GAUGING THE FINANCIAL PERFORMANCE OF BANKING USING CAMEL MODEL: THE PROSPECT OF ISLAMIC BANK IN INDONESIA ACCORDING TO PUBLIC TRUST COMPARED WITH CONVENTIONAL BANK

Yohanna Handjaja
International Business Networking
Faculty of Business and Economics, University of Surabaya, Indonesia
Email: yohanna.handjaja@gmail.com

Deddy Marciano
Faculty of Business and Economics, University of Surabaya, Indonesia
Email: marciano@staff.ubaya.ac.id

Liliana Inggrit Wijaya
Faculty of Business and Economics, University of Surabaya, Indonesia
Email: liliana@staff.ubaya.ac.id

Abstract

This research engages in CAMEL model (CAR, ROA, NPF, OEOI, and FDR) as performance indicators to examine the public trust (reflected from its depositor funds) of Islamic banks compared with conventional banks in Indonesia during 2008-2010. The purpose of this research is to explain the Islamic banking system whether it is good or not consider by entrusted systems. The sample of this study is 5 top banks which have both Full Fledge Islamic and Conventional systems. Analysis technique used is multiple regressions. The results find that CAR, OEOI, and FDR have a significant positive influence on depositor funds. While the ROA and NPF has no significant positive influence on depositor funds. The results simultaneously indicate there are influences between variable CAR, NPF, OEOI, ROA, and FDR together give effect to depositor funds by 99.6%. The results of this study shows that Islamic banks have good performance reflected by CAMEL on Depositor Funds and potentially gain more public trust.

Keywords: CAMEL, Depositor Funds, Public Trust

1. INTRODUCTION

Over the last decade, Islamic banking has been a fast growing industry in Indonesia. The proliferation of Islamic banks is understandable as an opportunity by tapping into the large and growing banking needs of the Moslem population which is 208 million of 237 million people (based on the national survey on population in 2010) in Indonesia. The performance and growth of the industry has

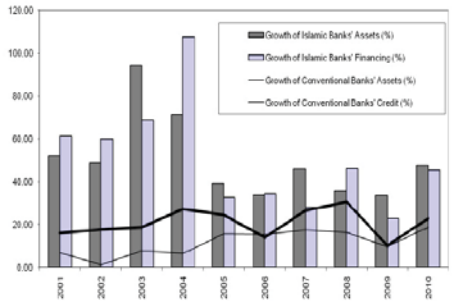
been remarkable (see table 1.1 and figure 1.1). Such a progressive growth is also implied in the upward trend of the Islamic banking market share (see figure 1.2).

Table 1.1: Numbers of Banks

No	Types of Bank	2005	2006	2007	2008	2009
1	Conventional Banks	128	127	127	119	115
2	Full Fledge Islamic Banks	3	3	3	5	6

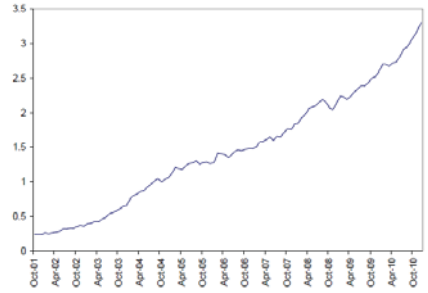
Source: Indonesia Banking Statistics (2009), Indonesia Islamic Banking Statistic (2009), Bank Indonesia.

Figure 1.1: The Growth of Banks



Source: Ismal, Rifki. Islamic Banking in Indonesia, 2011; 7

Figure 1.2: Market Share of Islamic Banks



Source: Ismal, Rifki. Islamic Banking in Indonesia, 2011; 7

In the last five years, Islamic banking industry grows 46% per year which is well above the world growth of Islamic banking industry of 10%-20% per year (Eedle, 2009). The last growth of the Islamic banking industry recorded 47% (2010). That indicates Islamic Banks in Indonesia have potential market in the future because of their continuously growth. But, there is inefficiency in some Islamic Banks in Indonesia. Mubarak (2004), Sari (2007), and Wijaya (2008) found that performance of Islamic banking through CAMEL can increase public trust that have excess funds an increase in savings and also an increase new customer numbers which influence on increasing depositor funds in Islamic Banks. If the performance through financial ratios in CAMEL well, it will have an impact on increasing depositor funds, this means that the market provides a significant response because the banks can manage all aspects well. By evaluating the sharia-based banks' performance will provide policy makers some directions in making decision on how to improve their performance.

This paper engages in CAMEL model as performance indicators with 5 financial ratios (CAR, ROA, NPF, OEOI, and FDR) to examine the public trust (reflected from its depositor funds) of Indonesia's Islamic and conventional banks. This study, therefore attempts to assess the performance of Indonesian Islamic banks and conventional banks, as well as to test whether there is significant performance differences between these two groups. This study uses a match sample banks over the recent period. This research use the annual data of 5 Islamic Banks and 5 Conventional Banks in Indonesia from *Direktori Perbankan Indonesia* with the period from 2008-2010.

