

Factors influencing PLS financing: the perspective of Indonesian Islamic banks employees

Factors
influencing
PLS financing

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Abstract

Purpose – This study aims to examine the factors that influence profit–loss sharing (PLS) financing in Indonesian Islamic banks from the perspective of Islamic banks' employees. Islamic banks have important role in influencing the amount of PLS financing distribution through their screening process.

Design/methodology/approach – This study uses questionnaires in collecting data that are distributed to the employees who process or handle PLS financing in Islamic banks in Yogyakarta, Indonesia. The independent variables are risk, financing screening process, analysis of financial statement and competency of the employees of Islamic banks. The data are processed using multiple regression.

Findings – This study finds that risk, the quality of financing screening process and the analysis of financial statement have positive influence on the PLS financing, whereas competency of employees of Islamic banks does not influence PLS financing.

Practical implications – The results of this study are expected to give contribution to increase the role of Islamic banks in encouraging PLS financing. The adequate screening, controlling and monitoring system in Islamic banks should be strengthened to encourage the quality of financing distributed.

Originality/value – Primary data are used in this study to know the perspective of Islamic bank employees in the financing division on the PLS financing. This study attempts to identify the perspective of employees who have direct relationship with the decision of financing in Islamic banks.

Keywords PLS financing, Islamic banks, Employees, Risk, Financing screening process

Paper type Research paper

1. Introduction

Profit–loss sharing (PLS) financing become one of the unique characteristic of Islamic banks because of its contribution to increase the community economic activities. PLS financing will encourage the economic growth through industrial development (Bougatef *et al.*, 2020) and creating new entrepreneur (Afkar, 2017). However, the financing of Islamic banks is dominated by non-PLS financing (Hidayat *et al.*, 2020). PLS financing in Islamic bank still shows a relatively smaller amount compared to purchase and sale financing, including in Indonesia. It can be seen from the data of financial service authority (FSA) of Indonesia per December 2018 in the Table 1 and its figure in Figure 1.



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Table 1 presents the percentage of each financing in Indonesian Islamic banks. Purchase and sale financing dominates the financing distributed by Islamic banks. Afkar (2017) argue that Islamic banks still consider the profit and risk from their financing. However, there is increasing in the percentage of PLS financing every year. In the year of 2018, the percentage of PLS and purchase and sale financing is almost similar with the number of 45.4% for PLS and 48.8% for purchase and sale financing.

Ferhi (2018) state that the smaller amount of PLS financing is owing to the high risk inherent in this type of financing The risk occurs when the financing recipients suffer a loss in their business so that they cannot provide profit sharing or instead cannot return the principal of the financing, resulting in non-performing financing (NPF). Soekarni (2014) explains that Islamic banks had three challenges in terms of financing: the small number of PLS financing, the increasing number of NPF and the lack of financing for medium and large-scale businesses. According to Ascarya (2009), NPF can arise owing to negligence of the bank or the customer. Banks can contribute to the emergence of NPF when there is inaccurate selection process for proposals or the weak management role in controlling the process (Ernawati, 2016). From the customer side, moral hazard and limited skills may influence the success of business (Ascarya, 2009).

Muhammad (2014b) argues that *Musharaka* financing in Indonesia can be influenced by three factors: internal factors (the top management role, the supervision of sharia supervisory board, the system of monitoring and controlling), external factors (the nature of customers, the government regulation) and community factors (high financing risk, moral

Table 1.
Proportion of financing types in Indonesian Islamic banks

Year	Purchase and Sale	PLS	Ijarah	Qardh
2010	0.555	0.341	0.034	0.069
2011	0.552	0.284	0.037	0.126
2012	0.599	0.269	0.050	0.082
2013	0.604	0.291	0.057	0.049
2014	0.592	0.320	0.058	0.030
2015	0.577	0.355	0.050	0.019
2016	0.566	0.378	0.037	0.019
2017	0.530	0.415	0.032	0.022
2018	0.488	0.454	0.033	0.024

Source: FSA (2019)

