

## The Importance of Promotion Costs and Training Costs for Islamic Rural Bank in Indonesia by BPRudent

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### Abstract

*This research tested the influence of Islamic Rural Bank promotion cost and training cost towards Islamic Rural Bank profitability in Indonesia. Research variable used promotion cost and training cost which were allocated by Islamic Rural Bank, while profitability used proxy Return on Asset (ROA). This research is explanatory research by using quantitative approach. Sampling technique conducted was quota sampling and it found 4 Islamic Rural Bank in Indonesia period 2013-2017. Finding indicated that there was no influence promotion cost and training cost towards profitability of Islamic Rural Bank in Indonesia. Regression analysis conducted showed that Islamic Rural Bank could optimize education cost and training cost based on each division of Islamic Rural Bank and maximize promotion cost to introduce product and service in appropriate segment of long term so that each Islamic Rural Bank in Indonesia can present their company's performance to the maximum on the BPRudent Platform.*

**Keywords :** Promotion Cost, Training Cost, Islamic Rural Bank

**Citation Suggestions:** Ridwansyah., Ningsih, N. W., Purnamasari, S. A. (2020). The Importance of Promotion Costs and Training Costs for Islamic Rural Bank in Indonesia by BPRudent. *Jurnal Ilmiah Ekonomi Islam*, 6(03), 436-449. doi: <http://dx.doi.org/10.29040/jiei.v6i3.1279>

**DOI:** <http://dx.doi.org/10.29040/jiei.v6i3.1279>

### 1. INTRODUCTION

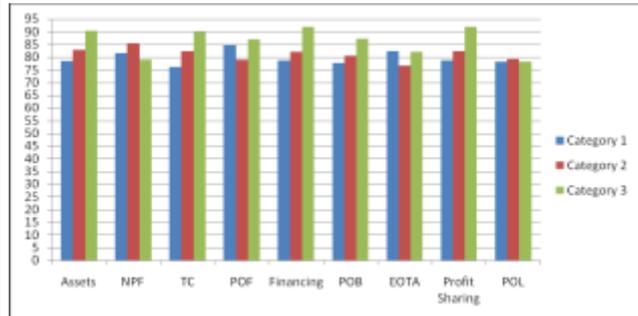
As known that banking is one of agent development of country life, since main function of banking as financial intermediary institution, is an institution to collect society fund in the form of deposits and distribute it back to society in the form of credit or financing. Such function becomes concern form sharia banking besides other function as a financial traffic service provider institution. Growth of sharia banking in Indonesia has a significant development as information reported by (Sharia Banking Statistic, Indonesian Bank, 2017) claimed that development of sharia banking grew rapidly.

Research [1] shows that mudharabah deposits affect the profitability of Islamic People's Credit Banks. However, Net Performing Financing has a negative effect on bank profitability. Indonesia is one of the Asian member countries with stable economic growth in 2007 above 6 percent, except in 2009 which

was 4.6% and now in 2012 Indonesia's economic growth was recorded at 6.11 percent (Source: International Monetary Fund. Database of economic Outlook world, October 2012). Indonesia's economic growth is welcomed by the banking industry in Indonesia, they believe and are optimistic that growth will continue in 2013, as evidenced by national competition in the banking industry that has been infested by 120 commercial banks and BPR 1600 (source: No. Bank info. 409 Vol. XXXV April 2013). The performance of the three largest Islamic banks in Indonesia and the three Sharia Rural Banks are the same [2]. Production costs, promotions, sales volumes partially affect revenue. [3] indicates that the intensity of advertising affects the company's revenue and the intensity of R&D affects the company's profit. Promotional costs have a positive effect on income and distribution costs have a positive effect on profits. Simultaneously, training and promotion have an effect

of 52%, and partial or individual training has an insignificant negative effect, while promotion has a significant positive impact on financial performance in Islamic banking [4].

**Graph 3.4. Mapping of Level of Efficiency Islamic Rural Banks in Indonesia Based on Category**



One of keys in maintaining sharia banking performance and sustaining Indonesian society still become sharia banking customer is by conducting education program and promotion training to all human resources in sharia banking environment, so that human resources can give a good and maximum promotion service to customer which is at the end it will improve evaluation towards that banking performance where human resources can be one of main factors. Company performance included in this part is sharia banking which is resulted by a company in a certain period according to determined standard. Company performance is a result which can be measured and describe an empirical condition of company with any agreed size. When performance is known and achieved, then performance is evaluated. Evaluation of a performance can be seen from two sides; they are financial side (quantitative) or non financial side (qualitative) based on Regulation of Bank of Indonesia No.9/PBI/2007 date 4 December 2007 about Public Banking Health Level Evaluation System according to Sharia Principle (BUS).

