THE EFFECT OF *MUDHARABAH* AND *MUSYARAKAH* FINANCING ON PROFITABILITY OF ISLAMIC BANKS IN INDONESIA

Iqbal Maulana El¹

Universitas Islam Negeri Maulana Malik Ibrahim, Malang, Indonesia
el.iqbalmaulana@gmail.com

Masyhuri²

Universitas Islam Negeri Maulana Malik Ibrahim, Malang, Indonesia
masyhuri@manajemen.uin-malang.ac.id

Indah Yuliana³

Universitas Islam Negeri Maulana Malik Ibrahim, Malang, Indonesia
indahoty@manajemen.uin-malang.ac.id

Abstract

The study aims to determine the effect of *Mudharabah* and *Musyarakah* financing on profitability of Islamic banks in Indonesia. Profitability is measured by using ROA. The population used in this study is Islamic banks registered in Bank Indonesia from 2016 to 2020, and by using purposive sampling technique. The researchers obtained 8 Islamic banks that meet the criteria. The study uses MRA (Multivariate Regression Analysis) with the following results: the *Mudharabah* variable has a $t_{\text{count}} = 5.812$ and a $t_{\text{table}} = 2.026$ ($t_{\text{count}} > t_{\text{table}}$) with a significance level of $0.000001 < 0.05$. Thus, H1 is accepted, *Mudharabah* has a significant positive effect on profitability of Islamic bank. The *Musyarakah* variable has a $t_{\text{count}} = -3.120$ and a $t_{\text{table}} = 2.026$ ($t_{\text{count}} > t_{\text{table}}$) with a significance level of $0.003498 < 0.05$. Therefore, H2 is accepted, *Musyarakah* has a significant negative effect on profitability of Islamic banks.

Keyword: *Mudharabah*, *Musyarakah*, Profitability, Islamic Banks

INTRODUCTION

Bank is a financial institution that functions to collect and distribute funds to the public in the context of equity, economic growth and national stability towards improving people's welfare. There are two type of bank which are conventional banking and Islamic banking. Islamic banks operate without relying on interest so that they are called interest-free banks, where operations and products are developed based on the Qur'an and the Hadith of the Prophet Muhammad (Kasmir, 2016). Islamic banking has a profit-sharing principle that is different from conventional banking, this principle is a system in which a joint agreement or bond is carried out in conducting business activities with an agreement that there will be profit sharing for both parties or more (Rivai dan Arifin, 2010).

Profitability is a company's ability to earn profit. Return on Assets (ROA) is one way to calculate the company's financial performance by comparing the net profit earned by the company with the total assets owned by the company. ROA reflects how much the company has earned on the financial resources that have been invested in the company. The greater number ROA of a bank, the greater profit achieved by the bank, and the better the bank's position in terms of using the asset (Romdhoni dan Yozika, 2018).

Mudharabah is the financing that the profit is divided between the bank as the owner of the funds (*Shahibul Mall*) and the customer as the business manager (*Mudharib*). Generally, *Shahibul Mall* provides 100% of capital to *mudharib*, during the financing period ended the financing funds will be returned to the bank. If a loss occurs due to a normal process not due to negligence or fraud by the manager, the loss is borne entirely by the owner of the capital. If there is negligence or fraud by management, the manager is fully responsible to the loss (Antonio, 2001).

Musyarakah financing is a partnership, where two or more entrepreneurs work together as business partners in running a business. In *Musyarakah* financing, each party includes its capital and participates in managing the business, profits and losses will be divided based on the percentage of capital participation (Ascarya, 2011).

Research conduct by (Purnamasari, 2009) found that *Mudharabah* financing has a significant positive effect to profitability of Islamic banks. Meanwhile, *Musyarakah* financing has no effect. The other research conduct by (Maulidiyah dan Susyanti, 2017); (Rizqi, Askandar dan Afifudin, 2017); (Pratama, Martika dan Rahmawati, 2017) found that

Mudharabah financing has a positive and significant effect to profitability, while *Musyarakah* financing has a negative and significant effect.

Mudharabah and *Musyarakah* are considered as a high-risk financing because they have several constraints and risks that must be considered by Islamic banks before disbursing the funds. The measurement of *Mudharabah* and *Musyarakah* can be known by looking at the amount of *Mudharabah* and *Musyarakah* transactions from the bank's annual financial report (Muhammad, 2005).

From the theory, *Mudharabah* and *Musyarakah* are supposed to have positive effect on profitability (ROA), but some of the research that shown above discovered the opposite. This gap research is worth to analysis further, and the author is determined to find either *Mudharabah* and *Musyarakah* has the significant effect on profitability, and if they did, the author also want to analysis the effect is positive or negative.

