

THE ROLE OF DIGITAL BANKING FOR SUSTAINABILITY BUSINESS OF ISLAMIC RURAL BANKS IN INDONESIA

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Abstract

The purpose of this study is to present a green business model for Islamic rural banks in Indonesia through the role of digital banking in moderating the influence of corporate governance on the sustainable business of Islamic rural banks in Indonesia. The total population in this study was 164 (one hundred and sixty four) Islamic rural banks spread across Indonesia, while the sample used in this study was 30 (thirty) Islamic rural banks located in the areas of Jakarta, Tangerang, Depok, Bekasi and Bandung. The data used is secondary data taken from financial reports and annual reports for the 2016-2021 period. Furthermore, the data is processed using smart PLS. The results of the study state that corporate governance has a significant positive effect on the sustainable business of Islamic rural banks in Indonesia. Digitas banking moderates the influence of corporate governance on the sustainable business of Islamic rural banks in Indonesia.

Keywords: digital banking, corporate governance, sustainable business

Introduction

Islamic rural banks (IRB) are banks that carry out business activities based on Islamic principles which in their activities do not provide payment traffic services. The number of Islamic rural banks in Indonesia as of January 2021 was 162 IRB, while the number of commercial rural banks was 1,503 RB, thus the number of Islamic rural banks (IRB) was only 10.78% of the total number of commercial rural banks. If you look at Indonesia as a country with the largest Muslim population in the world, the ratio of Islamic rural banks (IRB) should be greater than that of commercial rural banks.

Islamic rural banks (IRB) have the potential to grow bigger, considering that the majority of Indonesia's population is Muslim and most of Indonesia's population also lives in the regions, and the existence of Islamic rural banks can be the basis of the local economy. There are many factors that cause the growth of Islamic rural banks in Indonesia to be slow, among others due to the lack of socialization carried out by both the Islamic rural banks and by the government and other parties that should be able to assist the development of Islamic rural banks. In addition, other factors that can also affect the development of Islamic rural banks in Indonesia are the lack of innovation from Islamic rural banks products, including inadequate technology development, especially when conditions such as today almost all financial transactions are

carried out digitally, even though Islamic rural banks do have a share different from the banking market share in general. In addition, Islamic rural banks are still not paying attention to the quality and quantity of human resources as the driving force or driver of the sustainability of Islamic rural banks.

The sustainability business of Islamic rural banks is often caused by financial factors, however, non-financial factors can also affect the performance of Islamic rural banks which in the end will have an impact on the sustainable business of Islamic rural banks. Thus, non-financial factors should also be a concern for Islamic rural banks. The non-financial factors used in this study are to build and implement good corporate governance and the importance of Islamic rural banks to develop information technology, given the increasingly fierce competition in technology-based finance. In facing the digitalization era, Islamic rural banks must develop and improve information technology, in order to compete with financial technology companies. Furthermore, the model in this study is expected that corporate governance and technology development as non-financial factors, are expected to increase the sustainable business of Islamic rural banks in Indonesia.

The sustainability business of Islamic rural banks in the future is highly dependent on technological developments, besides that it is also important to implement good corporate governance, quality of capital and quality of financing, considering these factors can improve the performance of Islamic rural banks, which in turn affects the sustainability of Islamic rural banks in Indonesia.

Regarding corporate governance, Siswanti, (2016) stated, corporate governance has a significant effect on the performance of Islamic banks. Corporate governance is seen as a factor that can improve sustainability business Hashim, et al. (2015). Siswanti and Cahaya (2019) stated that corporate governance has a significant effect on the sustainable business of Islamic banks.

The problem in this research is the importance of maintaining a sustainable business in Islamic rural banks, considering that the market in Indonesia is very potential even though the competition faced by Islamic rural banks is very tight, not to mention the competition with financial technology companies (fintech). For this reason, the sustainability of Islamic rural banks must be improved through the development of technology and corporate governance. The purpose of this study is to create a green business model for Islamic rural banks through corporate governance and digital banking. This research model will examine how much digital banking is able to strengthen the influence of corporate governance on the sustainable business of Islamic rural banks.

Literature Review

Green business is a balance of profit- people, or known as the triple bottom line, Elkington, (1998). A business that is run by a company, is expected to continue its operations in an indefinite period of time. Rennie, (2008), defines sustainable business as follows:

A sustainable business is any organization that participates in environmentally friendly or green activities to ensure that all processes, products, and manufacturing activities adequately address current environmental concerns while maintaining a profit. In other words, it is a business that “meets the needs of the present world without compromising the ability of the future generations to meet their own needs.”