2. LITERATURE REVIEW

The camel framework was originally intended to determine when to schedule on-site examination of a bank. A popular framework used by regulators is the camel framework, which uses some financial ratios to help evaluate a bank's performance, Yue (1992). The five camel factors, viz. Capital adequacy, asset quality, management quality, earnings and profitability, and liquidity, indicate the increased likelihood of bank failure when any of these five factors prove inadequate. The choice of the five camel factors is based on the idea that each represents a major element in a bank's financial statements. CAMEL Model consists of:

1. Capital Adequacy

   Leverage: ratio of risk-weighted assets and net assets of the MFI. Ability to raise capital: to evaluate the response of the IFM should be able to supplement or increase of capital at some point. You can measure the provision for losses on loans of MFIs and to what extent the lack of absorption of credit: the adequacy of reserves.

   The valuation on capital adequacy can be done through an assessment of CAR (Capital Adequacy Ratio). CAR is the minimum capital that sufficient enough to guarantee the interests of third parties (Ketut, 2007). This capital is essential for the progress of the bank and can be used to keep the potential risk

of loss resulting from the movement of bank assets which basically mostly derived from deposits. Formulation for CAR calculation is:

$$CAR = \frac{Total\ Equity}{Risk\ Weighted\ Assets}$$

2. Asset Quality

Quality of the portfolio: the portfolio risk of a portfolio of more than 30 days late. The depreciation rules Write-Offs/Write CAMEL criteria. Portfolio Classification: portfolio review times of aging, in conjunction with the policy of the institutions in evaluating portfolio risk. Capital: the productivity of fixed assets: the policy of the Fund investments in fixed infrastructure assessment of capital adequacy to the needs of employees and customers.

Asset Quality Shows the quality of assets connected with the credit risk faced by banks due to loans and investment funds in different portfolios (Taswan, 2006). According to Septiawan (2010), the valuation on asset quality can be done through an assessment of NPF (Non Performing Financing). This ratio indicates that the ability of bank management in managing their non-performing loans. The higher this ratio will worsen the credit quality of banks that increased number of non-performing loans. Non-performing loans are loans classified as substandard, doubtful and stagnant/loss. Formulation for NPF calculation is:

$$NPF = \frac{Total\ Non\ Performing\ Loan}{Total\ Financing}$$

3. Management Capability

Management: how well the establishment of management positions, including a variety of technical, managerial independence and ability to make decisions in an efficient and flexible. Human Resources: Human Resources determine whether a clear direction and support for staff, including recruitment and training of new employees and incentives for performance evaluation. Processes and controls: the extent to which the MFI has important processes and how to effectively control risks throughout the organization, as

it formalizes the environmental control and quality of the inner and external auditors. System verifies that the system work efficiently and effectively, and generate reports to management timely and accurate. Strategic planning and budgeting process need to define a comprehensive and participatory forecast to generate short-and long-term financial and budget will be updated as needed and used in decision making.

Assessment through banks' management capabilities are rated by Bank Indonesia through a questionnaire which responded by the bank managers in order to identify and mapping the quality of its management (Ketut, 2007). This information is private so it is difficult to be acquired. As an alternative, we can use the ratio of Operating Expense to Income Operations (OEOI). This ratio shows comparison between operation expenses and operation income. According to Ratna (2009), OEOI describes the performance efficiency of bank management; a low ratio means bank management performance is good, because they are more efficient in using existing resources of the bank. Formulation for OEOI calculation is:

$$OEOI = \frac{Operating\ Expense}{Operating\ Income}$$

4. Earnings

Adjusted return on capital: the ability to establish and measures to increase the equity by the results of operations. Operational Efficiency: To measure the effectiveness of the device and monitor progress in achieving cost structure closer to its level of financial institutions. Asset-weighted returns: asset valuation and the use of the IMF, an institution with the ability to create resources for the previous generation. Interest is to evaluate how management analyzes and adjusts the definition of microcredit interest rates (deposit and, if appropriate), based on the cost of funds, the objectives of profitability and macroeconomic.

The valuation on earnings can be done through an assessment of ROA (Return On Assets). This ratio used to measure the ability of bank management to generate profit before tax from the bank's average total assets

(Taswan, 2006). The higher this ratio shows the greater profit achieved by the bank so it will be less possibility of a bank in troubled conditions. Formulation for ROA calculation is:

$$ROA = \frac{Net\ Income}{Total\ Asset}$$

5. Liquidity

Liability structure: an overview of the composition of organic compounds, including their content, payments of interest and sensitivity to changes in the macroeconomic environment. Availability of funds for the credit indicates the extent to which credit institutions, timely delivery and flexible. Cash flow: how far the organization has succeeded in establishing the requirements for cash flow to evaluate. The performance of other current assets: an assessment of the extent to which MFIs use their own money, bank accounts and short-term investments to invest the time and the best performance according to financial needs in order to maximize.

