

PENGGUNAAN SISTEM KAWALAN PENGURUSAN DAN
PRESTASI PEMBIAYAAN PERKONGSIAN UNTUNG
RUGI PERBANKAN ISLAM DI INDONESIA

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DISERTASI YANG DIKEMUKAKAN UNTUK MEMENUHI SEBAHAGIAN
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THE USE OF MANAGEMENT CONTROL SYSTEM AND THE PERFORMANCE
OF PROFIT-LOSS SHARING FINANCING IN INDONESIA ISLAMIC BANK

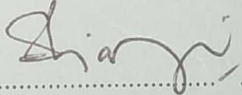
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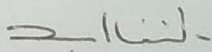
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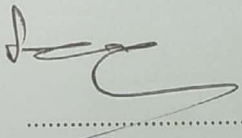
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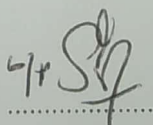
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**THE USE OF MANAGEMENT CONTROL SYSTEM AND THE
PERFORMANCE OF PROFIT-LOSS SHARING
FINANCING IN INDONESIA ISLAMIC BANK**

ABSTRACT

The practice of profit and loss sharing (PLS) financings are considered low although PLS contract is known as a basic concept of Islamic bank. Previous studies have shown that the low practice was due to low attitude toward risk and low organizational learning. Accordingly, the purpose of this study is to gain understanding on the relationship between Islamic Banks' management control system (MCS) and attitude towards risk and organizational learning that may lead to the increase of PLS financing performance. MCS is operationalized through interactive, diagnostic, and dynamic tension in the use of performance measurement system (PMS). The performance of PLS financing is operationalized in two dimensions: the quantity and the quality of financing. A survey methodology was employed. Questionnaires were sent to the financing managers of Islamic banks in Indonesia and received 99 responses. Utilizing Partial Least Square analysis, this study found that the diagnostic use of PMS is negatively associated with attitude toward risk and positively related to the organizational learning. Meanwhile, the interactive use of PMS is found to be positively associated with both attitude toward risk and organizational learning. The dynamic tension on the use of PMS was also found to significantly affect the organizational learning. The findings also showed that the interactive use and diagnostic use of PMS can affect the quantity of PLS financing through the attitude towards risk. The data also show the use of all three types of PMS can affect the quantity and quality of PLS financing through organizational learning. With regard to the relationship between attitude towards risk and financing performance, this study found that attitude towards risk positively affects the financing quantity, but it does not affect the financing quality. Hence the prediction of this study that attitude towards risk negatively affects financing quality is unproven, however, organizational learning, as predicted, positively affects financing quality and quantity. The findings of this study imply that resource based view is able to explain MCS in a better manner than agency theory. Practically, this study implies the presence of MCS role as a system to control the behavior of the Islamic bank managers in enhancing the performance of PLS financing.

THE USE OF MANAGEMENT CONTROL SYSTEM AND THE PERFORMANCE OF PROFIT SHARING FINANCING IN INDONESIA ISLAMIC BANK

PENGGUNAAN SYSTEM KAWALAN PENGURUSAN DAN PRESTASI PEMBIAYAAN UNTUNG RUGI PERBANKAN ISLAM DI INDONESIA

(RINGKASAN DISERTASI ATAINA HUDAYATI)

PURPOSE

In general, this study aims to identify the influence of Management Control System (MCS) on the performance of profit and loss sharing financing through the variables of attitude towards risk and organizational learning. There have not been many previous studies that have systematically examined the relationship between MCS and financing performance, especially profit and loss sharing financing in Islamic banking. The MCS that is the focus of this study includes the diagnostic use of the performance measurement system (PMS), the interactive use of the PMS and the dynamic tension of the use of PMS

In particular, this study aims to: 1) identify the influence of the use of diagnostic PMS, the use of interactive PMS as well as the dynamic tension of use PMS on attitudes towards risk; 2) identify the relationship of attitude towards risk on the performance of profit sharing financing; 3) identify the influence of the use of diagnostic PMS, the use of interactive PMS as well as the dynamic tension of the use of PMS on organizational learning; 4) identify the influence of organizational learning on the performance of profit sharing financing.

RESULTS BASED ON AGENCY THEORY

This study focuses on the two roles of the management control system (MCS), which is as a tool to motivate individuals and as a tool to reduce individual limitations. The role of MCS as a tool to motivate individuals is viewed through agency theory. Meanwhile, the role of MCS in reducing individual limitations is analyzed using Resource Based View (RBV).