REVIEW OF LITERATURE

Agency Theory

According to Jensen and Meckling, agency theory is a theory of the relationship between the principal and the agent, where the principal has delegated authority to the agent in managing the business and making related decisions (Wahyuni, 2016). Islamic banks as principals entrust customers as agents to manage funds and will return the funds that have been given by Islamic banks. The profits obtained from the financing provided will become income and will increase the profits of Islamic banks (Nizar dan Anwar, 2015). Financial contractual relationships, such as in *Mudharabah* and *Musyarakah*, are usually known as agency relationships. Therefore, a contract like this requires transparency for both parties.

Profitability

According to Martono and Harjito, the profitability ratio is a ratio that shows the effectiveness of creating profits. In general, it can be said that the larger the ratio, the more profitable the company is, and the smaller the ratio indicates the less profitable the company (Anwar, 2019). The point is, using of this ratio shows the efficiency of Islamic banking companies (Kasmir, 2016). Profitability in this study is measured using Return on Assets (ROA). ROA shows the results of all assets under control and usually the ratio is

measured as a percentage (Maknuun, 2021). The greater the ROA of a bank, the greater the level of profit achieved by the bank, and the better the position of the bank in terms of asset use (Romdhoni dan Yozika, 2018).

Financing

The term financing is basically born from the word of I believe, I trust, which means that the bank puts trust in the customer to carry out the mandate given by the bank in the form of loan funds. The funds must be used properly, fairly and must be with clear and mutually beneficial terms and conditions for both parties. Al Quran (An. Nahl: 90)

اللَّهُ الْعَدْلُ الْإِحْسَانُ إِيَّ الْقُرْبَى الْفَحْشَاءِ الْمُنْكَرِ الْبَغْيِ لَعَلَّكُمْ

Meaning:

“Verily Allah commands (you) to do justice and do good, to give to relatives, and Allah forbids from evil deeds, evil and enmity. He teaches you so that you can learn.”

Mudharabah

Mudharabah is a financing contract between Islamic banks as a *shahibul maal* and customers as a *mudharib* to carry out business activities, where the Islamic banks provide 100% of capital and customers run their business. The results of the operations will be shared between Islamic banks and customers with a profit-sharing ratio that has been agreed upon the contract (Ismail, 2011). The sharia legal basis for *Mudharabah* financing is Al Quran (Al-Baqarah: 198)

لَيْسَ لَكُمْ أَحُّ تَبْتَغُوا لَا أَعَرَفَاتٍ اذْكُرُوا اللَّهَ الْمَشْعَرِ الْحَرَامِ اذْكُرُوهُ اَكُم مِّنْ لِّهِ لَمِنَ الضَّالِّينَ

Meaning:

“There is no sin for you to seek the bounty (sustenance of commerce) from your Lord. So, when you have departed from 'Arafat, remember Allah in *Masy'aril haram*. And remember (recite) Allah as He has shown you; and verily you before that were among those who went astray.”

Research conducted by (Fadhila, 2015); (Chalifah dan Sodik, 2015); (Jaurino dan Wulandari, 2017); (Pratama, Martika dan Rahmawati, 2017); (Rizqi, Askandar dan Afifudin, 2017) found that *Mudharabah* has a significant positive effect to profitability, meaning that the higher *Mudharabah* financing, the higher profitability. In addition, based on (Almanaseer dan Alslehat, 2016) found that financing in the form of *Mudharabah* has a

positive effect on profitability, this happens when Islamic banks are able to manage and supervise their investments in order to avoid losses.

Musyarakah

Musyarakah is a business cooperation contract between two or more parties in running a business, where each party includes its capital according to the agreement, and the profit sharing for the joint venture is given according to the contribution of funds or according to a mutual agreement (Ismail, 2011). The sharia legal basis for *Musyarakah* financing is Al Quran (Shaad: 24)

إِنْ لَقَدْ لِمَكَ إِلٍ لِي إِجِهِ الْخُلَاطَاءُ لِيُنْغِي لِي لَا الَّذِينَ الْوَا الصَّالِحَاتِ أَوْقَلْ أ

Meaning:

David said: "Indeed he has wronged you by asking your goat to be added to his goat. And indeed most of the people who are in union some of them do wrong to others, except those who believe and do good deeds. pious; and these are very few of them." And David knew that We tested him; So, he asked forgiveness from his Lord and bowed down and repented.

Research conducted by (Anjani dan Hasmarani, 2016); (Pratama, Martika dan Rahmawati, 2017) explain that *Musyarakah financing* has a positive and significant effect to profitability, which means that the higher *Musyarakah* financing, the higher profitability. Meanwhile, research conducted by (Ismawati, Taufik dan Fitri, 2020) stated that *musharaka* had a negative and significant effect on profitability.

Hypotheses

H1: *Mudharabah* financing affects profitability

H2: *Musyarakah* financing affects profitability

RESEARCH METHOD

Population and Sample

The population and sample used in this study are Islamic banks that registered in Bank Indonesia from 2016 to 2020. To determine the sample in this study, a purposive sampling technique was used with the following criteria: the Islamic bank has to published financial reports and has *Mudharabah* and *Musyarakah* financing products for the period 2016-2020. And it is found that 8 Islamic banks meet that criteria: PT Bank Muamalat Indonesia, PT Bank Rakyat Indonesia Syariah, PT Bank Nasional Indonesia Syariah, PT

Bank Central Asia Syariah, PT Bank Victoria Syariah, PT Bank Panin Dubai Syariah, PT Bank Syariah Bukopin and PT Bank Jabar Banten Syariah.