The valuation on liquidity can be done through an assessment of FDR (Financing to Deposit Ratio). FDR is the ratio of total financing to total deposits (Ketut, 2007). The higher of the loans (total financing) will give higher interest income earned by the bank. Formulation for FDR calculation is:

$$FDR = \frac{Total\ Financing}{Total\ Deposits}$$

Deposits are the primary funding sources for most banks for use it in a variety of ways, primarily to fund loans and investments. Deposits are funds that customers place with a bank and they obligated to repay on demand, after a specific period of time or after expiration of some required notice period. It should be well managed to ensure those funds are engaged profitably, while allowing for their potential withdrawal. Therefore, a good bank's performance could retain and prudently expand the bank's deposit base. These attract the customer to deposit their account in that bank by the reason of good performance from the bank will raise trust within society. In order to know whether system is good, performance

evaluation can be a way to measure it. Hence, the financial ratios are needed to assess the performance of the banks.

3. RESEARCH METHODOLOGY

This research approach to determining the performance of Islamic Banking based on Bank Indonesia Act No.9/1/PBI/2007 which is using CAMEL method with five financial ratios as tools namely CAR, ROA, NPF, OEOI, FDR. The ratios would compared with Depositor Funds as a reflect level of public trust for Islamic banking industry (Sari 2007). If the ratios indicate a good performance, it sign that the bank can manage all of the aspect well and supposed to increase depositor funds in Islamic bank. This study use annual data of 5 Islamic Banks and 5 Conventional Banks in Indonesia with the period from 2008-2010 that have both Islamic and Conventional banking system. The annual report collected from DPI (*Direktori Perbankan Indonesia*).

As study is related to the performance assessment of banking sector based on the CAMEL model so following section explained the variables of study.

3.1 CAR

Capital Adequacy ratio (CAR) is the ability of bank offset a decline in assets due to losses on bank assets using its own capital. The greater this ratio, it means the better bank's capital adequacy ratio. The capital adequacy ratio is calculated as follows:

$$CAR = \frac{Total\ Equity}{Risk\ Weighted\ Assets}$$

3.2 ROA

Return on Assets (ROA) measures the effectiveness of bank in utilizing all resources in order to measure the ability to generate profits. The higher this ratio, it means the more effective use of assets to obtain income and the better performance of the bank. The return on assets is calculated as follows:

$$ROA = \frac{Net\ Income}{Total\ Asset}$$

ISBN: 978-979-99365-7-8

3.3 NPF

Non Performing Financing (NPF) measures the level of bad debt that had to be reserved. The smaller this ratio, it means that the better performance of the bank. The non performing financing is calculated as follows:

$$NPF = \frac{Total\ Non\ Performing\ Loan}{Total\ Financing}$$

3.4 OEOI

Operating Expense to Operating Income (OEOI) measures the level of efficiency and distribution of the bank in conducting its operations. The smaller this ratio, it means that the better performance of the bank. The operating expense to operating income is calculated as follows:

$$OEOI = \frac{Operating\ Expense}{Operating\ Income}$$

3.5 FDR

Financing to Deposit Ratio (FDR) is the ability to repay the bank withdrawals by customers with relying on loans as a source of liquidity. The financing to deposit ratio is calculated as follows:

$$FDR = \frac{Total\ Financing}{Total\ Deposits}$$

3.6 DEPOSITOR FUNDS

Money placed into a banking institution for safekeeping. Bank deposits are made to deposit accounts at a banking institution, such as savings accounts, checking accounts and money market accounts. The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The "deposit" itself is a liability owed by the bank to the depositor (the person or entity that made the deposit), and refers to this liability rather than to the actual funds that are deposited.

ISBN: 978-979-99365-7-8

The result of these equations will show a financial model to reflex the performance of wellness both Islamic banking industry and Conventional banking in Indonesia as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where:
Y : Depositor Funds
α : Constant
$\beta_1 \ldots \beta_5$: Coefficient Regression
X_1 : CAR
X_2 : ROA
X_3 : NPF
X_4 : OEOI
X_5 : FDR
e : Error

Regression analysis will used in testing the hypothesis and to measure the differences and similarities between the sample banks according to their different banking systems. Pearson correlation coefficient also used to investigate the correlation between the paper variables at 5% level of confidence according to the E-views Program 7.0 for Windows. Regression diagnostics are covered under multiple linear regressions.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics for Islamic Banks and Conventional Banks

Table 4.1: Statistic Descriptive for Islamic Banks 2008-2010

Variable	N	Mean	Median	Min.	Max.	St. Dev
Depositor Funds	15	13.42	12.32	3.06	25.50	6.22
CAR	15	25.94	13.31	10.62	76.39	22.34
ROA	15	0.76	0.76	-2.52	2.23	1.36
NPF	15	1.65	1.37	0.15	3.42	0.96
OEOI	15	104.90	92.50	73.80	215.60	42.20
FDR	15	71.50	31.70	0.00	551.00	140.60

Source: Researcher calculation

The performance of Islamic Bank using CAMEL method consists of 5 financial ratios and a ratio comparator (Depositor Funds) shows in Table 4.1, which data is analyzed from 2008-2010, were the lowest Islamic Bank CAR of 10.62% and the highest of 76.39% with an average Islamic Bank CAR of 25.94%, this means that Islamic banks generally follow the regulations of Bank Indonesia

in the amount of 8% and courageous invest its idle funds more, even though they have the opportunity to take revenue minimum of 3% (CAR 11%-8%) of existing equity to invest more revenue for example the financing to the public or customer. The banking should be maintain and improve paid-up equity, retained earnings, and others.

