

## THE EFFECT OF PROFIT SHARING FINANCING ON THE PROFITABILITY OF ISLAMIC BANKS IN INDONESIA

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**Abstract:** The purpose of this study is to analyze the effect of mudharabah financing and musyarakah financing on the profitability of Islamic banks in Indonesia as proxied by ROA both partially and simultaneously. Research methodology with quantitative research where secondary data is used in the form of ROA data, Mudharabah Financing, and Musyarakah Financing using a time span from 2018 to 2020 using monthly data. Processing data using Eviews 10 application with classical assumption test and hypothesis testing. The results show that mudharabah financing has no effect on the profitability of Islamic banks. Musyarakah financing has a significant and significant impact on the profitability of Islamic banks. The simultaneous test shows that mudharabah financing and musyarakah financing have a significant effect on the profitability of Islamic banks.

**Keywords:** Mudharabah Financing, Musyarakah Financing, Profitability

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### INTRODUCTION

Islamic banking has considerable potential for the community in carrying out financing matters. It can be seen from information obtained in July 2021, Islamic banking assets in Indonesia have increased by 16.35% since June 2021 and financing has increased by 6.82%. This figure is a large number for the growth of financing from Islamic banks in Indonesia. One of the elements that increase financing growth is the system used by Islamic banks without interest (usury).

In raising funds, banks always allocate and collect these funds through various activities to provide benefits by means of financing. The financing used to provide profit from the calculation for the results is mudharabah and musyarakah financing. From this profit, the proceeds will be divided between the bank and the customer provided that the profit can be used to return the capital that has been used for funding Wahyuningsih, (2019). During the ongoing pandemic, it can be said that people do a lot of financing, be it for their survival or for their business continuity.

Self-financing is very helpful for people who want to do business or who need capital. Financing using the profit-sharing mechanism is the financing for the results of mudharabah and musyarakah. Mudharabah financing is the financing of the first party providing funding assistance to a second party and that party does not provide capital but its business with the condition that it gets a share of the profits or losses from the cooperation Putri, (2017). So it can be said that the income earned by the bank on

mudharabah financing will have an effect on profitability, because the greater the profit received by the customer, the income received by the bank will also be greater.

Meanwhile, musharaka financing is financing in which both parties, both the manager and the owner of the funds, both contribute funds. So that if the bank provides funding distribution in the form of musharaka financing, the greater the profitability that will be received by the bank, this is because the income received by the bank has also increased Romdhoni & Yozika, (2018).

The bank's profitability performance can be seen and measured through the financial statements owned by the bank. The method used is to use financial performance ratios that we can use the Return on Assets (ROA) ratio. The benefit of carrying out an analysis of bank financial statements is being able to have knowledge of the bank's financial developments, both those that have been achieved in the past and the present Ningsih & Rachmawati, (2019). The use of ROA as a profitability measure is because ROA prioritizes bank capabilities when receiving full operating profit, and BI prioritizes ROA over ROE in determining the bank's soundness level. For this reason, BI is more concerned with bank profitability in terms of assets whose funds are mostly sourced from people's savings. So that if the ROA is greater, the profit received by the bank will also be greater Taslim, (2021). Return on Assets (ROA) is a ratio that describes profitability where the bank uses it to measure the achievement of the bank with all the funds it has in the form of assets with the company's operational goal of generating profits Romdhoni & Yozika, (2018). Through ROA, the results obtained from all bank assets run by the bank regardless of the source of funds and the calculation of ROA is generally calculated by percentage The usefulness of ROA is to calculate the ability to collect profits in the form of profit before tax where the profit is obtained from the average total assets of the bank. So that when the ROA is higher, the bank's profit will also be higher which in the end the bank's position when viewed from the use of assets will be better, with the profit before tax being the net profit obtained from activities before tax Sari & Sulaeman, (2021).

Mudharabah financing is a type of merger agreement which consists of two parties, namely the capital provider and the person in charge of the business with the profits from the business divided based on the profit sharing ratio that has been agreed upon by the parties transacting at the beginning of the contract. When a loss occurs, the fund provider will lose some of the funds from the proceeds and managerial ability during the contract Fadhila, (2015). So it can be said that mudharabah financing is a form of cooperation in upholding trust. Because they are required to have high honesty and fairness in business. Where each party, both the provider of funds and the person in charge of the business, is required to maintain honesty in their respective responsibilities and fairness in the distribution of profit sharing or in the event of a loss. Musyarakah financing is a cooperation agreement between several parties in which the two parties jointly contribute funds for a particular business. When you get a profit, it will be submitted based on the agreement at the beginning of the contract and when a loss occurs, it will be distributed according to the portion of the contribution of the funds.

With the cooperation agreement, it is necessary to combine various sources of capital, both visible and invisible, with the portion of capital that has been distributed that can be different. However, the amount of capital will be the benchmark in determining the profit portion for both parties. The assessment in calculating musyarakah financing is by comparing the total musyarakah financing with the total financing obtained from the Islamic bank's financial statements (Faradilla et al., 2017).

