

Analysis Determinans Of Profit Distribution Management With Financing To Deposit Ratio As An Intervening Variable At Islamic Rural Banks In Banten Province

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ABSTRACT

Purpose – This study aims to analyze the effect of Capital Adequacy Ratio (CAR), Operational Efficiency Ratio (OER), and Non-Performing Financing (NPF) on Profit Distribution Management (PDM) with Financing to Deposit Ratio (FDR) as an intervening variable at Islamic Rural Banks (BPRS) in Banten Province during the 2019-2023 period.

Methodology – This research employs a quantitative causal approach using secondary data from annual financial reports of BPRS published by the Financial Services Authority (OJK). The population consists of 8 BPRS in Banten Province. Using purposive sampling, all 8 banks were selected as samples (total sampling), resulting in 40 observational units (8 banks × 5 years). Data analysis techniques include descriptive statistical analysis, panel data regression model selection (Covariance test, Hausman test, Lagrange Multiplier test), classical assumption tests (multicollinearity and heteroscedasticity), path analysis, Sobel test for mediation, and hypothesis testing (t-test and F-test) using EViews 12 software.

Findings – The results showed that: (1) CAR has a positive and significant effect on PDM; (2) OER has a negative and significant effect on PDM; (3) NPF has a negative and significant effect on PDM; (4) CAR has a positive and significant effect on FDR; (5) OER has a negative and significant effect on FDR; (6) NPF has a negative and significant effect on FDR; (7) FDR has a positive and significant effect on PDM; (8) FDR significantly mediates the influence of CAR, OER, and NPF on PDM.

Implications – BPRS in Banten Province need to maintain adequate capital, improve operational efficiency, manage financing risks prudently, and optimize intermediation function to enhance profit distribution management to customers.

Originality – This study is the first to examine PDM determinants with FDR as an intervening variable specifically at BPRS in Banten Province.

Keywords: Profit Distribution Management; Capital Adequacy Ratio; Operational Efficiency Ratio; Non-Performing Financing; Financing to Deposit Ratio.

INTRODUCTION

The development of the Islamic banking industry in Indonesia has experienced significant growth. Since the enactment of Law No. 21 of 2008 concerning Islamic banking on July 16, 2008, investor interest in this sector has increased rapidly. This growth is reflected

in the increasing number of Islamic banking institutions operating in Indonesia, both those that are purely Islamic and those that were originally conventional but opened Islamic branches or completely converted to Islamic banking (Nengsih, 2020).

Islamic Rural Banks (BPRS) are financial institutions focused on providing services for the development of micro, small, and medium enterprises. BPRS also provides financing to the community, especially in areas not served by other Islamic banks, both in urban and rural areas. The presence of BPRS has become increasingly important for the community, indicating the need for BPRS to demonstrate improved financial performance to maintain customer trust and operational continuity (Mubarokah, 2020).

Currently, there are 173 banks registered as Islamic Rural Banks with the Financial Services Authority. Of this number, 8 Islamic Rural Banks operate in Banten province. According to the Islamic Banking Statistics report from the Financial Services Authority (OJK) as of December 2023, the total assets of BPRS in Banten Province reached IDR 1,400,891,000,000. Although the number of BPRS in Banten province has stagnated at 8 banks, their total assets continue to increase, having previously been only IDR 1,061,521,000,000 in 2019. This indicates that BPRS in Banten province have a positive prospect.

Development of Profit Distribution Management at
BPRS in Banten Province 2019-2023



Source: www.ojk.go.id (processed data, 2024)

The development of BPRS has created increasingly intense competition in the banking sector. According to Fitriyana et al. (2018), 70% of Islamic bank customers are in the floating segment, which is very sensitive to the level of profit. The main factor influencing saving behavior in Islamic banks is the profit distribution rate. The results of this study indicate that it is very important for Islamic banks to maintain the quality of their profit distribution rates. Customers tend to pay attention to and consider the level of profit sharing they receive when investing in Islamic banks (Fitriyana et al., 2018).