The bank's ability to optimize assets in a business of taking risks to earn profits called ROA had minimum of -2.52% and maximum of 2.23%, in average of 0.76%, this means that Islamic banks in Indonesia dare to expand and optimize the use of its assets in contributing to the profits earned, such as efficient use of the building, lease space buildings, construction of rental buildings or branches of Islamic banks are right on target on earnings operational, and apart from the compliance requirements of Bank Indonesia with an average ROA of 1%. That should be done by the Islamic banking is focused on improving earnings each period and utilization of all existing assets more effectively.

The level of bad debts on Islamic banking in Indonesia (NPF), the lowest of 0.15% and not exceeds the requirements of the BI maximum of 5%, the highest NPF nowhere Islamic banking of 3.42% and the average of 1.65%. With NPF are already below the rules of Bank Indonesia which is 5%, expected credit analysts, branch manager, financing teams already proved that providing financing to its customers given can boost the Indonesia economy and Islamic banks expected to be better and healthier.

The level of efficiency and distribution of the bank in conducting its operations called OEOI is considered to be quite efficient, visible from OEOI Islamic banking during the observation the lowest of 73.8% and the highest of 215.6%, with average 104.9%. Conditions like these the management of Islamic banking must maintain and strive to be more efficient, until the condition of Islamic banking operations could be better and healthier because of Bank Indonesia requires that the ratio OEOI for Islamic banking is maximum of 80%, whether by making efficiency in the items certain operating costs and/or work with focus on adding significant operational income.

ISBN: 978-979-99365-7-8

The ability to repay the bank withdrawals by customers with relying on loans as a source of lowest liquidity (FDR) of 0% and the most worrying for any Islamic banks that use all depositor funds added using internal equity to take profit-sharing or wide spread margin, seen that some Islamic banks has a maximum FDR of 551% from the depositor funds. But, in average FDR ratio of 71.50% is already below 80%, in accordance with the advice of Bank Indonesia.

Table 4.2: Statistic Descriptive for Conventional Banks 2008-2010

Variable	N	Mean	Median	Min.	Max.	St. Dev
Depositor Funds	15	84.22	84.34	80.53	87.69	2.22
CAR	15	14.45	14.36	11.20	18.43	1.80
ROA	15	2.89	3.13	1.46	4.64	1.01
NPF	15	1.10	0.79	0.12	4.14	1.09
OEOI	15	75.59	73.65	64.31	86.93	7.90
FDR	15	65.71	64.67	50.27	83.60	11.25

Source: Researcher calculation

From the Table 4.2, it shows that Conventional Banks have been existed by its good performance. The CAR ratio has minimum of 11.20%, maximum of 18.43%, and on average of 14.45%. While their effectiveness in utilizing resources in order to generate profit, indicate from their ROA ratio with the minimum of 1.46%, maximum of 4.64%, and on average of 2.89%. The NPF of conventional banks has minimum of 0.12%, maximum of 4.14% with the average of 1.1%. Their operating expenses are quite efficient since its OEOI has minimum of 64.31%, maximum of 86.93% and average of 75.59%. Besides, their FDR Ratio has average of 65.71% with the minimum point of 50.27% and maximum of 83.60%.

4.2 Regression Statistic of Islamic Banks

Table 4.3: Regression Result of Islamic Banks

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Significant
C	13.72813	4.005773	3.42709	0.0187	**
CAR	0.253156	0.075753	3.41852	0.0205	**
ROA	2.012835	1.574498	1.27840	0.2572	
NPF	1.154662	0.067961	16.99000	0.0000	*
OEOI	-0.114173	0.045606	-2.50345	0.0543	***
FDR	0.009518	0.006107	1.558474	0.1799	

Note: * : significant at $\alpha = 1\%$

** : significant at α = 5%
*** : significant at α = 10%
Source: Researcher calculation

The regression equation is:

Depositor Fund = 13.73 + 0.25 CAR + 2.01 ROA + 1.15 NPF - 0.11 OEOI+ 0.01 FDR

In the regression equation above, constant depositor funds amount of 13.73; it means if independent variables such as CAR, ROA, NPF, OEOI, and FDR assumed to be constant, the depositor funds will increase by 13.73% per year. In Table 4.3 shows the coefficient determination (R-squared) of 0.992 which means independent variables simultaneously influence of the dependent variable 99.2% and for the remaining 0.8% influenced by other variables not included in the research model.