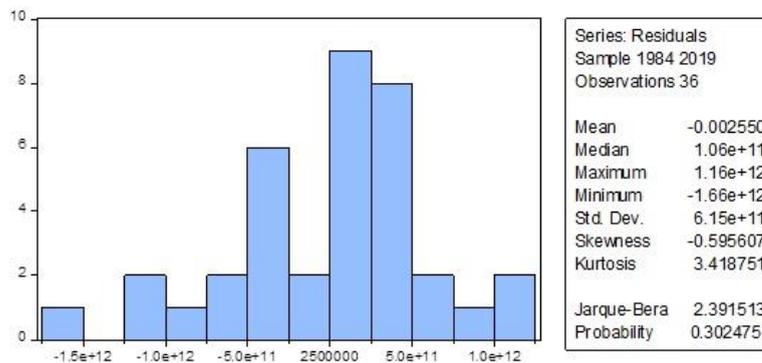
## METHODS

Quantitative research used in this type of research with a descriptive approach. With the population in the form of data on all Islamic banks registered with the OJK. For sampling, a saturated sample was used, which means that all population data became the sample data in this study. The use of quantitative data for this study, described quantitative data in the form of data which in its use has an explanation and is commonly called numbers Sugiyono, (2014). And the data sources used are secondary data, namely ROA data, mudharabah financing, and musyarakah financing from the period 2018 to 2020 using monthly data from the [www.ojk.go.id](http://www.ojk.go.id) site. In collecting data used documentation study techniques. Meanwhile, for data analysis, the classical assumption test was used to analyze whether in the OLS regression model there were problems with classical assumptions. With several tests, namely normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. Then after that the hypothesis test was carried out. Hypothesis testing was used for decision making by using statistical methods in the form of coefficient of determination test, t test, and F test. All tests were carried out using the Eviews 10 application which was used to analyze the research data.

## RESULTS AND DISCUSSION

### Classic Assumption Test Results

The first test is the normality test with the aim of seeing whether the variables in this study are normally distributed or not. It can be said that the normal distribution is when the value of Prob. JB count > 0.05 so it can be said that the residuals are normally distributed and vice versa.



**Figure 1 Normality Test Results**

Source: Data has been processed by the author (2022)

From the picture above, it can be seen for the Prob value. JB worth  $0.302 > 0.05$ , which means that the data is normally distributed. Furthermore, the Multicollinearity test is carried out which aims to see whether there is a relationship between the independent variables in the regression. If there is no multicollinearity, the regression is said to be good. The indicator of not experiencing multicollinearity is to pay attention to the VIF value, which when the VIF value  $< 10$  is said to be not experiencing multicollinearity.

**Table 1 Multicollinearity Test Results**

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	8.91E+24	799.7227	NA
Mudharabah	0.001405	691.1141	1.030603
Musyarakah	9.13E-05	47.77280	1.030603

Source: Data has been processed by the author (2022)

For the results above, the VIF value in the Centered VIF column is  $1.03 < 10$ , so it can be interpreted that the VIF value for mudharabah financing and musyarakah financing does not experience multicollinearity.

**Table 2 Heteroscedasticity Test Results**

Heteroskedasticity Test: Glejser

F-statistic	0.700547	Prob. F(2,33)	0.5035
Obs*R-squared	1.466215	Prob. Chi-Square(2)	0.4804
Scaled explained SS	1.501745	Prob. Chi-Square(2)	0.4720

Source: Data has been processed by the author (2022)

From table 2 above, it can be seen for the Prob value. The F-statistic is  $0.5035 > 0.05$  (5%) which means that it does not experience heteroscedasticity. The autocorrelation test was then carried out using the Durbin-Watson test. The criterion is said not to have autocorrelation when the Prob value. F count  $> 0.05$  (5%) while at the time of Prob. F count  $< 0.05$  (5%) is declared to have autocorrelation.

**Table 3 Autocorrelation Test Results**

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.820035	Prob. F(2,30)	0.4500
Obs*R-squared	1.814233	Prob. Chi-Square(2)	0.4037

Source: Data has been processed by the author (2022)

Looking at the results of table 3, it can be concluded that the Prob value. F is 0.45, which means  $> 0.05\%$ , so there is no autocorrelation.

### Hypothesis Test Results

The first hypothesis test is carried out in the form of a coefficient of determination, which has the aim of knowing how much influence the independent variable has on the dependent variable.