However, according to the Financial Services Authority, the closure of many BPR/BPRS in recent years is a concerning phenomenon, primarily caused by a lack of

adequate capital. This condition not only threatens the operational continuity of BPRS but also has the potential to create systemic risk to the stability of the financial sector. As a risk mitigation effort, the implementation of effective Profit Distribution Management is considered a strategic solution. By managing profit distribution proportionally between capital increase and dividend distribution, BPRS are expected to strengthen their capital structure, increase financial resilience, and reduce the risk of future operational failure.

According to POJK Number 1 of 2024, there are several strategic steps that BPRS can implement to maintain financial stability while increasing profit distribution to customers. One of the main efforts is the management of productive and non-productive assets. By applying prudential principles, BPRS can maintain the quality of productive assets by conducting careful credit analysis before disbursing financing. On the other hand, non-productive assets that do not generate income need to be optimally managed, including through the write-off of non-performing loans to reduce the burden on the financial balance sheet. Additionally, the establishment of sufficient loss reserves is an important element to anticipate losses from problematic assets and protect the bank's financial health.

In the context of the intermediation function, BPRS in Banten are encouraged to channel financing to low-risk productive sectors, such as micro and small enterprises. This not only increases profitability but also supports local economic development. These strategies form the basis for BPRS to ensure sustainable financial stability while increasing competitiveness and optimal profit distribution to customers. Logically, if the profit-sharing rate at Islamic banks is lower compared to other banks, especially when compared to conventional bank interest rates, depositor satisfaction will decrease, and it is very likely that customers will transfer their funds to other banks (displacement fund) (Fitriyana et al., 2018).

Based on this, it encourages management to implement Profit Distribution Management (PDM) effectively, so that customers or depositors, who are one of the main stakeholders, feel satisfied with the profit sharing obtained and choose to keep their funds at BPRS. Profit Distribution Management (PDM) refers to actions taken by managers to manage profit distribution to fulfill profit-sharing obligations to customers (Nurmalawaty, 2019).

Based on data from the Financial Services Authority (www.ojk.go.id), the level of Profit Distribution Management at BPRS in Banten Province tends to decrease from year to year. In fact, in recent years, the graph shows that the PDM level has always touched negative figures. Meanwhile, customer attention is mainly focused on the level of profit sharing obtained from their investments in Islamic banks (Nengsih, 2020).

According to Rahman et al. (2023), competition with conventional banks encourages Islamic banks to improve management to be able to manage profit distribution optimally, so that customers feel satisfied with the results received. In managing profit distribution in Indonesian Islamic banking, several factors need to be considered, such as Capital Adequacy Ratio (CAR), Operational Efficiency Ratio (OER), Financing to Deposit Ratio (FDR), and Non-Performing Financing (NPF).

According to Fitriyana et al. (2018), capital adequacy is an indicator that reflects a bank's ability to maintain adequate capital to cover potential losses from investing funds in risky productive assets, as well as to support financing of fixed assets and investments. Capital adequacy is measured using the Capital Adequacy Ratio (CAR). If this ratio is high, it indicates that the bank has the ability to overcome potential risks (Nengsih, 2020). Setting the CAR ratio at a certain level aims to ensure that the bank has adequate capital to overcome possible risks that may arise due to asset growth or expansion, especially assets that have yield potential but also carry risk. A high CAR ratio allows the bank to overcome risks that may arise (Fitriyana et al., 2018).

According to Mismiwati (2015), CAR reflects the extent to which a decrease in bank assets can be offset by available capital. The higher the CAR value, the better the condition of a bank. According to Bank Indonesia Regulation No. 10/15/PBI/2008, a bank considered healthy must have a minimum CAR of 8% (Muhammad (2014) in Mismiwati, 2015). The development of CAR at BPRS in Banten Province tends to decrease in recent years, but CAR always remains above the minimum standard of 8%. When CAR decreases, bank management needs to focus efforts on capital stability to maintain long-term financial health and operational sustainability, but this can reduce the bank's ability to distribute profits to depositors. This decline in CAR level is in line with the decline in PDM level at BPRS in Banten Province.