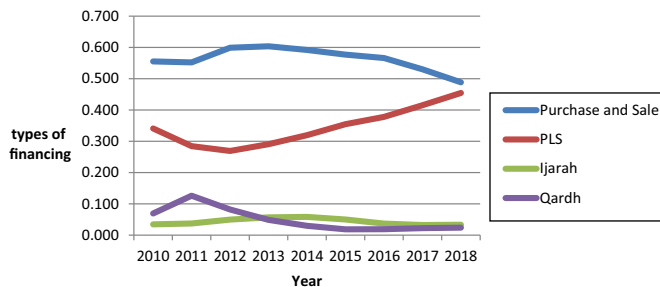


Figure 1.
Proportion of financing types in Indonesian Islamic banks

Source: FSA (2019)

hazard, the complexity of operational activities). Previously, [Ascarya \(2009\)](#) also states that internal factors such as management, human resources and technical factors influence the low number of PLS financing in Indonesian Islamic banks. The financing contract in Islamic banks has main purposes to get mutual benefit and fund repayment ([Adamu, 2018](#)). Because of the risk of moral hazard in the financing, Islamic banks need to protect them by establishing the financing procedure and requiring various documents to process the financing demand ([Adamu, 2018](#)).

Previous studies on factors influencing financing in Indonesian Islamic banks are dominated by internal factors, such as corporate governance and financial ratios, as well as external factors such as inflation and the exchange rate ([Alsyaahrin et al., 2018](#); [Amelia and Fauziah, 2017](#)). Those studies use secondary data in analyzing the results while this study tries to look at the perspectives of Islamic bank employees who are in related with customer financing applications. According to [Ascarya \(2009\)](#), Islamic banks have influence on the amount of PLS financing distribution. Some obstacles come from Islamic bank during the screening process of financing applications ([Abdul-rahman and Nor, 2016](#); [Ernawati, 2016](#)). This study aims to examine the factors that influence PLS financing in Indonesian Islamic banks. This study will fill the gap by using primary data to examine the internal factors of Islamic banks that influence the distribution of PLS financing from the perspective of Islamic banks' employees. The internal factors in this study (risk, the quality of financing screening process, analysis of financial statement and competency of employees of Islamic banks) are based on previous studies ([Ascarya, 2009](#); [Muhammad, 2014b](#); [Abdul-rahman and Nor, 2016](#)).

This study is expected to contribute in the development of PLS financing in Islamic banks because of some reasons: first, PLS financing is the unique characteristics of Islamic banks. Knowing the internal factors that influence, it can encourage Islamic banks to establish the good system for maintaining and managing this financing. The behavior of financing is influenced by the characteristics of the bank ([Zulkhibri, 2018](#)). Second, the level of PLS financing in an Islamic bank can be used as an indicator of Islamic bank performance. Third, the employees are one of the elements that influence the performance of organization. The adequate employees' understanding of products and services of Islamic banks will encourage the better service to the consumers and improve the performance of Islamic banks.

2. Literature review

2.1 Profit-loss sharing financing in Islamic bank

Islamic banking in Indonesia is regulated in the Law of Republic of Indonesia number 21 of 2008 about Sharia Banking. The law defines financing as the provision of funds or claims equivalent to that based on the agreement between the Islamic bank and other parties that require the party to be funded and/or given fund facilities to return the funds after a certain period of time in exchange for ujah, without compensation or profit sharing.

There are some types of financing, among others are: PLS transactions in the form of *Mudharaba* and *Musharaka*, lease transactions in the form of *ijarah* or lease purchases in the form of *ijarah muntahiya bittamlik*, sale and purchase transactions in the form of *murabahah*, *salam* and *istishna* and loan transactions in the form of *qard* receivables. [Nugraheni and Muhammad \(2019a, 2019b\)](#) state that types of financing distributed by Islamic banks will influence the level of credit risk and thus it should be maintained.

