROA)
result of Islamic Insurance companies 2009- 2013

| ROA | TAHUN | | | | | Rata-rata |
	2009	2010	2011	2012	2013	
AIA	0.02	0.02	0.02	0.12	0.07	0.05
Allianz	0.02	0.03	0.04	0.02	0.08	0.04
Avrist	0.02	0.02	0.27	0.24	0.23	0.16
AXA Mandiri	0.04	0.06	0.42	0.50	0.58	0.32
BNI Life	0.01	0.11	0.05	0.09	0.09	0.07
Prudential	0.09	0.09	0.65	0.55	0.43	0.36
Takaful Keluarga	0.01	0.02	0.01	0.01	0.01	0.01

In sum up of the table on 2009 that management of Prudential Syariah is best to employing asset owned. While, Takaful Keluarga has lowest position and it indicates less effective management company to employing asset for delivering profit. As high percentage of ROA value, as effective company management is to employing asset for delivering profit.

Table 2. Islamic Insurance RBC Growth (%)

| RBC | TAHUN | | | | | Rata-rata |
	2009	2010	2011	2012	2013	
AIA	3.79	5.15	0.23	1.25	1.20	2.32
Allianz	4.28	4.99	2.07	2.33	3.14	3.36
Avrist	3.29	7.11	1.15	0.74	0.88	2.63
AXA Mandiri	7.91	7.18	0.47	0.81	1.11	3.50
BNI Life	2.10	1.72	1.84	2.14	1.50	1.86
Prudential	4.20	7.66	0.72	0.82	0.85	2.85
Takaful Keluarga	1.20	1.21	0.14	0.26	0.53	0.67

The Table 2 figures out that RBC value growth for each Islamic insurance company during 2009 until 2013. Also it indicates adequacy capital of risk is borne by insurance company. In finance ministry regulation of 11/PMK.010/2011 about finance health of insurance business and reinsurance to Islamic principle, company have to maintain latest fun solvability by seeing finance health achievement ratio of latest fund the lowest 30 % from fund needed to anticipate the risk of possible loss caused of deviation in asset managing or responsibility. Moreover, the table identified that Islamic insurance company has already fulfilled lowest RBC standard, is 30%.

The highest RBC of Islamic insurance companies are (1) AXA Mandiri Syariah 350%, (2) Allianz Syariah 336% (3) Prudential Syariah 285%, (4) Avrist Syariah 263%, (5) AIA Syariah 232%, (6) BNI Life Syariah 186% and (7) Takaful Keluarga 67%. Referring to the RBC value, the seven companies has already fulfilled of solvability by RBC value more 30 %

Table 3. VAIC™ value 2009

VAIC (2009)	VACA	VAHU	STVA	VAIC
AIA	0.55	1.68	0.41	2.64
Allianz	0.92	1.36	0.27	2.55
Avrist	0.32	2.29	0.56	3.17
AXA mandiri	1.52	2.06	0.51	4.1
Bni Life	0.45	1.29	0.22	1.96
Prudential	2.15	1.82	0.45	4.41
Takaful Keluarga	0.25	1.03	0.03	1.3

Referring to the Table VAIC value on 2009 that top performers of Islamic insurance companies category are (1) Prudential Syariah VAIC score 4, 41, (2) AXA Mandiri VAIC score 4, 1 dan (3) Avrist Syariah VAIC score 3, 17. It indicates that the three Islamic insurance companies quite efficient to use their concrete assets, are physic and intangible asset by agent ability to serve insurance members.

Islamic insurance companies which are included in good performers category are (1) AIA Syariah VAIC 2, 64 and (2) Allianz Syariah VAIC 2, 55. While, BNI Life Syariah is included in common performers VAIC 1, 96 and Takaful VAIC 1, 3 is bad performers. It is caused by structure capital value achieved of value added minimized to low human capital. In addition, low structural capital low is caused by lack of adequacy tool to apply innovation of companies' employs.

Table 4. VAIC™ Value 2010

VAIC (2010)	VACA	VAHU	STVA	VAIC
AIA	0.42	1.58	0.37	2.37
Allianz	0.87	1.36	0.27	2.5
Avrist	0.25	2.25	0.56	3.05
AXA mandiri	1.7	2.39	0.58	4.67
Bni Life	0.59	1.09	0.09	1.77
Prudential	1.52	2	0.5	4.02
Takaful Keluarga	0.39	1	0.005	1.38

The VAIC on 2010 stated that no significant from previous year. The Islamic insurance companies are included top performers category still similar as previous year. But they are little decline and rise: (1) AXA Mandiri VAIC 4, 67 (2) Prudential Syariah VAIC 4, 02 and (3) Avrist Syariah VAIC 3, 05.

The islamic insurance companies are included in good performers category are (1) Allianz Syariah VAIC 2, 5, and (2) AIA Syariah VAIC 2, 37. Then, BNI Life Syariah is common performer category is VAIC 1, 77 and Takaful Keluarga VAIC 1, 38 is still bad performer category. It is affected by forming value of structure capital value added is structure capital has decline. On 2010 net of total income has declined but employs expenses (commission and acquisition fee) is increased.

Table 5. VAIC™ Value 2011

VAIC (2011)	VACA	VAHU	STVA	VAIC
AIA	2.17	1.09	0.08	3.33
Allianz	3.9	0.91	-0.09	4.72
Avrist	0.3	1.36	0.27	1.93
AXA mandiri	0.51	4.44	0.77	5.72
Bni Life	0.31	1.72	0.42	2.45
Prudential	3.42	2.68	0.63	6.73
Takaful Keluarga	0.53	1.06	0.05	1.64

On 2011, government has established finances regulation of 11/PMK.010/2011 discussing finance health of insurance and reinsurance business. In this case, there is a rule for Islamic insurance finance reporting, Islamic insurance business unit must report finance reporting separated and not combined with primary company. It impacts to some changing of VAIC categories. Islamic insurance companies are included in top performers category are (1) Prudential Syariah VAIC 6, 73, (2) AXA

Mandiri VAIC 5, 72, (3) Allianz Syariah VAIC 4, 72. The STVA of Allianz syariah is -0, 09. It is caused employs expense bigger than value added (VA = OUT-IN). This is in line with Ante Public's theory has stated that as big contribution of HC in value creation, as smaller SC contribution. The last is (4) AIA syariah VAIC 3, 33.

Islamic insurance companies which are included in good performers category is BNI Life Syariah VAIC 2, 45. Common performers are yaitu(1) Avrist Syariah 1, 93 is decline from previous year in top performer category. It is caused by decline of VAHU and STVA value. (2)Takaful VAIC 1, 64 rise from VAIC previous year being a common performer.

Tabel 6. VAIC™ value 2012

VAIC (2012)	VACA	VAHU	STVA	VAIC
AIA	2.19	1.42	0.3	3.9
Allianz	4.38	0.9	-0.11	5.18
Avrist	0.26	2.06	0.51	2.83
AXA mandiri	0.61	4.7	0.79	6.09
Bni Life	0.53	1.99	0.5	3.02
Prudential	1.76	2.71	0.63	5.1
Takaful Keluarga	0.45	0.93	-0.07	1.32

On 2012, Islamic insurance companies on top performers are AXA mandiri syariah, Allianz Syariah, Prudential Syariah and AIA Syariah. It is same as previous year and BNI Life rise up from good performer to be top performer. Then, Avrist syariah inclined being good performer from previous year as common performer. Takaful keluarga has lowest VAIC value from the previous years, is 1, 32 and being bad performer category.

Tabel 7. VAIC™ Value on 2013

VAIC (2013)	VACA	VAHU	STVA	VAIC
AIA	2.27	1.25	0.2	3.72
Allianz	2.92	1.02	0.02	3.97
Avrist	0.15	3.97	0.75	4.87
AXA mandiri	0.81	2.88	0.65	4.34
Bni Life	0.66	1.79	0.44	2.89
Prudential	1.29	2.84	0.65	4.78
Takaful Keluarga	0.5	1.06	0.06	1.62

The top performers of Islamic insurance companies on 2013 are Avrist

syariah, Prudential Syariah, AXA mandiri syariah, Allianz syariah, AIA syariah. BNI life syariah is good performer and Takaful keluarga is common performer.

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Table 8. VAIC™ Value 2009-2013

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VAIC	TAHUN					Rata-rata
	2009	2010	2011	2012	2013	
AIA	2.64	2.37	3.33	3.9	3.72	3.192
Allianz	2.55	2.5	4.72	5.18	3.97	3.784
Avrist	3.17	3.05	1.93	2.83	4.87	3.17
AXA mandiri	4.1	4.67	5.72	6.09	4.34	4.984
Bni Life	1.96	1.77	2.45	3.02	2.89	2.418
Prudential	4.41	4.02	6.73	5.1	4.78	5.008
Takaful Keluarga	1.3	1.38	1.64	1.32	1.62	1.452

The table describes wholly VAIC average for 2009-20013. The top performers of the period are (1) Prudential Syariah VAIC 5, 008; (2) AXA mandiri VAIC 4, 98; (3) Allianz VAIC 3,784; (4) AIA VAIC 3, 192; and (5) Avrist VAIC 3, 17. While, BNI Life Syariah VAIC 2, 418 is included in god performer and Takaful keluarga VAIC 1,452 is bad performer. The VAIC is proposed by Public is a model has pointed out how companies ability to manage and to maximize their intellectual asset for creating value of companies. Those figureics show up that Islamic insurance VAIC value every year have declined and inclined but the trends are tend to stable.

Prudential Syariah and AXA Mandiri Syariah are Islamic insurance companies have top performer of VAIC value from 2009 to 20013. In the figureic, they can be seen that VAIC is 4, 0 and 7, 0. Avrist Syariah is included on top performer on 2009-2010 and it is in 3.0-4.0; but on 2011 has declined, is 2, 0. After that, Avrist Syariah has inclined trend on 2013, is 4, 87.

On 2009-2010 AIA Syariah and Allianz Syariah are in 2, 0 – 3, 0; then, they have inclined from 2011-2013 and being top performers. BNI Life Syariah and Takaful Keluarga in VAIC 1, 0—2, 0 for 2009-2010. The next year, BNI Life Syariah has better trend even though little, is 2, 0 – 3 ,0; meanwhile, Takaful Keluarga has stable trend in 1, 0 – 2, 0.

There are two concealed variables in this research. They are VAIC and finance performance (PERF). Those are formed by formative indicator. Formative indicator is indicator used as exigent and endogen variable forming or dependent and independent (Ghazali, 2006). VAIC variable is constructed by VACA indicator and STVA. Finance performance is configurated by ROA and RBC.

Formative indicator is assumed as among indicator have no correlation each other. So those, the standard of internal consistence of (cronbach alpha) not needed to examine formative construction of reliability (Ghozali 2006). Formative construction basically is regression relation from indicator to construction. To evaluate it is by seeing regression coefficient and significant of regression coefficient. The line model analysis of all concealed variables in PLS is comprised of three relations set: (1) outer model is specifying relation between concealed variable and its indicator; (2) inner model is pointing out relation to concealed variable (3) weight relation is how comprehensively the case from concealed variable can be estimated. The data analysis has described with software Smart PLS can be seen as follow:

Figure 2. Outer Model : Calculate Bootstrapping
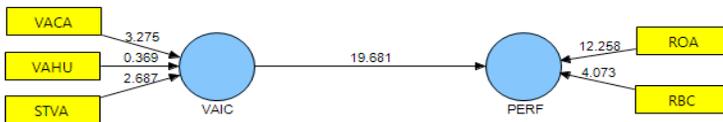
According to the outer model and t statistic, it can be concluded that t statistic indicator above 1, 697 (for significant level 0, 05. One tail test) are VACA, STVA, ROA and RBC, with each t statistic 3, 275; 2, 687; 12, 258 and 4, 073. Meanwhile, VAHU indicator has t statistic 0, 369 and not significant. For Outer Weight PLS can be seen on table below.

Table 9. Nilai Outer Weight (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T statistiks (|O/STERR|)
RBC -> PERF	0.5764	0.5581	0.1415	0.1415	4.0728
ROA -> PERF	1.0595	1.0518	0.0864	0.0864	12.2583
STVA -> VAIC	0.9072	0.8254	0.3377	0.3377	2.6867
VACA -> VAIC	0.3995	0.3828	0.1220	0.1220	3.2750
VAHU -> VAIC	0.1285	0.1945	0.3485	0.3485	0.3687

Based on the table, it can be seen that RBC and ROA weight have shaped finance performance 0, 5764 and 1, 0595. Its t-statistic is 1, 697 (for significant level 0, 05. One tail test). The RBC and ROA are significant. For STVA, VACA and VAHU weight are 0, 9072; 0, 0395; and 0, 1285. For the significant t-statistics level is 1, 697 (significant level 0, 05. One tail test) The VAHU indicator is not significant So, VAHU have to eliminated and needed to estimate back through engaging indicators significant only.

Figure. 3. PLS Result: Recalculate Bootstrapping
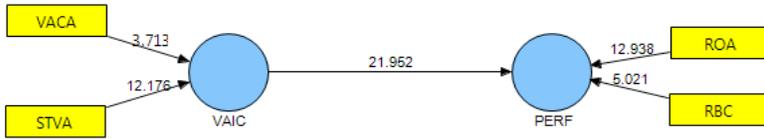
After eliciting indicators have no significant and just engaging the significant indicators or close to significant, it can be known that each variables have weight 0, 050 (positive) and significance t statistic to p <0, 05.

Table 10. Recalculate Outer Weight (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T statistiks (|O/ STERR|)
RBC -> PERF	0.6040	0.5948	0.1203	0.1203	5.0208
ROA -> PERF	1.0530	1.0435	0.0814	0.0814	12.9384
STVA -> VAIC	1.0237	1.0151	0.0841	0.0841	12.1763
VACA -> VAIC	0.4031	0.3984	0.1086	0.1086	3.7125

Referring to the table that model has already fit because each variables have weight >0, 5 and t-statistic >1, 697. PLS test pointed out that all indicators forming VAIC. VACA and STVA are significant and both ROA and RBC have significant for finance performance (PERF).

Structural model test is committed by finding R-square value has goodness–fit model. In addition, this test finds construct relation between significant value and R-square of the research model.

Figure 4. The Result of Algoritma PLS

The result pointed out that R-square PERF (finance performance) is 0, 716, means VAIC variable is able to deliver PERF variable 71, 6 %. The rest is delivered by another variable. The next test is to find significant of VAIC effect of finance performance by identifying coefficient parameter and t-statistic significant.

Referring to the result, the big coefficient parameter is 0, 845, means there is VAIC positive effect of finance performance of Islamic insurance company. As

high of VAIC, the finance performance of Islamic insurance is as high company by significant t-statistic 46, 771. Therefore, t-statistic is bigger than t-table 1, 697. The PLS test indicates that intellectual capital has affected to company's finance performance. The relation both of them offered parameter coefficient estimation 0, 845 and significant to 0, 05 (t-significant table 0, 05 = 1, 697) with t-statistic 46, 771. VAIC variable enables to present finance performance variable 71, 6%, is by finding R-square PERF (finance performance) 0, 716.

The analysis afforded that as high of intellectual capital value of company owned, the company performance is increase. It means that the company has managed its intellectual resource maximally, it affordable valued added that will affect to company's finance performance increasing. The context of path power between intellectual capital and finance performance has found is in line and supporting Tan and friends' work (2007); Zulianti and Arya (2011), also Alipour (2012). But, the research finding is inconsistent with previous finding when indentifying weight and each significant indicator. The testimonies are proposed by Tan and friends (2007); Zulianti and Arya (2011); Alipour (2012) stated out that three components of VACA, VAHU and STVA as significant statistic to form VAIC and have influence to company's finance performance.

Meanwhile, the research finding offers evidence that only VACA and STVA as significantly statistic forming VAIC construct for five years observation to Islamic insurance companies (2009-2013). It can be explained that the research taking sampling of Islamic insurance companies are running in employs service ability (agent of Islamic insurance) and structural capital use like software to support insurance claim service. Nevertheless, in Indonesia, the progress years of growth observing to join with Islamic insurance is not accompanied with insurance experts of human capital growth. The big cost incurred for employs have not inflict significant yet of company intellectual capital. It caused the total of insurance experts to handle it is still lack.

Furthermore, RBC and ROA indicators are statistically represent Islamic insurance company, because PLS of both indicators are significant. Intellectual capital is able to influence finance performance. Finance performance of this research is pointed out by ROA and RBC. The main purpose of this research is to analyze intellectual capital effect of finance performance in Islamic insurance companies. Intellectual capital is quantified by Value Added Intellectual Capital (VAIC™). Moreover, finance performance of Islamic insurance is quantified by Return on Asset (ROA) and Risk Based Capital (RBC). Sampling used are seven Islamic insurance companies for 2009-2013. Data analysis technique used is Partial Least Square (PLS) method.

Conclusion

Intellectual capital has effect to company's finance performance. Intellectual capital relation to finance performance is allowing parameter coefficient estimation 0, 845 and significant 0, 05 (t-significance table 0, 05 = 1, 697) with t-statistic 46, 771. As high of intellectual capital company owned, the company finance performance is increase. It means, company has managed its intellectual capital maximally be able to create value added which impacted to inclined of company finance performance. Finally, VAIC™ variable enabling to explain finance performance variable 71, 6 %, is by finding R-square PERF (finance performance) 0, 716.

The research finding offers evidence that only VACA and STVA as significantly statistic forming VAIC construct for five years observation to Islamic insurance companies (2009-2013). It can be explained that the research taking sampling of Islamic insurance companies are running in employs service ability (agent of Islamic insurance) and structural capital use like software to support insurance claim service.

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CAPITAL MARKET INTEGRATION:
PALESTINE AND ISRAELI EXPERIENCE

Tulus Suryanto & Abdul Razak Abdul Hadi[1]

Abstract. Capital Market Integration: Palestine and Israeli Experience. *This study is driven by the motivation to examine the existence of probable equilibrium and dynamic relations between Palestine Stock Exchange (PEX) and Tel Aviv Stock Exchange (TASE). Within the framework of international trade theories, this study uses Engle-Granger Co-integration procedure as an estimation model employing monthly time series data during the observed period from January 1998 till February 2012. It was discovered that there is a significant equilibrium relationship between PEX and TASE, but no empirical evidence was found on the presence of dynamic relations between the two stock markets using Granger Causality tests. Meanwhile, analysis of dynamic interactions over post-sample period by Impulse-Response Functions and Variance Decomposition indicate that movements in TASE Index do influence the performance of PEX.*

Keywords: *capital market integration, granger causality test, PEX, TASE*

Abstrak. Integrasi Pasar Modal: Pengalaman di Palestina dan Israel. *Kajian ini didorong motivasi untuk menguji kemungkinan terjadinya keseimbangan dan hubungan dinamis antara bursa efek Palestina (PEX) dan bursa efek Tel Aviv (TASE). Dengan menggunakan kerangka teori perdagangan internasional, kajian ini menggunakan prosedur ko-integrasi Engle-Granger sebagai model estimasi atas data bulanan yang diobservasi mulai dari Januari 2008 sampai dengan Pebruari 2012. Hal yang ditemukan ialah terdapat hubungan keseimbangan yang signifikan antara PEX dan TASE, akan tetapi tidak ditemukan suatu bukti empiris atas hubungan dinamis antar dua bursa efek ini dengan uji kausalitas Granger. Sedangkan, analisis interaksi dinamis atas periode sampel yang ada dengan fungsi respon impuls dan dekomposisi variansi mengindikasikan bahwa pergerakan dari indek TASE berpengaruh terhadap kinerja PEX.*

Kata Kunci: *integrasi pasar modal, uji kausalitas granger, PEX, TASE*

Introduction

Today, the Palestinian population is geographically divided and made up into four groups: 6 million Palestinians live outside Palestine, 3million in West Bank, nearly 1.7 million in Gaza and 1.5 million in Israel itself. Free movement of commodities and trade relations are lacking among the four groups. Transfer of funds is restricted by the Israeli rules, and there is neither an airport nor a seaport in the state of Palestine. Today, the economy of Gaza heavily depends on Egypt especially after the Israeli siege in 2006. Since 1945, the international trade activities in Palestine has been reduced and controlled by Israel and only 29% of Palestinian imports come from Egypt and Jordan. Meanwhile, 95% of Palestine exports go to Israel and some 3% find their ways to Egypt and Jordan. And the remaining 2% goes to the rest of the world (Ministry of National Economy, 2005). Some informal sources stated that about $1.5 billion value of trade between Gaza and Egypt in 2011 was done mainly through the underground tunnels.

Because of the limited investment opportunities in Palestine, most of the savings in the country are invested in foreign markets, especially in Egypt and Jordan. A recent study reveals that 75% of the six billion worth of deposits in the banks in Palestine are invested overseas and just 25% are invested domestically (El-Eqtesadia, 2012). The high percentages of the savings are invested in neighboring countries, particularly in their stock markets. Common culture, history, language, religion and kinship facilitate personal interactions among the people. This demographic aspect reinforces the trade relations, tourism, labor mobility and investment flows.

It is a general belief that many equity investors prefer to invest in other countries rather than in their neighboring countries in order to enjoy an effective diversification effect. Yet this notion is opposed by Arshanapalli and Doukas (1993), Sheng and Tu (2000) and Izquierdo and Lafuente (2004). They postulate that the recent financial turmoil around the world was attributed to the mutual dependency of world financial markets. There are times when the effectiveness of cross-border diversification is advocated by fund managers. For this reason, regional portfolio investment among neighboring countries is still a credible strategy in maximizing portfolio returns. This study examines the capital markets integration involving Palestinian and Israeli stock markets with special attention given to the trend in portfolio investment.

This study was mainly meant to examine the directional relationship between PEX and TASE, and to determine the relative strength of the relationship between the two stock exchanges. This is inspired by the well-known phenomena that economic cooperation among neighboring countries could help sustain strong economic growth in the long run. This study attempts to provide useful insights to

both local and foreign investors on the prospects of the two exchanges. This study deploys econometric time series analysis, Engle-Granger Co integration approach (1987), as an estimation model on the observed stock exchanges. Hadi, Yahya and Shaari (2009) employed the same approach in examining market integration involving fossil fuel markets. The following are the research questions that the study attempts to answer: *first*, is the performance of PEX affected by the movement in TASE index over time? *Second*, is there a causality effect that exists between PEX and TASE? *Third*, is there a theoretical support for TASE to be the leading indicator between the two stock exchanges?