Data Analysis

The research is using a MRA (Multivariate Regression Analysis) statistical test. The analysis is used to forecast the value of dependent variables (Y), with more than one independent variable (Bawono, 2006).

RESULTS AND DISCUSSION

F Test (Simultaneous)

Table 5
F-test Results

ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	4,833	2	2,417	17,108	,00005 ^b
Residual	5,227	37	,141		
Total	10,060	39			

a. Dependent Variable: Profitability (ROA)

b. Predictors: (Constant), *Musyarakah*, *Mudharabah*

Based on table 5, it can be seen that the F_{count} value is 17.108 with a significance level of 0.000005. Because the F_{count} is greater than F_{table} (3.252), and the significance value is less than 0.05, the regression model can be used to predict profitability or it can be said that *Mudharabah* and *Musyarakah* financing simultaneously affect profitability (ROA).

T-test (Partial)

Table 6
T-test Results

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	,312632	,095		3,308	,002098
<i>Mudharabah</i>	,000871	,000	,764	5,812	,000001
<i>Musyarakah</i>	-3.832887 E005	,000	-,410	-3,120	,003498

a. Dependent Variable: Profitability (ROA)

T-test on the *Mudharabah* Financing Variable

The results in Table 6, show that $t_{\text{count}} X1 = 5.812$, while the $t_{\text{table}} = 2.026$, so that $t_{\text{count}} > t_{\text{table}}$ with a positive direction. It means that partially *Mudharabah* financing has a positive effect to profitability (ROA). And these results are statistically significant, demonstrated by value of sig $X1 = 0.000001$ smaller than $\alpha (<0.05)$ then $H1$ is accepted. Thus, it can be concluded that the *Mudharabah* financing partially has a significant effect to profitability (ROA).

From statistic test above, $H1$ is accepted so that *Mudharabah* financing has a significant positive effect to profitability of Islamic Banks in Indonesia, which means the greater *Mudharabah* financing that has been distributed to the public, the greater the profitability of Islamic banks. The results are similar to research conducted by (Aditya dan Nugroho, 2016) which states that *Mudharabah* financing has a positive effect of profitability of Islamic banks. The results of this study also support the results of research conducted by (Fatmawati, Puspitasari dan Singgih, 2016) and (Permata dan Yaningwati, 2014) which states that *Mudharabah* financing has a significant effect to profitability

T-test on *Musyarakah* Financing Variable

The results in Table 6, show that $t_{\text{count}} 2 = -3.120$, while the $t_{\text{table}} = 2.026$, so that $t_{\text{count}} > t_{\text{table}}$ with a negative direction. It means that *Musyarakah* financing partially has a negative effect to profitability (ROA). And these results are statistically significant, demonstrated the value of sig $X2 = 0.003498$ smaller than $\alpha (<0.05)$. Then, $H2$ is accepted, so it can be concluded that the *Mudharabah* financing partially has a significant effect to profitability (ROA).

From statistic test above, $H2$ is accepted so that *Musyarakah* financing has a significant negative effect to profitability of Islamic commercial banks. which means the greater *Musyarakah financing* that has been distributed to the public, the profitability of Islamic banks will decrease. This result is different than the research conducted by (Yusuf, Hamdani dan Kholik, 2019) where found that *Musyarakah* financing has no significant effect on profitability, as well as research conducted by (Reinissa, 2015) who found that *Musyarakah* financing had a positive effect. to profitability. However, the results of this study support the research conducted by (Fikri dan Wirman, 2021) who found that *Musyarakah* financing has a negative and significant effect to profitability.

The Coefficient of Determination

Table 7
Coefficient of Determination Test Results Model Summary
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,693 ^a	,480	,452	,37584

Predictors: (Constant), *Mudharabah*, *Musyarakah*

Dependent Variable: Profitability (ROA)

Based on table 7, it shows that the amount of Adjusted R Square is 0.452 or 45.2%. Thus, it can be concluded that the effect of *Mudharabah* and *Musyarakah* Financing to Profitability is 45.2%. While the remaining = 54.8% (100% - 45.2%) is influenced by other variables not included in this study, such as CAR, BOPO, NPF, DPK, and others.

CONCLUSION

Mudharabah has a significant positive effect on profitability of Islamic bank, which means that the greater the *Mudharabah* financing that has been distributed to the public, the more profitability of Islamic banks will increase. *Musyarakah* has a significant negative effect on profitability of Islamic banks, which means that the greater the *Musyarakah* financing that has been distributed to the public, the more profitability of Islamic banks will decrease.

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