Industry Rural Bank-Islamic Rural Bank is a firm industry in facing any wave. Information and communication technology, especially internet and smartphone penetration have a very great development. In Indonesian context for example, report from McKinsey year 2018 and survey Internet Service Provider Association year 2018 showed that of 265 million Indonesian people, 178 million people are cellular users, 171 million people are internet users and 130 million people are active social media users. Digital revolution happens at the moment makes us aware that we are in the beginning level of industry

revolution 4.0; revolution transforms business process by using more information technology, automation, includes artificial intelligence, internet of things, and digital economy.

That digital revolution then significantly has changed mindset in doing economy activities in all part of the world like using massive e-commerce and has earned new business models such as peer-to-peer lending and sharing economy. Seeing that fact, industry Rural Bank-Islamic Rural Bank must do innovation and adaptation towards technology development available, although comparative superiority owned by industry Rural Bank-Islamic Rural Bank will never be competed; focus in serving UMKM, personal approach, easy and quick service, Rural Bank as Community Bank and its presence spreads evenly in entire Indonesia. It is not closed off to have possibility that this industry will cooperate and collaborate, KEIN RI, Koinwork, OVO, Investree, Bukalapak and GETI (Authorized Global Channer Partner Alibaba.com). Industry Rural Bank-Islamic Rural Bank convinced Corporation and Collaboration with any strategic sides is a key to improve and reinforce competitive ability of industry Rural Bank-Islamic Rural Bank in facing global economy challenge, technology disruption and maintain growth of industry Rural Bank-Islamic Rural Bank to widen service access in effort of realizing prosperous and economically independent society.

**a. Islamic Rural Bank**

Islamic Rural Bank based on Law Banking No.7 year 1992 is a bank financial institution which receives only in the form of saving termed deposit and other forms which are placed on a par with by distributing fund as Rural Bank business. The purpose of Islamic Rural Bank is (1) improving Moslems' economy prosperity, especially society in weak economy level that generally it is in village area; (2) add job vacancy in district level, so it can reduce urbanization flow; and (3) construct *ukhuwah Islamiyah* spirit through economy activity in improving income per capita to reach fair life quality. Developing strategy of Islamic Rural Bank which should be noticed is Islamic Rural Bank itself uses halal marketing strategy, for example through information about Islamic Rural Bank in mass media and Islamic Rural Bank cooperation with education institution is needed to open sharia financial institution education center or sharia financial institution short course.

The large potential of the micro banking market has made many banks and other financial institutions gain profit in their segments, especially the Syariah People's Credit Bank which has resulted in the Sharia Rural Credit Bank being able to survive [5] and the Sharia Rural Credit Bank's financial performance is better than conventional banks [6].

**b. Promotion Costs**

Promotional costs are sales costs used to fund the organization's promotional activities. Promotional costs can be determined through a combination of costs incurred by the company to promote goods / services. Promotion costs are costs incurred by the company for promotional purposes in connection with the marketing of products / services produced by the company. The cost of this promotion can directly affect company profits. The higher the promotion costs incurred by the company, the higher the profits to be gained by the company [7]. For this reason the research has a hypothesis:

Ha<sub>1</sub>: Promotion costs has significant impact on Return on Assets

**c. Training Costs**

According to the Financial Services Authority Regulation Number 47 / POJK.03/2017 Education and Training Funds are funds provided by Islamic Rural Bank for the development of human resources through increasing knowledge and skills in the banking sector, including operations, marketing and management of Islamic Rural Bank. So Education and Training Costs are costs incurred by Islamic Rural Bank for the development of human resources through increasing knowledge and skills in the banking sector including operations, marketing and management of Islamic Rural Bank. The cost of training and education is a bank investment in the form of investment in human resources. According to [8] In order to improve the education and skills of employees of the Sharia Rural Bank, Bank Indonesia should consider improving training services for employees working with related educational institutions, to provide more information about financing services to the wider community, training their customers to improve customer understanding of Islamic terms . With such a proactive strategy, it is expected to have a positive impact on company profits [9]. [10] found strong evidence that training improves worker outcomes which can affect company performance. For this reason the research has a hypothesis:

