

The Effect of Religiosity Factors on Regional Heads in Choosing a Spin-off or Conversion Option for Regional Development Banks

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ABSTRACT

The purpose of this paper is to examine the factors that influence a regional head in choosing the spinoff or conversion options for regional banks which according to Law No. 21 of 2008, conventional banks that have Sharia Business Units must carry out a spinoff or conversion in 2023. This study uses logistic regression to see the influence of regional head religiosity factors that measure the ideological dimensions projected with Islamic and nationalist party affiliations, religiosity factors population that is projected with the ratio of Muslim population and divorce disparity and using the control variable in the form of demographic factors of the regional head for the choice of spinoff or conversion. with the ratio of Muslim population having a negative effect on conversion decision making.

Keywords: Investor decision, regional head decision, politic and investing, sharia bank.

INTRODUCTION

Indonesian banking industry according to Law No. 21 of 2008 which now runs a dual banking system where Conventional Banks can have Sharia Business Units (SBU) which will soon end and must choose between converting conventional banks to Sharia banks or spinning their SBUs.

This provision is contained in Bank Indonesia Regulation number 11/20 / PBI / 2009 and Law No. 21 of 2008 concerning Sharia Banking article 68 paragraph 1 states that for conventional banks that have sharia business units (SBU) have the obligation to separate the sharia business unit if it has reached 50% of assets against its parent assets or has reached 15 years after the promulgation of

this Act . In a more straightforward sentence, by the year 2023, all conventional banks that have SBU must have separated the sharia business unit into a separate sharia commercial bank (spin-off). Command Law No. 21 of 2008 is a challenge for conventional banks that have SBU, especially in preparing capital, technology and human resources. Obligations to the Act can also be overcome among others by converting conventional commercial banks into Islamic commercial banks.

For SBU owned by private banks, the spin off or conversion decision takes precedence as to which consideration will most quickly increase business growth. When looking at the composition of shareholders who are homogeneous facilitate the birth of the decision.

Another case with Regional Owned Bank (ROB). With a heterogeneous composition of shareholders, ROB management must first convince shareholders before finally making a choice. One of the factors that influence someone in choosing Islamic banks is the level of religiosity

The influence of religiosity on the preference to become a customer of a Sharia bank has been the topic of previous research. An investor in choosing investment instruments other than rationality is influenced by non-rational factors such as culture and religion. Examples include research conducted by Tahir and Brimble (2011) in Brisbane, Australia which states that Islamic religion influences followers not to invest in companies engaged in illicit industries such as pig and alcohol farming and (Souiden & Rani, 2015) research in Tunisia where people who are afraid of God's punishment and God's law prefer Sharia banks over those who don't, even though the rituals that someone does have no effect on the choice of Sharia or conventional banks.

Even though someone who has a Shariah preference is most likely to choose a Sharia financial instrument does not mean a person who is rational does not choose a Sharia financial instrument. As a study conducted by (Aysan, Disli, Duygun, & Ozturk, 2018) found that there are some Sharia customers who move their savings to conventional if the yield provided by Islamic Banks is lower than conventional banking. Religiosity according to R. Stark and C.Y. Glock in (Jamaludin & Anshari, 2001), religiosity has five dimensions consisting of: Ritual Dimensions, Intellectual Dimensions of Dimensions of experience or appreciation (and consequential dimensions (practice) and ideological dimensions, in research where the research object is the head of the region both level 1 and level 2 then it will be carried out using measurements of the ideological religiosity dimension which is measured using the affiliation of the regional head's political party membership.

Politics and religion influence each other as evidenced by previous studies, research conducted by (Esquivel, 2016) in Argentina by legislators on the influence of religion on abortion and sexuality policies is evident that members affiliated with the church do not approve of the draft regulation.

Indonesia itself in research conducted by (Nastiti & Ratri, 2018) shows that at the local level, regulations supported by sharia law are increasingly enforced and appear to meet with the consent of the people. At the national level, the bill with a conservative tone has the support of MPs across the political spectrum. Where from 1998 to 2012 there were 442 sharia regulations adopted in rural, municipal and provincial districts.

Further contradictory research conducted by (Buehler, 2016) in his book states that Sharia law in Indonesia is supported more by secular parties rather than by Islamist parties, according to Buehler, Islamist parties no longer prioritize their sharia platforms in order to survive, especially against secular-nationalist parties. Consequently, they also adopted more moderate agendas.

