

## The Effects Of Mudharabah And Musyarakah Financing On The Profitability Of Sharia Commercial Banks In Indonesia

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**Abstract:** *This research was conducted to determine the effect of mudharabah and musharakah profit sharing financing on the profitability of Islamic commercial banks in Indonesia. This study uses the annual Islamic Commercial Bank financial reports obtained from the Financial Services Authority (Otoritas Jasa Keuangan) for the period 2015-2019. The test results using SPSS 25 show that both mudharabah and musyarakah financing have a significant effect on the profitability of Islamic banks. But unlike musyarakah financing, mudharabah financing actually has a negative effect on profitability, meaning that the higher an Islamic bank distributes mudharabah financing, the rate of profit will decrease.*

**Keywords:** *Profit Share, Mudharabah, Musyarakah*

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### Introduction:

In 2019 the development of Sharia banks in Indonesia is increasing rapidly, in quantity there are 14 Sharia commercial banks, 20 Sharia business units and 165 Sharia people's financing banks with total assets of Rp 483,099 trillion in billion IDR, third party funds raised amounting to Rp 348.38 trillion and disbursed IDR 303.54 trillion.

Islamic banks in accordance with its principles for the benefit of the people, it must be able to channel third party funds collected to generate profits in accordance with Sharia. The growing number of Islamic banks in Indonesia has opened up opportunities for people to conduct business activities with mudharabah and musyarakah profit sharing financing.

Mudharabah financing is a contract of business cooperation between the bank as the owner of the funds (shahibul maal) and the customer as the fund manager (mudharib) to carry out business activities with a profit sharing (profit or loss) ratio according to the initial agreement (Karim. A.A, 2016: 338).

Musyarakah is a cooperation agreement that occurs between the owners of capital to combine capital and do business together in a partnership, with the ratio of profit sharing in accordance with the agreement, while the loss is borne proportionately in accordance with the capital contribution.

In accordance with the concept of profitability that one that affects the profitability of a bank is the financing that is channeled by a bank. If the level of financing is high, then profitability will increase. Profitability can be interpreted as one indicator to measure the performance of a company. Return on Asset (ROA), that is the ratio of annualized earnings before taxes to average assets

This study uses the annual Islamic Commercial Bank financial reports obtained from the Financial Services Authority for the period of 2015 - 2019, with the aim to determine the efficiency of capital management at Islamic Commercial Banks and conclude the effect on the rate of return on capital. Mudharabah financing has a negative influence on ROA levels because the calculation of profits is calculated using revenue sharing, and musyarakah financing is calculated based on profit and loss sharing giving a positive effect on ROA levels. The purpose of this study was to determine the effect of mudharabah and musharaka profit sharing financing on ROA levels at Islamic Commercial Banks.

## **Literature Review**

### **Sharia Bank**

Sharia Bank is a bank that conducts business activities based on Islamic legal principles regulated in the fatwa of the Indonesian Ulema Council such as the principles of justice and balance, benefit, universalism, and does not contain gharar, maysir, usury, wrongdoing, and unlawful objects (Law No.21 years 2008 about Islamic Banking). In practice, Islamic banks in addition to running the buying and selling system, leasing also runs profit sharing.

Sharia Bank financing services products are tailored to the form and purpose of using the funds, including: mudaraba, musharaka, murabahah, istishna ', ijarah, ijarah muntahiya bittamlik, and al-qard. In accordance with the title of the journal, this paper discusses mudharabah and musyarakah financing.

### **Financing**

Based on Law No.10 of 1998 Financing based on sharia principles is defined as the provision of money or claims equivalent to that based on an agreement or agreement between the bank and another party that requires the financed party to return the money or claim after a certain period of time with compensation or profit sharing .

### **Mudharabah Financing**

Mudharabah is a joint venture agreement between the assets of one party and the work of another party (M. Anwar Ibrahim, 2002: 1). Based on accounting principles, mudharabah financing is a contract of business cooperation between the bank as the owner of the funds (shahibul mal) and the customer as the manager (mudharib) to carry out business activities with a profit sharing ratio (profit or loss) according to the agreement in advance. (Adiwarman A. Karim, 2016: 338).

There are four factors that must be present in mudharabah, first is the actor, namely the capital owner (shahibul mal) and the business operator (mudharib). The second is the object, namely capital and work, the capital owner surrenders his capital in the form of money or goods that can be valued by his money and the business implementers carry out their work in the form of expertise, skills, management, etc. Third is the agreement of both parties who are willing to agree to bind themselves in the mudharabah agreement, in accordance with their respective roles, namely as investors and as workers. The fourth is the profit ratio, which reflects the benefits that are entitled to be received by both parties, the form of the ratio is expressed as a mutually agreed percentage. However, if there is a loss, it will be borne according to their respective portion, the investor will lose his money, and the worker will lose work, effort and time by not generating income in the business.

