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Should Sharia Banks Go Public: Analysis Using the RGEC Method

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Abstract

Recently, the OJK has encouraged Shariah banks to go public to obtain new funding sources for business expansion, increasing corporate value and image. In fact, are Sharia Banks that go public better than non-go public. Therefore, this study aims to test whether the health of Sharia Banks that go public is better than non-go public. Observation data used 122 Sharia Banks during the 2014-2022 period. Using an independent sample t-test and RGEC health indicators, we find that Sharia Banks that go public have better health than non-go public but are not significantly different. These results also indicate why Sharia Banks go public are not as many as Conventional Banks. Sharia Banks adhere to the principle of prudence, including going public. If going public does not significantly change the health and performance of a Shariah Bank, the initiative to go public needs to be careful because ownership will transfer to shareholders. It will be a problem if shareholders do not understand Sharia principles.

Keyword: Sharia Banks, Go Publik, RGEC, Performance.

Introduction

Why do companies need to go public? Because companies need funding for future growth (Brau, 2012). Banks need funds to develop and run their business. Bank funds are usually sourced from customers, but the Bank also

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requires a fund with a long-term maturity. Going public is a strategic way for industry and banks to obtain long-term funds (Hasan & Parera, 2021). Banks can use these long-term funds according to their medium and long-term credit funding portfolios. These funds can reduce the Debt-to-Equity Ratio (DER), reducing bank risk (Karyadi et al., 2006). Decreasing bank risk will increase returns so that bank performance becomes better.

Apart from obtaining new funding, according to the Financial Services Authority (OJK), there are several benefits to a company if it goes public, namely increasing the company's value, improving corporate image, maintaining business continuity, and tax incentives. In addition, companies can increase their bargaining power and company transparency with investors (Rajan, 1992; Brau, 2012), increasing the prestige and publicity of the company (Harahap, 2011). Whatever the reason, the decision to go public or IPO (Initial Public Offering) will impact the company regarding finance, accounting, and operations (Pastusiak et al., 2016).

Going public with public ownership of shares will lead to direct oversight by the community in managing the company. It will encourage management to manage and improve company performance (Yuli, 2006). Several previous studies have shown that companies with an IPO have better performance than before the IPO (Kinyua et al., 2013; Chancharat et al., 2012; et al., 2016). The opposite finding is that companies before the IPO have better performance than before the IPO (Permana & Marwardika, 2022; Wirajunayasa & Putri, 2017). Other research has also found no difference in company performance before and after the IPO (Sulaksana & Supriatna, 2019; Marsandy et al., 2018).

In the banking sector, Karyadi et al. (2006) found that Bank Mandiri's performance was better after the IPO than before the IPO. Hasan & Parera (2021) found that BRI Sharia performed better after go public. Budi (2017) compared conventional banks that go public with the non-go public. The findings show that the performance of banks that go public is not different from non-go public banks. Panu et al. (2017) found no significant difference in the earnings and capital of Regional Development Banks that go public and non-go public.

The question is, how about Islamic banking, do Islamic commercial banks that go public perform better than non-go public or vice versa? Because research is still rare that focuses on the performance or health of Sharia Banks that go public and non-go public, it is important to research to provide an overview of how significant the implications are if Sharia Banks go public.

Hypotheses Development

The bank's health is in the interest of all parties (stakeholders), namely owners, managers, the community, and the government as regulators. A healthy bank is a bank that can carry out its functions properly, for example, maintaining public trust, intermediary functions, maintaining payment traffic, and implementing monetary policy (Utama, 2006; Afrialdy & Suripto, 2020).

According to RI Law No. 21 of 2008 about Islamic Banking, Sharia Banks, in carrying out their activities, must be based on Sharia principles, economic democracy, and the principle of prudence. Activities based on sharia principles are legal principles regulated by the fatwa of the Indonesian Ulema Council, such as the principles of justice and balance of benefit, universalism, and do not contain elements of usury, maysir, gharar, haram, and unjust (Munira et al., 2022; Lestari et al., 2020).

Based on the regulations of the Financial Services Authority (OJK) no.8/POJK.03/2014) and OJK circular letter no. 10/SEOJK.03/2014, that the level of the soundness of Islamic commercial banks and Islamic business units with RGEC, namely by using the Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital approaches. Risk Profile can be measured with NPF indicators; GCG can include governance structures, processes and outcomes; Earning can be measured by ROA and Capital can be measured by the CAR indicator (Rizal & Humaidi, 2021; Lestari et al., 2020; Afrialdy & Suripto, 2020).

Banks that go public or IPO get many funds. These funds can strengthen capital reserves, thereby reducing bank risk. In addition, these funds can be used to develop investments and financing to increase bank returns and performance. After going public, public ownership of shares leads to direct oversight by the public and oversight by regulators. With supervision and following the rules that the regulator has given, banks are more careful in managing and channeling financing so that problematic financing does not arise. Therefore, the hypothesis proposed is:

H1: NPF of Sharia Banks that go public is better and significantly different than non-go public.