PLS financing consists of *Mudharaba* and *Musharaka*. *Mudharaba* financing is a productive financing which *shohibul maal* (capital provider) provides the fund and manager (*mudharib*) manages the particular business by sharing the profit according to the ratio

agreed upon by the both parties. *Musharaka* financing puts bank as the owner of the funds or participates as a business partner managed by another party. The profit will be shared according to the ratio agreed upon by the parties, while the lost will be borne together in accordance to the proportion of capital participation. [Abdul-rahman and Nor \(2016\)](#) state that the concept of PLS is the spirit of Islamic banking to enhance the economic activities in the society and increase the standard of living by improving the business opportunity for the poor people who have less capital. PLS financing can also contribute in industrial development ([Bougatef et al., 2020](#)) and improve the economic growth of a country ([Chowdhury et al., 2018](#)).

Data from the FSA for the year of 2017–2019 in the [Table 2](#) show three usage categories of financing distributed, namely, working capital, investment and consumption. The data show that consumption has highest percentage of financing usage, followed by working capital and investment.

Considering the high interest in consumption from the society, it can be used as an opportunity for people to participate in providing products and services needed by society by becoming entrepreneurs. Currently, the public’s interest in becoming entrepreneurs is getting higher, driven by technological advances through social media or online platform ([Hossain et al., 2020a, 2020b](#)). According to [Hossain et al. \(2020b\)](#), the intention of social networking can encourage the development of business activities in terms of entrepreneurship. The growth of business activities actually opens the opportunity of Islamic banks to offer broader working capital or investment financing through PLS financing. [Kayed \(2012\)](#) argues that PLS financing should be an alternative financing for an entrepreneur. Therefore, Islamic banks actually have incentive to increase working capital financing through PLS financing following the current trend of business activities.

2.2 Agency theory and profit–loss sharing financing

Agency theory is used to explain the relationship between the principal or capital provider and fund manager or *mudharib* as agent who managing the capital. In the case of PLS financing, the capital provider is Islamic bank while the agent is the borrower or entrepreneur ([Donnellan and Rutledge, 2016](#)). According to agency theory, capital provider and entrepreneur may have tendency to maximize their own benefit ([Zainuldin et al., 2018](#)). Previous studies explain some agency problems in PLS financing contracts such as asymmetry information which the agent does not provide sufficient information related to the investment, high monitoring cost or moral hazard when the agent does not use the fund appropriately ([Arabi, 2014; Shamsuddin and Ismail, 2013](#)). [Muhammad \(2014a\)](#) states that there is possibility that the agent do fraud because of less control from the principal. The fraud can be related to the ethics, ineffective profit sharing financing model, characteristics of the entrepreneurs and technical aspects (Saeed, cited in [Muhammad, 2014a](#)). Therefore, Islamic banks should build the mechanism to reduce the risk because the tendency of the parties to maximize their utility ([Shamsuddin and Ismail, 2013](#)).

Table 2.

Types of usage categories of financing in Indonesian Islamic banking	Types of usage	2017 (%)	2018 (%)	2019 (%)
	Working capital	34.94	32.81	31.14
	Investment	23.40	23.65	24.49
	Consumption	41.66	43.54	44.38

Hidayati and Auzair (2009) state that the performance of PLS financing can be measured into two aspects: the quantity and quality of PLS financing. The quantity refers to the percentage of PLS financing while the quality can be measured through the process of financing selection. The low number of PLS financing can be influenced by internal factors of Islamic banks such as human resources and technical factors (Ascarya, 2009). Human resources can affect the level of PLS financing when they lack expertise in Islamic banking and sharia law and reluctance to learn financing contracts that are more complex than other types of financing. From technical aspect, it includes risks and complexity of PLS financing and the weak management structure that analyzes, manages and control the implementation of PLS financing. The high risk of PLS financing arises because banks rely on information presented by mudharib as a party who have more understanding of business development. It may come from the information asymmetry that can encourage moral hazard, which mudharib reports lower income than they actually earn (Ernawati, 2016).

