

**THE EFFECT OF MUDHARABAH AND MUSYARAKAH ON THE
PROFITABILITY OF ISLAMIC BANKS**

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Abstract

Intention of this research is to check and test influence of defrayal of mudharabah and musyarakah to profitability at sharia banks who registered in Indonesian Bank 2013-2015 period. This research used quantitative descriptive method by using secondary data in the form of defrayal data, profit before tax and total asset of company from year of 2013-2015. Amount of sample cover publicized report continuously from year of 2013-2015 and financial statement owning equipment of data pursuant to accurate variable which taken by purposive sampling.

Analyzer test used SEM-PLS. The result show, from the data analysis it can be concluded that the Mudharabah significant effect on bank profitability while Musyarakah financing does not affect the bank's profitability. This is indicated by the value of t-statistic whereby when the t-statistic > 1.96. To reject / accept the hypothesis using all-Ha received JILA probability of p < 0.05. In this study resulted that the value of t-statistic for mudharabah was 2.16 > 1.96, then the hypothesis is accepted. As for the Musyarakah financing is -1.90 < 1.96 then the hypothesis is rejected.

Keywords: mudharabah effect, bank profitability

JEL Classifications: G21, M41

BACKGROUND RESEARCH

National Islamic banking industry continues to grow at a growth rate varies according to economic conditions and the various factors that influence its development since more than



two decades, precisely 1992. Banking Authority either when carried by Bank Indonesia and after the duty and authority of the Financial Services Authority (FSA), has consistently made efforts to encourage the development of national Islamic banking industry in order to grow up healthy, sustainable and increasingly have a positive contribution in supporting the economic development of quality.

The potential benefits of the development of Islamic banking industry for the benefit of the national economy have been widely demonstrated and perceived from the history of Islamic banking Indonesia and other countries. The development of the Islamic banking industry more quickly and to be at least a positive contribution to support financial inclusion, especially for people who want financial services that meet Islamic principles at various levels of effort. Starting from corporate business to the grassroots communities not reached by the formal financial services.

Formal financial services carried out by Islamic banks which are financing. Financing is to provide cash or by agreement between the bank and other parties are obliged to return the money or bills after a certain period of time in exchange or for the results (Rival in Purwanto, 2011)

The data ratios Return on Assets, Return on Equity and Capital Adequacy Ratio Islamic Banks finance at Bank Sharia statistics are as follows:

Table 1. Statistics Ratio of Sharia Bank

Year	Return On Assets	Return On Equity	Capital Adequacy Ratio
2014	0,41%	4,20%	15,74%
2015	0,49%	4,17%	15,02%
2016	0,46%	4,04%	15,27%

Source: Statistic of Sharia Bank in October 2016, OJK

From the above data it can be seen the bank's products provide a profit for the bank, as well as both profit and Musyarakah financing investment. The profit can be seen in the level of bank profitability as measured by the ratio of bank finance. Financial ratios used are



return on equity is the ratio of return on bank capital. From the above data is obtained is known annually for impairment ROE though not significant. The reason for using this ratio is to determine the ability of banks to manage their capital to finance the investments made by the bank Mudharabah and Musyarakah.

Based on research conducted by Kristanto (2016) on the effect of financing, Musyarakah and murabahah effect on profitability and by Jewel et al (2014) found mudharabah a negative impact and loss had a positive influence partially on the level of profitability, because there are still differences in the results obtained the researchers are interested in continuing this study with the title "the Effect of Mudharabah and Musyarakah on the profitability of Islamic Banks registered in Bank Indonesia (2013-2015 period). The Purpose of this research is to determine the effect of financing and loss to the profitability of Islamic banks registered in Bank Indonesia (Period 2013-2015).