H2: GCG of Sharia Banks that go public is better and significantly different than non-go public.

H3: CAR of Sharia Banks that go public is better and significantly different than non-go public.

H4: ROA of Sharia Banks that go public is better and significantly different than non-go public.

Methods

This study uses a sample of Sharia Banks (BS) registered with OJK. Until 2022 there are four BS that goes public. The four banks include Bank Sharia Indonesia, Bank BTPN Sharia, Bank Panin Dubai Sharia, and Bank Aladin Sharia. However, before the merger to become Bank Sharia Indonesia, BRI Sharia had also gone public. In 2021, it merged with BNI Sharia and Mandiri Sharia to become Bank Sharia Indonesia. Observation data for the 2014-2022 period, where from 2014 - 2020, there were 14 Sharia Banks, and in 2021-2022 there were 12 Sharia Banks because three banks had merged. Thus, the observation data used is 14 banks times seven years (2014-2020) plus 12 banks times two years (2021-2022), so the total of all observation data becomes 122 bank years.

Variable Measurement

Measurement of bank health based on RGEC (Risk Profile, Good Corporate Governance, Earning, Capital) includes the variables NPF, GCG, CAR, and ROA presented in table 1.

Table 1. Variable Measurement

Variables	**Measurement**
NPF (Non-Performing Financing)	Total Financing Problem / Total Financing
GCG (Good Corporate Governance)	Using the score: Level 1 (Excellent) = 5, level 2 (Good) = 4, level 3 (Fair) = 3, level 4 (Poor) = 2, level 5 (Bad) = 1
CAR (Capital Adequacy Ratio)	Capital / Risk Weighted Assets
ROA (Return on Asset)	Net profit / Total Assets
GoP (Go Public)	Dummy variable, value 1 if it goes public and 0 if it does not go public

Analysis and Discussion

Based on table 2, the health of Sharia Banks (BS) that go public and non-go public can be described as follows. BS has an average non-performing financing (NPF) of 2.4%. It means that BS has a healthy NPF value because it is in the area of 2% ≤ NPF < 5% (SEBI No. 13/24/DPNP/2011). Meanwhile, banks that go public have an average problem financing that is better or smaller than non-go public (0.016 < 0.025).

Table 2. Descriptive Statistics

Var.	**Full sample**		**Go public**		**Non-go public**				
	Min.	Max.	Mean	Std.		Mean	Std	Mean	Std
NPF	0.000	0.220	0.024	0.029		0.016	0.004	0.025	0.003
GCG	2.500	5.000	3.935	0.581		4.000	0.069	3.921	0.062
CAR	0.115	3.905	0.353	0.528		0.541	0.187	0.314	0.042
ROA	-0.201	0.134	0.011	0.044		0.014	0.015	0.010	0.004
Obs (N)	122		21		101				

BS has an average Good Corporate Governance (GCG) score of 3.921. It shows that, in general, the corporate governance of BS is good. Meanwhile, banks that go public have an average GCG better than non-go public (4 > 3,921). Furthermore, BS has a very healthy average capital adequacy (CAR) because it has a CAR of > 12%, namely 0.353%. Meanwhile, banks that go public have better capital adequacy than non-go public (54.1% > 31.4%).

Finally, BS has an average performance (ROA) of 1.1% in a fairly healthy category because it is in the range of 0.5% < ROA ≤ 1.25%. Meanwhile, banks that go public have healthier performance than non-go public (1.4% > 1%). Thus it can be concluded that go-public Sharia Banks have healthier RGEC indicators than non-go public.

Hypothesis Testing

Based on the average descriptive statistics above, BS go public has better NPF, GCG, CAR, and ROA than non-go public. Even though BS go public is better than non-go public, is there a significant difference? Therefore, to answer H1, H2, H3, and H4, further testing is needed using an independent samples t-test. Before the independent samples t-test, the variance homogeneity test was first carried out on the NPF, GCG, CAR, and ROA.

Then test the homogeneity of variance by looking at the Leven statistical value in table 4, where the Lenvene value of the NPF variable has a p-value > 0.05 (0.188). It means that there is a homogeneity of variance between groups of NPF variables. On the other hand, GCG, CAR, and ROA have p-values <0.05 (0.002; 0.017; 0.001). The meaning is that GCG, CAR, and ROA do not occur homogeneity between each group of variables.

Table 4. Test of Homogeneity of Variance

Variables	**Levene Stat.**	**df1**	**df2**	**Sig.**
NPF	1.756	1	120	.188
GCG	9.694	1	120	.002
CAR	5.899	1	120	.017
ROA	11.478	1	120	.001

After the homogeneity test was carried out, the independent t-test was carried out. For variables that contain homogeneity (NPF), the results of the independent t-test used are equal variances assumed. On the contrary, equal variances not assumed are used for variables that do not contain homogeneity (GCG, CAR, and ROA). The test results can be seen in table 5 below.