4.3 Regression Statistic of Conventional Banks

Table 4.4: Regression Result of Conventional Banks

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Significant
C	23.77390	14.34634	1.657140	0.1584	
CAR	0.49063	0.16755	2.928243	0.0327	**
ROA	2.23872	1.96364	1.140084	0.3059	
NPF	0.38726	0.27779	1.394080	0.2221	
OEOI	0.52097	0.07591	6.863400	0.0010	*
FDR	0.10791	0.02604	4.143661	0.0090	*

Note: * : significant at α = 1%
** : significant at α = 5%
Source: Researcher calculation

The regression equation is:

Depositor Funds = 23.77 + 0.49 CAR + 2.24 ROA + 0.39 NPF + 0.52 OEOI + 0.11 FDR

In the regression equation above, constant depositor funds amount of 23.77; it means if independent variables such as CAR, ROA, NPF, OEOI, and FDR assumed to be constant, the depositor funds will increase by 23.77% per year. In Table 4.4 shows the coefficient determination (R-squared) of 0.968 which means independent variables simultaneously influence of the dependent variable 96.8% and for the remaining 3.2% influenced by other variables not included in the research model.

4.4 Regression Statistic of Comparison Banks

Table 4.5: Regression Result between Islamic and Conventional Banks

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Significant
CAR	-0.026162	0.044195	-0.591966	0.5594	
ROA	1.670365	0.398380	4.192895	0.0003	*
NPF	0.498475	0.514569	0.968722	0.3423	
OEOI	0.124997	0.033260	3.758151	0.0010	*
FDR	-0.028061	0.008853	-3.169670	0.0041	*
DUMMY	72.17715	1.194508	60.424190	0.0000	*

Note: * : significant at α = 1%
Source: Researcher calculation

The regression equation is:

Depositor Fund = 0.03 CAR + 1.67 ROA + 0.5 NPF + 0.12 OEOI - 0.03 FDR+ 72.2 Dummy

In the regression equation above, depositor funds of Islamic banks will increase by 72.2% if there is a decreasing by 1% in depositor funds of Conventional banks. In Table 4.5 shows the coefficient determination (R-squared) of 0.996 which means independent variables simultaneously influence of the dependent variable 99.6% and for the remaining 0.4% influenced by other variables not included in the research model.

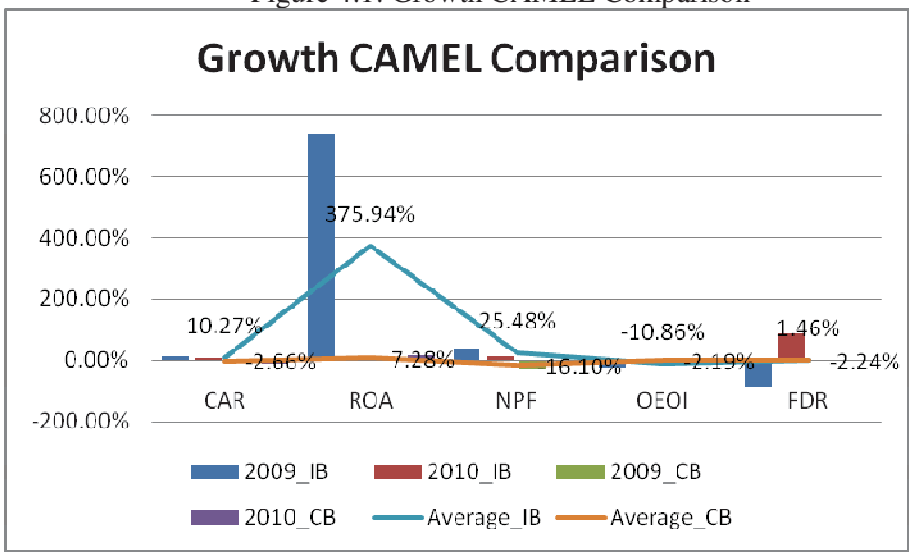
??

Table 4.6: The Growth of CAMEL Comparison between Islamic Banks and Conventional Banks Period 2008-2010

	ISLAMIC BANKS				
Period	CAR_IB	ROA_IB	NPF_IB	OEOI_IB	FDR_IB
2009	12.17%	742.35%	39.59%	-21.32%	-85.28%
2010	8.38%	9.52%	11.37%	-0.40%	88.19%
Average	**10.27%**	**375.94%**	**25.48%**	**-10.86%**	**1.46%**
	CONVENTIONAL BANKS				
Period	CAR	ROA	NPF	OEOI	FDR
2009	6.59%	-3.16%	-29.32%	2.42%	-4.65%
2010	-11.90%	17.72%	-2.87%	-6.80%	0.17%
Average	**-2.66%**	**7.28%**	**-16.10%**	**-2.19%**	**-2.24%**

Source: Researcher calculation

Figure 4.1: Growth CAMEL Comparison



Source: Researcher calculation

Islamic banks have shown a tremendous improvement performance in year 2010 as comparison with conventional banks. In average, the financial ratios of Islamic banks shown a positive growth trend in their CAMEL model whereas the financial ratios of conventional banks shown a negative growth trend in their CAMEL model that reflected to the level of public trust to save their money in banks.

Capital variable (CAR) has a significant positive effect on Depositor Funds. This information proves that hypothesis 1 is accepted. Significant effect due to increasing the CAR capital owned banks increased so more funds available to accelerate lending and development. These conditions will be able to increase banks profits, which in turn have an impact on improving the bank's performance thereby enhancing public confidence in the banking system. This is consistent with the studies by De Bondt and Prast (2000) and Hasbi and Haruman (2011).