Banks need to take preventive action to minimize the risk of bad loans from PLS financing distributed, such as policy about checks and balances, financial reporting standards and developing business management capabilities for mudharib (Ernawati, 2016). Abdul-rahman and Nor (2016) investigate the challenges of PLS financing of Islamic banks in Malaysia and find four factors that can inhibit the distribution of PLS financing: high risk, difficulty in finding the right business partner, submission of PLS financing by less credible consumers and the weak of capital security channeled. Chan *et al.* (2015) found that Islamic banks emphasize on the identifying the credit risk and the process of monitoring and controlling to manage the risk in Bangladesh. However, Islamic banks still have to pay attention to financing selection standards so that the financing distributed meets the bank's requirements.

Employees have influence on the performance of an organization. According to Zeidan and Itani (2020), employees are the most important assets who will help improving organizations' performance. For Islamic banks, employees have important role in introducing and explaining the products and services, which may be relatively new for some consumers. Therefore, the employees of Islamic banks are encouraged to understand the products, services and operational activities of Islamic banks, including the characteristics, risk and benefit of PLS financing. Hidayat *et al.* (2020) find that majority of employees of Islamic banks in Russia do not know that the profit in *Musharaka* contract is uncertain. The knowledge of Islamic banking practice will impact on the positive attitude toward Islamic banks (Ali *et al.*, 2018).

2.3 Hypotheses development

2.3.1 Risk and profit-loss sharing financing. PLS financing has a higher risk than other types of financing. These risks can arise from incompetent of mudharib in managing the business, or consumer morality who abuse the trust of banks (Adnan and Purwoko, 2013). Abdul-rahman and Nor (2016) states that *Mudharaba* and *Musharaka* are high risk financing related to several factors: the ability of entrepreneurs to manage the business; and asymmetry of information between banks as fund providers and mudharib as entrepreneurs which banks are very dependent on the information provided by mudharib (Sapuan, 2016). Islamic banks must carefully consider all funding applications before approving and distributing the financing. Chan *et al.* (2015) state that Islamic banks are careful in identifying risks before distributing the financing. The higher the risk incurred, the less likely the Islamic banks will approve PLS financing. Therefore, the hypothesis of this study is:

H1. Risk influence negatively to the PLS financing.

2.3.2 Quality of financing screening process and profit–loss sharing financing. The quality of the financing process is a reflection of the internal quality of the financing analysis process. The stages of selection of financing proposals to the final decision can affect the effectiveness of the financing channeled. According to [Abdul-rahman and Nor \(2016\)](#), screening the financing to find the right partners who can run a profitable business is not easy for Islamic banks. This is owing to the complexity of PLS financing which makes Islamic banks considering more aspects to choose the partners, which is related to the large monitoring costs, the reluctance of consumers to take risks on PLS financing and the possibility of information asymmetry ([Febianto, 2012](#)). [Hidayati and Auzair \(2009\)](#) argue the management control system have an impact on the performance of PLS financing.

[Nugraheni and Muhammad \(2019a, 2019b\)](#) state that the clear procedures regarding financing proposal by the entrepreneur can minimize the financing risk. Screening process can reduce the fraud in the contracts or minimize the agency problems ([Muhammad, 2014a](#)). Islamic banks should improve the quality of the financing selection process in the internal system. The prudence behavior should be carried out while maintaining the spirit of Islamic banks nature. A good quality financing process will encourage an increase in PLS financing at Islamic banks. Based on the explanation above, the hypothesis is:

H2. The quality of the financing screening process influence positively to the PLS financing.

2.3.3 Financial statement analysis and profit–loss sharing financing. Islamic banks must consider several factors in processing PLS financing such as market demand, production capability, economic conditions and the financial condition of prospective partners ([Abdul-rahman and Nor, 2016](#)). Previous financial statements of mudharib can be an illustration of how mudharib has managed the business. Some financial aspects such as liquidity, profitability and leverage need to be analyzed carefully by the bank analyst to ensure that the financial statements of entrepreneur represent the actual financial condition of the company ([Abdul-rahman and Nor, 2016](#)). The study by [Messai and Jouini \(2013\)](#) states that the weak credit analysis by the officer of Islamic banks can influence the level of financing risk. [Sapuan \(2016\)](#) also explains that inadequacy information will lead to moral hazard and influence the agreement in the contract. Therefore, this study argues that the better the valuation of the financial statements, the more PLS financing can be distributed. Thus, the hypothesis is:

H3. Financial statements analysis influence positively to the PLS financing.