Table 5. Independent Samples Test

Variables	**Samples**	**t**	**df**	**Sig.**	**Mean Diff.**
NPF	Equal Var. Ass.	-1.321	120	0.189	-0.009
	Equal Var. not Ass.	-1.972	56.256	0.054	-0.009
GCG	Equal Var. Ass.	0.562	120	0.575	0.079
	Equal Var. not Ass.	0.847	57.641	0.400	0.079

CAR	Equal Var. Ass.	1.805	120	0.074	0.226
	Equal Var. not Ass.	1.182	22.107	0.250	0.226
ROA	Equal Var. Ass.	0.347	120	0.729	0.004
	Equal Var. not Ass.	0.234	22.355	0.817	0.004

Based on table 5 above, it can be concluded that even though the NPF of the go public is lower than that non-go public, it is not significantly different (p-value 0.189 > 0.05). Thus, H1, which states that the NPF of Sharia Banks that go public is better and significantly than non-go public, is rejected. Likewise with GCG, where BS go public has better GCG than non-go public but is not significantly different (p-value 0.400 > 0.05). Thus H2, which states that the GCG of Sharia Banks that go public is better and significantly than non-go public, is rejected. Furthermore, BS go public has a better CAR than non-g0 public but is not significantly different (p-value 0.250 > 0.05). Thus H3, which states that the CAR of Sharia Banks that go public is better and significantly different than non-go public, is rejected. Finally, the performance of BS go public has a better ROA than non-go public but is also not significantly different (p-value 0.817 > 0.05). Thus H3, which states that the ROA of Sharia Banks that go public is better and significantly than non-go public, is also rejected.

The analysis of the independent samples test above shows that Sharia Banks that go public have better health than non-go public but are not significantly different. Our findings are in line with Panu et al. (2017). They found no significant difference in the earnings and capital of the Regional Development Banks that go public and non-go public. Furthermore, Nugraheni et al. (2021) found that Sharia Banks that go public are more efficient but not significantly different from the non-go public.

These results indicate that Sharia Banks that go public do not significantly impact bank health changes. It may be why Sharia Banks go public is not as many as Conventional Banks. In 2022 the number of commercial banks in Indonesia will be 106 (Mustajab, 2023), including Sharia banks. Meanwhile, 46 commercial banks, including Sharia Banks, have gone public or registered on the IDX (Awal, 2022). Until 2022 there are 12 Sharia Banks, and four have gone public. Based on this data, Sharia Banks have fewer go public than Conventional Banks, namely 33.3% (4/12) compared to 44.7% (42/ 94).

Another factor is that Sharia Banks have a prudent principle. According to Law No. 21 of 2008 concerning Sharia Banks, in article 2, "Sharia banking in carrying out its business activities is based on Sharia Principles, economic democracy, and the principle of prudence." According to Triyanta (2016), Sharia Banks are the object of supervision of the prudent aspect of banking. On the other hand, Sharia banks are subject to supervision for compliance with Sharia principles. Both are equally important, and failure to implement either will have legal consequences. So, the quality of Sharia Banks is not only determined based on the fulfillment of several requirements, such as CAR, FDR, NPF, number of customers, and expansion of branch offices. However, it is also determined by various Sharia parameters. Sharia Banks must be careful and comply with Islamic teachings' provisions.

The precautionary principle of Sharia Banks also needs to be applied to initiatives to go public. Go public means that the public owns the shares. It means that shares should not be controlled by a handful of people or institutions that are non-Muslims. Therefore, with the precautionary principle, it is better if going public is the last alternative when external funds other than the issuance of shares are insufficient. It aligns with the pecking order theory developed by Myers & Majluf (1994). This theory states that companies prioritize internal rather than external funds to finance their business development. If the internal funding sources are insufficient, it is necessary to use external funding. If an external funding source is needed, the main choice is debt by issuing bonds. IPO (Initial public offering) is required as a last resort for companies when internal funding sources and debt are insufficient.

Conclusion

This study aims to test whether Sharia Banks that go public have better performance and healthy than non-go public. By using the RGEC indicators (Risk Profile, Good Corporate Governance, Earning, Capital), including the variables NPF, GCG, CAR, and ROA. We found that the NPF, GCG, CAR, and ROA of banks that go public are better than non-go public but are not significantly different. It's means that going public also cannot guarantee that Sharia banks will be better than non-going public ones. The precautionary principle must be put forward because the Sharia Banks' indicators are not only on the NPF, GCG, CAR, and ROA indicators. However, it also requires prudent principles, operational processes, products, and financing that comply with Sharia principles.

The results of this study can be strengthened through future research by conducting similar research. Namely comparing banks before going public and after going public. Because relatively few Sharia Banks go public, they can be expanded with Conventional Bank data. So that general conclusions can be drawn about whether Sharia or Conventional Banks have better bank health or performance after going public when compared to before going public.

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