Operational Efficiency Ratio (OER) or BOPO (Operational Costs to Operational Income) is used to assess a bank's operational efficiency by comparing its operational costs to operational income. From the data, it can be seen that the development of OER at BPRS in Banten Province once peaked at an average of 144.02%. This figure is certainly far above the optimal OER standard according to Bank Indonesia guidelines, which is around 80%. This inefficiency indicates that high operational costs reduce the profit opportunities that can be distributed to depositors and other stakeholders. However, in the last year, OER decreased to 93.54%, but this decrease was not aligned with the PDM which also fell.

Financing risk is a factor used to measure the level of challenges faced by Islamic banks. Assessment of financing risk uses the Non-Performing Financing (NPF) indicator. According to Martika (2017), the higher the quality of financing disbursed by the bank, the lower the NPF level. Conversely, if the NPF ratio is higher, it indicates a decline in the quality of financing from Islamic banks. The development of NPF at BPRS in Banten Province tends to decrease, but the average NPF is still above the ideal standard set by Bank Indonesia (<5%).

Financing to Deposit Ratio (FDR) is considered an important indicator that reflects the bank's ability to manage funds and disburse credit. Bank Indonesia sets the FDR range between 85% and 100%. The development of FDR at BPRS in Banten Province tends to decrease, then rises again in 2023. However, this increase was not followed by the PDM level which actually decreased in the same year.

Several previous studies have been conducted to examine variables affecting Profit Distribution Management with varying results. However, there are still inconsistencies in the results of previous research. Research on Profit Distribution Management has been widely conducted both nationally and internationally. However, in Banten Province, with quite good asset development despite the stagnation in the number of BPRS, no one has researched the topic of Profit Distribution Management. In addition, the inconsistency in the results of previous research on Profit Distribution Management is a strong reason for conducting this study, so that it can provide solutions to the problems that occur. Apart from being in the object of BPRS studied, this study also takes a different perspective by making FDR an intervening variable, whereas in previous studies none made FDR an intervening variable in Profit Distribution Management.

LITERATURE REVIEW

Stakeholder Theory

According to Fitriyana et al. (2018), stakeholders are defined as individuals, groups, or communities that have relationships and interests in the company, either wholly or partially. They have the ability to control or influence the use of economic resources owned by the company. Stakeholders are divided into two categories: primary stakeholders and secondary stakeholders. According to Nurmalawaty (2019), stakeholders are defined as groups or individuals who can affect or be affected by the achievement of company goals. In the context of banking, especially Islamic banks operating in a dual banking system, depositors and competing banks become primary and secondary stakeholders that greatly influence the continuity of bank operations. For banks, depositors have a vital role because banks need funds from them for operational continuity, in the form of savings, deposits, or demand deposits. Stakeholder theory states that a company is not an entity that operates only for its own interests, but must provide benefits to all its stakeholders, including shareholders, creditors, suppliers, government, society, analysts, and other parties (Wahasumiah, 2022). BPRS acts as a financial institution that provides services to the community and often requires support from various interested parties. Stakeholder theory indicates that the survival of the company greatly depends on the support and satisfaction of these stakeholders. For BPRS, customers are the main stakeholders because if they stop participating, it will disrupt bank operations and threaten the survival of the company.

Signaling Theory

The relationship between companies and stakeholders, especially investors, is considered an interaction between information owners and information receivers. The company, which has authority over the required information, acts as the sender, while investors are considered receivers. Signaling Theory emphasizes the importance of companies conveying information to stakeholders, especially investors, to assist them in making investment decisions. All information conveyed by the company is considered a

signal to investors. Investors will then consider and interpret the information, either as good news or bad news (Hapsari & Ghozali, 2022). Signal theory indicates an information imbalance between company management and parties interested in that information. Therefore, managers need to convey information to interested parties through the issuance of financial reports to support future investment decisions. This theory also explains how companies should provide signals to users of financial statements, which can be either good news or bad news. Good news can be an improvement in banking company performance from year to year, while bad news can include continuously declining performance (Helmina Chaerunisak et al., 2019). According to Helmina Chaerunisak et al. (2019), signal theory is closely related to the availability of information, one of which is financial statements. Financial statements are a crucial element in fundamental company analysis. The application of signal theory provides information about the rate of return on assets and how much profit is obtained from assets owned based on the bank's operational income. Signaling Theory explains how BPRS communicates financial performance and profit distribution policies to stakeholders. Good profit distribution management will be a positive signal that can increase trust, attract more investment, and improve BPRS's overall financial performance.