2.3.4 Competency of Islamic banks' employees and profit–loss sharing financing. [Ascarya \(2009\)](#) states that human resources of Islamic bank are one of the factors that influence the amount of PLS financing distribution. Their awareness to understand the concept of PLS and its complexity and willingness to accept risk affects the screening process of PLS financing proposal. Some studies indicate that the employees of Islamic banks do not always understand Islamic bank products. Research by [Hidayat et al. \(2020\)](#) shows that the majority of employees of Islamic banks in Russia surveyed did not know that profit in the *Musharaka* principle is uncertain.

Islamic banks can encourage the competencies of their employees by recruiting quality human resources, providing education and training on Islamic banking and finance or providing incentives in developing PLS financing ([Ascarya, 2009](#)). The training of employees of Islamic banks has purpose to understand and familiarize the concept and practices of Islamic banking products ([Obeidat, 2016](#)). The study by [Imaniirrahma \(2017\)](#)

who examine the influence of human capital toward employee performance find that the variable has significant effect. [Azmi \(2015\)](#) also finds that there is positive relationship between the performance of organization and the practice of training and development in Islamic organization in Malaysia. Therefore, the hypothesis is:

H4. The competency of Islamic banks employees influence positively to the PLS financing.

3. Research methodology

This study uses questionnaires in collecting data that are distributed to the employees who process or handle the PLS financing in full-fledge Islamic banks in the city of Yogyakarta, Indonesia. This study uses purposive sampling that the respondents are Islamic banks employees who their work is related to the financing selection process. The distribution process of questionnaires is conducted by visiting the Islamic bank office and asking for permission to give questionnaires to the required respondents. Islamic banks that give permits will mention the number of employees that meet the requirements of the study.

The questionnaires are self-developed by referencing to the previous studies. There are three sections on the questionnaires, section one asks the identity of respondents, section two consists of several questions for each variable (PLS financing, risk, the quality of financing screening process, financial statements analysis and the competency of Islamic bank's employees), and section three is open question about the opinion of Islamic banks employees related to the screening process of PLS financing in their institution.

The identity of respondents in section one consist of gender, age, working experience, education and position in that bank. Section two consists of several questions developed from previous studies with modifications to suit the condition of Islamic banks. First, independent variable, risk, is measured using four items to identify the level of acceptance risk by Islamic bank ([Ascarya, 2009](#); [Hidayati and Auzair, 2009](#)). The quality of financing screening process is measured using five items as suggested by [Hidayati and Auzair \(2009\)](#) and [Abdul-rahman and Nor \(2016\)](#), to identify that the administration processes before, during and after the financing given are adequate Variable of analysis of financial statement is developed from the research by [Ascarya \(2009\)](#) and [Muhammad \(2014b\)](#) that consist of five questions regarding the requirement of financial statement and its function in processing financing application. Competency of employees measurement is developed from [Ascarya \(2009\)](#), [Azmi \(2015\)](#) and [Muafi et al. \(2017\)](#) about the knowledge of financing selecting process. PLS financing in this study is measured by the percentage of the amount of PLS financing in the employees' office and its comparison to the total financing of their Islamic bank. The instruments consist of four questions as had been developed by [Hidayati and Auzair \(2009\)](#). The questionnaire uses a five-point Likert scale from 1 = very low, 2 = low, 3 = average, 4 = high and 5 = very high. Hypotheses are examined using multiple regression.

Some testing are conducted in this study before examining the hypotheses. Those tests are validity and reliability test, classical assumption test consisting of normality, heteroscedasticity, multicollinearity and autocorrelation.