Literature Review

Tel Aviv Stock Exchange (TASE) was founded in 1953 and owned by a consortium of 15 banks and 12 investment houses. At present, there are 622 companies listed in the exchange whose market capitalization valued at USD 216 billion. In 1993, TASE made a history by registering the third largest number of Initial Public Offerings (IPOs) of all the world stock exchanges. Headed by Esther Levanon, TASE was fully converted into computerized trading platform in 1999. Since 2007, there have been a number of international agreements formalized between TASE and other leading exchange around the world. Those are London Stock Exchange, NASDAQ and Canadian Stock Exchange to name a few. There are two main market indexes normally used as barometer to measure the performance of TASE. The two are TA-25 Index and TA-100 Index. The former is regarded as TASE's flagship index listing the top 25 largest companies by market capitalization (Barak, 2012).

The Egyptian stock market has strong influence over the establishment of Palestine stock exchange in late 1990s. Established in the late 1880s, the Egyptian exchange comprised of both Alexandria and Cairo stock exchanges. During the period from1888-1958, the stock exchange had been growing rapidly and at one point was ranked the fifth largest in the world (in terms of market capitalization) until the Egyptian government put some restrictions on its trading activities in 1959 (Mohie and Sourial, 2000). Like any other financial markets around the world, Egyptian stock exchange has gone through some reforms which led to the consolidation of both Alexandria and Cairo stock exchanges. In 2009, Egyptian Capital Market Authority was replaced by Egyptian Financial Supervisory Authority which assumes the functions as both regulatory and governing body. With better market mechanism, the Egyptian stock market had made its peak in 2009, registering transaction value of 91.2 billion Egyptian dollars (Hassan, 2009). In terms of informational efficiency, the Egyptian stock market is found to be in weak form

(Hassan, Seyed and Mark, 2004). Another study by Daniel in 2005 on African stock markets also reveals consistent result.

PEX started its first trading session on 18 February 1997. In early February 2010, it was converted into a public shareholder company in conformity with good governance and transparency rules. According to the Arab and international classification of financial markets, the Palestinian exchange has attained advanced status in 2009. On 5 Nov 2012, a total of forty- eight companies were listed on the Palestinian exchange, with a market value of $2.7 billion which was the highest compared to previous years. Palestinian listed companies operate in five major sectors - banking and financial services, insurance, investment, industry, and services. The PEX is an emerging capital market as most studies have indicated (Daraghma, 2010; Abu- Rub and Abu- Sharba, 2010).These studies describe the relationship between availability of information and its relationship with the share prices. Some indicate that PEX is efficient in weak form. The study of Zoa`rob (2005) and Abu Sharbeh (2009) report that the lack of informational efficiency could be the reason for the volatility in the PEX.

Studies of the historical movement of the stock prices in the last 10 years show that unjustified fluctuations of stock prices are characterized by sharp movement in the indices' value that occurred during the period from 2005 through 2006 (Abdelkarim, 2007). From 2007 until today, high market volatility has been observed (Abu- Rub and Abu- Sharba, 2010). Market efficiency and poor governance are still issues of concern to both policy makers and investors. It is widely perceived that this phenomenon has been negatively affecting the fair pricing of stocks and consequently impair investors' confidence in the PEX as a whole.

Abdelkarim, Shahin, and Arqawi (2009), comment on the issue of stock market efficiency indicating that relevance and timeliness of financial and non-financial information are important for both pricing and market confidence , also it supports the investors in taking their decisions and judgments about the securities values; because of that and the desire to reach an efficient securities market , the regulators are increasingly concerned about the level of disclosure and availability of financial and non-financial information. Al-Quds Index (QI) is a market value weighted index and it was made up of 12 listed companies from different sectors in the Palestine exchange. This market index provides investors with a general idea about the direction and performance of the market. It is computed by dividing the total market value of all listed companies in the market for the current period over the total market value of companies included in the index for the previous period. This index has been used in PEX since the trading session in July 1997 where the closing prices in that session were used as a reference point in calculation.

Methods

Vector Auto-Regressive Modeling (VAR) and Granger-Causality test are the main research tools in probing the equilibrium and short-run relations between the two stock exchanges - PEX and TASE. The co-movements of these two market indexes over time are presented. PEX is proxies by Al-Quds Index, while Tel Aviv Stock Exchange is represented by TA-100Index. The TA-100 Index is made up of 100 largest firms listed in TASE. The method used by Lance and James (2006) was applied to explore theoretical relations between the two market indexes. The stationary tests were first applied to the time series variables (via Augmented Dickey-Fuller Tests), then Engle-Granger Co integration modeling was used, and finally, Granger causality test (within sample) was employed for determining the existence of short-run relation between the tested variables.

Monthly observations were registered for the two market indexes, during the period from January 1998 till February 2012 involving 169 data points. Engle-Granger Co integration test (1992) was applied to explore the statistical relation between the PEX and TASE. This statistical test was developed by Granger and Weiss (1981) and later re-formed by Granger (1986), Granger and Weiss (1983) and Engle and Granger (1987). Due to its dynamic functions, this statistical technique was met with wide acceptability among researchers who employed it in testing the validity of various theories and models. In fact co integration is essentially an econometric technique for testing the correlation between non-stationary time series variables. Two time series variables are considered to be co integrated when a linear combination of them is stationary, even though each one of them is non-stationary on its own.

First (or higher) differentiated data are necessary in tackling the problem of non-stationary among data series. But, one should be aware of the fact that using this differencing technique may result in a loss of precious data points on long-run characteristics of the time-series data. In fact when there is an equilibrium relationship between such variables, as Engle and Granger (1987) argue, the disequilibrium error should fluctuate about zero *or equivalently the* error terms should be stationary. Hence, unit root test is important to apply in determining the stationary of time series data. Any presence of unit root indicates a spurious regression relationship. This study uses the Augmented Dickey Fuller test in dealing with the unit root problem which is formulated as follows:

$\Delta Y_t = \lambda_0 + \lambda_1 T + \lambda_2 Y_{t-1} + \Sigma \lambda_i \Delta Y_{t-i} + \varepsilon_t$ where i = 1, 2, 3…k   (1)

The hypotheses to be tested are:

H_0: $\lambda_2 = 0$ (the data is not stationary, it contains unit root)
H_1: $\lambda_2 < 0$ (data is stationary, it does not contain unit root)

Once the tested data series appear stationary at first difference (or higher), they are considered co integrated. Then, the Vector Error Correction Model (VECM) technique can be applied. This Model is a restricted Vector Autoregressive (VAR) technique. It is a unique technique that restricts the long run behavior of endogenous variables to converge to its co integrating relationship. In addition to that, it also allows for short run adjustments among the tested variables.

In investigating directional relationship between PEX and TASE, the study assumes only one causal direction: TASE affects PEX.   Generally, a new stock exchange like PEX is always under the influence of a long established exchange like TASE. The case is even stronger when they are located so close to one another. The model adopted by this study is expressed as follows:

$$PEX_t = \beta0 + \beta1 TASE_t + \varepsilon_t \qquad\qquad (2)$$

where:

PEX = Palestine Stock Exchange (proxied by Al-Quds Index)

TASE = Tel Aviv Stock Exchange Index

ε_t = *Error Terms*

Discussion

In investigating the causal-effect relationship between PEX and TASE, statistical tests in time-series econometric modeling are applied involving Augmented Dickey-Fuller Unit Root Test (ADF) and Bi-variate Co integration Tests (ECM). Hypothesis testing is performed to determine the significance level of the unit root test. The result shows the P-values that indicate the level of significance.   From the result, it is conclusive that both PEX and TASE are non-stationary at all lags, while the P-values from the result show that the first-differenced PEX and TASE data series are consistently stationary at all lags. The study also finds that both PEX and TASE are integrated at first difference. Hence, the preliminary requirements in Enger-Granger Co integration procedure have now been fulfilled.

Having the preliminary requirements met, the study performs long-run regression on the PEX and TASE data series (based on the model specification). The data shows the results of the regression analysis and rejection of the null hypothesis. This implies the presence of a statistically significant positive relationship between PEX and TASE. Meanwhile, the data provide the descriptive statistics and the correlation matrix of the two market indexes. It is evident that there exists a moderate degree of correlation between PEX and TASE. In order for OLS estimation to be statistically valid, Engle-Granger (1987) suggests that the long-run residuals derived from the long-run regression (r) must be stationary. At this point, two important

implications are highlighted: *first,* as the long-run residuals are proven stationary, the PEX and TASE are considered co integrated; *second,* having PEX and TASE co-integrated, the Vector Error Correction Model (VECM) can now be deployed for further analysis.

Table 1. Error Correction Model at Lag 2

Variables	Parameter	Standard Error	t-Value	P-Value
Dependent Variable : dPEX				
Interce*pt*	2.1819	7.4844	0.29	0.7710
LdPEX	0.1808	0.0779	2.32	0.0215
L2dPEX	-0.1458	0.0791	-1.84	0.0674
Lr	-0.1738	0.0486	-3.57	0.0005*
LdTASE	0.0194	0.1802	0.11	0.9143
LrdTASE	-0.0680	0.1798	-0.38	0.7057

Note: 1. dpex is first difference in PEX, ldpex is lag 1 of first difference in PEX
2. lr is lag 1 residual and ldTASE is lag 1 of first difference in TASE

By employing Bi-variate Error Correction technique, the coefficients of PEX and TASE variables in the model can now be estimated. The long term and short term responses involving the two tested variables are examined. It was found through Akaike results (AIC) that the optimum lag-length for the tested model lies at lag 2 (VECM technique prefers lower AIC value). The relevant results are summarized in Table 1.

The *lr* is a lag 1 residual derived from VECM (2). This is the key component in VECM that supports long-term or equilibrium relationship between the two stock exchanges. A statistically significant equilibrium relation is observed by *lr's* p-value in Table 1. Given *lr's* parameter value of 0.1748, this figure implies that there is approximately 17.48% speed of adjustment towards equilibrium made by PEX in the system. This adjustment is considered relatively fast and implies presence of market integration between the PEX and TASE. Theoretically, higher speed of adjustment is preferred because a statistically reliable endogenous variable should reflect high speed in its equilibrium adjustment.

A statistically significant positive relationship between the two exchange markets is applied by the positive parameter value of TASE (+0.5095). This means that the two exchange markets are positively correlated. The existence of long-term significant relationship between the two exchanges could support the presence of a short-term relation between them. From the F-value, the alternative hypothesis is rejected suggesting non existence of a short-term relationship between the two neighboring stock exchanges. In ensuring that the OLS assumptions are put in check, diagnostic tests are carried out on the tested model.

To examine constant variance of the error terms, LM ARCH test is applied. The test results are supports rejection of H_0 at all levels. This clearly indicates that the residuals from the estimated model are homoscedastic or operating at constant variance. A normality test on error terms distribution should be applied before making any statistical inference. The test statistics explored by the study for normality depend on the distribution function involving Kolmogorov-Smirnov, Cramer-von Mises, and Anderson-Darling statistics. The results showing that the error terms from ECM (2) are not normally distributed for all four test statistics (see p-value). These findings do not detract from the whole picture, considering the study's preliminary nature. To ensure that all residuals are independent of one another, autocorrelation test is applied to examine any existence of serial correlation among the short-term residuals. Durbin-Watson test results support the absence of autocorrelation among the residuals

CUSUM analysis (or cumulative sum of residual test) is an important tool in econometric modeling. It is employed to tackle diagnostic problems related to parameter instability. From Figure 1 representing CUSUM analysis, existence of parameter (short-run and long-run parameters) stability is confirmed, the short-run residuals lying within the lower and upper boundaries. As a whole, the predictive model developed from this study can be considered credible since no major diagnostic shortcoming were met in the tested model.

Figure1. CUSUM Test (on Short-run Residuals of the Model)
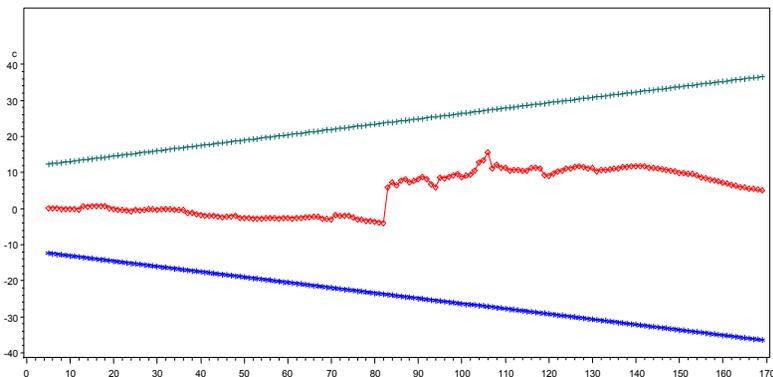
The results from diagnostic tests are free from major drawbacks and support the adoption of the suggested estimation model in the study. Interestingly, the empirical results are also consistent with earlier studies. In a nutshell, the evidence presented here confirms the intuition that performances of regional stock markets are mutually dependent. It is strongly recommended that future research should

incorporate other regional markets such as Iraq and Syria. The study urges both Palestinian and Israeli governments to review their respective foreign policy and emphasize on beefing up bilateral trades among themselves. The fact that business globalization is inevitable, devising an effective and dynamic policy is of utmost importance in maintaining regional economic prosperity.

It is quite reasonable to argue the importance of an economic indicator such as stock market index in explaining the direction of an economic growth. Having understood the equilibrium relationship between PEX and TASE, policymakers should devise an effective approach in rejuvenating economic activities in the two countries. Similarly, stock traders and value investors should use this piece of information to come out with a trading strategy that can protect value of their investment portfolio. CUSUM analysis in depicted in Chart 1 also suggests the stability of both short-run and long-run parameters in the estimated model over the study period.

Conclusion

Despite the long hostility between Palestine and Israel, there is one thing that they share in common. The empirical findings from this study have proved that both PEX and TASE are co-integrated. Nevertheless, there is an absence of short-term dynamic between the two markets indexes as revealed by Granger Causality test. Analysis of dynamic interactions over the post-sample period indicated that PEX is the most endogenous of all. Analysis of variance decomposition reveals 78% variations in PEX is explained by itself as compared to 92% in TASE. From the analysis of impulse-response function, PEX is seen more responsive towards a given shock in TASE. These findings are very much in line with our model specification that performance of PEX is dependent upon the movements in TASE.

It is now evident that the neighboring countries like Egypt, Jordan and Israel play important roles in supporting the growth of Palestinian economy. TASE does influence the Palestinian economy through its capital market mechanism. The results obtained from this study clearly show the mutual benefits derived from international trade and portfolio investment involving the two neighboring countries. In particular, economic prosperity in Israel will undoubtedly help boost Palestinian economy as the two countries share national borders, resources and relatively same market structure. Hence, regional economic and political cooperation has to be improved between the two countries, which in turn help sustain long term economic growth.

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THE INFLUENCES OF PRODUCTIVE ZAKAH MENTORING TO THE SAVING BEHAVIOR AND THE PROSPERITY OF POOR HOUSEWIFE

Rizky Andriati & Nurul Huda[1]

Abstrack. The Influences of Productive Zakah Mentoring To Saving Behavior and The Prosperity of Poor Housewife. *The purpose of this study was to determine the influences of productive zakah mentoring to the saving attitude, the confidence of saving ability, the saving behavior and the prosperity of poor housewives which become partners of Masyarakat Mandiri Dompet Dhuafa. This is a quantitative research using Structual Equation Modelling. The respondents are 115 poor housewives in Parung, Bogor, West Java; Cipinang, East Jakarta; Tanjung Pasir, Tangerang, Banten; and Bantar Gebang, Bekasi, West Java. The variables that used on this research are the mentoring of zakah productive, saving attitude, saving behavior, and prosperity. The result showed that the mentoring of productive zakah program has significant influence for the saving attitude and saving behavior. Saving behavior also affects significantly the prosperity of poor housewives.*

Keywords: *productive zakah mentoring, saving behavior, prosperity, structural equation Modeling*

Abstrak. Pengaruh Pendampingan Zakat Produktif Terhadap Prilaku Menabung dan Kesejahteraan dari Ibu Rumah Tangga Mustahik. *Penelitian ini membahas pengaruh kualitas pendampingan program pendayagunaan zakah produktif Masyarakat Mandiri Dompet Dhuafa terhadap sikap menabung, keyakinan kemampuan menabung, perilaku menabung dan kesejahteraan ibu rumah tangga mustahik. Penelitian ini bersifat kuantitatif dengan menggunakan metode Structural Equation Modelling. Responden penelitian ini adalah 115 ibu rumah tangga mustahik di empat lokasi yaitu Parung, Bogor, Jawa Barat; Cipinang, Jakarta Timur; Tanjung Pasir, Tangerang, Banten; dan Bantar Gebang, Bekasi. Variabel yang dipergunakan dalam penelitian ini ialah pendampingan zakat produktif, sikap menabung, prilaku menabung, dan kesejahteraan. Hasil penelitian ini menemukan bahwa kualitas pendampingan berpengaruh signifikan terhadap sikap dan perilaku menabung. Perilaku menabung berpengaruh signifikan terhadap kesejahteraan.*

Kata Kunci: *pendampingan zakah produktif, prilaku menabung, kesejahteraan, model persamaan struktural*

Introduction

Poverty does not only have relation with economic dimension, moreover poverty relates to many aspects such as social, culture, politics, environment, health, education, spirituality, working attitude and self value. Financial aid is not enough to help them if the cause of their poverty is not solved (Mintarti, 2013). Productive zakah was developed since few years ago as a breakthrough to reduce poverty. It is the transformation of zakah program from cash donation into productive activities using zakah fund. Zakah beneficiaries (*mustahik*) are not only given the donation, but they are motivated to work and become entrepreneur using the donation from zakah distribution (Grandyanto, 2012). One of zakah institution which has developed the productive zakah is Dompet Dhuafa with the progam Masyarakat Mandiri that its purpose is to create the prosperity of *mustahik* through saving. Saving is important because its benefits for life, and Islam also support saving because a Muslim can prepare themselves for their future plan or emergency condition (Antonio, 2001).

The purpose of the present study was to determine the effects of zakah institution to create prosperity of *mustahik* through their saving attitude, confidence of saving ability and saving behavior by seeing the aspect of mentoring. Mentoring performance will be measured using service quality instrument. Structual Equation Modelling (SEM) is one of the methods that can be used to see the influence in several variables. Based on the fact, the questions of this study are: *first,* do the program of productive zakah by Masyarakat Mandiri effect significantly to the saving attitude, the confidence of saving ability, the saving behavior and the prosperity of poor housewives? *Second,* do saving behavior have effects significantly to the confidence of saving ability of poor housewives? *Third,* do the confidence of saving ability have significant influence to the saving behavior of poor housewives? *Fourth,* do saving behavior effect significantly to the prosperity of poor housewives?

Literature Review

From linguistic aspect, the root of the word zakah comes from *zaka* which means grow, clean, and good. Based on fiqh terminology, zakah define as an obligation that an individual has to donate a certain proportion of wealth each year to charitable causes. In broad outline, the form of zakah distribution and utilization was divided into two ways, which is distribution for consumptive activities and productive activities. Zakah distribution for consumption is only a temporary aid for urgent needs. Usually this donation is purposed to give the basic need such as food, education and health. Contrary, zakah distribution for productive activities is zakah donation for productive business for middle and long term (Mintarti, 2013). Productive zakah is zakah that is donated for mustahik as capital to run business with purpose to increase their economic level and their productivities (Qadir,

2001).   Productive zakah is one of the community empowerment based on zakah to improve life quality of poor people using their skill, power and participation. It needs active interaction between zakah officer as program counselor and poor people as the target of the program. With the program, every poor people is seen as a personal who also has power but it is not totally used. Through productive zakah, they can participate from making the plan, into evaluating the program. The zakah officer having the role as mentor becomes an agent of change who also helps to solve their problem.

There are five service quality measurements that becomes satisfaction indicator for customer (Kotler and Keller, 2007), such as: *first,* tangibles, including physical facility, equipment, employee and communication tools. *Second,* reliability, a skill to give the promised service immediately, accurately and satisfying. *Third,* responsiveness, a willing of the employee to help the customer and give them the service with responsiveness. *Fourth*, assurance, including knowledge, skill, politeness, trustworthiness of the employee, less of danger, risk or doubt. *Fifth*, emphaty, including good communication and relationship, personal touch and customer understanding.

Besides this five indicators developed by Parasuraman, Othman and Owen added compliances as service quality measurement, especially *Compliances with Islamic Law* which was known as CARTER (*Compliance, Assurance, Reliability, Tangible, Emphaty, and Responsiveness*). The research was elaborated to determine the service quality of Islamic bank Kuwait Finance House (KFH). Compliance is a skill to comply with Islamic law and Islamic banking principles. It is developed into five aspects: the institution comply to the Islamic law and principle, the institution does not take or give the interest in the saving product, product regulation and services are islamic, there's no interest in the credit product, and there is profit sharing in the investment products (Othman and Owen, 2001).

Besides Parasuraman et al, other experts also formulize other dimension or factor used by costumers to measure the quality of service. One of them is Gronroos, who stated that there are three main criteria used by costumers in measuring the quality of a service, there are: outcome related, process related and image related. Those three criteria can still be elaborated into six elements; two of them are (Tjiptono, 2000): *First,* recovery, this element is included in process-related criteria. Customers realized that, if there is a mistake or if they find an unexpected thing, the service provider will take immediate and appropriate action and solve the problem. *Second,* reputation and credibility. this element is included in image-related-criteria.

A person's ability to behave is influenced by his confidence. This confidence is defined as perceived behavioral control. Perceived behavioral control is somebody's confidence in his ability to do certain behavior, whether it is easy (Yasid, 2010). In

relation to the behavior of saving, the perceived behavioral control describes the perception of somebody on his ability to save. This believe is influenced by several believes he can accept (control believe). This control believes is an individual believe on the existence of several factors that make saving easy or difficult.