Asset Variable (NPF) has no significant positive effect on Depositor Funds. This ratio measures the risk associated with the bank’s return on assets. These results are supported by studies from Ahmad et al (2008). These ratios have no

significant effect on Depositor Funds as each bank has its own policy to be applied according to their credit and profitability procedures.

Management variable (OEOI) has a significant positive impact on Depositor Funds. The increasing in OEOI can be a form of increasing funding needs for the bank's expansion. This will give a higher response from the public to deposit their money to the banks since they have many branches to make the transactions easier. This is consistent with research by Hasbi and Haruman (2011).

Earnings variable (ROA) has no significant positive effect on Depositor Funds partially for both banking systems but it has significant positive effect on Depositor Funds when we have to compare between Islamic banks with conventional banks. It represents profits measure efficiency and profits relative to total assets. If ROA increases, it will cause an increase also in Depositor Funds. This is consistent with the studies by De Bondt and Prast (2000) and Hasbi and Haruman (2011).

Liquidity variable (FDR) has a significant negative effect on Depositor Funds when we have to compare between Islamic banks and conventional banks in order to know which banks are perform better. Negative relationship indicates if the FDR increases, it means that banks have higher loans and it does not always contribute to increase banks' profit (Ketut, 2007). The higher bank's loans are followed by higher risks and it will reduce the level of public trust in depositing their money. However, FDR has a significant positive effect on Depositor Funds if it is done partially for each banking systems since higher loans will give higher profits for the banks. This is consistent with research by Hasbi and Haruman (2011).

The test results simultaneously through R-squared showed a significance value of 99.6%. This means that the independent variables (CAMEL) simultaneously affect the dependent variable (Depositor Funds) significantly. According to the research finding, the positive growth rate of Islamic banks financial ratios show that Islamic banks are eligible to conduct the banking services and have the ability to get the market interest due to their good performance.

In the light of their financial ratios especially the ROA, OEOI, and FDR that significantly affect the level of their depositor funds, Islamic banks should intensify those ratios and keep maintaining the CAR and NPF to boost their good performance as a result to attract more public trust. If this can be done properly by following the Islamic rules and in accordance with what has been stipulated in the regulation of Islamic banks and Bank Indonesia, we hope Islamic banking in Indonesia will grow rapidly, due to customers will give more trust in Islamic banking system was compared with conventional banking both in terms of security and trust of Islamic rules.

5. CONCLUSION

Through the results, researcher found there is a positive relationship between depositor funds with CAMEL performance indicators. Then, the researcher compared the performance of Islamic banks with conventional banks. As the results show an increase in the depositor funds of Islamic banks in the study years (2008-2010), therefore, it is expected that in the future Islamic banks would continued to grow or even surpass the depositor funds level of conventional banks.

Islamic banks started their operations very recently but still their position in the banking industry is admirable. Despite, this study results can be supported within two or three years of time as the Islamic banking sector has accelerated its growths in a positive manner during the last three year of this study time window, so we can expect a much better results from this sector in the coming years.

6. RECOMENDATION

The scope of this paper was to discuss and provide the CAMEL method in evaluating the bank's performance between Islamic banks and conventional banks in Indonesia. Therefore, the researcher wish for further studies to continue this research as the time passes, when there will be more Islamic banks to study and longer time periods. A continued similar study would generate better insight on the issue of performance comparison and use others performance measurement method.

Besides, the other researchers can use other financial variables to describe the banking comparison performance between Islamic banks and Conventional banks. It is difficult to say which tool is better to measure the bank performance, but CAMEL model is currently popular in worldwide to measure the bank performance especially in developing countries. The researcher hopes for the continuous researches can contribute in various assessment models to enrich this research finding.

REFERENCES

Ahmad, R, Ariff, M. & Skully, M.J. 2008. "The Determinant of Bank Capital Ratios in a Developing Economy", *Asia-Pasific Financial Markets*, 15:255-272.

Ali, S. S. (2009). Islamic Modes of finance and associated Liquidity Risks. *Conference on Monetary Sector in Iran: Structure, Performance and Challenging Issues.* Tehran.

Bank Indonesia Website (www.bi.go.id)

Bonin, J., Hasan, I., Wachtel, P. Privatization Matters: Bank Efficiency in Transition Countries // *Journal of Banking and Finance*, 2005. – No. 29 – pp. 2155-2178.

Dash, M. & Das, A. (n.d).A CAMELS analysis of the Indian banking industry. Retrieved from http://ssrn.com/abstract=1666900

De Bondt, G.J, and Prast.H.M. 2000. "Bank Capital Ratios in the 1990s: Cross-country evidence", *Banca Nazionale del Lavoro Quarterly Riview,* 53(212):71.

Eedle, Simon. (2009). *A Global Bank's View of the Evolution of Islamic Finance*. Euromoney year book, Adrian Hornbrook, Essex, UK.