Ha<sub>2</sub>: Training costs has significant impact on Return on Assets

**d. Return on Asset**

Return on Assets (ROA) is a ratio in measuring the overall effectiveness of management in generating profits with available assets. The formula indicates that the company's management generates profits with the total assets owned by the company [11]. Therefore this research wants to test budgeting influence of promotion and education cost towards ROA performance. The company's activities are significantly related to asset optimization as measured by Return on Assets (ROA) in Islamic banking in Indonesia [12]. Empirical results reveal that asset size and increase in non-interest income are internal factors that affect the profitability of BPRs, while GDP and growth in the money supply are external factors that affect BPR profitability. It is recommended that bank management need to take all the necessary decisions regarding the proportion of assets to improve the bank's financial position. In addition, the government must ensure stability of economic growth which can turn into BPR profitability [13].

**e. BPRudent Platform**

BPRudent Platform is merging two application GCG and Rural Bank Risk Management. Platform BPRudent is application that can help Rural Bank-Islamic Rural Bank to implement company management and risk management according to determined regulation that is available. Profitability for Rural Bank and Islamic Rural Bank is easiness to organize liquidity and cost of bank every time that is extra interest for customer and interest discount for debtor, automation funding and landing process, bank operational cost efficiency, applied digital marketing, improvement of brand-awareness for all Rural Bank-Islamic Rural Bank, business performance acceleration, maximize profitability, and increasing customer based. The banking sector in our country is at a crossroads today, with the latest developments such as new players; technological explosion. The limitation of Islamic Rural Bank in adopting digital banking is a major obstacle in the use of technology. However, changes in technology must be made in order to maximize company performance [14]. It is hoped that Islamic Rural Bank can make new innovations in using the platform to support company performance.

**2. METHOD AND DAYA ANALYSIS**

**a. Research Category, Population and Samples**

This study is an explanatory research and the approach of quantitative research was applied. This research relies on a positivistic paradigm [15] as well as a quantitative approach. Population in this research is Islamic Rural Bank in Indonesia that publishes financial report in year 2013-2017; there are 30 Islamic Rural Bank in Indonesia. While sampling taken used purposive sampling which aimed to gain representative sample suited to determined criteria in this research. That criteria is Islamic Rural Bank Lampung Province and Islamic Rural Bank D.I.Yogyakarta Province, and Islamic Rural Bank which already published financial report completely in year 2013-2017. This research relies on a positivistic paradigm [16] as well as a quantitative approach.

**b. Operational Definitions**

Independent variable in this research is promotion and education cost. Education and training cost based on regulation Financial Service Authority no.47/POJK.03/2017 About Obligation of Education and Training Fund Provision for Rural Bank and Islamic Rural Bank Human Resources Article 2 decided at least 5% (five percent) of previous year Human Resources cost realization. While promotion cost suited to Regulation of Finance Ministry No 02/PMK.03/2010 that promotion cost can be reduced from bruto income. In promotion case, it is done in form of giving product sample; total cost can be minimized from bruto income is as big as main price of given product sample, as long as it has not been burdened in selling main price estimation. Dependent variable in this research is Return on Asset (ROA). "Ratio of net profit towards total asset measures returning on total asset after interest and tax". The formula of ROA as followed.

$$ROA = \text{Earnings After Tax} / \text{Total Asset}$$

**c. Data Collection Techniques**

Data collecting technique used in this research was using indirect collecting technique on research subject, using documentation like annual report, previous research, publication data and other

references. Data collecting method in this study was using financial report of ISLAMIC RURAL BANK part quarterly I until IV at period 2013-2017. In panel data model, model equation used cross section data can be written with:

$$Y_i = \beta_0 + \beta_1 X_i + \mu_i; i = 1, 2, \dots, N$$

Where:

Y1: Return on Asset (ROA);

X1: Training cost;

X2: Promotion cost; and

$\epsilon_{it}$ : Error term

**3. RESULTS AND DISCUSSION**

**a. Results**

**Hypothesis Testing Result**

Authors tested the classic assumptions before testing the hypothesis. The normality statistical test was performed using One-Sample Kolmogorov-Smirnov Z (K-S) with the dependent variable Return on Asset (ROA). In the test results, the significance value for Return on Asset is 0.581, or greater than 0.05. It indicates that the Return on Asset variable is normally distributed. Here are the results of the normality test in Table:

**Table 2.** One-Sample Kolmogorov-Smirnov Test

	Standardized Residual
N	20
Asymp. Sig. (2-tailed)	.581181
a. Test distribution is Normal.	

