

Documents

Effendi, J.^a, Qoyum, A.^b, Wardhana, L.I.^c, Thaker, H.M.T.^d

IT investment and Islamic banking performance in Indonesia: Do Sukuk issuance and Shariah governance matter? (2023) *Banks and Bank Systems*, 18 (2), pp. 75-87. Cited 1 time.

DOI: 10.21511/bbs.18(2).2023.07

^a Faculty of Economics and Management, IPB University, Indonesia

^b Faculty of Islamic Economics and Management, State Islamic University Sunan Kalijaga, Indonesia

^c Department of Economics and Business Vocational, School Universitas Gadjah Mada, Indonesia

^d Kulliyah of Economics and Management Sciences, International Islamic University, Malaysia

Abstract

IT investment and financial performance are crucial issues for the Islamic banking industry. An Islamic banking (IB) that is established in a technologically advanced setting, employs mostly young and tech-savvy employees, and adheres to Islamic principles in all aspects of its activities, needs to invest in IT. This investment in information technology is essential if they are to remain competitive and achieve solid financial performance. This study aims to investigate the effect of IT investment on Islamic banking performance in Indonesia. The study used data of 14 Islamic banks in Indonesia, from 2012 to 2021. By employing panel regression analysis, the study revealed that IT investment has a significant impact on Islamic banking performance, indicated by ATM and Expenses for Human Resources (BG), which has the coefficient 1.75e-07 (Alpha 0.060) and 4.73e-14 (Alpha 1%), respectively. The study also documented a significant relationship between IT investment and IB performance, caused by Sukuk issuance and the Shariah supervisory board. Sukuk issuance has a negative impact on banking performance in relation to IT investment, while shariah governance (board of directors and shariah supervisory board) has a positive impact. Hence, it is also important for an Islamic banking to minimize the use of Sukuk, which until now was still categorized as debt, and to maximize the role of good governance to back up IT spending. © Jaenal Effendi, Abdul Qoyum, Leo Indra Wardhana, Hassanudin Mohd Thas Thaker, 2023.

Author Keywords

information technology investment; Islamic banking performance; Shariah governance; Sukuk issuance

References

- Abozaid, A., Dusuki, A. W.
The Challenges of Realizing Maqasid al-Shari`ah in Islamic Banking and Finance (2007) *IUM International Conference on Islamic Banking and Finance*, IUM Institute of Islamic Banking and Finance
- Abubakar, M., Hassan, M. K., Haruna, M. A.
Cryptocurrency Tide and Islamic Finance Development: Any Issue? (2019) *International Finance Review*, pp. 189-200.
J. J. Choi & B. Ozkan (Eds), Emerald Publishing Limited
- Adrian, T., Liang, N.
(2014) *Monetary Policy, Financial Conditions, and Financial Stability (Staff Reports, No. 690)*, Federal Reserve Bank of New York
- Aghion, P., Howitt, P.
Capital, innovation, and growth accounting (2007) *Oxford Review of Economic Policy*, 23 (1), pp. 79-93.
- Al Arif, M. N. R., Yati, D.
Comparison of Islamic Banking Performance In Indonesia, Pakistan, And Bangladesh: Sharia Maqashid Index Approach (2021) *Share: Jurnal Ekonomi Dan Keuangan Islam*, 10 (1), p. 1.
- Al Dalayeen, B.
Impact of Customer Relationship Management Practices on Customer's Satisfaction