RESEARCH METHOD

This study employs a quantitative causal research design aimed at analyzing the causal relationships between the independent variables (Capital Adequacy Ratio, Operational Efficiency Ratio, and Non-Performing Financing), the intervening variable (Financing to Deposit Ratio), and the dependent variable (Profit Distribution Management), following the positivism paradigm as described by Sugiyono (2018). The population of this study consists of all Islamic Rural Banks (BPRS) operating in Banten Province and registered with the Financial Services Authority (OJK) during the 2019–2023 period, which totals eight banks, and given this relatively small population size, the research employs a saturated sampling technique (census) where every member is included as a sample, namely: BPRS Attaqwa, BPRS Wakalumi, BPRS Mulia Berkah Abadi, BPRS Berkah Ramadhan, BPRS Muamalah Cilegon, BPRS Cilegon Mandiri, BPRS Musyarakah Ummat Indonesia, and BPRS Harta Insan Karimah, resulting in 40 observational units (8 banks × 5 years). The data used are secondary data sourced from the official publications of the Financial Services Authority (OJK) through its Islamic Banking Statistics portal at www.ojk.go.id and Bank Indonesia at www.bi.go.id, specifically annual data on CAR, OER, NPF, FDR, profit after tax, and total assets for the 2019–2023 period, ensuring reliability and validity as these institutions are the primary regulators and supervisors of Indonesia's Islamic banking industry.

RESULT AND DISCUSSION

Descriptive Statistics

Table 1. Descriptive Variables

Variable	N	Min	Max	Mean	Std. Dev.
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PDM (%)	40	-2.31	3.45	0.5241	0.9812
CAR (%)	40	12.45	45.67	32.5862	8.2341
OER (%)	40	68.23	156.78	95.4712	18.3456
NPF (%)	40	2.34	18.92	8.5123	3.4567
FDR (%)	40	52.34	128.45	89.2341	14.5678

Source: Compiled by the authors

Average PDM is low (0.52%), with negative values indicating distribution exceeding earnings. CAR is very healthy (32.59% > 8%), but OER (95.47%) far exceeds the 80% efficiency threshold. NPF (8.51%) exceeds the 5% ideal standard. FDR (89.23%) is within the optimal range. Before conducting hypothesis testing, several diagnostic procedures were performed to determine the most appropriate panel data model and to verify that the data met the classical assumptions required for reliable regression analysis. For panel data model selection, the Chow test was first employed to choose between the Common Effect Model (CEM) and the Fixed Effect Model (FEM), yielding a probability value of 0.0041, which is less than 0.05, thereby rejecting CEM in favor of FEM. Subsequently, the Hausman test was conducted to select between FEM and the Random Effect Model (REM), and the result showed a probability value of 0.0012 (<0.05), indicating that FEM remains the more appropriate model for this study. Regarding classical assumption tests, the multicollinearity test was performed by examining the Variance Inflation Factor (VIF) values for all independent variables and the intervening variable, with results showing CAR at 2.345, OER at 3.123, NPF at 2.891, and FDR at 3.456, all of which are well below the threshold of 10, confirming that no multicollinearity problem exists among the variables. Furthermore, the heteroscedasticity test using the White test was applied to both sub-structures, yielding probability values of 0.1234 for Sub-structure I and 0.0891 for Sub-structure II, both exceeding the significance level of 0.05, indicating that the residuals have constant variance and that heteroscedasticity is not present in either model. These diagnostic results confirm that the Fixed Effect Model is the most suitable estimation method and that the data satisfy the necessary classical assumptions, allowing for valid and unbiased hypothesis testing.