Haron, S., and Norafifah Ahmad, (2000), *The Effects of Conventional Interest Rates and Rate of Profit on Funds Depositsed With Islamic Banking System in Malaysia*, Journal of Islamic Financial Services, Vol. 1, No. 4

Hasbi & Haruman. (2011). "Banking: According to Islamic Sharia Concepts and Its Performance in Indonesia", *international Review of Business Research Papers,* Vol. 7 No. 1, pp.60-76.

Indonesian Act Number 21 of about Sharia Banking, Indonesia.

Indonesia Banking Act Number 9/1/PBI/2007 about Rating System for Banks Based on Sharia Principles, Indonesia.

Ismal, Rifki. (2011). *Islamic Banking in Indonesia: Lesson Learned*. Multi-Year Expert Meeting on Services, Development and Trade: The Regulatory and Institutional Dimension, UNCTAD, Geneva.

Ketut Alit Suardana, 2007, Pengaruh Rasio CAMEL Terhadap Return Saham, *Jurnal Akutansi dan Bisnis*, Volume 4 No. 4.

Luciana, S.A., 2005, Analisis Rasio CAMEL Terhadap Prediksi Kondisi Bermasalah Pada Lembaga Pada Lembaga Perbankan Periode 2000-2002, *Jurnal Akutansi Dan Keuangan*, Volume 7 No. 2.

Moncada, S., H. Michael (2004). "Test Item Quality: An Assessment of Accounting Test Banks". *Journal of Accounting & Finance Research*, 12 (4), 28-39.

Muhammad 2005, "Islamic Banking: The Analysis of Strength, Weakness, Opportunities, and Treat" , *Ekonosia*, Yogyakarta, Indonesia.

Omran, Mohammed. Privatization, State Ownership, and Bank Performance in Egypt // *World Development*, 200 –No. 35 – pp. 714-733.

Sari, *DR 2007*, "*The Implementing of CAMEL Method as a Tool for A*ssessing Financial Performance at Islamic Commercial Bank" , University of Muhammadyah Malang, Indonesia.

Septiawan Nurhartanto, 2010, Pengaruh Rasio CAMEL Terhadap Harga Saham (Studi Empiris Pada Bank Yang Terdaftar Pada Bursa Efek Indonesia Periode 2004-2009), *Jurusan Akutansi*, Universitas Gunadarma.

Tarawneh, M. (2006). A Comparison of Financial Performance in the Banking Sector: Some Evidence from Omani Commercial Banks. International Research Journal of Finance and Economics, Issue (3). ISSN 1450-2887

Taswan, 2006, *Manajemen Perbankan*, UPP STIM YKPN Yogyakarta.

Warjiyo, P. 2004. *Bank Indonesia Bank Sentral Republik Indonesia: Sebuah Pengantar*. Jakarta: Pusat Pendidikan dan Studi Kebanksentralan (PPSK).

Wijaya, A 2008, "Islamic Banking at 2008: Evaluation, Trend, and Projection", *Journal of Karim Review*, Special Edition, No. 1, pp.1-15.

Wirnkar, A.D. & Tanko, M. (2008), CAMELS and Banks Performance Evaluation: The Way Forward. Working Paper Series. SSRN: http://ssrn.com/abstract=11

Wu, Y. & Bowe, M. (2012), "Information disclosure and depositor discipline in the Chinese banking sector". Int. Fin. Markets, Inst. and Money 22 (2012) 855– 878

Yue, P. (1992), "Data Envelopment Analysis and Commercial Bank Performance: A Primer with Applications to Missouri Banks," Working *Papers*, ICW Institute, University of Texas at Austin.