This believes is influenced by several accepted believes (control believes). The control believes is an individual believe about the present of many factors that makes easy or difficult in doing something. In conceptual, perceived behavioral control relates with self-efficacy. Self-efficacy is a self believe about a confidence to do something in specific situation. According to the above definition of perceived behavioral control and self-efficacy, the saving behavior of a person is influenced by his confidence in saving ability in his situation. The indicators in seeing the confidence in saving ability are: *first,* the confidence in saving ability; *second,* the confidence in not withdrawing the saving immediately.

In economics, the saving behavior is described as the comparison between income and the amount of funds allocated for the future, whether it is saved for daily needs according to life cycle, urgent needs or investments (Yasid, 2010). There are four factors that indicate the saving behavior, that is: *first,* the amount of fund; *second,* the ratio between saving and earning, which defined as the comparison between the amount of saving and the income earned; *third,* the increase of saving amount, which can be defined as the perception on the increase of saving amount saved by somebody; *fourth,* saving frequency, defined as how often a person save in a certain period of time (Yasid, 2010).

Methods

The analysis method of this study is Structural Equation Model (SEM). Structural equation modeling (SEM) is a very cross-sectional, linear and general modeling technique. Included in this SEM are factor analysis, path analysis, and regression. The next definition states that SEM is a statistical technique used to build and test statistical models which usually presented in cause-effect models. SEM is actually a hybrid technique, which include the confirmatory aspects of factor analysis, path analysis and regression which can be considered as special case in SEM (Sarwono, 2014).

The information was collected by distributing questionnaire to the respondents. The population of the study is all of poor housewives of Masyarakat Mandiri partner in Zona Madina cluster in Parung, Bogor, West Java; Cipinang, East Jakarta; Tanjung Pasir, Tangerang, Banten; and Bantar Gebang, Bekasi, West Java. Sample was taken using non probability sampling in form convenience sampling. The amount of respondents on this study is 115 poor housewives. The research will elaborate five latent variables, which are the service quality, the saving attitude, the

confidence of saving ability, the saving behavior and the prosperity.

The statistic hypotesis of the studies are:

Ho: The mentoring of productive zakah program by Masyarakat Mandiri does not influence significantly the saving attitude or poor housewives.

H1: The mentoring of productive zakah program by Masyarakat Mandiri influences significantly the saving attitude or poor housewives.

Ho: The mentoring of productive zakah by Masyarakat Mandiri does not influence significantly the confidence of saving ability of poor housewives.

H2: The mentoring of productive zakah by Masyarakat Mandiri influences significantly the confidence of saving ability of poor housewives.

Ho: The mentoring of productive zakah by Masyarakat Mandiri does not influence significantly the saving behavior of poor housewives.

H3: The mentoring of productive zakah by Masyarakat Mandiri influences significantly the saving behavior of poor housewives.

Ho: The saving attitude does not influence significantly the confidence of saving ability of the poor housewives.

H4: The saving attitude influences significantly the confidence of saving ability of the poor housewives.

Ho: The confidence of saving ability does not influence significantly the saving behavior of the poor housewives.

H5: The confidence of saving ability influences significantly the saving behavior of the poor housewives.

Ho: The saving behavior does not influence significantly the prosperity of the poor housewives.

H6: The saving behavior influences significantly the prosperity of the poor housewives.

Ho: The mentoring quality of productive zakah by Masyarakat Mandiri does not influence the prosperity of the poor housewives.

H7: The mentoring quality of productive zakah by Masyarakat Mandiri influences the prosperity of the poor housewives

Discussion

This research used two stage approaches, where the initial analysis is conducted on the model measured to analyze the accuracy of each question on the model. The model measured which explains the relationship between indicator variables in building the latent variables.

From nine measurements of GOF, there are 3 GOF measurements not showing good compatibility, whereas 4 other GOF measurements shows good compatibility, and there are 2 measurements shows marginal compatibility, therefore it is concluded that the compatibility of the models are good. After no offending

estimates can be found, the research can move to the next examination, the validity of measuring models. Observed variables considered valid   the t-value is bigger than the exact value of 1,96 (the critical t is approached by z value 95%) and the standardized loading factors more or less bigger than 0,50. But, if there is a standard factor value under 0.5 but still higher or more or less the same as 0,3, then the related variable may still be considered not to be eliminated. But, if the value of the factor is less than 0,3, the variable must be eliminated from the model. In this research, the author will maintain all variables because all of their values are higher than or the same as 0,3.
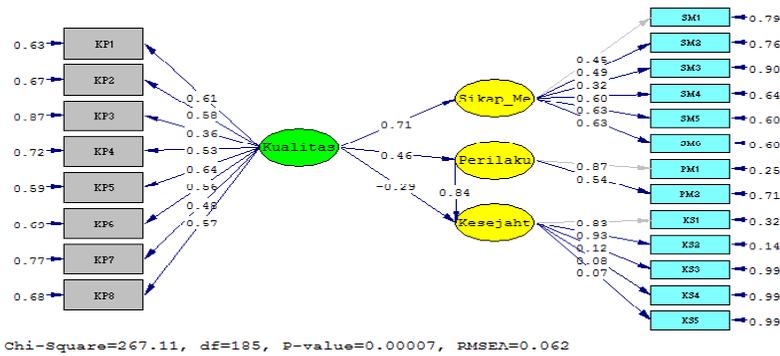
Figure 1. Standardized Solution Model Structural

After measuring the validity, the next step is to measure the reliability. The construct of reliability measurement in SEM can be measured by using composite reliability measure and variance extracted measure. Hair et.al states that a construct having good reliabilities is if the value of its construct reliability (CR) is ≥ 0.70. From the reliability analysis, it is seen that the reliability coefficient, all indicators to each construct are bigger or the same as 0.7, except the Believe in The Ability to Save. Therefore, the variable will not to be included in the next data assignments.
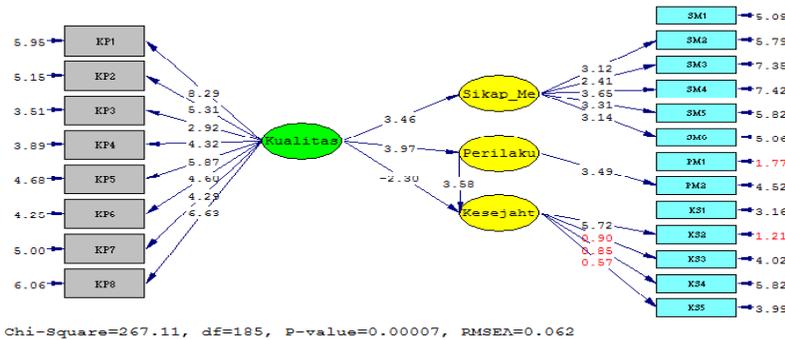
Figure 2. t-values Model Structural essed

The causality relation in each construct becomes significant if statistically the level of α = 0,05 and t value ≥ 1,96 (critical value or t table). The evaluation of structural model includes:

Table 1. The Evaluation of Structural Model Coefficient

| Relation	Estimation	t-value	Information
Mentoring Quality to Saving Attitude	0,71	3,46	Significant
Mentoring Quality to Saving Behavior	0,46	3,97	Significant
Saving Attitude to Prosperity	0,84	3,58	Significant
Mentoring Quality to Prosperity	0,29	-2,30	No Significant

Source: Respondent data source, processed

Based on the coefficient evaluation of structural model at the table, we can see that there is one coefficient which is not statistically significant. It is the coefficient describing the relation between mentoring quality and prosperity. It's concluded that there is no significant causality relation between those factors that has been hypothesized.

According to the above mention SEM analysis, the H2 Hypothesis (the quality of mentoring program of the productive zakah empowerment of the Masyarakat Mandiri influencing significantly to the believe of the ability to save of the housewives among the *mustahiks*), H4 (saving attitude influences significantly to the believe in saving ability and H5 (the believe in saving ability influence significantly the behavior in saving) is not included because according to reliability studies of the measuring model, the latent variable of KKM is not fulfilling the reliable value therefore do not included in the data processing.

Table 2. The Result of Hypotesis Test

	Hipotesis	t-values	Keterangan
H1	The quality of the mentoring of the empowerment program of the productive zakah of the Masyarakat Mandiri influence significantly the saving attitude of the housewives among the *mustahiks*.	3.46	Data supports H1
H3	The quality of the mentoring of the empowerment program of the productive zakah of the Masyarakat Mandiri influence significantly the saving attitude of the housewives among the *mustahiks*.	3.97	Data supports H3

| H6 | The saving behavior is influencing significantly to the welfare of the housewives among the *mustahiks*. | 3.58 | Data Supports H6 |
| H7 | The quality of mentoring the empowerment program of the productive zakah of the Masyarakat Mandiri is related significantly to the saving attitude of the housewives among the *mustahiks.* | -2.30 | Data do not support H7 |

Source: Respondent data source, processed

Hypothesis 1 states: 'The mentoring quality of the empowerment program of the .productive zakah is significantly influence the saving attitude of the housewives among the *mustahiks*. According to the result of the calculation of the structure model of the Hypothesis 1, the t-value is 3,46. Therefore the research supports the statement that states the quality mentoring program of the empowerment significantly influence the saving attitude of the housewives among *mustahiks*. This means that the higher the quality of the mentoring program of the Masyarakat Mandiri Dompet Dhuafa, the higher also the saving attitude of the housewives among the *mustahiks*. The structural equality of hypothesis 1 is:

Sikap_Me = 0.71*Kualitas, Errorvar.= 0.50 R²=0.50

The structural equality shows the significant and direct influence of mentoring quality in the empowering program in of productive zakah to the saving attitude. The percentage value of influence is 50,41 percents. This shows that 50.41 percents of the changing of saving attitude of the housewives among the *mustahiks* are directly influenced by the improvement of mentoring quality of the empowerment program of productive zakah of the Independent Society.

Hypothesis 3 states: 'The quality of mentoring program of productive zakah significantly influence the saving attitude of housewives among the mustahiks." According to the result of the calculation of the structure model of the Hypothesis 1, the t-value is 3,97. Therefore the research supports the statement that states the quality mentoring program of the empowerment significantly influence the saving attitude of the housewives among mustahiks. This means that the higher the quality of the mentoring program the higher also the saving behavior of the housewives among the mustahiks. The structural equality of this hypothesis is:

Sikap_Me = 0.46*Kualitas, Errorvar.= 0.79 R²=0.21

The structural equality shows the significant and direct influence of mentoring quality in the empowering program in of productive zakah to the saving behavior. The percentage value of influence is 21.16 percents. This shows that 21.16 percents of the changing of saving behavior of the housewives among the mustahiks are

directly influenced by the improvement of mentoring quality of the empowerment program of productive zakah of the Independent Society.

Hypothesis 6 states: 'Saving behavior significantly increase the prosperity of the housewives among mustahiks". The research supports the statement that states the saving behavior significantly increase the prosperity of the housewives among the mustahiks. This means that the higher the saving behavior the higher also the prosperity of the housewives among the mustahiks. The Structural equation of this hypothesis is :

Kesejaht = 0.84*Perilaku – 0.29*Kualitas, Errorvar.= 0.43 R²=0.57

The structural equality shows that the percentage of influence of saving behavior to the prosperity of the mustahiks is 70,56 persen. This shows that 70.56 percent of the improvements of the prosperity of the housewives among the mustahiks directly caused by the improvements of saving behavior.

Hypothesis 7 states: Mentoring quality empowerment program of productive zakah significantly influence the prosperity of the housewives among the *mustahiks*". According to the result of the calculation of the structure model of the Hypothesis 6, the t-value is -2.30. Therefore the research do not support the statement that states the mentoring quality of the empowerment program of productive zakah significantly influence the prosperity of the housewives of the *mustahiks*. The structural equality of this hypothesis is :

Kesejaht = 0.84*Perilaku – 0.29*Kualitas, Errorvar.= 0.43 R²=0.57

The structural equality shows the percentage amount of influence of mentoring quality of the empowerment program of productive zakah to the saving behavior is 8.41 percents (-0.29^2). This shows that 8.41 percents of improvements of the *mustahik*'s prosperity is directly influenced by the improvements of quality of the mentoring programs of the empowerment of productive zakah.

Conclusion

The saving behavior is proven to have a major impact in increasing the prosperity of the housewives of the *mustahik*. In the future, Masyarakat Mandiri Dompet Dhuafa or other zakah institutions which develop the productive zakah are obliged to give more attentions to the saving behaviors of the *musthik*. Saving programs must be developed to build the saving attitude and to push the saving behavior. One thing those institutions can do is to set a certain amount of saving target for each *mustahik* ,in order to achieve want they want to get. At the same time, Masyarakat Mandiri can give rewards to those who achieve their saving targets or those who can achieve certain saving points from time to time so they can win prizes in local or national level prepared by Masyarakat Mandiri Dompet Dhuafa.

In this case, *amil zakah* institutions or other society empowerment institutions have to give more attentions to the mentoring process, because in this phase, the *mustahik* will receive knowledge and motivations. The mentors have to be trained periodically in progressive training to expand their horizons and increase their understandings in order to accelerate the transformation process of the mustahik. One of the knowledge and skill needed to be imparted is mass communication, which can be transferred through trainings.

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THE IMAGE OF FINANCIAL INSTITUTION AS ISLAMIC BANK IN MEDIATION SERVICE QUALITY AND CUSTOMER SATISFACTION ON CUSTOMER LOYALTY IN PURWOKERTO

Chandra Warsito[1]

Abstract. *The Image of Financial Institution as Islamic Bank In Mediation Service Quality and Customer Satisfaction on Customer Loyalty in Purwokerto*. *The paper aims to determine the effect of service quality on customer satisfaction, service quality, customer satisfaction and image on customer loyalty, quality of service to the company's image, to determine the image of financial institutions in mediating the relationship variable quality of service and customer satisfaction on customer loyalty. The samples used were 110 customers and methods of analysis used is Structural Equation Modeling (SEM) test results find no significant effect of service quality on customer satisfaction; quality of service loyalty; customer satisfaction on customer loyalty; quality of service to the image of the company; customer satisfaction with the company's image; and the image of the company loyalty; Image of financial institutions PT. BPRS BAS can be used as a variable relationship mediation variable service quality and customer satisfaction on customer loyalty.*

Keywords: *Image of financial institutions, satisfaction, quality of service, loyalty.*

Abstrak. *Gambaran Lembaga Keuangan Sebagai Bank Syariah Terhadap Kualitas Layanan dan Kepuasan Konsumen Pada Loyalitas Konsumen di Purwokerto*. *Artikel ini bertujuan untuk mengetahui pengaruh kualitas pelayanan terhadap kepuasan nasabah, kualitas pelayanan, kepuasan nasabah dan citra terhadap loyalitas nasabah, kualitas pelayanan terhadap citra perusahaan, serta untuk mengetahui citra lembaga keuangan dalam memediasi hubungan variabel kualitas pelayanan dan kepuasan nasabah terhadap loyalitas nasabah. Sampel yang digunakan adalah 110 nasabah dan metode analisis yang digunakan adalah Structural Equation Modelling (SEM). Hasil pengujian menemukan ada pengaruh signifikan dari kualitas pelayanan terhadap kepuasan konsumen; kualitas pelayanan terhadap loyalitas; kepuasan konsumen terhadap loyalitas konsumen; kualitas pelayanan terhadap terhadap citra perusahaan; kepuasan konsumen terhadap citra perusahaan; dan citra perusahaan terhadap loyalitas; Citra lembaga keuangan PT. BPRS BAS dapat digunakan sebagai variabel pemediasi hubungan variabel kualitas pelayanan dan kepuasan nasabah terhadap loyalitas nasabah.*

Kata Kunci: *gambaran lembaga keuangan, kepuasan, kualitas layanan, loyalitas*

Introduction

High competition in the banking industry is not directly force the banking company to adjust with the phenomena occurring in the community. To be able to win the competition, the banking industry is currently vying to improve service to its customers, all of which are intended to increase customer satisfaction. Every banking company is required to deliver maximum performance to customers, because of the positive or negative a service company is highly dependent on the assessment of the community to get such services. The better the service provided is of a bank, the higher the likelihood of the trust of customers to obtain services that are offered, which in turn is able to realize customer loyalty.

The image of the company is one of the factors used to build customer loyalty. The image is a reality in which the program development and improvement of the image based on the fact. If the image does not correspond with reality and good performance then it is an error in Communication Company. A good image is indicative of the company's success in providing services capable of satisfying its customers (Arafah, 2004).

Efforts to establish the company in the long term can also be done by increasing customer satisfaction. Customer satisfaction can be achieved if the company is able to realize the expectations of customers. The achievement of the expectations on the customer will give effect customers to stay afloat and not move to another company. Especially on emotionally, customers have a special affinity with the personnel in the company, it will facilitate relations between companies and customers. The relationship with the customer will make a customer more loyal to the company.

The high customer interest in a variety of Islamic banking transactions led idea in the banking business people to establish BPR of Sharia and one that stands in Purwokerto is PT. BPRS BAS (Bina Amanah Satria). In its activities, PT. BPRS BAS (Bina Amanah Satria) operates sharia. There are Islamic financial institutions in Purwokerto, providing a wide range of alternative transactions, all of which is done by sharia. For that, PT. BPRS BAS (Bina Amanah Satria) need to create the image that customers easily identify and easy to remember if society requires banking transactions. The existence of image appearance on banking company raises an open competition between banks.

High competition in the Islamic banking business, making companies need to prepare themselves with better service to make customers feel satisfied with the services provided. Enhancing the quality of service was done to the satisfaction of customers so that customers remain loyal with company.

Quality of care is influenced by two factors, namely the expected service and

perceived service (Tjiptono, 2001). Suitability of service received by customers in the hope, perceived good and satisfactory, if the ideal is said to exceed customer expectations, and vice versa if the received lower than expected will be badly perceived by customers (Kotler, 1999). Zeithaml, et all, (in Tjiptono, 2001) states that the customer expectation is customer confidence before buying a product which that used as a standard in assessing the performance of product.

Services can be given a firm, if the customer comes transaction. And transactions can occur if the customer comes and want to take advantage of all the financial services offered. For this reason, companies need to instill a good image in the minds of customers so that they would come and perform transactions with the company.

Image is an important part of marketing management, where the image is built and associated with a habit, lifestyle, benefits, product attributes, geography, price, competitors, celebrities and others (Durianto, 2001). The strength of company's image is very important to be maintained and improved, with the purpose of attracting the hearts of borrowers and customers, so the debtor and customers are satisfied with the services of the company.

PT. BPRS BAS (Bina Amanah Satria) as one of the sharia institution, always strive to provide the best service to borrowers and customers, with the goal of giving satisfaction with the services provided. Satisfaction is the perception of one's feelings after comparing the performance with expectations (Kotler, in Tjiptono, 2000). Satisfaction or dissatisfaction of customers occurs after an evaluation of the expectations of customers prior to the actual performance that is felt after use (Tse and Wilton in Tjiptono, 2001).

It is important to be achieved by the service company, is the satisfaction both by customers and debtors. The problem that arises is, all companies raced to give satisfaction to customers and debtors. Each company sets the strategy and policy to build relationships with customers. Various attempts were made so that the company can interact with clients and debtors investigate and analyze their needs, using technology, to improve service and sales (Maryono, 2007).

Literature Review

Customer loyalty is important for any company, because loyalty reflects the positive perception of customer against the company. Loyalty is the attitude shown in determining the choice of customers continues to use the products or services offered by the company. Attitude determines the attitude, led commitment of customers to re-purchase or obtain the services offered on the company (Foster

and Cadogan, 2000). Thus the meaning of loyalty is loyalty of customers to make repeat purchases over the same services from one company and attitude would tell the others and be a deterrent from many competitors who entered. It also shows the loyalty of customers is a factor that determines the success of the company.

Quality of service is an effort to fulfill the needs and desires of customers and determination to deliver and offset expectations of customers (Tjiptono, 2000). There are two main factors that affect the quality of the service; the expected service and perceived service (Parasuraman, in Tjiptono, 2000). If the perceived service as expected, then the perceived service quality is good and satisfying. If the services received exceed customer expectations, then the quality of service perceived as the ideal quality. Conversely, if the services received is lower than what is expected, then the perceived poor quality of services.

Customer satisfaction is defined as a decision on the basis of a specific services meeting (Bolton and, 1991; Cronin and Taylor, 1992 in Nha Nguyen and Gaston LeBlanc, 1998). This is in accordance with the opinion of Oliver'S (1981 Nha Nguyen and Gaston LeBlanc, 1998) which looked at satisfaction as an emotional reaction that affects attitudes. Based on this perspective, Cronin and Taylor (1994 in Nha Nguyen and Gaston LeBlanc, 1998) say that customer satisfaction should be limited to the quality of services and transaction decisions specific to long-term attitude, resulting in a cumulative effect that the satisfaction of services should be directed to the evaluation of the quality of services global from time to time (Parasuraman et al., 1994 in Nha Nguyen and Gaston LeBlanc, 1998). Of the opinions mentioned above, according to the researchers, satisfaction was preceded by the quality of services (Bolton and, 1991 in Nha Nguyen and Gaston LeBlanc, 1998).

Teh (1993) in Nha Nguyen and Gaston LeBlanc, 1998) in his research concluded that quality and customer satisfaction, both tested based on a global perspective that specific transaction. Evaluation of satisfaction associated with the value (Zeithaml, 1988 in Nha Nguyen and Gaston LeBlanc, 1998), re-purchase (Oliver and Goose, 1989 in Nha Nguyen and Gaston LeBlanc, 1998), as well as customer loyalty towards the company (Kasper, 1988 in Nha Nguyen and Gaston LeBlanc, 1998). Fornell (1992) in Nha Nguyen and Gaston LeBlanc, 1998), in his study that while the quality and customer satisfaction are important for all companies, but the satisfaction becomes even more important because it will give the faithful, especially in companies such as banks, insurance, orders per post, and transportation. Satisfaction and customer dissatisfaction is the customer response to the discrepancy evaluation/ perceived disconfirmation between prior expectations (or other performance norms) and the actual performance of the product that is felt

after use (Tjiptono, 2005).