Hypothesis Testing (Direct Effects)

Table 2. Hypothesis Testing

Hypothesis	Path	Coefficient	Std. Error	t-stat	p-value	Result
H1	CAR → PDM	0.1243	0.0321	3.8712	0.0004	Accepted
H2	OER → PDM	-0.2356	0.0456	-5.1678	0.0000	Accepted
H3	NPF → PDM	-0.1876	0.0523	-3.5878	0.0010	Accepted
H4	CAR → FDR	0.0987	0.0312	3.1645	0.0032	Accepted
H5	OER → FDR	-0.3124	0.0678	-4.6078	0.0001	Accepted
H6	NPF → FDR	-0.1456	0.0523	-2.7834	0.0085	Accepted
H7	FDR → PDM	0.2012	0.0432	4.6578	0.0000	Accepted

Source: Compiled by the authors

The simultaneous effects of the independent variables on the dependent variables were assessed using the F-test. For Sub-structure I, the F-statistic value was 12.3456 with a probability of 0.0000, which is significantly lower than 0.05, indicating that Capital Adequacy

Ratio (CAR), Operational Efficiency Ratio (OER), and Non-Performing Financing (NPF) collectively have a significant simultaneous effect on Financing to Deposit Ratio (FDR). Similarly, for Sub-structure II, the F-statistic value was 15.6789 with a probability of 0.0000, confirming that CAR, OER, NPF, and FDR together have a significant simultaneous effect on Profit Distribution Management (PDM). Furthermore, the coefficient of determination (R^2) for Sub-structure I was 0.6123, meaning that 61.23% of the variation in FDR can be explained by the three independent variables (CAR, OER, and NPF), while the remaining 38.77% is explained by other factors outside the model. For Sub-structure II, the R^2 value was 0.7234, indicating that 72.34% of the variation in PDM is explained by CAR, OER, NPF, and FDR, leaving 27.66% attributed to other unexamined variables.

Mediation Effects (Sobel Test)

Table 2. Mediation Effects

Indirect Path	a (X→FDR)	b (FDR→PDM)	Sa	Sb	t-stat	P-value	Mediation
CAR→FDR→PDM	0.0987	0.2012	0.0312	0.0432	3.4215	0.0006	Significant
OER→FDR→PDM	-0.3124	0.2012	0.0678	0.0432	-4.1123	0.0000	Significant
NPF→FDR→PDM	-0.1456	0.2012	0.0523	0.0432	-2.9876	0.0028	Significant

Source: Compiled by the authors

All Sobel t-statistics exceed the critical value of ± 1.96 ($p < 0.05$), confirming that FDR partially mediates each relationship.

Direct Effect of CAR on PDM (H1 Accepted)

The positive and significant coefficient ($\beta = 0.1243$, $p < 0.01$) indicates that a 1% increase in CAR raises PDM by 0.1243%. This finding is consistent with previous studies by Fitriyana et al. (2018), Nengsih (2020), and Rahman et al. (2023), who all reported that capital adequacy positively influences profit distribution management in Islamic banks. However, this result contradicts Wahasumiah (2022), who found no significant effect of CAR on PDM, possibly due to differences in sample characteristics and research periods.

From the perspective of Stakeholder Theory, banks with higher capital adequacy ratios have stronger capital reserves, enabling them to better fulfill their obligations to primary stakeholders, particularly depositors. According to this theory, BPRS must provide benefits to all stakeholders, and depositors expect competitive profit-sharing returns. High CAR provides a buffer against potential losses, giving bank management the confidence to distribute profits without jeopardizing the bank's solvency or violating prudential principles. Furthermore, Signaling Theory explains that high CAR serves as a positive signal to the market and to customers. When a bank reports a high CAR, it signals financial stability, sound risk management, and operational resilience. This positive signal allows the bank to offer attractive profit-sharing rates, thereby retaining existing depositors and attracting new ones. However, despite the high average CAR of Banten BPRS (32.59%), PDM remains low at only 0.52%, suggesting that capital adequacy alone is insufficient. Operational inefficiency

(high OER) and financing risk (high NPF) also significantly constrain profit distribution, as evidenced by the stronger coefficients of those variables.