EM - 02

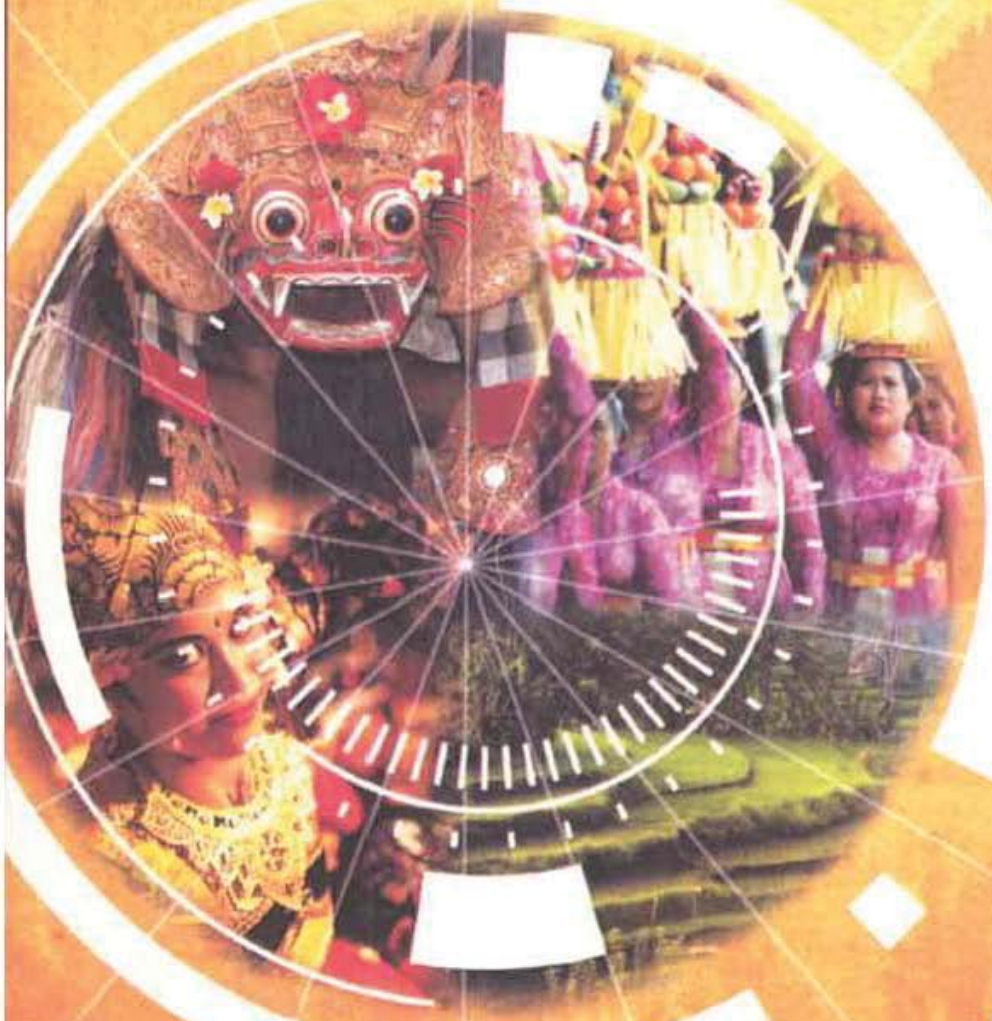
UBAYA
UNIVERSITAS SURABAYA

FBE

10th INSYMA

Department of Management Faculty Of Business and Economics Universitas Surabaya

CHALLENGES AND OPPORTUNITIES OF THE LEADING EDGE IN WORLD CLASS SUPPLY CHAIN MANAGEMENT



AACSB

AASBI
CANDIDATE FOR ACCREDITATION

PROCEEDING

THE 10th INTERNATIONAL ANNUAL SYMPOSIUM ON MANAGEMENT

CHALLENGES AND OPPORTUNITIES OF THE LEADING EDGE IN WORLD CLASS SUPPLY CHAIN MANAGEMENT

Bali, March 16th, 2013

Department Of Management
Faculty of Business and Economics
Universitas Surbaya

Proceeding

The 10th UBAYA International Annual Symposium on Management

CHALLENGES AND OPPORTUNITIES OF THE LEADING EDGE IN WORLD CLASS SUPPLY CHAIN MANAGEMENT

Editors:
Werner R. Murhadi, Dr
Prita Ayu, MM

Published by:
Department of Management, faculty of Business & Economics
Universitas Surabaya
Jl. Raya Kalirungkut
Surabaya, Indonesia 60293
Phone : +62-31-2981139
Fax : +62-31-2981239

ISBN: 978-979-99365-7-8

FOREWORD

This proceeding is a compilation of papers submitted for **The 10th International Annual Symposium on Management** (Insyma) conducted by the Department of Management, Faculty of Business and Economics, Universitas Surabaya. This year's theme of the symposium is **Challenges and Opportunities of the Leading Edge in World Class Supply Chain Management**.

In this opportunity, we would like to share our grateful to the institutions (National and abroad) who send their lecturer or researcher to our symposium. This symposium is to provide a sharing forum for researcher, academics, and practitioners engaged in basic and applied research in Supply Chain Management. This theme represents an emerging and highly challenging and opportunities area of research and practice. One of the most significant paradigm shifts of modern business management is that individual business no longer compete as solely autonomous entities, but rather as supply chains. Business management has entered the era of internetwork competition. In this emerging competitive environment, the ultimate success of the single business will depend on management's ability to integrate the company's intricate network of business relationships. The supply chain is not a chain of businesses with one-to-one, business-to-business relationships, but a network of multiple business and relationships. SCM deals with total business process excellence and represents a new way of managing the business and relationships with other members of the supply chain. Successful supply chain Management requires cross-functional integration must play a critical role. The challenge is to determine how to successfully accomplish this integration.

This symposium aims to bring together different points of view from academics, business practitioners, government agencies, and international institutions with the ultimate goal to share and disseminate various ideas and practices in Supply Chain Management.

Finally, we hope that this compilation of papers, ranging from a conceptual work to an empirical research, can enrich our perspective in supply chain management and its application in creating higher level of competitiveness.

Bali, March 16th, 2013

ISBN: 978-979-99365-7-8

TABLE OF CONTENTS

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

ISBN: 978-979-99365-7-8

https://fbe.ubaya.ac.id

Department of Management
Faculty of Business and Economics
Universitas Surabaya

Jl. Raya Kalirungkut, Surabaya, 60293
Ph: +62 31 298 1139 | Fax: +62 31 298 1131
email: ubayainsyma@gmail.com | managementsymposium@ubaya.ac.id

ISBN 978-979-99365-7-8