Different results related to the influence of party ideology on political policy are derived from (Slater, 2018) and (Ambardi, 2008) research who argues that Indonesian politics are dominated by party "cartels" which are characterized by a shared desire to share positions rather than ideological or policy differences. According to (Fossati, Aspinall, Muhtadi, & Warbuton, 2020) Indonesian parties were very open to forming a "rainbow coalition" that was very broad, ideologically diverse, and consisted of Islamic and non-Islamic parties.

Another factor that influences regional heads is the value held by the people they lead. Regional Heads as holders of the people's mandate to carry out Government Affairs submitted to Regions must be able to carry out the aspirations of their constituents, according to the political spectrum of society, according to

(Heywood, 2017) Political spectrum is a system to characterize and classify different political positions in relation to each other. These positions are on one or more geometric axes that represent independent political dimensions. Where Muslim voters in Indonesia according to (Gueorguiev, Ostwald, & Schuler, 2019) can be distinguished in the political spectrum into Conservative Islam and non-conservative Islam. According to (Gueorguiev, Ostwald, & Schuler, 2019), areas dominated by Conservative Islam tend to choose candidates who are portrayed as defending Islamic values and vice versa. However, there are no studies examining the level of regional conservatism towards the tendency of Regional Heads to choose the spinoff and ROB conversion options they have. Taking from Gueorgiev's research (2019) which states that a region is a conservative Muslim region seen from the value of divorce disparity, the value of divorce disparity according to each city / district is calculated by the formulation of the number of divorce divorces divided by the number of divorcees.

Another proxy method is population of Muslim in the region. The percentage of the Muslim population measures the level of religious diversity in an area, the higher the percentage means the greater Muslim population and the less non-Muslim population in the area. However, this does not mean that non-Muslim communities automatically reject Islamic banks. Research conducted in Indonesia by (Setiawan, Puspitasari, & Manurung, 2016) proves that the non-Muslim community considers Sharia Banks not to conflict with their religious teachings and prioritizes good service, as well as research by (Panorama & Lemiyana, 2018) in Non-Muslim Sharia Bank Customers in Palembang, customers non-Muslims are more concerned with good marketing.

Conversely, followers of Islam do not necessarily accept sharia banks well. In accordance with research conducted by (Noor & Sanrego, 2011) to graduates of Islamic boarding

schools in Jakarta that the professionalism and facilities factors actually have a negative effect, this is due to the lack of knowledge of Islamic boarding schools to Islamic banks so that they are not interested in using Islamic banks or even more likely to use conventional banks

The question in this research involves drawing the profile of the regional head. By doing so, it is considered appropriate to investigate the demographic attributes of regional heads to identify their main characteristics, and see the effect on their policies effectively. Previous literature provides ample evidence about the importance of demographic factors as a bank selection criterion. For example, age, religion and education can influence regional heads over their preferences for Islamic banks. Age is an important demographic factor to influence the decision-making process. Thus, the role of the age factor in the decision-making process cannot be underestimated and deserves to be examined. This was tested by a previous study conducted by (Bizri, 2014) in Mena countries, (Ltifi, Hikkerova, Aliouat, & Gharbi, 2016) in Tunisia and (Warsame & Ileri, 2018) in the United Arab Emirates (UAE). (Warsame & Ileri, 2018) study of the banking preferences of sharia bank customers in reporting that the use of Islamic products and services depends on the level of education and religion. Demographic factors of the studies have a significant effect on preferences for Islamic bank products and services.

METHODS

In this study, the regional heads to be sampled are the regional heads who conduct aspirational interviews and the regional heads who have conducted RUPS and the results are announced in a newspaper related to the conversion decision. In addition, what is examined in this study is the decision made by the regional head of the Regional Bank. The criteria chosen are as follows:

1. Regional Head who owns shares in the Regional Bank

2. Will do a conversion or spinoff

Dependent variable in this study is the preference of regional heads in choosing the spinoff or conversion options of their regional banks by looking at the influence of party affiliation, Regional Religiosity and demographic factors of the regional head. The ideology of political parties is reflected in various domains, both policy and policy behavior, as well as party documents. In this paper, the basis of mapping is normative documents of political parties, especially Statutes / Bylaws of each political party. In this study, if a regional head comes from a party with the ideology of Islam, then a value of 1 is given and if not then a value of 0 is given