Thus it can be said that a sustainable business is an organization that participates in green activities to ensure that all processes, products and manufacturing activities adequately address current environmental problems, in the process of sustaining profits. In other words, a sustainable business is one that meets the needs of the present without compromising the ability of future generations to meet their needs. Business sustainability can also be defined as the company's ability to achieve business goals and increase long-term value for shareholders by integrating economic, social and environmental aspects into its business strategy.

Corporate Governance and Green Business

The definition of corporate governance based on Central Bank Regulation, No. 11/33/PBI/2009 is: a bank governance that applies the principles of transparency, accountability, responsibility, professional, and fairness. Thus it can be interpreted that Islamic corporate governance is a corporate governance based on moral and social values based on sharia principles, thus all economic activities of the company must be based on the Islamic paradigm with the main goal of the welfare of the entire Ummah (Bhatti and Bhatti, 2010).

Islamic banks are financial institutions that should be trustworthy, and therefore must be professional, transparent, and fair and fair (including in profits sharing) to stakeholders, especially to their customers. The implementation of the principles of corporate governance in various business institutions is generally profit-oriented, specifically Islamic banks should be able to become pioneers in the implementation of corporate governance, because they are carried out according to Islamic principles.

Indra, et al (2017), stated that corporate governance has a significant positive effect on the business sustainability of Islamic banks in Indonesia. Hashim et al. (2015), stated that corporate governance has positive significant effect on sustainability practices, research by Ahmad (2015), stated that corporate governance has positive significant effect on sustainable business. Kumar (2018), stated corporate governance has positive significant effect on sustainability business study of the Indian FMCG industry, Chapra and Habib (2002), stated that good corporate governance can increase public trust in Islamic banks. Based on the description and results of previous researchers, the following hypotheses can be proposed:

H1: Corporate Governance has positive significant effect on Sustainability Business.

Digital Banking and Sustainability Business

According to the regulation of the Financial Services Authority (OJK) number 12 / POJK.03/2018 concerning the Implementation of Digital Banking Services by Commercial Banks, the definition of digital banking is an electronic banking service developed by optimizing the utilization of customer data in order to serve customers more quickly, easily,

and efficiently. In accordance with the needs (customer experience), and can be carried out completely independently by the customer, taking into account the security aspect. The development of information technology in a company is something that is very important and cannot be avoided because information technology can provide solutions to assist and facilitate business affairs and almost no business does not touch technology, including Islamic rural banks in Indonesia.

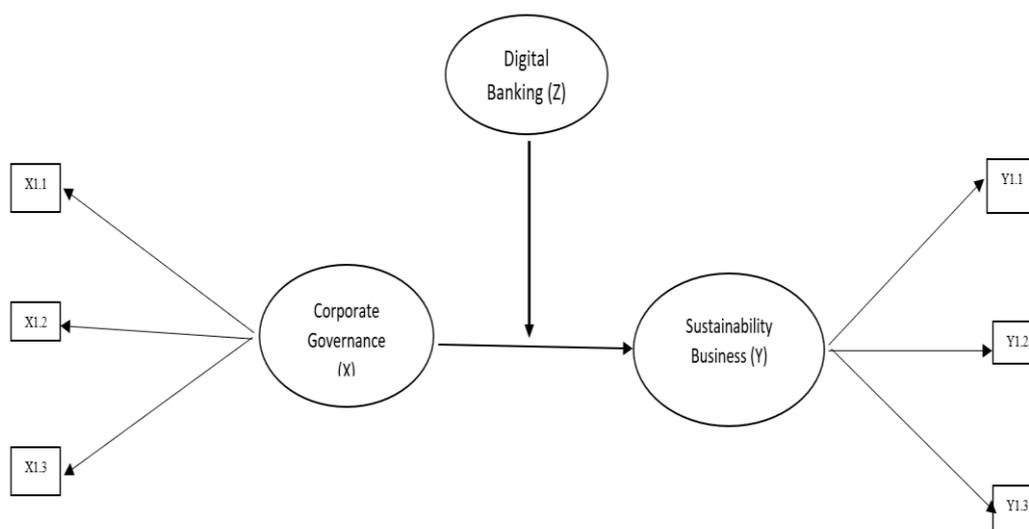
It is known that the use of information technology can reduce bank costs in the long term (Rasyid, 2018). Companies that use information technology can increase their income, especially in the banking sector, because digital products can provide better services with minimal effort (Gunawan & Serylna, 2018). With the advantages offered by information technology, management can manage capital, in order to get a high rate of return on capital so as to improve the company's financial performance.