- in Jordan Ahli Bank and Bank Al-Etihad**
(2017) *Journal of Service Science and Management*, 10, pp. 87-96.
(01)
- Amarah, S.
Penilaian Kinerja Sosial Berbasis Maqasid Syariah Pada Bank Umum Syariah Hasil Konversi Di Indonesia
(2018) *MALIA: Journal of Islamic Banking and Finance*, 2 (1), p. 17.
 - Amarah, S., Masturin, M.
The Determinants of Maqasid Shariah Based Performance of Islamic Banks in Indonesia
(2018) *IQTISHADIA*, 11 (2), p. 354.
 - Aral, S., Weill, P.
IT Assets, Organizational Capabilities, and Firm Performance: How Resource Allocations and Organizational Differences Explain Performance Variation
(2007) *Organization Science*, 18 (5), pp. 763-780.
 - Beccalli, E.
Does IT investment improve bank performance? Evidence from Europe
(2007) *Journal of Banking & Finance*, 31 (7), pp. 2205-2230.
 - Belkhir, M., Maghyereh, A., Awartani, B.
Institutions and corporate capital structure in the MENA region
(2016) *Emerging Markets Review*, 26, pp. 99-129.
 - Ben Abdallah, M., Bahloul, S.
Disclosure, Shariah governance and financial performance in Islamic banks
(2021) *Asian Journal of Economics and Banking*, 5 (3), pp. 234-254.
 - Bresnahan, T. F., Brynjolfsson, E., Hitt, L. M.
Information Technology, Workplace Organization and the Demand for Skilled Labor: Firm-level Evidence
(2002) *The Quarterly Journal of Economics*, 117 (1), pp. 339-376.
Retrieved from
 - Brown, J. R., Petersen, B. C.
Why has the investment-cash flow sensitivity declined so sharply? Rising R&D and equity market developments
(2009) *Journal of Banking & Finance*, 33 (5), pp. 971-984.
 - Casolaro, L., Gobbi, G.
Information Technology and Productivity Changes in the Banking Industry
(2007) *Economic Notes*, 36 (1), pp. 43-76.
 - Chortareas, G., Mavrodimitrakis, C.
Can monetary policy fully stabilize pure demand shocks in a monetary union with a fiscal leader?
(2016) *Economic Modelling*, 54, pp. 463-468.
 - Darmadi, S.
Corporate governance disclosure in the annual report: An exploratory study on Indonesian Islamic banks
(2013) *Humanomics*, 29 (1), pp. 4-23.
 - Doku, J. N., Kpekpena, F. A., Boateng, P. Y.
Capital Structure and Bank Performance: Empirical Evidence from Ghana
(2019) *African Development Review*, 31 (1), pp. 15-27.

- Ghani, H. A.
Urf and Ādah (Custom and Usage) as a Source of Islamic law
(2011) *American International Journal of Contemporary Research*, 1 (2), pp. 178-184.
Retrieved from
- Grassa, R.
Shariah supervisory system in Islamic financial institutions: New issues and challenges: a comparative analysis between Southeast Asia models and GCC models
(2013) *Humanomics*, 29 (4), pp. 333-348.
- Guizani, M.
Testing the pecking order theory of capital structure: The case of Islamic financing modes
(2020) *Future Business Journal*, 6 (1), p. 38.
- Hayat, R., Kabir Hassan, M.
Does an Islamic label indicate good corporate governance?
(2017) *Journal of Corporate Finance*, 43, pp. 159-174.
- Herren, R. S.
(2001) *Council of Economic Advisers*,
Retrieved from
- Ho, S. J., Mallick, S. K.
The impact of information technology on the banking industry
(2010) *Journal of the Operational Research Society*, 61 (2), pp. 211-221.
- Hoque, H., Liu, H.
Capital structure of Islamic banks: How different are they from conventional banks?
(2021) *Global Finance Journal*, 54, p. 100634.
- Hudaefi, F. A., Badeges, A. M.
Maqāsid al-Sharī'ah on Islamic banking performance in Indonesia: A knowledge discovery via text mining
(2022) *Journal of Islamic Marketing*, 13 (10), pp. 2069-2089.
- Hung, J.-L., Luo, B.
FinTech in Taiwan: A case study of a Bank's strategic planning for an investment in a FinTech company
(2016) *Financial Innovation*, 2 (1), p. 15.
- Idowu, P. A., Alu, A. O., Ada-gunodo, E. R.
The Effect of Information Technology on the Growth of the Banking Industry in Nigeria
(2002) *The Electronic Journal of Information Systems in Developing Countries*, 10 (1), pp. 1-8.
- Inman, J. J., Nikolova, H.
Shopper-Facing Retail Technology: A Retailer Adoption Decision Framework Incorporating Shopper Attitudes and Privacy Concerns
(2017) *Journal of Retailing*, 93 (1), pp. 7-28.
- Ismal, R.
(2010) *The Management of Liquidity Risk in Islamic Banks: The Case of Indonesia (Doctoral Thesis)*,
Durham University. Retrieved from
- Ismal, R.
Assessment of liquidity management in Islamic banking industry

(2010) *International Journal of Islamic and Middle Eastern Finance and Management*, 3 (2), pp. 147-167.