**Table 4 Results of the Coefficient of Determination**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.46E+13	2.98E+12	4.876576	0.0000
Mudharabah	0.014258	0.037481	0.380415	0.7061
Musyarakah	0.217444	0.009557	22.75134	0.0000
R-squared	0.941442	Mean dependent var		3.20E+13
Adjusted R-squared	0.937893	S.D. dependent var		2.54E+12
S.E. of regression	6.33E+11	Akaike info criterion		57.26562
Sum squared resid	1.32E+25	Schwarz criterion		57.39758
Log likelihood	-1027.781	Hannan-Quinn criter.		57.31168
F-statistic	265.2695	Durbin-Watson stat		0.953718
Prob(F-statistic)	0.000000			

Source: Data has been processed by the author (2022)

Looking at the results above, it is known that the R-Squared value is 0.9414 which means that 94.14% of mudharabah and musyarakah financing has an influence on the profitability of Islamic banks. The next test is the t test which aims to see whether the independent variables individually have an influence or not on the dependent variable.

**Table 5 t test results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.46E+13	2.98E+12	4.876576	0.0000
Mudharabah	0.014258	0.037481	0.380415	0.7061
Musyarakah	0.217444	0.009557	22.75134	0.0000

Source: Data has been processed by the author (2022)

Based on table 5, it can be seen that the value of Prob. for mudharabah financing is 0.706 with a meaning  $> 0.05$  so it can be said that mudharabah financing has no effect on the profitability of Islamic banks. Then the musharaka financing can be seen

the value of Prob. worth 0.000 then  $< 0.05$  which means that musharaka financing has a significant and significant impact on the profitability of Islamic banks.

The last test is the F test which has the aim of seeing whether all independent variables have an influence or not on the dependent variable.

**Table 6 F test results**

R-squared	0.941442	Mean dependent var	3.20E+13
Adjusted R-squared	0.937893	S.D. dependent var	2.54E+12
S.E. of regression	6.33E+11	Akaike info criterion	57.26562
Sum squared resid	1.32E+25	Schwarz criterion	57.39758
Log likelihood	-1027.781	Hannan-Quinn criter.	57.31168
F-statistic	265.2695	Durbin-Watson stat	0.953718
Prob(F-statistic)	0.000000		

Source: Data has been processed by the author (2022)

For the above results obtained the value of Prob. (F-Statistic) worth 0.000 which means  $< 0.05$  so it can be said for mudharabah financing and musyarakah financing that it has a significant influence on the profitability of Islamic banks.

## Discussion

### The Effect of Mudharabah Financing on The Profitability of Islamic Banks

Mudharabah financing has no effect on the profitability of Islamic banks, this can be seen from the value of Prob. of 0.706 which means  $> 0.05$ . So this result is in accordance with the results (Faradilla et al., 2017) and (Wahyuningsih, 2019) which state that mudharabah financing has no effect on profitability. This was conveyed by (Wahyuningsih, 2019) because for each year the revenue from mudharabah financing no longer contributes significantly to the total income from profit sharing financing. Which resulted in a decrease in the mudharabah ratio so that mudharabah financing no longer had a significant effect on the profitability of Islamic banks.

### The Effect of Musharaka Financing on The Profitability of Islamic Banks

Musyarakah financing has a significant and significant effect on the profitability of Islamic banks, by looking at the value of Prob. of 0.000 with a meaning  $< 0.05$ . This result is in line with (Wahyuningsih, 2019) and (Pratama & Febriansyah, 2020) which state that musyarakah financing has an effect and is significant on profitability. With musyarakah financing, which shows a cooperation agreement between two or more parties for a business in which both parties provide capital, then when a profit or loss occurs, it will be divided according to the initial agreement. So that the Musyarakah contract is based on the desire of the parties who want to cooperate in increasing the value of the assets that are owned jointly. So when musharaka financing is high, the profitability of Islamic banks will also be high.

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## **The Effect of Mudharabah Financing and Musharaka Financing on The Profitability of Islamic Banks**

Mudharabah financing and musyarakah financing simultaneously have a significant and significant impact on the profitability of Islamic banks, this can be seen from the value of Prob. (F-Statistic) worth 0.000 which means  $<0.05$ . This result is in accordance with (Wahyuningsih, 2019) which states that mudharabah and musharaka simultaneously or jointly affect profitability.

### **CONCLUSION**

After analyzing the data above, the following conclusions are obtained: Mudharabah financing has no effect on the profitability of Islamic banks, by looking at the value of Prob. of 0.706 with a meaning  $> 0.05$ . These results are consistent with Faradilla et al., (2017) and Wahyuningsih, (2019) which state that mudharabah financing has no effect on profitability. Musyarakah financing has an effect and is significant on the profitability of Islamic banks, by looking at the value of Prob. of 0.000 with a meaning  $<0.05$ . This result is in line with Wahyuningsih, (2019) and Pratama & Febriansyah, (2020) which state that musyarakah financing has an effect and is significant on profitability. Mudharabah financing and musyarakah financing have a significant influence on the profitability of Islamic banks, this can be seen from the value of Prob. (F-Statistic) worth 0.000 which means  $<0.05$ .

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