The results of this study are in line with research conducted by Yanti, et al (2018), stated that innovation and technological development have a significant effect on the sustainability of micro-enterprises. Olah et al (2020), stated that industry 4.0 had a significant effect on environmental sustainability. Based on this description, the following hypotheses can be proposed:

H2: Digital Banking Moderates the effect of Corporate Governance on Sustainability Business

Based on the descriptions, hypotheses and research of previously, so can be made conceptual framework as follows:

Figure 1. Conceptual Framework



Research method

This study uses secondary data in the form of financial statements and annual reports of Islamic rural banks for the 2016-2021 period. The population used in this study were all 164 (one hundred and sixty four) Islamic rural banks in Indonesia. Sample selection was based on purposive sampling. The sample criteria in this study are:

1. Islamic rural Banks that publish financial reports for the period 2016-2021
2. Islamic rural Banks that publish annual reports for the period 2016-2021.
3. Islamic rural Banks in the areas of Jakarta, Bogor, Depok, Bekasi and Bandung

The reason why the researcher uses Islamic rural banks in the areas of Jakarta, Bogor, Depok, Bekasi and Bandung is because the velocity of money is mostly located in areas close to the nation's capital city. Based on the above criteria, the number of samples used in this study were 30 (thirty) Islamic rural banks.

The measurement of each variable can be seen in the table below:

Table 1: Operational Definition and Measurement

Variable	Operational Definition	Measurement
Corporate Governance (X)	governance that applies the principles of openness, accountability, responsibility, professionalism and fairness	Number of Board of Directors Number of Board of Commissioners Number of Sharia Supervisory Board
Digital Banking (Z)	electronic banking services developed by optimizing the use of customer data in order to serve customers more quickly, easily, and according to customer experience, and can be carried out completely independently by customers, taking into account security aspects	Amount of funds invested in development of information technology
Sustainability Business (Y)	Corporate that applies the principles of transparency, accountability, responsibility, professionalism, and fairness.	Profit (economic performance) People (social performance) Planets (environmental performance)

Data processing and analysis would be performed using smart PLS (partial least square). The reason for using PLS is because PLS is more predictive of a model and is a powerful analytical method because it is not based on many assumptions (Ghozali, 2014).

Results

Outer model test

The outer model test is an assessment of the reliability and validity of the research variables. To measure reliability, Cronbach's Alpha and composite reliability can be used, while measuring validity is done by looking at the value of the average variance extracted (AVE). Below is a table of reliability and validity test results as follows:

Table 2: Reliability and validity test

Variabel	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE).
Corporate Governance	0,828	0,897	0,620
Sustainability Business	0,701	0,730	0,657
Digital Banking	1,000	1,000	1,000

Source: data processed 2022

Based on table 2, it can be explained that the reliability value of the research variables can be explained by the Cronbach's Alpha value and the composite reliability value. The value of the Cronbach's Alpha variable for corporate governance (X) is $0.897 > 0.70$ and the composite reliability value is $0.828 > 0.50$, it shows that the corporate governance variable is reliable, then the Cronbach's Alpha value of the sustainable business variable shows the number $0.730 > 0.70$ and the composite reliability value is $0.701 > 0.50$, it shows that the sustainable business variable is reliable, and the Cronbach's Alpha value from the digital banking variable shows the number $1,000 > 0.70$ and the composite reliability value is $1,000 > 0.50$, this shows that the digital banking variable is reliable.

The results of the discriminant validity test are carried out by looking at the average variance extracted (AVE) value. Based on table 2, the AVE value for the corporate governance variable (X) is $0.620 > 0.50$, it can be interpreted that the corporate governance variable has high discriminant validity. The AVE value for the sustainable business variable (Y) is $0.657 > 0.50$, it can be interpreted that the sustainable business variable has high discriminant validity. The AVE value for the digital banking variable (Z) is $1,000 > 0.50$, it can be interpreted that the digital banking variable has high discriminant validity.

Inner model test

The inner model test is carried out through the value of the coefficient of determination R-square (R²), where the determination of the R-square shows how much the independent variable explains the dependent variable. The results of the R-square calculation can be seen in table 3 below:

Table 3: R-square

Variable	R-Square	R-Square Adjusted
Business Sustainability	0,7242	0,7237

Source: data processed 2022

From the results of testing the data obtained R-square value of 0.7242 or 72.42%. This indicates that corporate governance is able to influence business sustainability by 72.42%, while the remaining 27.58% is influenced by other variables not examined in this study.

Hypothesis Test

The results of hypothesis test based on smart PLS output with parameter estimates set at 95% or = 0.05. The recapitulation of research results as shown in table 4 below.