LITERATURE REVIEW AND RESEARCH HYPOTHESIS

Relations Mudharabah and Musyarakah against Islamic Bank Profitability

Every bank in the process of doing fund raising efforts of customers who will then be managed to be channeled back to the customers who need working capital. In the management of these funds of Islamic banks in the form of financing that is profit and Musyarakah. The second financing will be profitable for the banks in the form of profit-sharing, between the banks as passive partners and clients as active partners. For the results obtained by the bank will increase its capital owned by the bank and then distributed back for further financing. The rate of return on capital can be measured by the level of bank profitability by comparing profits and capital owned bank

From the framework described above, we propose the following hypothesis:

Ha: Mudharabah financing and Musyarakah have a positive impact on the profitability of banks

Ho: Mudharabah financing and loss has a negative effect on the profitability of banks



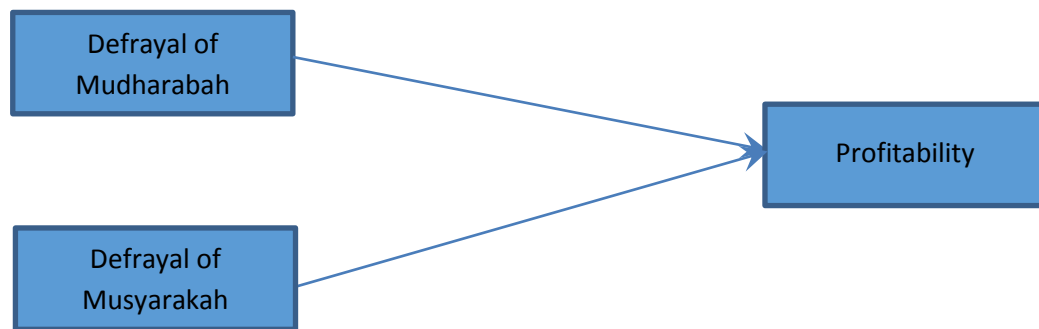


Figure 1. Research Design

Note:

X1 : Defrayal Mudharabah

X2 : Defrayal Musyarakah

Y : Profitability

Understanding Islamic Banks

Islamic banks are Islamic banks whose activities provide services in payment traffic. Associated with the operational principles of Islamic banks under section 2 of Act 21 of 2008 states that Islamic banking in conducting its business activities based on Islamic principles, economic democracy, and the precautionary principle. Furthermore, associated with the goal of Islamic banks in Article 3 which states that Islamic banking aims to support the implementation of national development in order to improve justice, solidarity and equality welfare.

The Function of Islamic Banks

In some of the literature of Islamic banking, Islamic banks with a variety of transaction scheme held in a non-usury scheme has at least four functions, namely:

1. The function of investment managers

This function can be seen in terms of fund-raising by Islamic banks, particularly Mudharabah fund. With this function Islamic bank acts as investment manager of the fund owner (shahibul maal) in this regard the fund should be channeled in a productive distribution, so that funds raised can generate profits to be shared out between the Islamic bank and the owner of the funds.

2. Function investors

In the distribution of funds, Islamic banks function as an investor (owner of the funds). As an investor, investment of funds carried out by Islamic banks must be made on productive sectors with minimal risk and do not violate the provisions of sharia. In addition, in the investing funds of Islamic banks should use investment tool in accordance with sharia. Investment in line with sharia include sale and purchase agreement (murabaha, salam and istisnaa), investment contract (Mudharabah and loss), the contract lease (Ijara and Ijara muntahiya bittamlik), and other contract allowed by sharia.

3. The social function The social function of Islamic banks is something that is inherent in Islamic banks. There are at least two instruments used by the Islamic banks in carrying out their social function, namely the instrument zakat, infaq, sadaqah and waqf (ZISWAF) and instruments qardhul hasan, instrument ZISWAF serves to collect ZISWAF of society, bank employees, as well as the bank itself as an institution belong to the investors, the funds raised through the next ZISWAF instruments distributed to the beneficiary in the form of aid or grants to meet their needs. Hasan qardhul instrument of acceptance to work to raise funds that do not meet legal criteria as well as donation and charity fund unspecified specific designation by giving. Furthermore qardhul hasan funds channeled to:

- a. Procurement or improvement of quality social facilities and community facilities (especially for funds derived from receipts that do not meet kosher criteria).
- b. Donations or grants to those entitled. Loans are prioritized on the economically disadvantaged, but have the potential and ability to return the loan.