- Iswanaji, C.
Pengaruh Struktur Modal terhadap Profitabilitas dan Financial Leverage pada Bank Syariah di Yogyakarta
(2018) *al-Uqud: Journal of Islamic Economics*, 2 (1), p. 81.
- Kamali, M. H.
'Maqasid Al-Shari'ah': The Objectives of Islamic Law
(1999) *Islamic Studies*, 38 (2), pp. 193-208.
Retrieved from
- Kou, G., Olgu Akdeniz, Ö., Dinçer, H., Yüksel, S.
Fintech investments in European banks: A hybrid IT2 fuzzy multidimensional decision-making approach
(2021) *Financial Innovation*, 7 (1), p. 39.
- Laldin, M. A., Furqani, H.
Developing Islamic finance in the framework of maqasid al-Shari'ah: Understanding the ends maqasid and the means (wasa'il)
(2013) *International Journal of Islamic and Middle Eastern Finance and Management*, 6 (4), pp. 278-289.
- Leckey, G. T. Y. L., Osei, K. A., Harvey, S. K.
Investments in Information Technology (IT) and Bank Business Performance in Ghana
(2011) *International Journal of Economics and Finance*, 3 (2), pp. 133-142.
- Mangondu, R., Diantimala, Y.
Pengaruh Struktur Modal Terhadap Nilai Perusahaan dan Kinerja Perusahaan Pada Perusahaan Perbankan Yang Terdaftar Di Bursa Efek Indonesia
(2016) *Jurnal Dinamika Akuntansi dan Bisnis*, 3 (1), pp. 62-69.
- Meena, M. R., Parimalarani, D. G.
Impact of Digital Transformation on Employment in Banking Sector
(2020) *International Journal of Scientific & Technology Research*, 9 (1), pp. 4912-4916.
Retrieved from
- Musdalifa, M., Mukhzarudfa, M., Kusumastuti, R.
The Effect of Corporate Governance on Financial Performance: Corporate Social Responsibility as A Buffer
(2022) *EL DINAR: Jurnal Keuangan Dan Perbankan Syariah*, 10 (2), pp. 181-196.
- Mutia, E., Jannah, R., Rahmawaty, R.
Islamicity Performance Index of Islamic Banking in Indonesia
(2019) *Proceedings of the 1st Aceh Global Conference (AGC 2018)*, Banda Aceh, Indonesia
- Naseem, M. A., Zhang, H., Malik, F., Ramiz-Ur-Rehman
Capital Structure and Corporate Governance
(2017) *Journal of Developing Areas*, 51 (1), pp. 33-47.
Retrieved from
- Oluoha, O. U., Yange, T. S., Okereke, G. E., Bakpo, F. S.
Cutting Edge Trends in Deception Based Intrusion Detection Systems – A Survey
(2021) *Journal of Information Security*, 12, pp. 250-269.
(04)
- Ozili, P. K.
Impact of digital finance on financial inclusion and stability