Many corporate image definition found in the literature of psychology and marketing. Image has been described from the knowledge of the relationship (Boulding, 1956 in Nha Nguyen and Gaston LeBlanc, 1998); the image is an attitude (Hirschman et al., 1978 in Nha Nguyen and Gaston LeBlanc, 1998), and a combination of product characteristics from a product known (Erickson et al., 1984 in Nha Nguyen and Gaston LeBlanc, 1998).

Imagery is the overall impression left on the mind of customer (Zimmer and Golden, 1988 in Nha Nguyen and Gaston LeBlanc, 1998). Various factors inherent in the image are tradition, ideology, company name, reputation, price levels, variations in services, and the quality that communicated by every person who interacts with a service company. Another aspect of the image forming is corporate identity, quality and level of advertising and the delivery system also serves to build the image. The image is a procedure that associated with the ideas, feelings and previous experience with an organization that stored in memory and transformed into a sense based on the category (McInnis and Price (1987) in Nha Nguyen and Gaston LeBlanc, 1998), with Yuille and Catchpole (1977 in Nha Nguyen and Gaston LeBlanc, 1998).

Two main components of image are known by emotionally and functionally (Kennedy, 1977 in Nha Nguyen and Gaston LeBlanc, 1998). Functional components associated with cues that can be measured easily, being the emotional component associated with psychological stated with feeling and attitude. To form the image in minds of customers, the company did it through a particular symbol, where it is able to demonstrate a certain image. In the form of customer, the image is described as being stored in memory from the general impression through the evaluation of highly detailed objects associated with personal values.

Results of research conducted by Nha Nguyen and Gaston LeBlanc (1998) concluded that service quality positively and significantly related to customer satisfaction. Research conducted by Wong and Sohal (2003) also concluded that the quality of services directly influence the trust and loyalty of customers. Research on quality of service with loyalty conducted by Bloemer et al (1998) concluded that there are significant of quality perception to the satisfaction.

Satisfaction is the result of a customer overall evaluation to the product or services obtained after comparison with similar products from competing companies, where there is a match between performance and expectations. Research conducted by Ball et al (2006) on service and customer loyalty. From this study, it can be seen that the quality of service is not directly affect the loyalty through customer

satisfaction. Nha Nguyen and Gaston LeBlanc (1998) concluded that customer satisfaction has a positive and significant effect on loyalty.

Jay Kandampully and Dwi Suhartanto (2000) concluded that customer satisfaction with the reception, food and beverage, and price has no effect on customer loyalty. While Ball et al (2004) in his study found that the image has an effect on loyalty and customer satisfaction, perceived value affects customer satisfaction. While the research conducted by Nha Nguyen and Gaston LeBlanc (1998) concluded that the image of company has a positive and significant effect on loyalty.

Increased customer satisfaction can be done by improving the image of company. The company will have a strong image if customers believe that they are the higher value when they transact with the company (Bloemer at al (1998)). Research conducted by Brunner et al (in Bloemer at al (1998)) conclude that the image effect on customer satisfaction. Bloemer et al (1998) in his study conclude that there is a significant positive relationship between the variables studied, namely Image, Service Quality and Satisfaction. This shows that satisfaction is influenced by many factors, including customer satisfaction and corporate image. Research conducted by Caruana (2002) concluded that service quality affects customer satisfaction but has no effect on customer loyalty. From the above, it is known that the quality of service also has a very important role in influencing loyalty, in addition to variables of customer satisfaction and corporate image.

Methods

This study is conducted on customers of PT. BPRS BAS Purwokerto. The sample size is adjusted by the method of analysis, namely Structural Equation Modeling (SEM) which is five times the number of items of research (Ferdinand, 2005). In this study there are 19 items, so that the minimum sample size is 95 respondents. Under these provisions, the sampling method used is simple random sampling, which took some part of the population sampled randomly for the study, namely all the customers who are customers of PT. BPRS BAS Purwokerto.
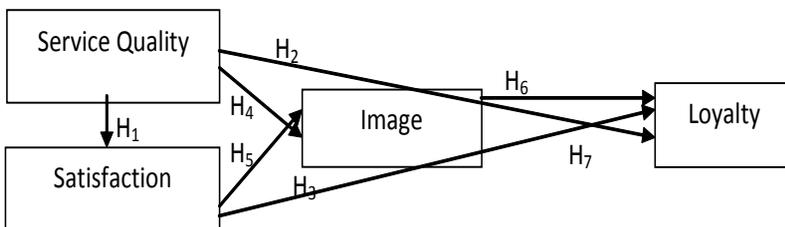

Figure 1. The Research Model

The Hypothesis on this research are below:

H_1: Service quality has a significant influence on customer satisfaction
H_2: The quality of service has a significant influence on customer loyalty
H_3: Customer satisfaction has a significant influence on customer loyalty
H_4: The quality of service affects the image of the company
H_5: Customer satisfaction affects the company's image
H_6: Corporate image effect on loyalty
H_7: The image of the financial institution PT. BPRS BAS mediates the relationship variable of service quality and customer satisfaction on customer loyalty

Discussion

Fitness Model Tests conducted by The goodness of fit criteria include goodness of fit : Chi -Square , probability , RMSEA , Cmin / DF, GFI, AGFI, TLI, CFI and DF. The results of test calculations FITNESS statistical model can be seen in Table 1 below.

Table 1. Feasibility Index testing the structural equation modeling model

Goodness of fit index	Cut-of value	Result	Model evaluation
c^2-Chi-square	174,907	188,666	Good
Significancy probability	≥ 0.05	0,052	Good
RMSEA	≤ 0.08	0,043	Good
GFI	≥ 0.90	0,859	Marginal
AGFI	≥ 0.90	0,816	Marginal
CMIN/DF	≤ 2.00	1,198	Good
TLI	≥ 0.95	0,976	Good
CFI	≥ 0.95	0,972	Good

One of the test equipment to measure the overall fit is the likelihood ratio chi-square statistic. The model was tested to be considered good or satisfactory when Chi - Square value is low . The smaller the value the better the Chi - Square and the model was accepted by the probability of the cut of the value of P > 0.05 (Hulland in Ferdinand , 2000) . In this study, Chi - Square value obtained is equal to 188.666 with a value of p = 0.052 . It can be concluded that the model in this study include a good model or structural models generated showed the best model .

The Root Mean Square Error Of Approximation (RMSEA) values less than or equal to 0.08 is an index to the acceptability of the model showed a close fit of the model was based on the degress of Freedoom (Brown & Cudeck in Ferdinand, 2000). Based on this study RMSEA value obtained is equal to 0.043. Thus, it

includes a very good fit because its RMSEA values less than 0.08. Goodness of Fit Index (GFI) value generated in this study was 0.859. This value is smaller than 0.90 so including marginal figure. Next, we try to examine the Adjusted Goodness of Fit Index (AGFI). Recommended level of acceptance is when AGFI has a value equal to or greater than 0.90. AGFI's value generated in this study is 0.816. This value is smaller than 0.90 so including marginal.

Tucker Lewis Index (TLI) is an alternative incremental fit index which compares a model that is tested against a baseline model (Baumgartner and Homburg, 1996) in Ferdinand, 2000). Value is very close to 1 or more than 0.95 indicates a very good fit (Arbuckle, 1997) in Ferdinand, 2000; 57). TLI values generated in this study was 0,972. Comparative Fit Index (CFI), the magnitude of this index is in the range of values of 0 (poor fit) up to 1.0 (perfect fit). Value greater or equal to 0.95 indicates the highest level of fit a very good fit (Arbuckle, 1997 in Ferdinand, 2000). CFI value generated in this study was 0,972. This value is greater than 0.95, thus including a very good fit. The magnitude of the Comparative Fit Index is in the range of values of 0 (poor fit) up to 1.0 (perfect fit). Value greater or equal to 0.95 indicates the highest level of fit a very good fit (Arbuckle , 1997 in Ferdinand , 2000). CFI value generated in this study was 0,972 . This value is greater than 0.95, thus including a very good fit.

The results of structural equation modeling analysis processing (SEM) can be seen in Figure 2 and Table 2.

Table 1. Results of structural equation modeling analysis

Variable 1	Variable 2	Estimate	S.E.	C.R.	P
Customer satisfaction	Service quality	0.458	0.138	4.108	0,000
Image	Service quality	0.350	0.146	3.399	0,000
Image	Customer satisfaction	0.474	0.126	4.307	0,000
Loyalty	Service quality	0.224	0.155	2.082	0.037
Loyalty	Customer satisfaction	0.243	0.139	2.031	0.042
Loyalty	Image	0.359	0.135	2.706	0.007

Based on Table 1 it can be seen the results of the analysis of structural equation modeling (SEM). Value estimate coefficients listed in Table 1 are standardized coefficient or standardized regression coefficient, which is also called path coefficients. In the discussion of the research hypothesis testing used this path coefficients. The value of the standard error, the value of the critical ratio (CR) and the p-value equal between the standardized and unstandardized regression coefficient.
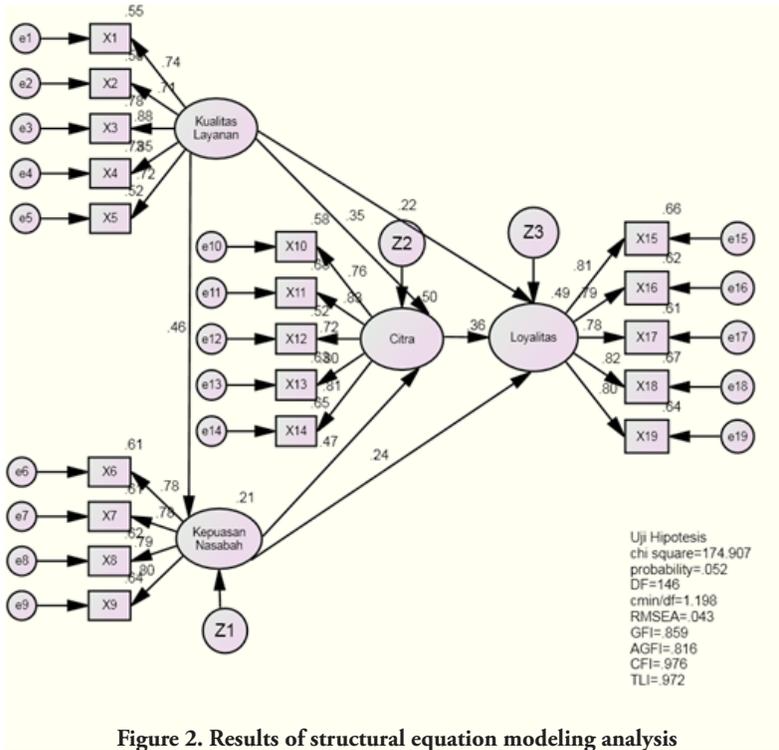
Figure 2. Results of structural equation modeling analysis

Based on Table 1 can be made to the substructure structural equation 1 as follows :

Customer satisfaction = 0.458 Quality of service + Z1
Image = 0.350 Service Quality +0.474 Customer Satisfaction + Z2
Loyalty = 0.224 Service Quality +0.243 Customer Satisfaction + 0.359 image + Z3

Based on the result above, we can explained as: *Firts,* impact of service quality on customer satisfaction. The estimated value of the variable path coefficient of service quality on customer satisfaction by 0.458. This indicates variable service quality has a positive effect on customer satisfaction, which is the better quality of service it will result in increased customer satisfaction. Based on the obtained value significance test p = 0.000. This means that there is a positive and significant impact on the quality of service to customer satisfaction.

Second, impact of service quality and customer satisfaction to image. The estimated value of the variable path coefficient of service quality to the image of 0.350. This indicates the variable quality of service has a positive influence on the image, better the quality of service it will result in better image. Based on the obtained significance test p = 0.000. This means that there is a positive and

significant effect of the variable quality of service to the image. The estimated value of customer satisfaction variables path coefficient of 0.474 on the image. This indicates variable customer satisfaction has a positive influence on the image, ie the better the customer satisfaction will result in better image. Based on the obtained significance test p = 0.000. This means that there is a positive and significant impact of customer satisfaction on the image.

Third, impact of service quality, customer satisfaction and loyalty image. The estimated value of the variable path coefficient quality of service to the loyalty of 0.224. This indicates the variable quality of service has a positive influence on loyalty, ie the better the quality of service it will result in stronger loyalty. Based on the obtained significance test p = 0.037. This means that there is a positive and significant impact on the quality of service to loyalty.

The estimated value of the variable path coefficient customer satisfaction to loyalty of 0,243. This indicates variable customer satisfaction has a positive influence on loyalty, customer satisfaction is the better it will result in stronger loyalty. Based on the obtained significance test p = 0.042. This means that there is a positive and significant impact of customer satisfaction on loyalty. The estimated value of the image variable path coefficient of 0.359 loyalty. This shows the image variable has a positive influence on loyalty, ie the better the image will result in stronger loyalty. Based on the obtained significance test p = 0.007. This means that there is a positive and significant impact on the image of loyalty.

Fourth, image of financial institutions PT BPR BAS mediates the relationship of ariable quality customer service and satisfaction on customer loyalty. Testing mediation conducted by Sobel test. Sobel test results can be seen in Table e.

Table 3. Test results Sobel

No	Variable relationship	T tast	T table	Information
1	Service quality- Image- Loyalty	1.7149	1.9822	No mediation
2	Customer Satisfaction -Image - Loyalty	2.1221	1.9822	Mediation

According to the table 3 can be known image can not mediate the relationship between the variables of service quality and loyalty. However, variable image can mediate the relationship between the variables of satisfaction and loyalty. This suggests a significant influence indirectly from satisfaction to loyalty through imagery.

Conclusion

Based on the results of testing the effect of service quality on customer satisfaction can be concluded that: *first,* there is a positive and significant effect of the variable quality of service to customer satisfaction. *Second,* there is a positive and significant effect of the variable quality of service loyalty. *Third,* there is a positive and significant effect of customer satisfaction on customer loyalty. *Fourth,* service quality affect the company's image. *Fifth,* consumer satisfaction influence the corporate image. *Sixth,* corporate image effect on loyalty.

From this research, customer satisfaction can be improved with everything possible to improve service quality include increasing physical form (tangible), empathy, reliability of service, responsiveness and customer assurance provision for all transactions carried out in Islamic rural bank. Increased loyalty can also be enhanced by improving the satisfaction and fulfillment guarantees satisfaction with the services rendered. The company is expected to meet the wishes of customers, providing overall satisfaction in line with expectations. And to instill a positive image to the customer, the company can do to improve the quality of service for customer satisfaction. Although the image of financial institution PT. BPRS BAS can't be a variable liaison, but it can serve as a liaison customer satisfaction on customer loyalty. This shows that customer satisfaction has a stronger effect in enhancing the image and loyalty compared to quality of service.

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FINANCIAL RATIO AND ITS INFLUENCE TO PROFITABILITY IN ISLAMIC BANKS

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Abstract. Financial Ratio and Its Influence to Profitability in Islamic Banks. This research aims to analyze the influence of the Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Financing to Deposit Ratio (FDR) and Biaya Operasional Pendapatan Operasional (BOPO) to Return on Asset (ROA) in Bank Muamalat Indonesia and Bank Syariah Mega. The data analysis method used in this research is multiple regression analysis. From the test results show that the Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Financing to Deposit Ratio (FDR) and Biaya Operasional Pendapatan Operasional (BOPO) simultaneously effect to Return on Asset (ROA). Based on the test results of the t statistic was concluded that the Capital Adequacy Ratio (CAR), Non Performing Financing (NPF) and the Financing to Deposit Ratio (FDR) partially no significant effect to Return on Asset (ROA), while Biaya Operasional Pendapatan Operasional (BOPO) partially significant effect to Return on Asset (ROA).

Keywords: *financial ratio, profitability, Islamic banks, multiple regression*

Abstrak: Rasio Keuangan dan Pengaruhnya Terhadap Profitabilitas di Perbankan Syariah. *Penelitian ini bertujuan untuk menganalisis pengaruh Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Financing to Deposit Ratio (FDR) dan Biaya Operasional Pendapatan Operasional (BOPO) terhadap Return on Asset (ROA) pada Bank Muamalat Indonesia dan Bank Syariah Mega. Metode analisis data yang digunakan dalam penelitian ini adalah analisis regresi berganda. Dari hasil uji statistik F menunjukkan bahwa Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Financing to Deposit Ratio (FDR) dan Biaya Operasional Pendapatan Operasional (BOPO) secara simultan berpengaruh terhadap Return On Asset (ROA). Berdasarkan hasil uji statistik t disimpulkan bahwa Capital Adequacy Ratio (CAR), Non Performing Financing (NPF) dan Financing to Deposit Ratio (FDR) secara parsial tidak berpengaruh signifikan terhadap Return On Asset (ROA) sedangkan Biaya Operasional Pendapatan Operasional (BOPO) secara parsial berpengaruh signifikan terhadap Return On Asset (ROA).*

Kata Kunci: *rasio keuangan profitabilitas, bank syariah, regresi berganda*

Introduction

Crises that have occurred in the Indonesian banking industry has been aware of all parties that the conventional banking system is not the only system that is reliable, but there is another banking system better is Islamic banking. In the banking activities, the implementation of Islamic teachings are realized by the implementation of sharia banking activity that is consistent with Islamic thought on economic activity. Along with the increasing economic growth, Islamic finance has also increased (Santoso and Sigit Triandaru , 2006)

In order to maintain public confidence, the banks must maintain financial performance. The bank's financial performance can be assessed by several indicators. One of the main indicators used as the basis of assessment is the bank 's financial statements. Based on the financial statements will be calculated a number of financial ratios commonly used as the basis of assessment of the bank (Riyadi , 2006). Recognizing the importance of health of a bank for the establishment of confidence in the banking world as well as to implement the precautionary principle (prudential banking) in the banking sector, Bank Indonesia felt the need to apply the rules on the health of banks. With the bank 's health regulations, banks are expected to always be in good health, so it will not harm associated with the banking community (Santoso and Sigit Triandaru , 2006)

To know the financial condition of a bank, it can be seen that the financial statements are presented by a bank periodically. This report is very useful, especially for owners, management, government, and society as a bank customer, in order to determine the condition of the bank (Kasmir,2012). Bank rating include an assessment of the factors which consists of: Capital; Asset Quality; Management; Earnings; Liquidity; Sensitivity to Market Risk.

In this study, aspects of capital assessed through the Capital Adequacy Ratio (CAR), asset quality aspects assessed through Non Performing Financing (NPF), the aspect of profitability assessed by return on assets (ROA) and Operating Expenses to Operating Income (ROA), while the liquidity aspect assessed through Financing to Deposit Ratio (FDR).

Some research show different results, the not the consistency of the results of research has been done before, and then the researcher are interested in similar research regarding, " The Effect of Capital Adequacy Ratio (CAR) , Non Performing Financing (NPF) , Financing to Deposit Ratio (FDR) and Operating Expenses Operating Income (OEOI) to return on Assets (ROA) in Bank Muamalat Indonesia and Bank Syariah Mega registered in Bank Indonesia period 2005-2012"

Literature Review

The bank's financial statements show the financial condition of the bank as a whole. From this report will be read how the actual condition of the bank, including the weaknesses and strengths (Kasmir, 2012). The purpose of making the bank's financial statements with the principles of Islamic Sharia is (Rifqi Muhammad, 2008): *first,* improving obedience to the principles of Islamic transactions in all transactions and business activities; *Second,* information sharia compliance by the entity on Islamic principles, as well as information assets, liabilities, and expenses opinion incompatible with Islamic principles if there is and how the acquisition and use; *Third,* information to help evaluate fulfillment of responsibilities sharia entity to trust in securing funds and invest in a decent profit levels; *Fourth,* information about the level of investment profits earned investors and owners of temporary syirkah funds and information regarding the fulfillment of the obligation (obligation) social function sharia entities, including the management and distribution of zakat, infaq, shodaqoh and wakaf.

The health of banks is the result of qualitative assessments of various aspects affecting the condition or performance of a bank through the assessment of financial, asset quality, management, earnings, liquidity and sensitivity to the market risk (Santoso and Sigit Triandaru, 2006). The rules about the health of Islamic banks have been set by Bank Indonesia Regulation (PBI) No. 9/1 / PBI / 2007 concerning the Rating System for General Banks Based on Sharia Principles (in http://www.bi.go.id, downloaded on September 6, 2013) subject and according to Bank Indonesia Circular Letter No. 9/24 / DPbS October 30, 2007 regarding the rating system for commercial banks based on Islamic principles (in http://www.bi.go.id, downloaded on 8 September 2013).

The bank rating of health banks include an assessment of the following factors: *First,* an assessment of the capital factor includes assessment of the following components: adequacy, projected (future trend) capital and the ability of capital to cover risks; and; The ability to meet the need for additional capital from earnings, capital plan to support business growth, access to sources of capital and financial performance of shareholders.

Second, an assessment of the asset quality factor includes assessment of the following components: The quality of productive assets, the development of the quality of earning assets, concentrations of risk exposure, and risk exposure core customers; The adequacy of policies and procedures, review systems (review) internal, system of documentation and handling performance earning assets.

Third, an assessment of the management factors include assessment of the

following components: The quality of general management, application of risk management, primarily on the understanding management on the risk of Bank or UUS; Obedience of Bank or UUS on applicable provisions, a commitment to Bank Indonesia or other parties, and adherence to Islamic principles, including educating the public execution of a social function.

Fourth, an assessment of the earnings factor includes assessment of the following components: Ability to produce profits, earnings capacity to support the expansion and risk cover, as well as the level of efficiency; Diversification of revenue, including the ability of banks to earn fee-based income, and diversification of investment of funds, and also application of accounting principles in the recognition of income and expenses

Fifth, an assessment of the liquidity factors include assessment of the following components: the ability to fulfill short-term obligations, the potential maturity mismatch, and the concentration of funding sources; the adequacy of liquidity management policies, access to funding sources, and funding stability.