4. Finding

Respondents in this study are banking employees who has responsibility in processing financing in full-fledged Islamic bank in Yogyakarta Province, Indonesia. There are 14 full-fledged Islamic banks in Indonesia in 2019. However, there are only eight of them that have branch in Yogyakarta. The distribution of questionnaires can be conducted if the researcher have permission from those banks. Finally, only five Islamic banks were willing to accept

the questionnaires. They were Bank Rakyat Indonesia Syariah, Bank Muamalat Indonesia, Bank Bukopin Syariah, Bank Negara Indonesia Syariah and Bank Syariah Mandiri. Adjusting to the number of respondents in each of the Islamic banks, there were 57 distributed questionnaires but only 33 questionnaires are back and can be processed. The following are the demographics of the respondents:

Table 3 shows the respondents are male with 54.5% and female respondents are 45.5%. The age of respondents is grouped into three categories, between 20 and 30 years (76%), between 31 and 40 years (24%), and there is no respondents with age more than forty years. The length of working of the respondents are dominated by one–five years with 85%, while the rest is less than one year (3%) and more than five years (12%). The educational background of all respondents is undergraduate (100%), and they have position as manager (3%), employees on financing division (73%) and others (24 %). Meanwhile, majority of the respondents hold the positions for one–five years (94%), less than one year (3%) and more than five years (3%). This study also identifies the influence level of each respondent regarding to the financing decision. The result shows that majority of respondents (94 %) have power to influence the financing decision while the rest (two respondents or 6%) only can influence the financing decision less than 50%.

The data from the questionnaires are processed using SPSS software v.22. The examination of validity, reliability and classical assumption test shows that all data are valid and reliable and fulfill the classical assumption. The statistical results for descriptive statistics are described on the Table 4.

Criteria	No.	(%)
<i>Gender</i>	–	–
Male	18	54.5
Female	15	45.5
<i>Age</i>	–	–
20–30 years	25	76
31–40 years	8	24
>40 years	0	0
<i>Working experience in Islamic banks</i>		
<1 years	1	3
1–5 years	28	85
>5 years	4	12
<i>Education</i>	–	–
Undergraduate	33	100
Postgraduate	–	–
<i>Position</i>	–	–
Manager	1	3
Employees on financing division	24	73
Others	8	24
<i>Hold the position</i>	–	–
<1 years	1	3
1–5 years	31	94
>5 years	1	3
<i>Their influence in determining the financing</i>		
<50%	2	6
>50%	31	94

Table 3.
Characteristics of
respondents

The hypotheses are examined using multiple regressions on SPSS. The results are presented on the [Table 5](#) below:

[Table 5](#) shows the value of adjusted R square is 0.943. It means that the independent variables used in this study are able to explain 94.3% of the dependent variable, whereas the rest of 5.7% is influenced by variables not included in the study. F-value of 91.101 has significant value of 0.000, and it means that all independent variables influence significantly PLS financing, respectively.

The *t*-test shows the results for each hypothesis. The coefficient value of risk variables is -0.652 , and the significant value is 0.000 which mean that the risk influence negatively to the PLS financing. Therefore, *H1* is accepted. The higher the risk will impact on the lower PLS financing. Islamic banks may also reject the financing if the consumers do not fulfill the requirements by the banks ([Adamu, 2018](#)). The result supports the study by [Chan et al. \(2015\)](#) who find that Islamic banks are careful to manage the financing risk to avoid the moral hazard. This is general acceptance by Islamic banks to make sure that financing distributed will give maximum profit sharing.

For second variable, the quality of the financing screening process has coefficient value of 0.215 and significant value of 0.012. It means that the variable has positive influence to the PLS financing. The higher the quality of financing screening process have impact on the higher PLS financing. Therefore, *H2* is accepted. This is because Islamic banks are confidence to approve the PLS financing proposal that have passed the process. This result supports the study by [Abdul-rahman and Nor \(2016\)](#) who state that Islamic banks need to ensure that their business partners have good potential for growth.

For the third variable, financial statement analysis influence positively to the PLS financing because it has coefficient value of 0.255 and significant value of 0.012. The result indicates that the better the analysis of the financial statements will impact on the higher PLS financing. Therefore, *H3* is accepted. This is in line with the statement by [Muhammad \(2014a\)](#) who stated the financial performance of mudharib needs to be evaluated to reduce the risk of information asymmetry.