In Islamic banks, the bank acts as an intermediary institution that brings shahibul mall with mudharib. Funds from mudharib are in the form of savings or mudharabah time deposits with varying durations, then the funds are channeled into earning assets, the profits obtained will be shared for Islamic banks and capital owners of funds.

In a Sharia Bank, based on its form, mudharabah is divided into two, namely Mudharabah Mutlaqah (Unrestricted Investment Account-URIA), which is if shahibul mall does not set restrictions or certain conditions on mudharib. Then there is the Mudharabah Muqayyadah (Restricted Investment Account-RIA) which allows Shahibul Mall to set certain limits or conditions to mudarib to save its capital from the risk of loss.

In more detail, mudharabah muqayyadah is known in two forms, namely on the balance sheet and off-balance sheet. For mudharabah muqayyadah on-balance-sheet funding occurs from investor customers to a group of business operators in a limited number of sectors (agriculture, manufacturing, services, mining, property, agriculture, etc.) may also require several types of contracts used (installment sales only, installment leasing only, or business cooperation, this scheme is called on balance sheet because it is recorded in the bank balance sheet (Adiwarman A. Karim, 2016: 213).

Then mudharabah muqayyadah off-balance-sheet funding is sourced from one investor customer to one financing customer, for the results only involving investor customers and business operators following the agreement, Islamic banks act as an arranger who only receives arranger fees. This scheme is called the off-balance-sheet because it is not recorded in the bank balance sheet, only in the administrative account.

### **Musarakah Financing**

Musharaka financing is financing carried out between the bank and the customer with a business cooperation agreement to finance a business project, where the bank together with each customer places their funds according to the agreed proportion, with the ratio of profit sharing according to the agreement while the loss is borne proportionately according to capital contribution.

### **Profitability**

Profitability is the measure of percentage used to assess the extent to which a company can generate profits at an acceptable level. Profitability is the company's ability to generate profits. (Munawir, 2007: 33).

The types of profitability ratios that can be used are 1) Profit Margin, the calculation can be based on gross profit margin or net profit margin. 2) Return on Assets (ROA) is a ratio that shows the results (return) of the total assets used by the company. 3) Return on Equity (ROE) is a ratio to measure the net income after tax with own capital. (Martono & Harjito, 2007: 76).

### **The Effects of Financing for Mudharabah and Musarakah Financing Profit on Sharia Bank Profitability**

Profit sharing system is a Sharia banking practice which in its distribution is very fair because of its profit-loss sharing, in this case investors and business operators have responsibilities according to their portion. The higher the profit sharing financing should be able to increase the profitability of the company. Mudharabah and musarakah financing funds channeled by Islamic banks to carry out a particular business managed by mudarib will ultimately generate profits which will be divided according to the initial agreement. The profits from the bank and return on capital will add to the profit of Islamic banks. Several studies relating to the influence of mudharabah and musharakah profit sharing financing on profitability in Islamic commercial banks include : (Rr. Nadia Arini Haq, 2015), (Romdhoni, Yozika, & Rakyat, 2018), (Hidayatullah, 2018), (Putri & Ma'wa, 2018), (Almunawwaroh, 2017), (Wahyuningsih, 2017), (Putra, 2018), (Ditha Nada Pratama, 2017), (Pristianda, 2018), (Yentisna, 2019), (Nur Anim Jauhariyah, 2019), (Nugroho, 2014), (Cut Faradilla, Muhammad Arfan, 2017), (Deasy Rahmi Puteri, Inten Meutia, 2014), (Slamet Raharjo, 2019), and (Z.A, 2014).

## Method

This research is an associative study, this research data uses secondary data, namely mudharabah financing, musyarakah financing and profitability (ROA) of all Sharia commercial banks in Indonesia. The data is in the form of a time series from January 2015 to July 2019 published by the official website of the financial services authority [www.ojk.go.id](http://www.ojk.go.id). Data analysis in this study used multiple linear regression modeling with the help of SPSS 25 software.

## Result

### Classic assumption test

The classic assumption test is a prerequisite test for the use of a regression model, the first classic assumption test is the data normality test, based on the results of data processing the results are obtained:

**Table 1: Normality test**

			Unstandardized Residual
N			55
Monte Carlo Sig. (2-tailed)	Sig.		,655 <sup>e</sup>
	99% Confidence Interval	Lower Bound	,489
		Upper Bound	,820

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. This is a lower bound of the true significance.
- e. Based on 55 sampled tables with starting seed 2000000.

Source: Directed Data, 2019

The normality test results in Table 1 show the residual value spreads normally because the sig value of 0.655 is greater than 0.05 so it can be concluded that the normality assumption is fulfilled.

**Table 2: Multi-Linearity Test**

Model	Collinearity Statistics		Information
	Tolerance	VIF	
1 (Constant)			
MUDHARABAH	,965	1,036	There are no symptoms of multicollinearity
MUSYARAKAH	,965	1,036	There are no symptoms of multicollinearity

a. Dependent Variable: ROA

Source: Directed Data, 2019

The multicollinearity test results in Table 2 show that all independent variables have a tolerance value greater than 0.1 and a variance inflation factor (VIF) value smaller than 10, so it can be concluded that there are no symptoms of multicollinearity.