Sixth, assessment of sensitivity to market risk factors include assessment of the following components: the ability of the Bank or Sharia capital covering potential losses as a result of fluctuations (adverse movement) exchange rates; the adequacy of the implementation of market risk management. Return on Assets (ROA) is used to measure the bank's management in the gain (profit) as a whole. The greater Return On Asset (ROA) of a bank, the higher the level of the bank's profits achieved and the better the bank's position in terms of the use of the asset (Dendawijaya, 2009).

Table. 1
Criteria of Return On Asset (ROA) Level Assessment

Level	Criteria	Information
Level 1	ROA > 1,5%	Very high
Level 2	1,25% < ROA ≤ 1,5%	High
Level 3	0,5% < ROA ≤ 1,25%	High Enough
Level 4	0% < ROA ≤ 0,5%	Low
Level 5	ROA ≤ 0%	Very low

Source: Bank Indonesia Circular Letter No. 9/24 / DPbS 2007

Capital Adequacy Ratio (CAR) is called with the capital adequacy ratio, which means that the amount of equity capital required to cover the risk of financial loss that may arise from cultivation of assets are risky. The greater this ratio, the bank's profit will also increase. In other words, the smaller the risk of a bank, the greater profits of a bank (Kuncoro and Suhardjono, 2011).

Table. 2
Criteria of Capital Adequacy Ratio (CAR) Level Assessment

Level	Criteria	Information
Level 1	KPMM ≥ 12%	Significantly higher than certainty
Level 2	9% ≤ KPMM < 12%	higher than certainty
Level 3	8% ≤ KPMM < 9%	Less higher than certainty
Level 4	6% < KPMM < 8%	Lower than certainty
Level 5	KPMM ≤ 6%	Less lower than certainty

Source: Bank Indonesia Circular Letter No. 9/24 / DPbS 2007

Non-Performing Financing (NPF) is used to measure the level of financing problems faced by Islamic banks. The higher this ratio, indicating the quality of Islamic bank financing is getting worse (Mohammed, 2005).

Table. 3
Criteria of Non Performing Financing (NPF) Level Assessment

Level	Criteria	Information
Level 1	NPF < 2%	Very good
Level 2	2% ≤ NPF < 5%	Good
Level 3	5% ≤ NPF < 8%	Good Enough
Level 4	8% ≤ NPF < 12%	Less good
Level 5	NPF ≥ 12%	Not good

Source: Bank Indonesia Circular Letter No. 9/24 / DPbS 2007.

Financing to Deposit Ratio (FDR) is how much third party funds be released for financing Islamic banks (Mohammed, 2005). Loan to Deposit Ratio (LDR) is how far the bank's ability to repay the withdrawal of funds by depositors by controlling loans as a source of liquidity. The higher this ratio, gives indication of the lack of bank liquidity. This is because the amount of funds required to finance the credit is grow (Dendawijaya, 2009). The amount of LDR follows the development of Indonesia's economic condition. Based on Bank Indonesia Regulation (PBI) No. 15/7 / PBI / 2013 on Statutory Reserves of Commercial Banks in Bank Indonesia in Rupiah and Foreign Exchange, that the bank is considered healthy if the amount of the Loan to Deposit Ratio (LDR) to the lower limit of the loan to deposit ratio (LDR) target is 78% and the upper limit of the Loan to Deposit Ratio (LDR) target is 92% from the date of December 2, 2013.

Biaya Operasional Pendapatan Operasional (BOPO) is used to measure the efficiency of the bank's ability to conduct its operations. The higher this ratio, the greater the bank's inefficient operating costs (Dendawijaya, 2009).

Table. 4
Criteria of *Biaya Operasional Pendapatan Operasional (BOPO)*
Level Assessment

Level	Criteria	Information
Level 1	REO ≤ 83%	Very high
Level 2	83% < REO ≤ 85%	High
Level 3	85% < REO ≤ 87%	Less high
Level 4	87% < REO ≤ 89%	Low
Level 5	REO > 89%	Les low

Source: Bank Indonesia Circular Letter No. 9/24 / DPbS 2007

In a study conducted by Adi Stiawan (2009) examined the effect of the Capital Adequacy Ratio (CAR) of the return on assets (ROA). Research results showed a significant influence of the Capital Adequacy Ratio (CAR) of the return on assets (ROA) . However, these studies contradict the research Asma' Rashidah Idris, Fadli Fizari Abu Hassan Asari, Noor Asilah Abdullah Taufik, Nor Jana Salim, Rajmi Mustaffa and Kamaruzaman Jusoff (2011) and Muh. Sabir M, Muhammad Ali, and Abd. Hamid Habbe (2012). The results showed that the Capital Adequacy Ratio (CAR) did not significantly affect the return on assets (ROA).

In a study conducted by Adi Stiawan (2009) and Vishnu Aluisius N. (2011) related to the effect of non-performing financing (NPF) on Return on Assets (ROA) shows the result that the non-performing financing (NPF) significantly affect the return on assets (ROA). Aulia Fuad Rahman and Rochmanika Rida (2011) in his research stating that Non Performing Financing (NPF) positive effect on return on assets (ROA). However, research conducted both at odds with research Muh Sabir, Muhammad Ali , and Abd Hamid Habbe (2012) which showed that the non-performing financing (NPF) no significant effect on return on assets (ROA).

Adi Stiawan (2009) conducted a study on the effect of Financing to Deposit Ratio (FDR) of the return on assets (ROA). The result of research indicated that the Financing to Deposit Ratio (FDR) significantly affect the return on assets (ROA). In the study Muh Sabir, Muhammad Ali, and Abd Hamid Habbe (2012) showed that the Financing to Deposit Ratio (FDR) positive and significant impact on the return on assets (ROA). The study contradicts the Suryani study (2011) that the Financing to Deposit Ratio (FDR) no significant effect on return on assets (ROA).

Operating Costs Operating Income (BOPO) studied Adi Stiawan (2009) and Aluisius Wishnu N. (2011) showed that the Operating Costs Operating Income (BOPO) significantly affect the return on assets (ROA). The Research Muh Sabir, Muhammad Ali, and Abd Hamid Habbe (2012), shows that the Operating Costs Operating Income (BOPO) significant negative effect on return on assets (ROA).

Methods

The population in this research is Islamic Banks (IB). Sampling technique in this research is nonprobability Sampling is a sampling technique that does not give the opportunity / same opportunity for each element or member of the population to be elected as members of the sample (Sugiyono, 2011). Purposive Sampling Method is sampling technique with particular consideration (Sugiyono, 2011). Criteria for Islamic Banks are sampled Islamic Banks operating in the period 2005-2012 and Islamic Banks which presents data Quarterly Financial Report for the period 2005-2012. Based on these criteria, the sample used in this study is Bank of Muamalat Indonesia and Bank of Mega Syariah.

The data used in this research is secondary data from the Quarterly Financial Report of Financial Ratios Table issued and published on the Web site by Bank Muamalat Indonesia and Bank Syariah Mega period 2005 to 2012. The data and information obtained through the official website of Bank Indonesia. Method of analysis used in this research is the method of Multiple Linear Regression Analysis.

Discussion

Based on the result, it can be seen that the Return On Asset (ROA) has an average value of 2.39%. Thus, ROA of Islamic banks have to fulfill the standards of Bank Indonesia, which means Islamic banks successfully manage its financial performance in increasing revenue and reducing costs. The average value of the Capital Adequacy Ratio (CAR) is 13.07%. Thus statistically, CAR of Islamic banks are significantly higher than the provisions of Bank Indonesia, which means Islamic banks able to finance the operations of the bank to absorb losses on assets decline. Financing to Deposit Ratio (FDR) has an average of 84.48%. So FDR of Islamic banks have to fulfill the standards of Bank Indonesia, which means the distribution of funding is greater than the funds deposited, because the main function of the bank is as intermediation (intermediary) between the parties with the excess funds with underfunded. *Biaya Operasional Pendapatan Operasional (BOPO)* reached an average of 83.38%. So *BOPO* ratio of Islamic banks comes into the second rank (83% <REO ≤ 85%), which indicates that the efficiency of operational activities of Islamic banks are already good.

Based on the results of the amount of correlation between the independent variables, it appears that only the Operating Expenses Operating Income (BOPO) which has a quite high correlation with the variable Financing to Deposit Ratio (FDR) with a correlation of 58.7%. Therefore, this correlation is still below 95%, it can be said did not occur serious multicoloniarity. Multicoloniarity test results with see the value of tolerance and VIF. Results of tolerance calculation showed that were

no independent variables have a tolerance value of less than 0.10, which means there is no correlation between the independent variable whose value is more than 95%. The result of the calculation Variance Inflation Factor (VIF) also showed the same thing that no one independent variable that has a value of more than 10. So VIF can be concluded that there is no multicoloniarity in the regression model.

To determine the presence of autocorrelation in a regression model, then tested against the value of the Durbin-Watson (DW) test. The result show that the generate value Durbin-Watson (DW) 0,929. While in the table of Durbin-Watson (DW) the number of samples (n) = 64 and the number of independent variables (k) = 4 and a significance level of 0.05 obtained values (dl) = 1.46 and (du) = 1.73. Therefore the calculation can be concluded that there is a positive autocorrelation. Because the regression model contained autocorrelation problem, it is necessary to measure improvement. Improvements are considered appropriate is to use a technique Generalized Least Square (GLS) that is a method to get rid of the first order autocorrelation (first order autocorrelation) in a regression equation estimation. Then the method used to estimate the value of p is the method Cochrane-Oreutt is a technique replicates of two stages: the first stage is to run a regression to the initial equation then predicted coefficient p by running regression equation based on the suspected residue containing autocorrelation. Then, the second stage is using an estimate of the autocorrelation coefficient, where p is used to estimate the Generalized Least Square equation by substituting estimation p. After performing OLS regression techniques, we then look for the first iteration p value estimate for estimating the generalized difference equation in the equation.

The test results of Durbin-Watson (DW) after repair autocorrelation as follows. In the previous regression equation, the value of the Durbin-Watson (DW) of 0,929 and consist a positive autocorrelation, while the regression equation after repair generate of Durbin-Watson value (DW) of 1.920 which means it did not happen autocorrelation.

From the result shows that dots dispersed and scattered above and below the number 0 on the Y axis, there is no specific pattern that is irregular or no clear pattern. Therefore, it can be concluded that there is no heteroscedasticity in this regression models.

Testing the normality of the data to statistical analysis performed using Kolmogorov-Smirnov (KS). In multivariate normality tests performed on residual value. The data indicated a normal distribution with significant value above 0.05 or 5% (Ghozali, 2011). The value of the Kolmogorov-Smirnov (KS) are 1.056 and 0.215 significance. It can be concluded that the distribution pattern of the residuals are normally distributed, so the regression model fulfill the normality test.

The coefficient of determination (R2) was essentially measures how far the ability of the model to explain variations in the dependent variable (Ghozali, 2011). The coefficient of determination can be seen as follows. The amount of Adjusted R Square (R2) is 0.657. The results of this statistical the calculation shows the variation of the Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Financing to Deposit Ratio (FDR) and *Biaya Operasional Pendapatan Operasional* (BOPO) can explain the variation of 65.7% Return On Asset (ROA). While the remaining 34.3% is explained by other factors beyond the regression model are analyzed.

The statistical test F basically indicates whether all the independent variables included in the model have jointly influence on the dependent variable. Based on the results of SPSS output simultaneously the influence of independent variables on the dependent variable can be seen as follow. On the result of statistical test F, obtained calculated F value is 30.641 and 0.000 significance level. Because the level of significance less than 0.05 and the result F count is greater than the F table (30.641> 2.53), it can be concluded that the Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Financing to Deposit Ratio (FDR) and *Biaya Operasional Pendapatan Operasional (BOPO)* simultaneously significant effect on Return On Asset (ROA).

T statistical test indicates how far the influence of the independent variables individually in explaining variation dependent variable. The results of test calculations obtained partial t Variable Capital Adequacy Ratio (CAR) of -0.478 with a significance value of (0.634> 0.05). It can be concluded that the Capital Adequacy Ratio (CAR) partially negative but insignificant effect on the Return On Asset (ROA). This means that the higher the level of Capital Adequacy Ratio (CAR) of a bank did not a barometer of the success of the bank's management in obtaining high profits because capital owned banks have not used optimally in the distribution of funding which the CAR only serves as a backup capital which resulted in the bank's capital funds to settle unproductive or idle (idle funds).

The results of test calculations obtained partial t Variable Non-Performing Financing (NPF) of -0.189 with a significance value of (0.851> 0.05). It can be concluded that the Non-Performing Financing (NPF) partially negative but insignificant effect on the Return on Asset (ROA). The results of this research indicate the possibility of resulting value *Penyisihan Penghapusan Aktiva Produktif* (PPAP) can still cover the financing problems. Bank profits can still be increased by the high of Non Performing Financing (NPF), because banks are still able to obtain, not only a source of income from the finance portfolio, but also from other income sources also provide a relatively high influence on the rate of Return on Asset.

The results of test calculations obtained partial t Variable Financing to Deposit

Ratio (FDR) of -1.411 with a significance value of (0.164> 0.05). It can be concluded that the Financing to Deposit Ratio (FDR) partially negative but insignificant effect on the Return On Asset (ROA). The results of this research showed the higher this ratio, the greater the illiquid banks. The more illiquid bank greater the liquidity risk borne by the bank, so contained the risk of unavailability of liquid assets to fulfill obligations to customers. Trending negative liquidity risk due to the results of a given financing to be borne by the bank increase, so the Return On Asset (ROA) decreased. The level of bank's ability to withdraw funds from low customer and the bank did not have a reserve fund to restore customer funds savers.

The results of test calculations obtained partial t Variable Operating Expenses Operating Income (BOPO) of -10.207 with significance value of (0.000> 0.05). It can be concluded that the *Biaya Operasional Pendapatan Operasional* (BOPO) partially significant negative effect on Return On Asset (ROA). The results of this research indicate that if the operations are conducted efficiently generated revenue the bank will increase or more efficient performance of the operations of a bank, the profit earned by the bank will be even greater.

Conclusion

Besides the explanation above it can be concluded that through the F statistic test results simultaneously from each of the dependent variables with independent showed that the Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Financing To Deposit Ratio (FDR) and *Biaya Operasional Pendapatan Operasional (BOPO)* significantly affected on Return On Asset (ROA). While the statistical t test results partially from each of the dependent variable showed that the Capital Adequacy Ratio (CAR) did not significantly influence the return on assets (ROA). The results are consistent with previous studies conducted by Asma 'Rashidah Idris et al (2011) and Muh. Sabir M et al (2012) that the variable Non Performing Financing (NPF) has no significant effect on Return on Assets (ROA). These results are also consistent with previous studies conducted by Muh. Sabir M et al (2012). As for the variable Financing To Deposit Ratio (FDR) did not significantly influence the Return On Assets (ROA). The result of this study is also in line with previous research conducted by Syriac (2011). And for variable Operating Costs Operating Income (ROA) significantly affects the return on assets (ROA). And the results are consistent with previous studies conducted by Adi Stiawan (2009) and Aluisius Vishnu, N. (2011)

Based on the conclusion above, we can suggest that: it is important to make an optimal asset management through financing or business expansion. So, there are no idle funds that could result settles unproductive asset. The application of the

precautionary principle in the management of the financing conducted to minimize the risk of financing so as to improve profitability and can manage funds raised from the public and then redistributed in the form of financing, allocation of funds held should be distributed in a variety of forms of investment that will be able to increase the income of the bank, either in the form of bonuses and profit-sharing, which means sharia banks profit will increase and control the income and expenses of special concern to always be at a level of efficiency that can generate maximum profit, so that the performance achieved will always increase.

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HUMAN RESOURCES DEVELOPMENT OF SHARIA BANKING: PHENOMENOLOGICAL APPROACH

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Abstract. Human Resources Development of Sharia Banking: Phenomenological Approach. The aims of this study are to finding, identifying and mapping the condition and situation of the policy and practice of Human Resource Management. This study used a qualitative method with phenomenological approach to uncover the professional development of HR qualify. Data analysis techniques includes reduction, data display, perform verification, and compiling data to draw the conclusions. The study concluded that the conditions of management and human resource development three sharia Bank in Jakarta refers to the philosophy and principles of Islamic economics as well as guided by the vision and mission of sharia banks. This study find that sharia HR professional qualification characterised by quality of faith, piety, knowledge and understanding of finance and business, applying the principles of Islam and has a strong commitment to apply the rules of sharia, noble, hard-working, and sincerely intelligent accompanied by sincere

Keywords: Sharia Banking, Human Resource Development, Phenomenological

Abstrak. Pengembangan Sumber Daya Manusia Perbankan Syariah: Pendekatan Fenomenologis. Tujuan dari kajian ini adalah untuk menemukan, mengidentifiaksi, dan memetakan kondisi dan situasi dari kebijakan dan praktik manajemen sumber daya manusia. Kajian ini menggunakan metode kualitatif dengan pendekatan fenomenologis untuk melihat pengembangan atas kualifikasi sumber daya manusia. Teknik analisis data mencakup reduksi, tampilan data, verifikasi kinerja, dan kompilasi data untuk membentuk suatu kesimpulan. Kajian ini menunjukkan bahwa kondisi manajemen dan pengembangan sumber daya manusia di tiga bank syariah merujuk pada filosofi dan prinsip ekonomi syariah sebagaimana yang ditunjukkan oleh visi dan misi bank syariah. Temuan lain menunjukkan bahwa kualifikasi sumber daya professional memiliki karakteristik atas kualitas keyakinan, kesalehan, pengetahuan, dan pemahaman akan keuangan dan bisnis, aplikasi prinsip syariah dan memiliki komitmen kuat untuk mengaplikasikan aturan syariah, mulia, pekerja kerja, dan cerdas yang diiringi dengan ketulusan sikap.

Kata Kunci: Bank Syariah, sumber daya manusia, fenomenologis

Introduction

Nowadays, especially in the globalization era increasingly intense competition among companies, the more we realize the importance of human resource management and development of professionalism, including the Islamic banking industry in Indonesia. This paper is going to analyze the human resource development in three Islamic banks in Indonesia such as Bank of Muamalat, Bank of BNI Syariah, and Bank of Syariah Mandiri. In Indonesia, the development of Islamic banking system is developed base on dual banking system framework; this system is related with Indonesian Banking Architecture. On this system there is integration between Islamic banking and conventional banking to make a synergy cooperation to help the people for increasing the credit or financing for national productive sector.

The delopment of Islamic banking industry faced the tight competition, so the competency of human resources on Islamic banking must be improve. Until the 2014, the Islamic banking industry has 11 Islamic commercial banks, 23 Islamic banking unit, and 163 Islamic rural banks. Islamic banking industry has growing rapidly, but in the last year the growth of Islamic banking industry is decreasing.

The Islamic banking industry needs the qualified human resources which have multi-knowledge and multi-skills. The qualified human resources are needed by the Islamic banking industry to manage the banks to improve the profit of Islamic banking industry. The human resources in Islamic banks must to be creative and innovative to develop and modified the banking's product. The human resources in Islamic banking industry must to have the competency as an expertise in Islamic banking and finance, besides that must to understand the shariah contract, so he can modified the product that fulfill the shariah compliance. The Islamic human resources must be able to give a services and confince the sociecty that the Islamic banking product has suitable with Islamic ethics and principle. The human resources in Islamic banking industry must to have a competency in financial investement, banking, soft skills, and sharia. But this condition is rare in Islamic banking industry. This problem is established because the limitation of educational and training institution on Islamic banking.

The fact shows that almost the human resources on Islamic banks, especially at middle or top management is come from conventional banks. It predicted that almost 70 percent of Islamic banks employee today is come from conventional banks or from non-shariah economics education (Bank of Indonesia, 2012). So, the human resources fulfillment that has a complete competency must to do, either by qualitative or quantitative ways.

Muhammad (2005) stated that the credibility and profesionalty of financial institution is developed if they have three elements, such as humanware, hardware, and software. Humanware is the persons that manage the institution started from highest level to the lowest level. The humanware must suitable either on quality side or quantity side. The hardware includes the production tools and physical equipment, such as machine, building, and the others. The software includes the non-physical things, such as procedure, system, and the others.

The development of human resources is concern with the activity and relationship control between the employes. They should show their optimal performance. The employes must to increase the competency and the technical skills to realize the goals that had been set in planning. The one thing that can be done to achieve it is by the human resources training.

According to the condition above, we can formulate the problem statements as follow: *first,* how is the situation and condition about the Islamic banking management in Indonesia? *Second,* how are the condition and the development of three Islamic banks in Jakarta? *Third,* how are the development's patterns on human resources development in three Islamic banks in Jakarta?

Literature Review

Islamic banking can be defined as a bank that operated based on profit sharing system that gives an advantage either for the society or the banks. The Islamic banking offers the justice in transactions, the ethical investment, and proposes the cooperative values and brotherhood in production, and avoids the speculative activities.

The human resources management is the empowerment, development, appraisal, the remuneration, and individual management of organization members or groups. Besides that, it also related with design and system implementation of planning, staffing, employee development, career management, performance's evaluation, employee compentation, and the good relationship in employee (Simamora, 2004).

Professionalism is based on the word of profession that has a meaning as a job based on skill and educated. Professionalism that the characters of professionals employee is a job, or title that must fulfill the certain qualification and personality (Komaruddin, 1994). On this research profession is job sector that based on educated skills, and certain personality such as honesty, loyalty, and the others. So, the professional human resources in Islamic business institution is a human resources that have a knowledge and skills in shariah, economics, and business practice.

The development of human resources in Islamic banking is something that they have to do. The first job is with the selection of the employee to fulfill the position. The development and training existence in Islamic banking is obligatory, this things in the way to increase the productive working culture. The professionalism of human resources in Islamic banking is something that very strategi to increase the customer's loyalty and to make an efficient production process in Islamic banking industry.

One fundamental ways to make Islamic banking becomes credible is must be supported with human resources that qualify, competence, and professional. Professional means that the person needs special knowledge and skills to do that job. Profesionality means that a practical values of competence skills to manage the organization and do the job with effective and efficient (Muhammad, 2005). Profesionality can be measured just from physical apprence, but the most important show by the real performance from the activities. The Islamic and professional human resources have the qualification and competency that expertise in economics, banking, finance, and shariah.