The competency of Islamic banks' employees has coefficient value of -0.78 and significant value of 0.190. It means that the variable does not influence PLS financing. It is a

Variables	Minimum	Maximum	Mean	SD
Risk	4	11	6.27	2.004
Quality of financing screening process	18	25	22.45	2.425
Analysis of financial statement	21	30	25.64	2.354
Competency of employees	20	30	25.24	2.873
PLS financing	14	20	17.79	1.965

Table 4. Results of descriptive statistics

Adj. R squared	0.943	–
F-value	91.101	–
Sig.	0.000	–
Variables	Unstandardized Coef. B	Coefficients
Constant	12.149	0.000
Risk	-0.562	0.000
Quality of financing screening process	0.215	0.012
Analysis of financial statement	0.255	0.012
Competency of employees	-0.78	0.190

Table 5. Results of multiple regressions

surprising result because the previous studies always state that the competency of human resources is important for an organization. However, the result is in line with the study by Nugraheni and Muhammad (2019a, 2019b) who found that expertise of the board in Islamic banks do not influence the credit risk. There is some possibilities why it can be happened, first, Islamic banks has sufficient system or procedures to control the performance of employees in financing division. According to Ascarya (2009), Islamic banks can encourage the PLS financing by developing the systems and procedures so that the employees just follow the established procedures. Thus, individual errors can be minimized because there are standards that must be followed. Second, the competency is still important for the employees, but the experience in managing PLS financing will also influence the accuracy of choosing the business partners because the skill to recognize the business that have potential to generate profit needs the real experience (Nugraheni and Muhammad, 2019a, 2019b). Muafi *et al.* (2017) argue that work experiences and competencies will have an impact on the individual performance. Based on the data of respondent characteristics, working experience of 32 employees or 97% from the respondents is more than one year. Therefore, the experience is expected to sharpen the partner business selection in PLS financing.

The questionnaires also ask the open question about the opinion of the Islamic banks employees about PLS financing. Some statements about their steps to reduce the financing risk can be summarized as follows: first, Islamic banks do confirmation to the applicants that they are sure to choose PLS financing as a right option; second, Islamic banks always conducts a coherent financing process, from the financing proposal submission, distribution the fund and supervision during the financing period. They agree that a good quality financing process will encourage the right decision-making. Third, Islamic banks always analyze the profile and financial report of the applicant to confirm the truth by carrying out several checks on the spot. The strategies mentioned previously support the studies of Muhammad (2014b) and Shamsuddin and Ismail (2013) that the techniques of monitoring and controlling by management will influence the level of PLS application in Islamic banks.

5. Conclusion

PLS financing is one of the contribution of Islamic banks in encouraging the economics activities. This study focuses to the factors that influence PLS financing of Indonesian Islamic banks from the employees' perspective. The study finds that risk, the quality of financing screening process and the analysis of financial statement has positive influence to the PLS financing, whereas the competency of employees of Islamic banks does not influence PLS financing.

The results of this study is expected to give contribution to the increasing of the role of Islamic banks in encouraging PLS financing. Islamic banks have important role in influencing the amount of PLS financing distribution through their screening process. Therefore, the adequate screening, controlling and monitoring system in Islamic banks should be strengthened to facilitate the financing proposal submission by mudharib.

Moreover, Islamic banks can look more closely at opportunities to offer PLS financing by looking at business trends in society. The development of the types of businesses that exist in the community can be observed and then adjusted to the terms or procedures for proposing PLS financing at Islamic banks by the consumers (without violating sharia provisions).

This study has several limitations. First, this study only involves the small number of respondents because not all banks are willing to accept the questionnaires to be filled by their employees. Second, the sample of this study is focus on the financing employees of full-fledge Islamic banks. Therefore, it cannot be generalized to the other Islamic financial

institutions (IFIs) such as Islamic business unit and Islamic rural banks. The next study can enlarge the number of respondents by involving the employees of other IFIs. The questionnaires can be modified to the open questions to ask more deeply about the challenges of PLS financing.

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