Table 4: Test Hypothesis

Effect between variable	t-statistik	p-value	Description
X→Y	3,3680	0,046	significant
Z→X→Y	3,4464	0,042	Z moderates effect X --> Y

Source: data processed 2022

Based on table 4, it can be explained that the p-value of corporate governance is $0.046 < 0.05$ and the t-statistic value is $3.368 > 1.96$. Thus, it can be concluded that corporate governance has a significant positive effect on sustainable business. Thus, the hypothesis proposed by the author which states that corporate governance has a significant effect on sustainable business is proven to be proven. Furthermore, from table 4, it can be explained that the p-value of digital banking is $0.042 < 0.05$ and the t-statistic value is $3.4464 > 1.96$. Thus, it can be concluded that digital banking moderates the influence of corporate governance on sustainable business

Discussion

The effect of corporate governance on sustainability business

The results of the study state that corporate governance has a significant positive effect on sustainable business. As it is known that corporate governance is the principle that directs and controls the company in order to achieve a balance between the strength and authority of the company in providing accountability to shareholders in particular and stakeholders in general.

Of the three indicators measuring corporate governance, namely the number of boards of directors, the number of commissioners and the number of sharia supervisory boards, it turns out that the coefficient value of the number of sharia supervisory boards is the lowest, thus Islamic rural banks in Indonesia need to continuously improve the role of the supervisory board. Sharia. Considering the existence of a sharia supervisory board in Islamic rural banks is very principle and important, considering that the existence of a sharia supervisory board is one of the differentiators between Islamic finance and conventional finance.

Islamic rural banks have a role to encourage healthy economic growth by considering environmental factors. Currently, the business world no longer only pays attention to profit (single bottom line), but has to pay attention to other aspects, namely social and environmental aspects, which is commonly called the triple bottom line. The synergy of these three aspects is the key to the concept of a sustainable business.

Corporate governance is indicated as a variable that can affect the company's sustainability (Hashim et al 2015 and Akhtar et al 2015). Sustainability is a balance between economic, social and environmental aspects, known as the triple bottom line concept. According to Elkington (1998) and the Global Reporting Initiative (GRI-G4, 2013) sustainability lies at the confluence

of three aspects. One of the implementations of sustainable business can be realized in corporate social responsibility. Corporate social responsibility in an Islamic perspective must be able to reflect Islamic principles by prioritizing the benefit of the people (community welfare, therefore Islamic rural banks in running their business do not have to be solely profit-oriented, but must strive to improve social welfare and protect the needs of the community). In addition, Islamic rural banks should not seek excessive profits by charging customers and ignoring social responsibilities and commitments to stakeholders (Siswanti, et.al 2017).

The results of this study are in line with Abdulrahim, et.al (2020), Siswanti & Cahaya (2019), Siswanti et.al (2017), Siswanti, (2016); Ahmad (2015), Janggu el al. (2014) which states that corporate governance has a significant positive effect on sustainable business.

The role digital banking moderates the effect of corporate governance on sustainability business.

The results of the study state that digital banking moderates the influence of corporate governance on sustainable business. As it is known that the development of information technology is currently very fast, including the development of information technology in the banking sector in general and Islamic rural banks in particular. The banking business today is very dependent on the development of information technology, this is because today's customers want various conveniences of banking services, both products and services through information technology systems. Currently, Islamic rural banks in Indonesia are competing to develop information technology so that the speed of information and customer service can be maximized, especially now that almost all customers have carried out their activities and activities through internet services. And with the development of information technology, it will certainly have an impact on Islamic rural banks services in Indonesia. Islamic rural banks must be able to anticipate the needs of the community who want fast service, for that there is a need for innovation and development of information technology, besides that Islamic rural banks must also face various competitive challenges, both competition between Islamic rural banks and competition with commercial rural banks, including competition with institutions. Other Islamic finance.

The results of this study are in line with the research of Margaretha (2015), stated that electronic banking has a positive significant on performance banks in Indonesia. Wadesgo & Magaya, (2020) stated that digital banking moderates the influence of corporate governance on the business sustainability of commercial banks in Zimbabwe. The results of research by Stefanovic, et.al (2021) stated that banking digitalization has an effect on the sustainability of the banking sector business in Serbia. The results of research by Forcadell, et.al (2020) stated that digitalization and corporate sustainability have a significant effect on bank performance in 13 (thirteen) countries.

Conclusions

Based on the results of the description above, it can be concluded that corporate governance has a significant positive effect on the sustainable business of Islamic rural banks in Indonesia. Of the three indicators measuring corporate governance, the presence of the number of boards of commissioners has the highest level of significance compared to indicators of the number of boards of directors and the number of sharia supervisory boards. Furthermore, the role of digital banking is able to strengthen (moderate) the influence of corporate governance on the sustainable business of Islamic rural banks in Indonesia. This shows that the development and innovation of information technology is very important for the business sustainability of Islamic rural banks in Indonesia.

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