In Indonesia the human resources problems is very complex, there are several indicators that show this things, such as: *first,* the difference between human resources competency with market of worker. *Second,* the distribution of populations is not equal. *Third,* the growth of workers is larger than the job's vacancy. *Fourth,* the asymmetric of public services need with the worker. *Fifth,* the market worker's information is not symectric. *Sixth,* the unemployment and poverty that makes a lower education and health.

There are several studies that have discussed about the human resources development. Eka Purwanda and Zaenal Muttaqien (2012) show the increasing Islamic human resources competency with the Islamic bank's leadership that visioner and adaptive. Muhammad (2003) show that the advantage of Islamic finance institution is determined by the credibel's human resources. We have an increasing empowerment strategy with the entrepreneurship and leadership empowerment in Islamic financial institution.

Siswanto (2012) conclude that to increase the advantage of Islamic bank's human resources is through the implementation of Qur'an-based human resources management. The result from this research is the implementation of Quran-based HRM and the employee satisfaction is positive. According to the Siswanto's research, this paper are going to show the human resources development problems using a phenomenological approach, so we expected that the increasing of human resources competency based on Quran can established the advantage of human resources Islamic banking.

Tri Wikaningrum (2011) had identified the policy and development practice of human resources in Islamic banking and the influence to company's performance. The quantitative descriptive variable is the policy and human resources development, attitude, selection, training, and performance evaluation. The result shiw that the practice of human resources management is still not optimal, the training is still not optimal, the evaluation performance that not oriented on employee development. This paper are going to anaylize the influence of practical and policy in human resources management with the company's performance and employee development. So this paper are going to show the human resources development condition in Indonesian Islamic banking industry.

Methods

The research method is using qualitative methods using the phenomenological approach. This approach is selected because the research is targeted to identifying and mapping the comprehensive perception of respondent according to human resources development at three Islamic banks in Jakarta. So, with this method we hope that we can get the comprehensive information about the research subject to analyze the human resources development program in Islamic banks.

There are several steps on this approach, such as (Husserl, 1982): the first step on this research is intentional analysis. The second step is doing the epoche. The third step is eidetic reduction. The fourth step is the researcher concluding the research result to answer the question about the form and practice of human resources development in Islamic banks. The research framework can be shown on Figure 1.
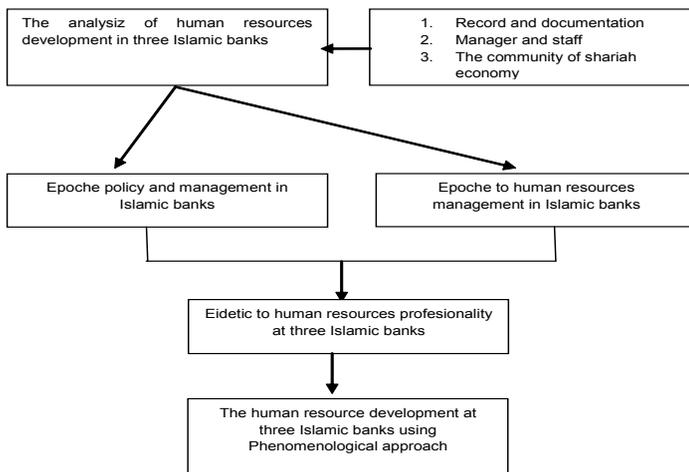

Figure 1. The Research Framework

The Phenomelogical is described as what the feeling of individual or group related with his perception and experience. The feeling that established is called as phenomena (Prianti, 2011). The data that used on this research is based on manager and staff at three Islamic banks, such as Bank of Muamalat, Bank of BNI Syariah, and Bank of Shariah Mandiri. Also the data come from the interview with Head of Islamic Bank Department at Bank of Indonesia. To get depth information, this research using focus group discussion in several bank locations.

Moleong (1989) explain that on analysis data process in general have three relatied activities, such as: the data reduction, the data show, and the data verification to make a conclusion. On data analysis, the researcher doing the data reduction, after that show and compile the relevant data. Next is the data verification to make a conclusion.

Discussion

From the focus group discussion find there are several problems that need the solution, such as: *first,* the incomplete regulation for Islamic bank, this thing is become the problems so the Islamic banks can't operate optimally based on its characteristics. *Second* is the problem about the quality of human resources. *Third* is the problem about infrastructure.

Bank of BNI Syariah had recruitment for fresh graduate using professional hire institution. The   human resources development based competency through recruitment process to all out performance, training, remuneration, and industrial relations. The target in human resources is maximizing the working culture, trust and brotherhood in all shariah employees. In Bank of Syariah Mandiri, the recruitmen process has three criteria, such as fresh graduate, professional employee for officer position, and management development program for fresh graduate. Every criterias has different competency according his job's position. The educational background can be varied, such as engineering, mathematics, economics, and the others. With the variation of educational background of course will be have an impact the competency's gap in understanding the banking product and operational.

Bank of BNI Syariah do the job evaluation every two until three years, this is suitable with business challenger. Besides that, also do the job analysis to see the suitableness job position with remuneration and assessment. The employee development's program is to make the trustworthy and brotherhood culture in working environment. The program and training is made based on the competency gap according the job's position. Standardized training curriculum is made based on the need on every job's position.

Bank of BNI Syariah to do the evaluation for their employee is using performance appraisal evaluation. This method is using performance management system to increase the services and performance from Bank of BNI Syariah. This system is using the key performance indicator with computer system. The reason of application this system is to make an appraisal performance to be more accurate and can to go the effectivity of organization.

Bank of Shariah Mandiri doing the evaluation and revition through enhancement program, such as: certification program, public training, scholarship, and the others. The evaluation is supported by e-learning implementation that can be accessed by every employee. One form of evaluation program is assestment system in every level, such as middle management development program. If the employee can't pass the passing grade, so the employee must to involve the refreshment program. This refreshment program is doing every three month. Evaluation on this system is using the key performance indicator.

Bank of Muamalat Indonesia has fulfilled the officer need through his learning center in Muamalat Institute. The Muamalat Institute has doing the human resources quality that have a competency in Islamic banking practice, and also understand the shariah knowledge. The development of human resources is based on the organization needs and industry. The routine program in human resources development, such as: internal training, the periodical competency exam, the human resources development through MODP. So, it will create a new leader from internal organization.

From the discussion and interview we can make a several organization and human resources strategy that can be applied in Islamic bank, such as: *first,* realized the job analysis in every job's position either in head office or branch office. *Second,* the cooperation with academic institution to fulfill the human resources need. *Third,* the development and increase the human resources competency to fulfill the human resources need either in quality and quantity, so the banks can develop his business. *Fourth,* the development of human resources information shariah that based on competency.

The professional human resources at Islamic bank must to have the qualification and competency in economics, banking, and finance in one side, and combine it with the shariah knowledge. Because of that, the human resources at Islamic bank must to develop that competency.

The expertise of human resources will be developed in a good way, if they have the following criteria and type as follow: *first*, the shariah expertise that understand the economics, banking, and finance. *Second*, the economics, business, and finance

expertise that understand the shariah knowledge. *Third,* the shariah, economics, banking and finance expertise.

According to Muhammad (2005), profesionality is an element key in Islamic bank's management. Nabi Muhammad SAW said "that Allah will be greatfull if one of you doing his job in a professional way" (HR. Baihaqi). The professional means that the individual will be in high motivation to finish their job in excellent result using the competency that he has.

There are several implications based on this research for Islamic banking industry, such as: *first*, should consider seriously and consequently the contribution of human resources studies to professionalism development. *Second,* give the chance to higher education institution to have managerial studies that can give a benefit to knowledge and practical development. *Third*, give a full attention with the human resources development condition at Islamic banks with the integrated framework of banking and shariah ethics. *Fourth*, do the cooperation between higher education instutiton and Islamic banking industry to develop the professional human resources.

Besides that, there are also several implications for regulator either for Bank of Indonesia or Financial Service Authority, such as: *first*, facilitate the policy that can support the human resources development at Islamic banking industry. *Second,* facilitate to decrease the implementation trap of integration knowledge (such as shariah knowledge with banking and financial knowledger) in every Islamic bank. *Third,* support the sinergity between the higher education institutions with the Islamic banking industry.

For higher education institution have to do several systemic and continuity actions in a framework of: *first,* mapping, organizing, facilitating the students need from the beginning of study. *Second*, formulate and response the human resources problems in a framework of academical studies. *Third*, support the students to have a contribution research to answer the Islamic banking industry problems.

This research also has an implication to the government either ministry of national education and culture or ministry of religious affair to keep in touch with the development of human resources for Islamic banking and financial institution need. The support can be formulated as curriculum since the high school until the university, so the Islamic economics and finance can develop rapidly in society.

Conclusion

This research find that the development and management from Islamic Banks has suitable with Islamic banking standars, because has fulfill the philosophy

of Islamic economics, legal standing, vision and mission, the development policy, strategic target, etc. Besides that, it had established the human resources department with the supporting action from Bank of Indonesia in every Islamic bank. The qualification of humas resources in Islamic bank is based on Al-Qu'ran and sunnah. The human resources had passed the professional selection, after that the employee has a chance to follow the training either the soft skills training or hard skills training to improve the competency. The recruitment have three important criteria, such as: fresh graduate for tecnichal position, experience employee for officer position, and management development program for fress graduate that can fulfill the officer position.

There are several actions for decreasing the difference in human resources qualification, such as: open rectruitment at the university, do the training and monitoring, the banking staff program, micro banking academy, etc. The development pattern of human resources in Islamic banks basically divided into two, such as: the professional qualification based on shariah side, and the professional qualification based on tha business and banking side. The evaluation model and human resources in Islamic banks has eight substantial elements and procedures, such as job evaluation, job analysis, spiritual side, learning center, e-learning, refreshment, enhancement program, and value foundation. On this model, employee is not only as a target but also has a subject to evaluation process and human resources development.

The professionalism of human resources development in Islamic bank is should be: *first,* always integrated and empowerment of human resources principle to support the basic action, systematic, and contextual in the way to increase the effectivity and efficiency in Islamic banks; *second*, Islamic banks and conventional banks is should be together to improve the strategic role in economy; *third,* the consistency to have their own identity as Islamic business entity.

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APPLICATION OF PATTERN OF ISLAMIC STATE REVENUE POLICY TO IMPROVE THE ABILITY OF INDONESIA'S FISCAL

Any Setianingrum[1]

Abstract. Application of Pattern of Islamic State Revenue Policy to Improve the Ability of Indonesia's Fiscal. *The aim of this study is to analyze the possibility of Islamic state revenue to improve the ability of Indonesia's fiscal. This thing is important in the way to diversify the fiscal instruments in Indonesia. The result shows that several Islamic revenues instruments still relevant to applied in Indonesia, exclude the ghanimah and Jizya. But, it is necessary to adjust the nomenclature and connectivity with state financial regulations. The application does not have to be exclusive and labels associated with Islam, but should be more focused on the exploration of universal values and utility, which is inherent in all of Islam income instruments.*

Keywords: *fiscal instruments, historical analysis, case study*

Abstrak. Aplikasi Kebijakan Pendapatan Islami Untuk Meningkatkan Kemampuan Fiskal Indonesia. *Tujuan dari penelitian ini ialah untuk menganalisis kemungkinan penerapan kebijakan pendapatan pada Negara Islam dalam meningkatkan kemampuan fiskal Indonesia. Hal ini penting dilakukan dalam rangka diversifikasi instrument fiskal di Indonesia. Teknik analisis yang dipergunakan dalam penelitian ini ialah teknik analisis historis dan studi kasus. Hasil yang didapat menunjukkan bahwa instrumen pendapatan Islam masih relevan untuk diterapkan pada pemerintahan di Indonesia, kecuali ghanimah dan Jizya. Akan tetapi aplikasi instrument pendapatan pada Negara muslim kontemporer saat ini memerlukan penyesuaian nomenklatur dan keterkaitan dengan regulasi yang berlaku. Aplikasi tersebut tidak harus bersifat eksklusif dan dikaitkan dengan label-label Islam, tetapi harus lebih focus terhadap eksplorasi nilai dan utiliti yang bersifat universal, yang sudah melekat pada semua instrument pendapatan Islam.*

Kata Kunci: *instrument fiskal, analisis historis, studi kasus*

Introduction

The management of government finances is also widely expected to greatly affect the domestic economy, the private sector and the overall economy. Moreover, in the government's financial management policies are also attached to the functions of public finance policy, namely the function of allocation, distribution and stabilization. Effectiveness and efficiency of the passage of these functions depend on how strong the system is applied to the financial management of central and local government. In other words, the successful handling of market failure, the need for public goods and externalities factors handling by the government to be very dependent on how the government's financial management is executed. Domino effect of government financial management is also very broad, covering the role of stimulator, facilitator, coordinator and entrepreneurs in regional development, which can boost growth and equitable income distribution. While at the same time there are still many problems that arise in the government's financial management system.

Some real problems are found from the results of various research areas in Indonesia's financial pattern is, most of the proposed program of results from *Musrenbang* (consensus development plan), followed by all elements of society can't be realized because of limited state funds. Results interview with the Mayor of Bekasi (2014) stated that the 30% of new development programs that can be handled by the state budget. In the other words, there are 70% of programs and activities that should be funded by the budget, but can't be realized because of region fiscal constraints.

Other real problems that are found by several studies almost all local governments in Indonesia have the same problems that have a low degree of fiscal decentralization (Kuncoro, 1995). This indicates the weakness of the financial management area and the need to improve strategies and seek new breakthrough in terms of financial management. The foregoing is also confirmed in research Amri in Halim (2012), explained that the management of revenue and expenditure management is an important part in the management of government finances. However, until now attempt to explore the sources of revenue still has many obstacles, both in terms of limited financial resources itself and in terms of capabilities and management systems as well as administration (Dewi in Halim, 2001). In fact, development needs still need to be accelerated and enlarged in order to improve the welfare of the community. But in fact, the construction still has many obstacles and challenges are not small.

The presence, the entire classical problem is still not ideally show local financial management system that is capable of moving the revenue potential

and development programs needed optimum community. The main cause of this problem is the allocation of limited funds both from local government sources and the central government. Therefore, local and central governments must still required to be able to look for alternative ways so that development can be further expanded and enlarged. Then the solution is the need to explore funding, including the conduct of innovation creation of resources for regional and central growth.

Since the multidimensional crisis that hit Indonesia has alerted us all of the need for reinforcement of the paradigm and economic activities based on moral and ethical. So that the current era is needed to evaluate alternative approaches as well as strengthen existing economic structure. The implication in the current era is needed to evaluate alternative approaches as well as strengthen existing economic structure, including in areas such as public financial management. Alternative paradigms that are currently being taken into account by economists are Islamic economic system. Economist belief that Islamic economic system is capable of being a favored alternative system is supported also by the Islamic financial performance that proved to have better durability in a period of economic crisis that happened in the world since 1998.

In the perspective of Islamic-based financial system, potential sources of revenue in each region in Indonesia are still a lot and not maximized empowered. The practice of public finances during the reign of the Prophet Muhammad and the first four caliphs had income instruments and mechanisms that have been proven history, able to function well in the distribution of income, economic growth while socio-economic stability. This fact is supported by the Western economist, Adam Smith, in his book The Wealth of Nations (1976), which makes two classes of countries, namely the developed and underdeveloped countries. And by Smith (1976), Medina in Mahomet and his immediate leadership successors (Muhammad and the first four caliphs) the majority of the livelihoods of its people are traders classed as a developed and prosperous country at the time. Based on the track record, in this study will be an analysis of the management of incomes policy at the time of the Prophet Muhammad and the first four caliphs to be a reference as well as how to dig and revitalize their income instruments for strengthening the financial system in the present area.

Based on the description above background drafted this paper, by using qualitative research methodology, the historical analysis methodology and case studies conducted from June to January 2014. The historical analysis methodology used to analyze and explore the instruments and mechanisms for government financial management pattern at the time of the Prophet Muhammad and the first four caliphs. The case study methodology is used to analyze and explore how and

why patterns of local finance and mechanisms implemented under the current structure. Case studies carried out in the Local Government City of Bekasi, as a representation of local government in Indonesia.

Literature Review

Below will describe some of the results of research on financial policy that occurs in the central and local governments in Indonesia. Before analyzing the results of financial management at the local government level, will be examined in the study at the national level first. However, either directly or indirectly, a financial policy at the national level will give effect to the policy in the region. The discussion on the issue, starting on tax policy in the Republic of Indonesia, which done by Surjaningsih (2012), the research found there is a co-integration relationship between government spending and taxes on output in the long run. In the long term taxation, there is a positive impact on economic growth while government spending is doesn't give an impact. Short-term adjustment shows that the shock of the rising in government spending has a positive impact on output while shock negative impact of tax increases. More dominant effect of government spending on output in the short term than the show is still quite effective tax policies to stimulate economic growth, especially in times of recession. While the increase in government spending led to a decrease in inflation, while tax increases lead to an increase in inflation. This study also showed the absence of discretionary fiscal policy conducted by the government. From research Surjaningsih (2012), can be considered for local governments to regulate taxation and spending policies, which have a different impact in the short and long term growth and macroeconomic indicators in general.

Other studies are useful to complement the considerations in determining the pattern of regional finance is the state budget process in Indonesia. Indayani research results (2006) found that: *first,* outside of routine spending of foreign debt was under pressure because they have to make sacrifices for the payment of foreign debt increased tendency to be from year to year. *Second*, direct development budget even more depressed because domestic revenues also have to be sacrificed for routine expenditure, which is dominated by foreign debt payments. *Third*, the position of the government savings is actually quite large, at least seen from the existing economic conditions. Indayani (2006) show reminiscent of the government that in addition to issues of taxation and spending policies will affect the macroeconomic indicators in general.

Looking at the results of the research described above, the various problems that accompany financial management, the improvement of income and expenditure

policies become very urgent. One of the most pressing policies to be improved is the taxation policy as wide domino effect. It is as stated by Yudhoyono (2010), that tax policy should be improved to make to be more fair because it involves economic policy and fiscal policies in general. Not optimal tax administration Indonesia caused by lack of clarity in the direction of development and the achievement of the ideals of the tax. As a result, the tax administration system becomes very weak. This is what makes many people take advantage of the tax for the benefit of themselves and each group (Commission, 2014).

After knowing the results of research on financial policy at the national level in outline, the following will describe the extent of the challenges and obstacles in financial management in the various regions in Indonesia to provide an overview, information and inventory issues as a preliminary study of the practice in the field. In terms of financial management area there are several things that must be considered, related to Law No.32 / 2004. The area has a larger role in managing local financial. This condition is an opportunity for local government to demonstrate its ability to manage finances without interference from higher levels of government (Yunasman in Halim, 2012). Below are some studies that explain the multiplicity and complexity of the challenges and constraints.

In terms of financial expenditure areas, the results Amri in Halim (2012), found that the lack of planning expenditures will eventually bring up the possibility of under-financing or over-financing, which all affect the level of efficiency and effectiveness of the work units of local government. From the results of previous studies as described above, found many factors that influence the effectiveness of revenue and expenditure policies of local governments. These factors are policies covering taxation revenue and average revenue is still low, government spending policies, the amount of debt payments, professionalism and human morality, both the executive and the judiciary.

Methods

To answer the question in this study used qualitative research methods. Consideration of the use of qualitative research approach is more complete data obtained, more in-depth, credible and meaningful so that the goal of this research can be achieved (Sugiyono, 2013). The strength of qualitative research lies in its ability to provide a textual description of the complex, in particular information that is the human side, such as behaviors, beliefs, opinions, emotions, and interaction between individuals. Qualitative methods are also effective in identifying intangible factors, such as social norms, socioeconomic status, gender rules, ethnicity, religion and the whole issue is not legible appearance.

According Sugiyono (2007), Qualitative research is divided into three stages: *first,* stage description or the orientation phase, at this stage the researchers describe what is seen, heard and felt on the information obtained; *Second,* reduction stage, at this stage of research to reduce any information obtained to focus on a specific issue focus; *Third,* the selection stage, at this stage the researcher outlines the focus that has been determined to be more detailed and in-depth analysis. The research methods used on this research are the historical analysis and case studies.

In the analysis of historical, scientific history writing is required to generate explanations regarding the issues discussed. Explanation was obtained through the analysis. An important step in making a historical analysis is to provide a framework or frame of reference that covers a wide range of concepts and theories that will be used to make the analysis. Historical research is supported by theories reliable, is more accountable objectivity history of science itself (Kartodirdjo, 1988).

Case study is a research method that specifically investigates a contemporary phenomenon that is present in the context of real life, which is implemented when the boundaries between phenomenon and context is not clear, by using various data sources (Yin, 2003). Position theory constructed in a case study can be improve, supplement or enhance existing theories based on the latest developments and changes in facts. Stake (1995; 2005) and Creswell (1998), Yin (2003) argues that a case study using a variety of data sources to reveal the facts behind the cases studied. The diversity of data sources are intended to achieve the validity and reliability of the data, so that the results can be true. The fact is achieved through assessment of connectedness evidence from multiple data sources.

Discussion

Paradigm, concept and implementation of financial management in the Islamic government had a difference principle with conventional systems. The most fundamental difference is because in Islam there is a prohibition of usury and mechanisms of charity, donation, shadaqa, endowments and resource management must be adapted to the rule of the Al-Quran and al-Hadith. Among the differences in terms of revenue Islamic state is, charity is the main instrument for the Muslims, along with the poll and *kharaj* for non-Muslims, and supported by the social sector instrument donation, Sadaqah and endowments. While the tax levy in the Islamic state is not permanent, so that the government would seek to minimize taxes. It is different from the conventional system, which the tax became the main instruments of fiscal policy. Policies in the next income is the optimization of the social sector policies that donation, sadaqah and endowments as has mentioned above, in order to support the mandatory instruments such as zakah, *Jizya* and *kharaj*, which are not

found in conventional economic system. The social sector instruments can be used as funding social welfare, defense and security and development under government management through Baitulmaal institutions.

Another difference was also found in government spending policies. Each source of income in the Islamic state has had certain rules of sharia in the distribution, which must be based on the Quran and Sunnah. With a distribution system that already has a special rule, the outline will suppress the emergence of irregularities over the allocation of funds and ensure the creation of distributive justice and prevent buildup of development results in the development of certain areas only. The mechanism of government spending was not found in conventional systems.