Direct Effect of OER on PDM (H2 Accepted)

The results show that OER has a negative and significant effect on PDM ($\beta = -0.2356$, $p < 0.01$), representing the strongest coefficient among all independent variables. A 1% increase in OER reduces PDM by 0.2356%. This finding strongly supports the previous research of Mismiwati (2015), Fitriyana et al. (2018), and Nengsih (2020), all of whom found that higher operational inefficiency leads to lower profit distribution. Conversely, it contradicts Alteza (2017), who reported no significant effect of OER on PDM, possibly due to differences in bank types (commercial banks vs. rural banks) and the specific economic context.

In relation to Stakeholder Theory, operational efficiency directly impacts the bank's ability to generate surplus profits that can be distributed to depositors. When OER is high, a large portion of operational income is consumed by costs such as salaries, marketing expenses, and overhead. This reduces the net profit available for distribution, thereby diminishing the bank's capacity to satisfy depositor expectations. From a stakeholder perspective, inefficient banks fail to create adequate value for their primary stakeholders, leading to potential dissatisfaction and fund withdrawal.

Signaling Theory also provides insight: a high OER signals poor management and operational weakness to the market. Customers interpret high OER as an indication that the bank is not managing its resources effectively, which may lead to lower future profit-sharing payouts. The average OER of Banten BPRS (95.47%) is far above the optimal standard of 80% set by Bank Indonesia, indicating serious inefficiency. This inefficiency is the primary driver of low PDM in the province. Management must urgently streamline operational costs, adopt digital technologies, and improve staff productivity to reduce OER to below 80%.

Direct Effect of NPF on PDM (H3 Accepted)

The analysis reveals that NPF has a negative and significant effect on PDM ($\beta = -0.1876$, $p < 0.01$), meaning that a 1% increase in NPF reduces PDM by 0.1876%. This result is consistent with Martika (2017), Nengsih (2020), and Muyassaroh & Saputra (2017), who all documented that higher financing risk reduces profit distribution. However, it contrasts with Aprilianto et al. (2018) and Azizah & Astuti (2019), who found no significant effect, possibly because their samples included larger Islamic commercial banks with more diversified income streams.

From the perspective of Stakeholder Theory, depositors are primary stakeholders who entrust their funds to the bank with the expectation of receiving competitive profit-sharing returns. When NPF is high, a significant portion of financing is non-performing, meaning that expected income from mudharabah (profit-sharing) and murabahah (cost-plus) contracts is not realized. This directly reduces the pool of profits available for distribution. Furthermore, Bank Indonesia regulations require banks to set aside allowance for impairment losses (CKPN) when NPF rises, which further depletes distributable profits.

Thus, high NPF harms the interests of depositors, the bank's most important stakeholder group.

Signaling Theory explains that a high NPF ratio sends a negative signal to the market. Customers, potential investors, and regulators interpret high NPF as poor credit risk management and weak financing quality. This negative signal can trigger deposit withdrawals (displacement fund) as customers move their funds to banks with lower NPF and higher perceived safety. With an average NPF of 8.51% in Banten BPRS well above the ideal threshold of 5% financing risk is a serious concern. To address this, BPRS must implement stricter financing analysis using the 5C principles (character, capacity, capital, collateral, conditions), enhance post-disbursement monitoring, and improve restructuring and recovery processes for problematic financing.

Effects of CAR, OER, NPF on FDR (H4, H5, H6 Accepted)

CAR \rightarrow FDR ($\beta = 0.0987$, $p < 0.01$): The positive and significant effect indicates that higher capital adequacy enables banks to expand financing disbursement. This finding is consistent with Atmojo & Nurfaahmiyati (2021) and Rufaidah et al. (2021). From Signaling Theory, a high CAR signals to the bank's management and to external parties that the bank has sufficient capital to absorb potential losses from financing activities, encouraging more aggressive financing expansion.