- (2018) *Borsa Istanbul Review*, 18 (4), pp. 329-340.
- Pasiouras, F., Tanna, S., Zopounidis, C.
The impact of banking regulations on banks' cost and profit efficiency: Cross-country evidence
(2009) *International Review of Financial Analysis*, 18 (5), pp. 294-302.
 - Rahajeng, D. K.
Sharia Governance: Sharia Supervisory Board Model of Islamic Banking and Finance in Indonesia
(2013) *SSRN Electronic Journal*,
 - Rahman, A. S., Haron, R.
The Effect of Corporate Governance on Islamic Banking Performance: A Maqasid Shari'ah Index Approach on Indonesian Islamic Banks
(2019) *Journal of Islamic Finance*, 8, pp. 1-18.
Retrieved from
 - Romer, P. M.
Endogenous Technological Change
(2022) *Journal of Political Economy*, 98 (5), pp. 71-102.
Retrieved from
 - Roy, N. C., Thangaraj, V.
Investment in Technology: Does It Proliferate the Profitability and Performance of the Indian Banks?
(2020) *Research in Finance*, pp. 19-44.
R. Biswas & M. Michaelides (Eds), Emerald Publishing Limited
 - Rusydiana, A., Sanrego, Y. D.
Measuring The Performance of Islamic Banking in Indonesia: An Application of Maslahah-Efficiency Quadrant (MEQ)
(2018) *Journal of Islamic Monetary Economics and Finance*, 3, pp. 79-98.
 - Saeed, M. M., Gull, A. A., Rasheed, M. Y.
Impact of Capital Structure on Banking Performance (A Case Study of Pakistan)
(2013) *Interdisciplinary Journal of Contemporary Research in Business*, 4 (10), pp. 393-403.
Retrieved from
 - Saeed, M., Izzeldin, M., Hassan, M. K., Pappas, V.
The inter-temporal relationship between risk, capital and efficiency: The case of Islamic and conventional banks
(2020) *Pacific-Basin Finance Journal*, 62, p. 101328.
 - Sakti, M. R. P.
(2018) *Corporate Governance, Capital Structure, and Performance of Islamic Banks in The Organization of Islamic Cooperation Countries*,
(Thesis). Universitas Teknologi Malaysia
 - Salvatore, D.
(2005) *Ekonomi Manajerial dalam Perekonomian*,
Global Buku 1 Edisi Kelima. Salemba Empat
 - Saoqi, A. A. Y.
Analyzing The Performance OF Islamic Banking in Indonesia and Malaysia: Maqasid Index Approach
(2017) *Jurnal Ekonomi Islam*, 8 (1), pp. 29-50.
 - Saphyra, A. R., Zahra, R., Noerlina
A Systematic Literature Review of Fintech Investment and Relationship with Bank in

Developed Countries

(2021) *2021 1st International Conference on Computer Science and Artificial Intelligence (ICCSAI)*, pp. 184-189.

- Setyawati, I., Kartini, D., Rachman, S.
Assessing The Islamic Banking Financial Performance in Indonesia
(2015) *International Journal of Education and Research*, 3 (10), pp. 233-248.
Retrieved from
- Siswantoro, D.
Analysis of Islamic Bank's Performance and Strategy After Spin-off as Islamic Full-fledged Scheme in Indonesia
(2014) *Procedia – Social and Behavioral Sciences*, 164, pp. 41-48.
- Solow, R. M.
Technical Change and the Aggregate Production Function
(1957) *The Review of Economics and Statistics*, 39 (3), pp. 312-320.
- Takeda, F., Takeda, K., Takemura, T., Ueda, R.
The impact of information technology investment announcements on the market value of the Japanese regional banks
(2021) *Finance Research Letters*, 41, p. 101811.
- Tarek Al-Kayed, L., Raihan Syed Mohd Zain, S., Duasa, J.
The relationship between capital structure and performance of Islamic banks
(2014) *Journal of Islamic Accounting and Business Research*, 5 (2), pp. 158-181.
- Türkmen, C., Değerli, A.
Transformation of Consumption Perceptions: A Survey on Innovative Trends in Banking
(2015) *Procedia - Social and Behavioral Sciences*, 195, pp. 376-382.
- Unal, I. M., Aysan, A. F.
Fintech, Digitalization, and Blockchain in Islamic Finance: Retrospective Investigation
(2022) *FinTech*, 1 (4), pp. 388-398.

Publisher: LLC CPC Business Perspectives

ISSN: 18167403

Language of Original Document: English

Abbreviated Source Title: Banks Bank Syst.

2-s2.0-85162098896

Document Type: Article

Publication Stage: Final

Source: Scopus

ELSEVIER

Copyright © 2024 Elsevier B.V. All rights reserved. Scopus® is a registered trademark of Elsevier B.V.

 RELX Group™