The pattern of future government revenue policy of the Prophet Muhammad and the first four caliphs had differences with the pattern of government financial policy in modern times is now based conventional economic system. However, both systems can't be compared, because of the situation and its condition at the components of the two systems are different can't be synchronized at this time. Until today, there is no standard formula of how the application of public finance in the modern Islam that refers to the government in time of the Prophet and the first four caliphs. Taking into account this reality, so in this paper, the analysis of comparison used is to explore aspects of the similarities and differences to the fullest, to analyze how the existing gap of the two systems, it can be concluded until the application prospect of financial instruments and mechanisms of government policy at the time of the Prophet Muhammad and the first four caliphs in today's modern times.

Tracking process undertaken to explore aspects of the similarities, differences and gaps against income instruments and how the enforcement mechanisms on both systems. From the comparative analysis of Islamic and conventional revenue policy, it can be seen the main points of similarities, differences and gaps, which is the result of the analysis of historical exploration and case studies on local government of Bekasi. Besides that, there is a difference both in the principles and mechanisms differ only in nomenclature. Differences in principle, in the management of the Islamic state, the instrument is a charity and ushr obligatory for the Muslim population, whereas for the non-Muslim population is *kharaj*, *Jizya* and ushr. Tax instruments in financial nomenclature Islamic state can be equated with *kharaj* and *Jizya* were only imposed on non-Muslim population, so it is not permanent, because if they converted to Islam no longer paid the taxes. Other instruments are equivalent to a tax is imposed *nawaib* only to Muslims who are very rich in the current size, in emergency conditions such as war and disasters. In principle, the tax imposed on the population of Muslims in Islamic countries used to fund a variety of needs and

expenditure items that are required, the treasury condition no money / possessions. The obligation to pay the tax imposed only on those who had the ability to meet basic needs and complementary in kindness. While the tax instruments as a source of income in the Indonesian government imposed on private persons and legal entities of all mandatory, regardless of religion and is permanent.

The number of income instruments during the reign of the Prophet Muhammad and the first four caliphs who have the potential to be used as a reference and is applied directly as the original structure in the government of Indonesia, in today's modern times. Adoption of such instruments should not be exclusive, but still adapted to the regulations or existing State Finance Law, the nomenclature and mechanismadjustable. If there is an instrument that has great potential and the need to support regulations and laws should be the executive and the legislative act proactively.

There are several instruments that can be adopted and promoted by the Indonesian government. Zakah is very relevant instruments to be used as one source of local government revenue, considering that Indonesia is the largest Muslim country in the world. Nomenclature and regulatory constraints should not be a hindrance in attracting zakah, compared with the advantages and the benefits, so that these constraints must be overcome. Zakah has the potential of increasing the fiscal capacity of the government is still needed today. Zakah is widely also imply, directly or indirectly, will be able to: *first,* maintain a minimum wage of workers at the level of the distribution of zakah; *Second,* as a final shield for the economy so that no stagnation / consumption under crisis conditions. *Third,* pressing the accumulation of wealth, possessions forced turnover; *Fourth,* press the number of social problems: crime, prostitution, vagrants, beggars, etc; *Fifth,* guard aqidah; *Sixth,* in mathematical proofs, zakah not decrease consumption, because the next process will be neutralized by mustahik consumption.

Even during the reign of Umar bin Abdul Aziz under the Umayyad dynasty, in less than three years, the number of zakah payers continues is increases, while the number of recipients continues to decreases (Huda et al, 2012). As a result of excess surplus be used to subsidize private debt payments (private), social subsidies in the form of financing basic needs that are not the responsibility of the state as to bear the entire cost of weddings every youth who want to get married at a young age.

Al Arif (2010) stated that several positioning between zakah and tax, such as: *first,* only zakah that imposed for the society and the *jizyah* for the non-moslem. *Second*, zakah as the main sources of income, but the state can used the tax as additional income. *Third,* zakah and taxes is perfect subtition. So if the people had already paid the zakah, the individual is permitted to don't pay the tax. *Fourth,* the

zakah and tax must to be paid by the society.

While the instruments which have in common with the nomenclature of Indonesian government's income instruments, which can be used as a reference to correct and improve the performance of existing ones, such as: *rikaz*, *kharaj*, *Jizya* and *ushr*. In handling *rikaz* or artifacts / richness of the earth, the state can get 20%, far greater than the Indonesian government's acquisition of natural resource revenue sharing privately run both local and foreign so far. Tax form *Kharaj* calculated based on the results obtained from the use of the land. Calculations based *kharaj* could be a reference which is complementary as an alternative calculation technique considering the heterogeneous region. The *Jizya* or head tax for residents of non-Moslem that are able to pay, can be adopted to impose a tax on account of Indonesian citizens who put their funds abroad. Ushr or customs on goods entering and leaving the Islamic state imposed on Moslems who do not pay zakah on the international merchandise, and also against non-Muslims. Ushr also remain subject to the illicit goods brought non-Muslim citizens, as khamr (Huda et al, 2011). Although these instruments based regulation can only be done by the central government, but the increase and decrease in revenue will remain affected the local government in the form of profit sharing.

The other income instruments that still relevant with the current administration are *Aml-Fadla*. *Aml-Fadla* is an estate that no heirs can be referenced in the same case if it happened in Indonesia. Withdrawal of corruption is also very relevant property to be used as a source of reference, considering that Indonesia has a high level of corruption by various international agencies assessment. Transparency International in 2010 establishes Indonesia is the most corrupt of 16 investment destinations businesses in Asia Pacific. Corruption not only violates the moral and religious, but very detrimental to the business world, because it raises the cost of high economic and legal uncertainty.

Nawaib is a tax imposed on the rich Muslim countries due to lack of funds due to the long war and spent the state treasury, at the time of the Prophet Muhammad *nawaib* government never practiced in the Battle of Tabuk. The spirit is still very relevant *nawaib* applied in today's modern government when a state of emergency, such as a catastrophe. Moreover, people are very rich in Indonesia amounted to minority and majority control of existing wealth, then they are very reasonable assume obligations in times of national emergencies.

Voluntary instrument in the form of donation, Sadaqah and endowments are also very relevant to being involved in economic development. Basically realize the public interest is the collective responsibility of government and society. Because Islam requires a community to make a series of arrangements that can ensure the fulfillment of the needs of all members of society. There are various types of needs

in the community. Some of them can be met by the community itself. Part of the others can be met by the government (Huda et al, 2012). Although voluntary, this instrument also has contributed enormously, especially when the sector shall not be sufficient to fund the programs and activities of the state. Even the amount of the voluntary instrument is much more comprehensive indicator to measure the responsibility and community participation in the life of the nation. Many productive assets such as luxury hotels, hospitals, schools superior, even shop funded by endowment funds, where the results of the profits earmarked for the benefit of the people. Endowments powerful productive by reducing personal mastery will give birth conglomerates are prone to problematic because of greed. Productive Endowments also effectively prevent the ownership control of the economic sectoreither by adverse foreign and private lives of many people in a country, which in turn can reduce the rate of inflation.

Sources of financing in the form of Islamic state in principle can be flow creating more equity than debt creating flows (Huda, 2012). Compared with the debt in conventional, the cooperation schemes in the form of equity participation look more constructive, proportionate and fair as a source of financing, because there are cost and risk sharing (Iskandar, 2010). Other types of financing sources are Sukuk. Sukuk is a financial instrument that is very strategic for local governments. Sukuk must be based on an underlying asset, the lease contract or for the results as a basis of calculation. Sukuk for local projects / government could also increase the role of the community to actively participate in the development and ownership of the fund the project, it is very effective in reducing the foreign debt and foreign dependence.

Conclusion

Fiscal policy in the Islamic countries aiming to develop a society based on the distribution of wealth with the content of the material and spiritual values equitably. Islamic law on state finances is very elastic so it can be expanded to meet the requirements modern times. All income instruments from Islamic countries is very relevant to be applied in the central government and local governments in Indonesia, except ghanimah instruments and *jizya*. Ghanimah irrelevant applied because there is no source of income of the spoils of war in the present. Similarly, is the *Jizya* instruments is not relevant to be applied today. Because Indonesian government don't imposed the tax that based on the individual religion. Relevance application of all the instruments is needed to be adjusted nomenclature and connectivity with existing regulations. The application does not have to be exclusive and fixated on the label of Islam, but should be focused on the exploration of values and universal

benefits that have been attached to almost all Islamic state income instruments.

Load the value and benefits that are universal and are needed to strengthen the fiscal capacity of central and local government should not be hampered its application for nomenclature and regulatory constraints. The executive and the legislature should be proactive in addressing the constraints and the impasse in order to achieve the objectives and benefits of a more strategic and wide. Patterns of government policy in the Islamic state that can be used as a reference or normative complementary sources, to strengthen the ability of national and local government fiscal in Indonesia, such as: the instrument of charity, *kharaj*, ushr, donation, endowment, natural resource management with rikaz system, and other income derived from the state of corporate profits, state wealth and asset management, *amwal al-fadla*, withdrawal of illegal assets / corruptors, expiation and sacrifices.

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ARTICLES AND AUTHORS

Vol. VII, No. 1, January 2015

No	Name	Title	Note
1	Titi Dewi Warninda & M. Nadratuzzaman Hosen	Mapping and Correlation Analysis of Efficiency and Profitability: The Case of Islamic Rural Bank	Lecture of Syarif Hidayatullah State Islamic University Jakarta. Also as a researcher on Islamic Economics and Finance Studies
2	Euis Amalia & Mahmudah Atiqah	Evaluating The Models of Sharia Microfinance in Indonesia: Analytical Network Process Approach	Lecture of Syarif Hidayatullah State Islamic University Jakarta. Also as a researcher on Islamic Economics and Finance Studies
3	Hardius Usman	The Role of Religious Norm on Selecting the Islamic Bank	Lecture of Middle East and Islamic Studies Department at University of Indonesia.
4	Suryani & Hendryadi	A Developing Model of Relationship Between Service Quality, Customer Satisfaction, Loyalty, and Word of Mouth in Islamic Banking	Lecture of STAIN Malikussaleh and Lecture of At-Thahiriyah Islamic University Jakarta
5	Yoghi Citra Pratama	Macroeconomic Variable and Its Influence on Performance of Indonesian Islamic Banking	Lecture of Syarif Hidayatullah State Islamic University Jakarta
6	Indah Mulia Sari, Hendro Wibowo, & Edy Suprapto	Factors That Influenced People to Become Islamic Bank Customer: a Study on Kancana Villagers	Lecture of SEBI Islamic Business School. Also as a researcher on Islamic Economics and Finance Studies
7	Irfan Syauqi Beik & Laily Dwi Arsyianti	Construction of CIBEST Model As Measurement of Poverty and Welfare Indices From Islamic Perspective	Lectures of Agricultural Institute Bogor (IPB). Also as a researcher at CIBEST

No	Name	Title	Note
8	M. Sabri Haron, Riki Rahman & Bayu T Possumah	The Assesment of Inclusiveness Principle of Malaysian New Economic Model: Maqashid Syar'iyyah Perspective	Lecturer at Pusat Citra Universiti, Universiti Kebangsaan Malaysia (UKM). Also researcher on Islamic Economics and Finance Studies
9	Abdul Hamid	The Impact of Spin-off Policy To The Profitability on Indonesian Islamic Banking Industry	Lecture of Syarif Hidayatullah State Islamic University Jakarta.
10	Zuhairan Y. Yunan & Mia Rahmasari	Measurement of Shariah Stock Performance Using Risk Adjusted Performance	Lecture of Syarif Hidayatullah State Islamic University Jakarta. Researcher at University of Prof. Dr. Hamka (Uhamka)

Vol. VII, No. 2, July 2015

No	Name	Title	Note
1	Wiwiek Rabiatul Adawiyah	The Impact of Financial Liberalization on Islamic Bank's Efficiency in Indonesia	Lecture of University of Jenderal Soedirman. Also as a researcher on economics and finance studies
2	Rachmad Hidayat, Sabarudin Akhmad, Machmud	Effects of Service Quality, Customer Trust, and Customer Religious Commitment on Customer Satisfaction and Loyalty of Islamic Banks in East Java	Lecture of Industrial Engineering Department University of Trunojoyo. Lecture of Islamic Education Department, STI Al-Karimiyah
3	Muniaty Aisyah	Peer Group Effects on Moslem Consumer's Decision To Purchase Halal-Labeled Cosmetics	Lecture of Syarif Hidayatullah State Islamic University Jakarta. Also as a researcher on Islamic Economics and Finance Studies
4	Rizqon Halal Syah Aji & Kurniasih	The Intellectural Capital Effect on Financial Performances at Islamic Insurance	Lecture of Syarif Hidayatullah State Islamic University Jakarta. Also as a researcher on Islamic Economics and Finance Studies
5	Tulus Suryanto & Abd Razak Abdul Hadi	Capital Market Integration: Palestine and Isreaeli Experience	Lecture of IAIN Raden Intan Lampung. Lecture of University of Kuala Lumpur

6	Rizky Andriati & Nurul Huda	The Effect of Productive Zakah Mentoring on The Wealth of Mustahik	Lecture at University of Yarsi. Researcher on Islamic Economics and Finance Studies
7	Chandra Warsito	The Image of Financial Institution as Islamic Bank in Mediation Service Quality and Customer Satisfaction on Customer Loyalty in Purwokerto	Lecture at IAIN Purwokerto. Researcher on Islamic Economics and Finance Studies
8	Erika Amelia	Financial Ratio and Its Influence to Profitability in Islamic Banks	Lecture of Syarif Hidayatullah State Islamic University Jakarta. Also as a researcher on Islamic Banking studies
9	Burhanuddin Yusuf	Human Resources Development of Sharia Banking: Phenomenological Approach	Lecture of Syarif Hidayatullah State Islamic University Jakarta. Also as a researcher on Islamic Economics and Finance Studies
10	Any Setianingrum	Application of Pattern of Islamic State Revenue Policy to Improve The Ability of Indonesia's Fiscal	Doctoral student at Islamic Economics Department at University of Airlangga

INDEX

AL-IQTISHAD

Journal of Islamic Economics

GUIDANCE FOR WRITING IN Journal of Al-Iqtishad

1. The manuscripts represent academic research in Islamic economics and Finance discipline.
2. Upon the publication of the manuscript, the author should provide a letter states that the manuscripts have never been, or under consideration to be, published in other journal publications.
3. Structure of the manuscripts
   a. **Title.** The title should be short, clear, and informative, but does not exceed 9 words.
   b. **Author's names and institutions**. The author's names should be accompanied by the author's institutions and email addresses, without any academic titles and/or job title.
   c. **Abstract and keywords**. The abstract should be less than 150 words. The key words should be 2 to 5 phrases.
   d. **Introduction.** This section explains the backround of the study, and aims of the manuscripts. It should be written without numbers and/or pointers.
   e. **Literature Review.** This section explains the theoretical framework that used on this research, a review on the previous research in the area.
   f. **Methods.** This section describes the tools of analysis along with the data and their sources.
   g. **Discussion.** This section explains the results of the study.
   h. **Conclusions.** This section concludes and provides policy implications, if any, of the study.
   i. **References.** This section lists only the papers, books, or other types of publications referred in the manuscript.
4. The authors should provide an index of subject, namely the specific terms in the manuscript. The authors should also provide the index of authors, namely the key authors of papers referred in the manuscript. Please write the family name followed by the given name.
5. Estimation result from a software package is not allowed to be directly presented in the paper. They should be presented in equations with the appropriate estimation results.
6. Table format should contains only heading and contents. Please provide the top and bottom lines, along with the line(s) that separate the heading and the contents. Example:

Table 1. The Growth of Third Party Fund, Financing and Asset (Billion rupiah)

	2009	2010	2011	2012	2013	2014*
Fundraising	52.271	76.036	115.415	147.512	174.018	186.608
Financing	46.886	68.181	102.655	147.505	179.284	187.886

| **Asset** | 66.090 | 97.519 | 145.467 | 195.018 | 229.557 | 244.197 |

Source: Islamic banking statistics, Bank of Indonesia

7. Acknowledgment, if any, should be written as the foot-note of the manuscript's title.
8. The manuscript is prepared in a quarto paper, single-sided, and double-space format. A new paragraph should start 5 characters from the left margin, using 12-size, times-new-romans font type.
9. The manuscript is written in proper English, either British or American English, but not the combination of both, except for special editions.
10. The manuscript should be in no less than 25 pages long.
11. The top and bottom margins are 1 inch.
12. The title is written using capital letters of 14 font size, centre position.
13. Sub titles are written using capital letters, started from the left margin.
14. Sub of sub titles are written using capital letters only at the beginning of each word except for connecting words. They should be started from the left margin.
15. References should be those of the last ten years publication, unless they are key references.
16. Citation in the text body should be written using the family name and years of publication. Example:
    a. Hill (2001) suggests that the objective of depreciation ….
    b. According to Kotter (1867), intra industry trade can be …
    c. Wagner (in McCain, 1982) states that …
    d. The definition of flypaper effect is … (Wagner, 1976).
17. Tables and figures should be presented as follows:
    a. The name of tables and figures should follow a numbering system (Arabic numbering system). The names of the tables and figures are on the top and bottom parts of the tables, respectively.
    b. The tables and figures should provide the source of information, if any, at the bottom part of both.
18. References should be written in alphabetical order, without any number. They should be written using the following criteria:
    a. For books, the format should follow the following example:
        Al Arif, M. N. R. 2010. *Dasar-dasar Pemasaran Bank Syariah*. Bandung: Alfabeta.
    b. For papers that are part of a book, the format should follow the following example:
        Bahl, R. 2000. *How to Design a Fiscal Decentralization*. in Sahid, Y. (eds.), *Local Dynamics in an Era of Globalization*, 25-26, London: Oxford University Press.
    c. For journal/magazine papers, the format should follow the following example:
        Al Arif, M. N. R. 2012. *Efek Multiplier Wakaf Uang dan Pengaruhnya Terhadap Program Pengentasan Kemiskinan*. Jurnal Asy-Syir'ah Fakultas Syariah UIN Sunan Kalijaga Yogyakarta, Vol. 46, No. 1, Januari 2012, hlm. 10 – 12.
    d. For internet references, the format should follow the following example:
        Kharlie, Ahmad Tholabi. 2006. "Formalisasi Syariat Islam, Mengapa Tidak?", http//www.ahmadtholabi.wordpress.com, accesed on 17 Maret 2014
    e. For magazine, the format should follow the following example:
        Asa, Syu'bah. 2004 "Pengantin Darah", dalam *Tempo,* No. 30/XXX111/20, 20 September 2004

19. Transliteration guidance (from Arabic to latin)

Consonant		
(ا) = a	(ز) = z	(ق) = q
(ب) = b	(س) = s	(ك) = k
(ت) = t	(ش) = sy	(ل) = l
(ث) = ts	(ص) = sh	(م) = m
(ج) = j	(ض) = dh	(ن) = n
(ح) = ḥ	(ط) = th	(و) = w
(خ) = kh	(ظ) = zh	(ه) = h
(د) = d	(ع) = '	(ء) = '
(ذ) = dz	(غ) = gh	(ى) = y
(ر) = r	(ف) = f	(ة) = ṯ

Short Vocal	Long Vocal
_____ = a	(ا ــــ) = â
_____ = i	(ــ ى) = î
_____ = u	(ــ و) = û

Diftong	Pembauran
(أو) = aw	(ال) = al
(أي) = ay	(الش) = al-sy
	(وال) = wa al-

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    b. Accepted with minor revision, or
    c. Accepted with major revision, or
    d. Rejected.
23. Upon the publication of the manuscript in the journal, the author will receive a publication proof number and 3 off-prints.

APPLICATION OF PATTERN OF ISLAMIC STATE REVENUE POLICY TO IMPROVE THE ABILITY OF INDONESIA'S FISCAL

Any Setianingrum[1]

Abstract. Application of Pattern of Islamic State Revenue Policy to Improve the Ability of Indonesia's Fiscal*. The aim of this study is to analyze the possibility of Islamic state revenue to improve the ability of Indonesia's fiscal. This thing is important in the way to diversify the fiscal instruments in Indonesia. The result shows that several Islamic revenues instruments still relevant to applied in Indonesia, exclude the ghanimah and Jizya. But, it is necessary to adjust the nomenclature and connectivity with state financial regulations. The application does not have to be exclusive and labels associated with Islam, but should be more focused on the exploration of universal values and utility, which is inherent in all of Islam income instruments.*

Keywords*: fiscal instruments, historical analysis, case study*

Abstrak. Aplikasi Kebijakan Pendapatan Islami Untuk Meningkatkan Kemampuan Fiskal Indonesia*. Tujuan dari penelitian ini ialah untuk menganalisis kemungkinan penerapan kebijakan pendapatan pada Negara Islam dalam meningkatkan kemampuan fiskal Indonesia. Hal ini penting dilakukan dalam rangka diversifikasi instrument fiskal di Indonesia. Teknik analisis yang dipergunakan dalam penelitian ini ialah teknik analisis historis dan studi kasus. Hasil yang didapat menunjukkan bahwa instrumen pendapatan Islam masih relevan untuk diterapkan pada pemerintahan di Indonesia, kecuali ghanimah dan Jizya. Akan tetapi aplikasi instrument pendapatan pada Negara muslim kontemporer saat ini memerlukan penyesuaian nomenklatur dan keterkaitan dengan regulasi yang berlaku. Aplikasi tersebut tidak harus bersifat eksklusif dan dikaitkan dengan label-label Islam, tetapi harus lebih focus terhadap eksplorasi nilai dan utiliti yang bersifat universal, yang sudah melekat pada semua instrument pendapatan Islam.*

Kata Kunci*: instrument fiskal, analisis historis, studi kasus*

Introduction

The management of government finances is also widely expected to greatly affect the domestic economy, the private sector and the overall economy. Moreover, in the government's financial management policies are also attached to the functions of public finance policy, namely the function of allocation, distribution and stabilization. Effectiveness and efficiency of the passage of these functions depend on how strong the system is applied to the financial management of central and local government. In other words, the successful handling of market failure, the need for public goods and externalities factors handling by the government to be very dependent on how the government's financial management is executed. Domino effect of government financial management is also very broad, covering the role of stimulator, facilitator, coordinator and entrepreneurs in regional development, which can boost growth and equitable income distribution. While at the same time there are still many problems that arise in the government's financial management system.