Another test of classical assumptions on Return on Asset variables shows that the results meet linearity requirements and there is no autocorrelation and heteroscedasticity. Because the data is normally distributed, it is tested to test the hypothesis whether there is a positive relationship between the promotion and training costs variable and the Return on Asset variable.

**Test of the Effect of Training and Promotion Costs on Return on Asset**

The following is the result of the goodness of fit testing of the Return on Asset variable:

**Table 3.** Goodness of Fit Test Result and Hypothesis Testing Result

Variable	Coefficient	Std. Error	t-Statistic	Significance
C	0,006764	0,012247	0,552261	0,5880
X1 Training cost	0,034713	0,019339	1,795000	0,0905
X2 Promotion cost	-0,009669	0,015816	-0,611326	0,5491
Adjusted R-squared = 0,082424				
Prob(F-statistic) = 0,187012				

The table above shows that the adjusted  $R^2$  is 0.082. This indicates that 8,2% variation in Return on Asset can be explained by Training and Promotion Costs variables and the remaining 91,8% is explained by other variables outside the research model. From the results of the multiple linear regression test above, it can be concluded that Training and Promotion Costs variables have not a significant effect on Return on Asset and  $H_{a1}$  and  $H_{a2}$  is not accepted.

#### **b. Discussion**

This research company performance measured by using measurement proxy return on asset (ROA). The bigger ROA, the more efficient of using company asset. So that same asset can gain bigger profit and vice versa. Based on test result, education cost did not influence towards company performance which used ROA proxy. This indicated that target of education and training was improperly achieved, so Human Resources or Islamic Rural Bank worker who was sent to attend training and education could hardly implement its result on Islamic Rural Bank. It is hoped that adding budget more than 5% on education cost estimation at Islamic Rural Bank which was decided by Financial Service Authority (OJK). Education and training cost conducted by Islamic Rural Bank was often improper, so the material of training and education was not needed in that year. Promotion cost did not influence towards company performance which used ROA proxy. This showed that promotion activity target of Islamic Rural Bank were not accomplished well on its market segment. Human resources and Islamic Rural Bank workers in marketing division had lack ability to promote product and service of Islamic Rural Bank, also they are expected to master technology in this case it is through social media if the market segment is technological society. While if the market segment of Islamic Rural Bank is traditional society, they are hoped to use promotion tool traditionally, easily understood, and precisely reach the target. Theoretically, if promotion can be increased and reach target, it will influence towards core business of Islamic Rural Bank so that it can improve asset performance and company profit maximally every year. By the presence of BPRudent platform entire performance of Rural Bank-Islamic Rural Bank will be seen clearly by stakeholders. Regulation of change which supports company persistence is needed.

#### **4. ACKNOWLEDGMENT**

The authors would like to thank to Islamic Rural Bank all over Indonesia to provide us the data.

#### **5. CONCLUSION**

Based on result analysis, we can conclude that training and promotion cost did not influence profitability performance review in Indonesia. This finding indicated that Islamic Rural Bank in Indonesia has not optimized education cost based on division and need also it has not maximized promotion cost to introduce product and service suited to market segment each Islamic Rural Bank for middle term. Then education cost should be more used on technical job for workers to sharpen skill, support Islamic Rural Bank business, while activities like socialization, seminar can be budgeted out of education cost and Finance Service Authority (OJK). Fulfillment of education cost is bigger 5% than employee cost last year, so that budgeting on each Islamic Rural Bank can be suited to its business market segment for middle term. By budgeting promotion costs and training costs that are clear and systematic, it is hoped that Islamic Rural Bank's corporate governance will be better and company performance will improve so that it can give a good signal to investors by looking at BPRudent as a whole. Islamic Rural Bank must be updated with technology to make it easier for stakeholders to assess company performance.

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