**Table 3: Heteroscedasticity Test**

Model	Sig.	Information
1 (Constant)	,434	
MUDHARABAH	,133	There are no symptoms of heteroscedasticity
MUSYARAKAH	,261	There are no symptoms of heteroscedasticity

a. Dependent Variable: ABS\_RES

Source: Directed Data, 2019

The results of the heteroscedasticity test in table 3 using the glejser test show that all independent variables have sig values which is greater than 0.05, so it can be concluded that there are no symptoms of heteroscedasticity in the model.

**Table 4: Autocorrelation Test**

Durbin Watson Value	DW table	Information
1,992	1,6406-DW-2,3594	Autocorrelation does not occur

Source: Directed Data, 2019

The autocorrelation test results in table 4 show Watson's durbin value of 1.992 which is between dU- (4-dU) intervals or between 1.6406 to 2.3594, it can be concluded if there are no autocorrelation symptoms.

### Multiple Linear Regression Analysis

The linear regression equation model used in this study is as follows:

$$ROA = \alpha + \beta_1 MUDHARABAH + \beta_2 MUSYARAKAH + e$$

The results of data processing can be seen in the following table.

**Table 5 : Linear Regression**

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
1 (Constant)	1,295	,466	
MUDHARABAH	-8,938E-5	,000	-,211
MUSYARAKAH	1,129E-5	,000	,866

a. Dependent Variable: ROA

Source: Directed Data, 2019

Based on table 5, the regression equation of this study is obtained as follows:

$$ROA = 1,295 - 0,00008938 MUDHARABAH + 0,00001129 MUSYARAKAH$$

## Hypothesis Test

**Table 6: Hypothesis Test**

Variable	t count	Sig	t table	Information
MUDHARABAH	-2,856	,006	-2,005	Negative and significant effect
MUSYARAKAH	11,737	,000	2,005	Positive and significant effect

Source: Directed Data, 2019

Based on testing the hypotheses in table 6, the conclusions can be drawn: Effect of

### Mudharabah Financing on Profitability (ROA)

The test results for Mudharabah financing show the value of  $t$  of  $-2,856 < t_{table} - 2,005$ , and sig value of  $0.006 < 0.05$  so that it can be concluded if Mudharabah financing has a negative and significant effect on profitability (ROA) at Islamic Commercial Banks in Indonesia. These results are consistent with the results of the study (Z.A, 2014), (Deasy Rahmi Puteri, Inten Meutia, 2014), (Pristianda, 2018), and (Rr. Nadia Arini Haq, 2015) but are not in accordance with the results of the study (Slamet Raharjo, 2019), (Cut Faradilla, Muhammad Arfan, 2017), (Nugroho, 2014), (Nur Anim Jauhariyah, 2019), (Yentisna, 2019), (Ditha Nada Pratama, 2017), (Putra, 2018), (Wahyuningsih, 2017), (Putri & Ma'wa, 2018), (Hidayatullah, 2018), (Romdhoni et al., 2018).

### Effect of Musyarakah Financing on Profitability (ROA)

T test results for Musyarakah financing show the  $t$  value of  $11.737 > t_{table} 2.005$ , and sig value of  $0.000 < 0.05$ , so it can be concluded if Musyarakah financing has a positive and significant effect on profitability (ROA) at Islamic Commercial Banks in Indonesia. The results of this study are in accordance with the results of the study (Z.A, 2014), (Yentisna, 2019), (Ditha Nada Pratama, 2017), but not in accordance with the results of the study (Deasy Rahmi Puteri, Inten Meutia, 2014), (Cut Faradilla, Muhammad Arfan, 2017), (Nugroho, 2014), (Nur Anim Jauhariyah, 2019), (Pristianda, 2018), (Putra, 2018), (Almunawwaroh, 2017), (Putri & Ma'wa, 2018), (Hidayatullah, 2018), (Romdhoni et al., 2018).

### Koefisien Determinasi

The coefficient of determination indicates the ability of the model in explaining the dependent variable, the results of data processing gives an adjusted R square of 0.716 or 71.6%. This figure shows if the ability of the model to explain the ROA variable is 71.6%, the remaining 28.4% is explained by other variables outside the research model.

### Conclusion

Based on the results of hypothesis testing it was revealed that both mudharabah and musyarakah financing alike had a significant effect on the profitability of Islamic banks. But unlike musyarakah financing, mudharabah financing harms profitability, meaning that the higher an Islamic bank distributes mudharabah financing, the rate of profit will decrease. This allegedly happened because Islamic banks did not carry out mudharabah agreements following the rules. Mudharabah financing should be profit-loss sharing financing, while Islamic banks are reluctant to charge losses to sahibul maal so that the banks bear the losses themselves.

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