Some real problems are found from the results of various research areas in Indonesia's financial pattern is, most of the proposed program of results from *Musrenbang* (consensus development plan), followed by all elements of society can't be realized because of limited state funds. Results interview with the Mayor of Bekasi (2014) stated that the 30% of new development programs that can be handled by the state budget. In the other words, there are 70% of programs and activities that should be funded by the budget, but can't be realized because of region fiscal constraints.

Other real problems that are found by several studies almost all local governments in Indonesia have the same problems that have a low degree of fiscal decentralization (Kuncoro, 1995). This indicates the weakness of the financial management area and the need to improve strategies and seek new breakthrough in terms of financial management. The foregoing is also confirmed in research Amri in Halim (2012), explained that the management of revenue and expenditure management is an important part in the management of government finances. However, until now attempt to explore the sources of revenue still has many obstacles, both in terms of limited financial resources itself and in terms of capabilities and management systems as well as administration (Dewi in Halim, 2001). In fact, development needs still need to be accelerated and enlarged in order to improve the welfare of the community. But in fact, the construction still has many obstacles and challenges are not small.

The presence, the entire classical problem is still not ideally show local financial management system that is capable of moving the revenue potential

and development programs needed optimum community. The main cause of this problem is the allocation of limited funds both from local government sources and the central government. Therefore, local and central governments must still required to be able to look for alternative ways so that development can be further expanded and enlarged. Then the solution is the need to explore funding, including the conduct of innovation creation of resources for regional and central growth.

Since the multidimensional crisis that hit Indonesia has alerted us all of the need for reinforcement of the paradigm and economic activities based on moral and ethical. So that the current era is needed to evaluate alternative approaches as well as strengthen existing economic structure. The implication in the current era is needed to evaluate alternative approaches as well as strengthen existing economic structure, including in areas such as public financial management. Alternative paradigms that are currently being taken into account by economists are Islamic economic system. Economist belief that Islamic economic system is capable of being a favored alternative system is supported also by the Islamic financial performance that proved to have better durability in a period of economic crisis that happened in the world since 1998.

In the perspective of Islamic-based financial system, potential sources of revenue in each region in Indonesia are still a lot and not maximized empowered. The practice of public finances during the reign of the Prophet Muhammad and the first four caliphs had income instruments and mechanisms that have been proven history, able to function well in the distribution of income, economic growth while socio-economic stability. This fact is supported by the Western economist, Adam Smith, in his book The Wealth of Nations (1976), which makes two classes of countries, namely the developed and underdeveloped countries. And by Smith (1976), Medina in Mahomet and his immediate leadership successors (Muhammad and the first four caliphs) the majority of the livelihoods of its people are traders classed as a developed and prosperous country at the time. Based on the track record, in this study will be an analysis of the management of incomes policy at the time of the Prophet Muhammad and the first four caliphs to be a reference as well as how to dig and revitalize their income instruments for strengthening the financial system in the present area.

Based on the description above background drafted this paper, by using qualitative research methodology, the historical analysis methodology and case studies conducted from June to January 2014. The historical analysis methodology used to analyze and explore the instruments and mechanisms for government financial management pattern at the time of the Prophet Muhammad and the first four caliphs. The case study methodology is used to analyze and explore how and

why patterns of local finance and mechanisms implemented under the current structure. Case studies carried out in the Local Government City of Bekasi, as a representation of local government in Indonesia.

Literature Review

Below will describe some of the results of research on financial policy that occurs in the central and local governments in Indonesia. Before analyzing the results of financial management at the local government level, will be examined in the study at the national level first. However, either directly or indirectly, a financial policy at the national level will give effect to the policy in the region. The discussion on the issue, starting on tax policy in the Republic of Indonesia, which done by Surjaningsih (2012), the research found there is a co-integration relationship between government spending and taxes on output in the long run. In the long term taxation, there is a positive impact on economic growth while government spending is doesn't give an impact. Short-term adjustment shows that the shock of the rising in government spending has a positive impact on output while shock negative impact of tax increases. More dominant effect of government spending on output in the short term than the show is still quite effective tax policies to stimulate economic growth, especially in times of recession. While the increase in government spending led to a decrease in inflation, while tax increases lead to an increase in inflation. This study also showed the absence of discretionary fiscal policy conducted by the government. From research Surjaningsih (2012), can be considered for local governments to regulate taxation and spending policies, which have a different impact in the short and long term growth and macroeconomic indicators in general.

Other studies are useful to complement the considerations in determining the pattern of regional finance is the state budget process in Indonesia. Indayani research results (2006) found that: *first,* outside of routine spending of foreign debt was under pressure because they have to make sacrifices for the payment of foreign debt increased tendency to be from year to year. *Second*, direct development budget even more depressed because domestic revenues also have to be sacrificed for routine expenditure, which is dominated by foreign debt payments. *Third*, the position of the government savings is actually quite large, at least seen from the existing economic conditions. Indayani (2006) show reminiscent of the government that in addition to issues of taxation and spending policies will affect the macroeconomic indicators in general.

Looking at the results of the research described above, the various problems that accompany financial management, the improvement of income and expenditure

policies become very urgent. One of the most pressing policies to be improved is the taxation policy as wide domino effect. It is as stated by Yudhoyono (2010), that tax policy should be improved to make to be more fair because it involves economic policy and fiscal policies in general. Not optimal tax administration Indonesia caused by lack of clarity in the direction of development and the achievement of the ideals of the tax. As a result, the tax administration system becomes very weak. This is what makes many people take advantage of the tax for the benefit of themselves and each group (Commission, 2014).

After knowing the results of research on financial policy at the national level in outline, the following will describe the extent of the challenges and obstacles in financial management in the various regions in Indonesia to provide an overview, information and inventory issues as a preliminary study of the practice in the field. In terms of financial management area there are several things that must be considered, related to Law No.32 / 2004. The area has a larger role in managing local financial. This condition is an opportunity for local government to demonstrate its ability to manage finances without interference from higher levels of government (Yunasman in Halim, 2012). Below are some studies that explain the multiplicity and complexity of the challenges and constraints.

In terms of financial expenditure areas, the results Amri in Halim (2012), found that the lack of planning expenditures will eventually bring up the possibility of under-financing or over-financing, which all affect the level of efficiency and effectiveness of the work units of local government. From the results of previous studies as described above, found many factors that influence the effectiveness of revenue and expenditure policies of local governments. These factors are policies covering taxation revenue and average revenue is still low, government spending policies, the amount of debt payments, professionalism and human morality, both the executive and the judiciary.

Methods

To answer the question in this study used qualitative research methods. Consideration of the use of qualitative research approach is more complete data obtained, more in-depth, credible and meaningful so that the goal of this research can be achieved (Sugiyono, 2013). The strength of qualitative research lies in its ability to provide a textual description of the complex, in particular information that is the human side, such as behaviors, beliefs, opinions, emotions, and interaction between individuals. Qualitative methods are also effective in identifying intangible factors, such as social norms, socioeconomic status, gender rules, ethnicity, religion and the whole issue is not legible appearance.

According Sugiyono (2007), Qualitative research is divided into three stages: *first,* stage description or the orientation phase, at this stage the researchers describe what is seen, heard and felt on the information obtained; *Second,* reduction stage, at this stage of research to reduce any information obtained to focus on a specific issue focus; *Third,* the selection stage, at this stage the researcher outlines the focus that has been determined to be more detailed and in-depth analysis. The research methods used on this research are the historical analysis and case studies.

In the analysis of historical, scientific history writing is required to generate explanations regarding the issues discussed. Explanation was obtained through the analysis. An important step in making a historical analysis is to provide a framework or frame of reference that covers a wide range of concepts and theories that will be used to make the analysis. Historical research is supported by theories reliable, is more accountable objectivity history of science itself (Kartodirdjo, 1988).

Case study is a research method that specifically investigates a contemporary phenomenon that is present in the context of real life, which is implemented when the boundaries between phenomenon and context is not clear, by using various data sources (Yin, 2003). Position theory constructed in a case study can be improve, supplement or enhance existing theories based on the latest developments and changes in facts. Stake (1995; 2005) and Creswell (1998), Yin (2003) argues that a case study using a variety of data sources to reveal the facts behind the cases studied. The diversity of data sources are intended to achieve the validity and reliability of the data, so that the results can be true. The fact is achieved through assessment of connectedness evidence from multiple data sources.

Discussion

Paradigm, concept and implementation of financial management in the Islamic government had a difference principle with conventional systems. The most fundamental difference is because in Islam there is a prohibition of usury and mechanisms of charity, donation, shadaqa, endowments and resource management must be adapted to the rule of the Al-Quran and al-Hadith. Among the differences in terms of revenue Islamic state is, charity is the main instrument for the Muslims, along with the poll and *kharaj* for non-Muslims, and supported by the social sector instrument donation, Sadaqah and endowments. While the tax levy in the Islamic state is not permanent, so that the government would seek to minimize taxes. It is different from the conventional system, which the tax became the main instruments of fiscal policy. Policies in the next income is the optimization of the social sector policies that donation, sadaqah and endowments as has mentioned above, in order to support the mandatory instruments such as zakah, *Jizya* and *kharaj*, which are not

found in conventional economic system. The social sector instruments can be used as funding social welfare, defense and security and development under government management through Baitulmaal institutions.

Another difference was also found in government spending policies. Each source of income in the Islamic state has had certain rules of sharia in the distribution, which must be based on the Quran and Sunnah. With a distribution system that already has a special rule, the outline will suppress the emergence of irregularities over the allocation of funds and ensure the creation of distributive justice and prevent buildup of development results in the development of certain areas only. The mechanism of government spending was not found in conventional systems.

The pattern of future government revenue policy of the Prophet Muhammad and the first four caliphs had differences with the pattern of government financial policy in modern times is now based conventional economic system. However, both systems can't be compared, because of the situation and its condition at the components of the two systems are different can't be synchronized at this time. Until today, there is no standard formula of how the application of public finance in the modern Islam that refers to the government in time of the Prophet and the first four caliphs. Taking into account this reality, so in this paper, the analysis of comparison used is to explore aspects of the similarities and differences to the fullest, to analyze how the existing gap of the two systems, it can be concluded until the application prospect of financial instruments and mechanisms of government policy at the time of the Prophet Muhammad and the first four caliphs in today's modern times.

Tracking process undertaken to explore aspects of the similarities, differences and gaps against income instruments and how the enforcement mechanisms on both systems. From the comparative analysis of Islamic and conventional revenue policy, it can be seen the main points of similarities, differences and gaps, which is the result of the analysis of historical exploration and case studies on local government of Bekasi. Besides that, there is a difference both in the principles and mechanisms differ only in nomenclature. Differences in principle, in the management of the Islamic state, the instrument is a charity and ushr obligatory for the Muslim population, whereas for the non-Muslim population is *kharaj*, *Jizya* and ushr. Tax instruments in financial nomenclature Islamic state can be equated with *kharaj* and *Jizya* were only imposed on non-Muslim population, so it is not permanent, because if they converted to Islam no longer paid the taxes. Other instruments are equivalent to a tax is imposed *nawaib* only to Muslims who are very rich in the current size, in emergency conditions such as war and disasters. In principle, the tax imposed on the population of Muslims in Islamic countries used to fund a variety of needs and

expenditure items that are required, the treasury condition no money / possessions. The obligation to pay the tax imposed only on those who had the ability to meet basic needs and complementary in kindness. While the tax instruments as a source of income in the Indonesian government imposed on private persons and legal entities of all mandatory, regardless of religion and is permanent.

The number of income instruments during the reign of the Prophet Muhammad and the first four caliphs who have the potential to be used as a reference and is applied directly as the original structure in the government of Indonesia, in today's modern times. Adoption of such instruments should not be exclusive, but still adapted to the regulations or existing State Finance Law, the nomenclature and mechanismadjustable. If there is an instrument that has great potential and the need to support regulations and laws should be the executive and the legislative act proactively.

There are several instruments that can be adopted and promoted by the Indonesian government. Zakah is very relevant instruments to be used as one source of local government revenue, considering that Indonesia is the largest Muslim country in the world. Nomenclature and regulatory constraints should not be a hindrance in attracting zakah, compared with the advantages and the benefits, so that these constraints must be overcome. Zakah has the potential of increasing the fiscal capacity of the government is still needed today. Zakah is widely also imply, directly or indirectly, will be able to: *first,* maintain a minimum wage of workers at the level of the distribution of zakah; *Second,* as a final shield for the economy so that no stagnation / consumption under crisis conditions. *Third,* pressing the accumulation of wealth, possessions forced turnover; *Fourth,* press the number of social problems: crime, prostitution, vagrants, beggars, etc; *Fifth,* guard aqidah; *Sixth,* in mathematical proofs, zakah not decrease consumption, because the next process will be neutralized by mustahik consumption.

Even during the reign of Umar bin Abdul Aziz under the Umayyad dynasty, in less than three years, the number of zakah payers continues is increases, while the number of recipients continues to decreases (Huda et al, 2012). As a result of excess surplus be used to subsidize private debt payments (private), social subsidies in the form of financing basic needs that are not the responsibility of the state as to bear the entire cost of weddings every youth who want to get married at a young age.

Al Arif (2010) stated that several positioning between zakah and tax, such as: *first,* only zakah that imposed for the society and the *jizyah* for the non-moslem. *Second*, zakah as the main sources of income, but the state can used the tax as additional income. *Third,* zakah and taxes is perfect subtition. So if the people had already paid the zakah, the individual is permitted to don't pay the tax. *Fourth¸* the

zakah and tax must to be paid by the society.

While the instruments which have in common with the nomenclature of Indonesian government's income instruments, which can be used as a reference to correct and improve the performance of existing ones, such as: *rikaz*, *kharaj*, *Jizya* and *ushr*. In handling *rikaz* or artifacts / richness of the earth, the state can get 20%, far greater than the Indonesian government's acquisition of natural resource revenue sharing privately run both local and foreign so far. Tax form *Kharaj* calculated based on the results obtained from the use of the land. Calculations based *kharaj* could be a reference which is complementary as an alternative calculation technique considering the heterogeneous region. The *Jizya* or head tax for residents of non-Moslem that are able to pay, can be adopted to impose a tax on account of Indonesian citizens who put their funds abroad. Ushr or customs on goods entering and leaving the Islamic state imposed on Moslems who do not pay zakah on the international merchandise, and also against non-Muslims. Ushr also remain subject to the illicit goods brought non-Muslim citizens, as khamr (Huda et al, 2011). Although these instruments based regulation can only be done by the central government, but the increase and decrease in revenue will remain affected the local government in the form of profit sharing.

The other income instruments that still relevant with the current administration are *Aml-Fadla*. *Aml-Fadla* is an estate that no heirs can be referenced in the same case if it happened in Indonesia. Withdrawal of corruption is also very relevant property to be used as a source of reference, considering that Indonesia has a high level of corruption by various international agencies assessment. Transparency International in 2010 establishes Indonesia is the most corrupt of 16 investment destinations businesses in Asia Pacific. Corruption not only violates the moral and religious, but very detrimental to the business world, because it raises the cost of high economic and legal uncertainty.

Nawaib is a tax imposed on the rich Muslim countries due to lack of funds due to the long war and spent the state treasury, at the time of the Prophet Muhammad *nawaib* government never practiced in the Battle of Tabuk. The spirit is still very relevant *nawaib* applied in today's modern government when a state of emergency, such as a catastrophe. Moreover, people are very rich in Indonesia amounted to minority and majority control of existing wealth, then they are very reasonable assume obligations in times of national emergencies.

Voluntary instrument in the form of donation, Sadaqah and endowments are also very relevant to being involved in economic development. Basically realize the public interest is the collective responsibility of government and society. Because Islam requires a community to make a series of arrangements that can ensure the fulfillment of the needs of all members of society. There are various types of needs

in the community. Some of them can be met by the community itself. Part of the others can be met by the government (Huda et al, 2012). Although voluntary, this instrument also has contributed enormously, especially when the sector shall not be sufficient to fund the programs and activities of the state. Even the amount of the voluntary instrument is much more comprehensive indicator to measure the responsibility and community participation in the life of the nation. Many productive assets such as luxury hotels, hospitals, schools superior, even shop funded by endowment funds, where the results of the profits earmarked for the benefit of the people. Endowments powerful productive by reducing personal mastery will give birth conglomerates are prone to problematic because of greed. Productive Endowments also effectively prevent the ownership control of the economic sectoreither by adverse foreign and private lives of many people in a country, which in turn can reduce the rate of inflation.

Sources of financing in the form of Islamic state in principle can be flow creating more equity than debt creating flows (Huda, 2012). Compared with the debt in conventional, the cooperation schemes in the form of equity participation look more constructive, proportionate and fair as a source of financing, because there are cost and risk sharing (Iskandar, 2010). Other types of financing sources are Sukuk. Sukuk is a financial instrument that is very strategic for local governments. Sukuk must be based on an underlying asset, the lease contract or for the results as a basis of calculation. Sukuk for local projects / government could also increase the role of the community to actively participate in the development and ownership of the fund the project, it is very effective in reducing the foreign debt and foreign dependence.

Conclusion

Fiscal policy in the Islamic countries aiming to develop a society based on the distribution of wealth with the content of the material and spiritual values equitably. Islamic law on state finances is very elastic so it can be expanded to meet the requirements modern times. All income instruments from Islamic countries is very relevant to be applied in the central government and local governments in Indonesia, except ghanimah instruments and *jizya*. Ghanimah irrelevant applied because there is no source of income of the spoils of war in the present. Similarly, is the *Jizya* instruments is not relevant to be applied today. Because Indonesian government don't imposed the tax that based on the individual religion. Relevance application of all the instruments is needed to be adjusted nomenclature and connectivity with existing regulations. The application does not have to be exclusive and fixated on the label of Islam, but should be focused on the exploration of values and universal

benefits that have been attached to almost all Islamic state income instruments.

Load the value and benefits that are universal and are needed to strengthen the fiscal capacity of central and local government should not be hampered its application for nomenclature and regulatory constraints. The executive and the legislature should be proactive in addressing the constraints and the impasse in order to achieve the objectives and benefits of a more strategic and wide. Patterns of government policy in the Islamic state that can be used as a reference or normative complementary sources, to strengthen the ability of national and local government fiscal in Indonesia, such as: the instrument of charity, *kharaj*, ushr, donation, endowment, natural resource management with rikaz system, and other income derived from the state of corporate profits, state wealth and asset management, *amwal al-fadla*, withdrawal of illegal assets / corruptors, expiation and sacrifices.

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Source: Islamic banking statistics, Bank of Indonesia

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19. Transliteration guidance (from Arabic to latin)

Consonant		
(ا) = a	(ز) = z	(ق) = q
(ب) = b	(س) = s	(ك) = k
(ت) = t	(ش) = sy	(ل) = l
(ث) = ts	(ص) = sh	(م) = m
(ج) = j	(ض) = dh	(ن) = n
(ح) = ḥ	(ط) = th	(و) = w
(خ) = kh	(ظ) = zh	(ه) = h
(د) = d	(ع) = '	(ء) = '
(ذ) = dz	(غ) = gh	(ي) = y
(ر) = r	(ف) = f	(ة) = t̲

Short Vocal	Long Vocal
_____ = a	(ا ـ) = â
_____ = i	(ـ ى) = î
_____ = u	(ـ و) = û

Diftong	Pembauran
(أو) = aw	(ال) = al
(أي) = ay	(الش) = al-sy
	(وال) = wa al-

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    c. Accepted with major revision, or
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       Bahl, R. 2000. *How to Design a Fiscal Decentralization*. in Sahid, Y. (eds.), *Local Dynamics in an Era of Globalization*, 25-26, London: Oxford University Press.
    c. For journal/magazine papers, the format should follow the following example:
       Al Arif, M. N. R. 2012. *Efek Multiplier Wakaf Uang dan Pengaruhnya Terhadap Program Pengentasan Kemiskinan*. Jurnal Asy-Syir'ah Fakultas Syariah UIN Sunan Kalijaga Yogyakarta, Vol. 46, No. 1, Januari 2012, hlm. 10 – 12.
    d. For internet references, the format should follow the following example:
       Kharlie, Ahmad Tholabi. 2006. "Formalisasi Syariat Islam, Mengapa Tidak?", http//www.ahmadtholabi.wordpress.com, accesed on 17 Maret 2014
    e. For magazine, the format should follow the following example:
       Asa, Syu'bah. 2004 "Pengantin Darah", dalam *Tempo,* No. 30/XXX111/20, 20 September 2004

19. Transliteration guidance (from Arabic to latin)

Consonant		
(ا) = a	(ز) = z	(ق) = q
(ب) = b	(س) = s	(ك) = k
(ت) = t	(ش) = sy	(ل) = l
(ث) = ts	(ص) = sh	(م) = m
(ج) = j	(ض) = dh	(ن) = n
(ح) = ḥ	(ط) = th	(و) = w
(خ) = kh	(ظ) = zh	(ه) = h
(د) = d	(ع) = '	(ء) = '
(ذ) = dz	(غ) = gh	(ى) = y
(ر) = r	(ف) = f	(ة) = t̲

Short Vocal	Long Vocal
_____ = a	(ا ــ) = â
_____ = i	(ــ ى) = î
_____ = u	(ــ و) = û

Diftong	Pembauran
(أو) = aw	(ال) = al
(أي) = ay	(الش) = al-sy
	(وال) = wa al-

20. The manuscript in microsoft word should be sent to editor.iqtishad@yahoo.com
21. A brief CV that records full name, academic title, institution, telephone, fax and mobile number should accompany the manuscript.
22. The decision of the manuscript are:
    a. Accepted without revision, or
    b. Accepted with minor revision, or
    c. Accepted with major revision, or
    d. Rejected.
23. Upon the publication of the manuscript in the journal, the author will receive a publication proof number and 3 off-prints.