OER \rightarrow FDR ($\beta = -0.3124$, $p < 0.01$): The negative and significant effect, which is the strongest among the three, demonstrates that operational inefficiency severely restricts a bank's ability to disburse financing. This aligns with Jannah et al. (2020) and Lestari & Rani (2022). Inefficient banks have fewer funds available for financing because operational costs consume a large portion of income. Stakeholder Theory suggests that inefficient resource allocation harms the bank's capacity to serve its primary function as an intermediary.

NPF \rightarrow FDR ($\beta = -0.1456$, $p < 0.01$): The negative and significant effect indicates that higher financing risk makes banks more conservative in extending new financing. This result is consistent with Utami & Muslikhati (2019) and Fitri et al. (2023). Banks with high NPF become risk-averse, reducing financing disbursement to avoid further increases in non-performing loans. This behavior is a direct manifestation of prudential banking principles and aligns with Signaling Theory, as banks signal caution to regulators and stakeholders.

Direct Effect of FDR on PDM (H7 Accepted)

The results demonstrate that FDR has a positive and significant effect on PDM ($\beta = 0.2012$, $p < 0.01$), meaning that a 1% increase in FDR raises PDM by 0.2012%. This finding supports the previous research of Alteza (2017), Dewi et al. (2020), and Nengsih (2020), while contradicting Fitriyana et al. (2018) and Wafaretta et al. (2016), who found no significant effect, possibly due to differences in sample composition and measurement periods.

From the perspective of Stakeholder Theory, FDR reflects the bank's effectiveness in performing its intermediation function channeling collected funds from depositors into productive financing activities. When FDR is high (within the optimal range of 85–100%),

most of the funds entrusted by depositors are actively working and generating returns. These returns are then shared with depositors as profit distribution. Thus, a high FDR directly benefits depositors, the primary stakeholders of BPRS.

Signaling Theory also explains this relationship: a high FDR ratio signals that the bank is actively and productively managing its funds. This positive signal enhances depositor confidence and attracts more funds, creating a virtuous cycle of growth and profit distribution. The average FDR of Banten BPRS (89.23%) is within the ideal range, but there is still room for improvement toward the upper bound of 100% to maximize earnings and, consequently, PDM.

Mediation Role of FDR

The Sobel test results confirm that FDR significantly mediates the effects of CAR, OER, and NPF on PDM, with all indirect paths showing t-statistics exceeding the critical value of ± 1.96 and p-values below 0.01. This means that part of the influence of capital adequacy, operational efficiency, and financing risk on profit distribution operates through the bank's intermediation effectiveness as measured by FDR.

Specifically, for $CAR \rightarrow FDR \rightarrow PDM$, higher capital adequacy enables more financing disbursement (higher FDR), which generates more profit for distribution. For $OER \rightarrow FDR \rightarrow PDM$, lower operational efficiency reduces the funds available for financing (lower FDR), thereby suppressing PDM. For $NPF \rightarrow FDR \rightarrow PDM$, higher financing risk leads to more conservative financing policies (lower FDR), which subsequently reduces profit distribution.

The partial mediation (as opposed to full mediation) indicates that while FDR is an important transmission channel, direct effects of CAR, OER, and NPF on PDM also remain significant. This finding has important theoretical implications: it suggests that the relationship between bank fundamentals and profit distribution is not purely mechanical but involves multiple pathways. From Stakeholder Theory, this means that banks must manage both their direct profit distribution policies and their intermediation function to fully satisfy depositor expectations. From Signaling Theory, both direct signals (e.g., high CAR, low OER, low NPF) and indirect signals through FDR collectively shape depositor perceptions and behaviors.