Regional Heads must be able to carry out the aspirations of their constituents. Where Muslim voters in Indonesia according to Gueorguiev (2019) can be divided into Conservative Islam and non-conservative Islam. Where in areas dominated by Conservative Islam tend to choose candidates who are portrayed as defending Islamic values and vice versa. Areas with a high level of religiosity are characterized by high divorce disparities and a high percentage of followers of Islam following the steps in calculating the value of Divorce Disparities, and the Percentage of Islamic Followers by City / District.

previous research conducted by Bizri (2013) in the countries of Mena, Ltifi (2015) in Tunisia and Warsama and Ileri (2019) in the United Arab Emirates (UAE). The Warsama and Ileri (2019) study of the banking preferences of sharia bank customers in reporting that the use of Islamic products and services depends on the level of education and religion.

Regional heads as shareholders in Bank Daerah have their respective preferences for conversion and spinoff, for regional heads who have conversion preferences are given a dummy

variable value of 1 and others are given a value of 0.

Logistic regression is part of the regression analysis used when the dependent variable used is the dichotomous variable. Dichotomous variables are variables whose contents consist of only two values or answers 'yes' and 'no'. In this study there is 1 dichotomous variable, namely a conversion or spinoff decision. Multiple Linear regression is used to determine the effect of two or more independent variables with one dependent variable. Do a t-test to determine the effect of the coefficient of the free variable is partial to the bound variable.

RESULTS AND DISCUSSION

Based on table 1 that the decision making for the decision shows an average value of 0.81 which indicates that the sample of the study took more conversion decisions than the 64 samples studied. Of the 64 regional heads there were 52 people who chose conversion, or 81%. Political party affiliation shows an average value of 0.28, indicating that the research sample is more affiliated with nationalist parties than the 64 samples studied. Of the 64 regional heads there are 46 people affiliated with the nationalist party or 72%. The average value of divorce in this study is 0.23. The maximum Divorce R_Disparity value in the sample indicates that divorce disparity in a high area, while the minimum R_Disparity Disparity value indicates that divorce disparity in a low area. The average value of R_Muslim population in this study was 93.21. The maximum R_Muslim population value in the sample indicates that the ratio of Muslim population in a region is high, while the minimum R_Muslim population value indicates that the ratio of Muslim population in a region is low. The results of religious analysis adopted by the regional head showed an average value of 0.98 and a standard deviation of 0.13. The average value of 0.98 indicates that the study sample is more Muslim than the 64 samples

studied. Of the 64 regional heads there were 63 people affiliated with nationalist parties or 98%.

The results of the age of regional heads showed an average value of 56.42.

Table 1. The Results of The Analysis

VARIABLE	N	MIN	MAX	MEAN	SD
Decision	64	0.00	1.00	0.81	0.39
Political party affiliation	64	0.00	1.00	0.28	0.45
Divorce R_Disparity	64	0.00	0.50	0.23	0.17
R_ Muslim population	64	19.56	99.83	93.21	11.25
Religion	64	0.00	1.00	0.98	0.13
Age	64	30.00	74.00	56.42	8.84
Education	64	0.00	3.00	1.64	0.72

The average value of 56,942 shows that the study sample is more old age than 64 samples studied. The results of the analysis of the education title of the regional head showed an average value of 1.64 and the standard deviation

was 0.72. The average value of 1.64 indicates that the study sample took more strata 2 education out of 64 samples studied. Of the 64 regional heads there are 32 people who have Education up to strata 2 or 50%.

Table 2. Correlation Matrix

	Constant	Age	Political party affiliation	Religion	R_Dis p	R_ Muslim populatio n	Education
Step 1	Constant	1.000	.000	.000	-1.000	.000	.000
	Age	.000	1.000	.023	.000	.005	-.150
	Political party affiliation	.000	.023	1.000	.000	-.118	-.051
	Religion	-1.000	.000	.000	1.000	.000	.000
	R_Dis p	.000	.005	-.118	.000	1.000	.283
	R_ Muslim population	.000	-.150	-.051	.000	.283	1.000
	Education	.000	-.150	.211	.000	-.029	-.237
							1.000

The presence or absence of multicollinearity in the model, can be seen from the Correlation Matrix table, ie if there are independent variables that have a correlation coefficient > 0.8 then the model is said to contain multicollinearity, so logistic regression analysis cannot be carried out until multicollinearity in the model can be eliminated. Based on the table above, the correlation coefficient between variables < 0.8, which means the model does not contain multicollinearity.