The first hypothesis states that the use of PMS diagnostically has a positive effect on attitudes towards risk. However, the results of the analysis show that the use of diagnostic PMS has a negative effect on the attitude towards risk, accordingly the first hypothesis was not supported. The second hypothesis states that the use of PMS interactively has a negative effect on the attitude towards risk. Nevertheless, the results of the analysis show that the use of the interactive SPP has a positive effect on the attitude towards risk.

The findings of the first and second hypotheses that are contrary to expectations clearly prove the difference in the effect of MCS on attitudes towards risk for Islamic banking compared to conventional banking. Indirectly, it is not surprising when the third hypothesis which expects that the dynamic tension of using PMS has a negative effect on the attitude towards risk is not supported. This may imply that agency theory underlying many conventional bank studies is unable to explain individual behavior underpinned by Islamic values.

As discussed above, the first and second hypotheses do not support agency theory. The opposite happens in the third hypothesis. The third hypothesis expects the existence of a positive relationship between the attitude towards risk and the quantity of financing and the results of

the study support the hypothesis. Thus, the findings of the third hypothesis support the agency theory which assumes that a decrease in agency problems (in the form of an increase in attitude towards risk) can cause performance to increase (in the form of an increase in the quantity of profit sharing financing).

Next, the fourth hypothesis expects the existence of a negative relationship between the attitude towards risk and the quality of financing. The findings of the study show that attitude towards risk is not related to the quality of profit sharing financing. The findings of this study show that the opinion that states that agency theory can create spillover effects is not proven. This implies the low level of selfishness that exists in Islamic banking as is the case in the second hypothesis.

RESULTS BASED ON RBV

The role of MCS based on RBV is further operationalized in the fifth to eighth hypotheses. The fifth hypothesis expects that the use of interactive PMS has a positive effect on organizational learning. The sixth hypothesis states that the use of diagnostic SPP has a negative effect on organizational learning. Further, the seventh hypothesis states that organizational learning has a positive effect on the quantity of profit sharing financing. Finally, the eighth hypothesis states that organizational learning influences the quality of profit sharing financing.

Out of the four hypotheses developed based on RBV, three hypotheses were supported, namely the fifth, seventh and eighth hypotheses. While the sixth hypothesis is not supported, because the results of the study show that the use of diagnostic PMS has a positive effect on organizational learning. It can be concluded that the results of the study support the role of MCS according to RBV in Islamic banking, especially in relation to improving the performance of profit and loss sharing financing.

IMPLICATIONS

Previous studies have identified the influence of the use of diagnostic PMS and the use of interactive PMS on organizational capabilities. This study expands on previous studies because it succeeded in finding the influence of the two types of PMS use on agency problems in the form of attitudes towards risk. The results of the study supporting the positive relationship between attitude towards risk and the quantity of profit sharing financing support the assumption of agency theory that with a decrease in agency problems, company performance increases.

The results of the study also show that RBV is more suitable to be applied in Islamic banking than agency theory. RBV is a company theory based on a competency-based view. The competency-based view is considered more in line with Islamic law. A modification is needed on the assumption that individuals are selfish, if agency theory is to be applied in Islamic banking. Donaldson and Davis (1991) have developed a theory based on the relationship between agent and principal with the assumption that individuals are not selfish, which is called the theory of responsibility (stewardship theory). The responsibility theory seems to be more appropriate if applied in Islamic banking.

The results of the study that show that the use of diagnostic PMS is negatively related to attitude towards risk, but positively related to organizational learning shows that the use of PMS only

diagnostically will create a negative effect on the company in the form of a decrease in attitude towards risk, which in turn can reduce the amount of profit sharing financing . Furthermore, the positive relationship between the use of interactive PMS on attitude towards risk and organizational learning shows that companies that only use PMS interactively will be able to improve the performance of profit sharing financing either through attitude towards risk and organizational learning. However, the use of interactive and diagnostic use of PMS together will only improve the performance of profit-loss sharing financing through organizational learning. Therefore, to improve the financing performance of profit and loss sharing, it is suggested to use PMS interactively. If the bank branch will apply the use of PMS diagnostically for various other needs, it is suggested that PMS be used interactively at the same time.

The positive relationship between attitude towards risk and the quantity of profit and loss sharing financing implies that the attitude towards risk in Islamic banks needs to be increased. The attitude towards risk reflects the bank's desire to share risk with customers through the provision of profit-loss sharing financing. The possibility that such high risk attitudes will result in negative effects was not found in this study. For that, the findings of this study provide implications for policy makers in banking to loosen the control system in banking.

The effect of organizational learning on the quantity and quality of profit-loss sharing financing shows that Islamic banks need to focus more on learning aspects to improve the performance of profit-loss sharing financing. Therefore, training programs related to the financing of profit and loss sharing in particular and related to Islamic banks in general are very necessary. To support the learning process, research and development activities need to be more focused.