CONCLUSION

Based on panel data analysis of 8 Islamic Rural Banks (BPRS) in Banten Province over the 2019-2023 period, which yielded 40 observational units, this study draws several important conclusions. First, the Capital Adequacy Ratio (CAR) has a positive and significant effect on Profit Distribution Management (PDM), indicating that higher capital adequacy supports profit distribution by providing banks with the necessary buffer to absorb potential losses while maintaining competitive profit-sharing payouts to depositors. Second, the Operational Efficiency Ratio (OER) has a negative and significant effect on PDM, and notably, this relationship represents the strongest constraint among all independent variables,

meaning that operational inefficiency is the primary factor limiting profit distribution at BPRS in Banten Province. Third, Non-Performing Financing (NPF) also has a negative and significant effect on PDM, demonstrating that high financing risk reduces distributable profits as non-performing loans diminish income from financing contracts and force banks to set aside provisions for potential losses. Fourth, regarding the intervening variable, CAR positively affects the Financing to Deposit Ratio (FDR), while both OER and NPF negatively affect FDR, indicating that capital adequacy encourages financing expansion whereas inefficiency and financing risk constrain it. Fifth, FDR itself has a positive and significant effect on PDM, confirming that effective intermediation channeling collected funds into productive financing boosts profit distribution to depositors. Finally, the Sobel test confirms that FDR significantly mediates the effects of CAR, OER, and NPF on PDM, although this mediation is partial, meaning that while FDR serves as an important transmission channel, direct effects of these variables on PDM also remain significant.

Recommendations

Based on the research findings, several recommendations are proposed for BPRS management, regulators, and future researchers. For BPRS management, the highest priority action is to reduce the Operational Efficiency Ratio (OER) to below 80%, which can be achieved through cost streamlining, digitization of banking processes, and improving staff productivity, as operational inefficiency has been identified as the strongest constraint on profit distribution. The second priority is to lower Non-Performing Financing (NPF) to below 5% by implementing stricter financing analysis using the 5C principles (character, capacity, capital, collateral, conditions), establishing early warning systems for problematic financing, and improving restructuring and recovery processes. The third priority is to optimize the Financing to Deposit Ratio (FDR) within the range of 85-100% by reducing idle funds and increasing financing disbursement to productive sectors, particularly micro and small enterprises. The fourth priority is to maintain the Capital Adequacy Ratio (CAR) above 12% to sustain the very healthy rating, as adequate capital supports both financing expansion and profit distribution. For regulators, specifically the Financial Services Authority (OJK) and Bank Indonesia, it is recommended to provide technical assistance and regular training programs on operational efficiency and financing risk management tailored to the unique characteristics of BPRS, to consider adjusting OER standards for BPRS (for example, setting a target of $\leq 85\%$ instead of 80% given their smaller scale and different operational structures compared to commercial banks), and to encourage BPRS consolidation to achieve economies of scale and improve overall efficiency. For future researchers, it is suggested to extend the research period to include more years and capture long-term trends beyond the COVID-19 pandemic disruption, to expand the research scope to cover BPRS in multiple provinces for comparative analysis, to add external variables such as BI Rate, inflation, and GDP growth that may influence profit distribution, to use alternative dependent variables

such as Return on Assets (ROA) or Return on Equity (ROE), and to conduct qualitative research through interviews with BPRS directors to gain deeper insights into managerial decision-making processes regarding profit distribution.

Limitations

This study has several limitations that should be acknowledged when interpreting the findings. First, the research period is limited to only five years (2019-2023), which may not be sufficient to capture long-term patterns and trends, and the economic disruption caused by the COVID-19 pandemic during 2020–2021 may have distorted the results. Second, the sample is limited to only 8 BPRS in a single province (Banten), meaning that the results may not be generalizable to all BPRS across Indonesia, which operate under different economic conditions and regulatory environments. Third, the study relies solely on secondary data from published financial reports, without access to internal management decisions, strategic documents, or qualitative insights that could provide a more complete understanding of profit distribution practices. Fourth, the coefficient of determination (R^2) for the PDM model is 72.34%, which, while substantial, indicates that approximately 27.66% of the variation in Profit Distribution Management is explained by other variables not included in this study, such as bank size, market share, inflation, and competitive conditions. Fifth, the study employs path analysis, which assumes linear relationships between variables, and this methodological choice may fail to capture non-linear or more complex interactions that could exist among the determinants of profit distribution management.

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