Table 3. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	46.780 ^a	.209	.337

a. Estimation terminated at iteration number 20 because maximum iterations has been reached. Final solution cannot be found.

Nagelkerke R Square value is the R squared value in linear regression. The Nagelkerke R Square calculation results show that the average Muslim population is able to explain 33.7% the dependent variable, while the other 66.3% is explained by other factors outside the independent variables in the logistic regression equation above.

Table 4. Variables in The Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a Age	.033	.040	.699	1	.403	1.034
Political Party Affiliation	1.789	1.157	2.389	1	.122	5.983
Religion	44.885	40192.906	.000	1	.999	3113827868689 5014000.000
R_Disb	-2.925	2.344	1.557	1	.212	.054
R_MuslimPopulation	-2.283	.156	3.278	1	.070	.754
Education	.122	.579	.044	1	.833	1.130
Constant	-17.784	40192.905	.000	1	1.000	.000

The religiosity variable of the regional head consisting of political party affiliation did not have a significant effect on the conversion or spinoff making. The significance value of the age variable was 0.122, so H0 was accepted and H1 was rejected. This means that demographic differences do not lead to differences in decision making by regional heads.

With $\alpha = 10\%$, it can be concluded that the regression coefficient of one variable that is the average Muslim population affects the dependent variable decision making. A B value of -2.83 and an Odds Ratio of 0.754 indicates that the average variable of the Muslim population is reversed with the variable of decision making (conversion). It can be concluded that the higher

the average Muslim population, the decision making (conversion) decreased by 0.754 times.

Regional head demographic control variables consisting of Age, Religion and Education have no significant effect on conversion or spinoff making. The significance value of the age variable is 0.403, the religious variable is 0.999 and the education variable is 0.883 then H0 is accepted and H1 is rejected. This means that demographic differences do not lead to differences in decision making by regional heads

CONCLUSIONS

Based on research conducted on regional heads who have shares in regional development banks, the conclusions obtained from the results of the study are as follows:

1. Based on the results of logistic regression tests that have been carried out, the religiosity variable of regional heads which is proxied using political party affiliation has no significant effect on the conversion decision making which is proxied using dummy variables. This means that regional heads affiliated with political parties based on Islamic ideology are no more likely to vote for conversion than nationalist parties.

The results of this study prove that although political parties in Indonesia are ideologically distinguished, economic decision making does not differ according to (Slater, 2018) and (Ambardi, 2008) opinion that Indonesian politics are dominated by party "cartels" characterized by a shared desire for rations rather than ideological or policy differences. According to (Fossati, Aspinall, Muhtadi, & Warbuton, 2020) Indonesian parties are very open to forming a "rainbow coalition" that is very broad, ideologically diverse, and consists of Islamic and non-Islamic parties.

2. Regional religiosity variable which is proxied

using the ratio of Muslim population has a significant negative effect on conversion decision making which is proxied using dummy variable. This means that areas with high Muslim populations are more likely to choose conversions.

The results of this study prove that the religiosity of local residents and the policy of regional leaders influence each other as evidenced by previous studies, in this study it is evident that the preferences of the Indonesian Muslim community have a preference for conventional banks rather than Sharia banks. This is in line with research conducted by (Noor & Sanrego, 2011) for graduates of Islamic boarding schools in Jakarta with Muslims who do not necessarily accept Islamic banks well. This is due to the lack of knowledge of the pesantren community towards Islamic banks so that they are not interested in using Islamic banks or even more likely to use conventional banks.

3. Demographic variables of regional heads which are proxied using age, religion and education do not have a significant effect on conversion decision making which is proxied using dummy variables. This means that demographic factors do not affect the head of the region in making policy decisions on conversion of the Regional Development Bank.

Decision making on the conversion or spin-off of the Regional Development Bank by the regional head must be seen from the demographic factors of the individual regional head, but from the demographic factors of the region especially the regional economic level, this is because in the establishment of a new bank capital is needed to be deposited 1 trillion according to POJK No .36 / POJK.03 / 2017 and not all regions are able to make the required capital payments from the APBD.

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