4. The function of financial services

The function of the financial services which is run by Islamic banks is no different from conventional banks, such as providing clearing services, transfer, collections, payroll, letter of guarantee, letter of credit, and so forth. But in terms of the



mechanism of benefit of this transaction, Islamic banks still have to use the scheme in accordance with Islamic principles.

Principles of Islamic Banking Fund Distribution

The principle of investing in the financing by Islamic banks consist of investments with investment schemes with investment mudharabah and with musyarakah.

1. Investments with mudharabah

Basically the distribution of funds to the Mudharabah equal to the fund. In raising transactions, the bank is mudharib (fund manager), while customers savers / depositors are shahibul maal (owner of the funds). However, in a transaction with a Mudharabah fund distribution, bank acts as shahibul maal, while customers who receive financing acts as the fund manager. In this scheme, all capital comes from banks as shahibul maal.

Distribution of funds to the Mudharabah, composed of two types namely mutlaqah and Mudharabah Mudharabah muqayyadah. In mutlaqah mudharabah bank acts as shahibul maal authorize mudharib to run a business without bounds, types of products, customers and suppliers. Banks earn income from profit sharing ratio that is rightfully bank. As for the Mudharabah muqayyadah banks only act as an agent that connects customers muqayyadah Mudharabah investment that has set certain restrictions in investment activity by customers who receive investment Mudharabah muqayyadah. Owner of the bank's efforts to facilitate the Mudharabah funds and fund managers, banks earn a certain amount of fee that has been agreed.

2. Investment with Musyarakah Schemes

Investment schemes are investment cooperation Musyarakah capital owners who mix their capital in certain business with profit sharing based on a ratio agreed in advance, whereas in case of loss is borne by the owners of capital based on the portion of capital respectively. In this scheme the relationship between the bank and its customers financing is a partnership among the owners of capital. In this case the bank and partners are equally providing capital to finance a particular



effort both existing and new runs. Furthermore, partners can restore the capital along with the results that have been agreed the ratio gradually or all at once to the bank.

3. Profitability

Profitability is the company's ability to generate profits. The profit derived from its capital and assets (Syamsudin, 2011).

METHODOLOGY

Research Design

This research is quantitative. Can be interpreted as a method of research that is based on the philosophy of positivism, is used to examine the population or a particular sample, sampling technique is generally done at random, data collection using research instruments, quantitative data analysis / statistics with the aim to test the hypothesis set (Sugiyono 2007).

Types and Sources of Data Research

Data used in this research is secondary data, the annual report sharia banks in 2013-2015. These data will be obtained from the official website www.bi.go.id and Islamic banks.

Quantitative data are required in this study are:

- a. List of Islamic banks registered in Bank Indonesia from 2013 to 2015.
- b. Islamic commercial bank financial statements contained therein accounts of financing and Musyarakah financing.
- c. Data financial ratios, particularly the ratio of profitability.

Population and Sample

The population in this study is an Islamic commercial bank registered in the Islamic Banks in 2013 to 2015. The sample in this study using the sampling nonprobability sampling technique that does not give opportunity / equal opportunity for each element or member of the population to be selected into the sample , In this study population is full of samples taken for testing then use the sampling saturated sample when all members of the population used



as a sample. This is often done when the population size is relatively small, less than 30. Or research to make generalizations with a very small error. (Sugiyono, 2010)

Data Collection Technique

The data collection technique is a way or path that is used by researchers to collect the data in the study. In this research is done by using the following techniques:

a. Documentation

Which is seeking information from the documents associated with the object under study. In this study the documents used are the financial statements on every Islamic banks registered at Bank Indonesia.

b. Literature study

Studying the literature dealing with the problems examined to obtain secondary data.

Variables Research and Operational Definitions

In this analysis using a dependent variable (dependent) variable and is not bound (independent). The dependent variable is a variable that is influenced by other variables, while the independent variables are variables that are not influenced by other variables. The dependent variable here is the profitability, whereas the independent variable is Mudharabah and Musyarakah financing.

The following operational definition of each variable research and measurement:

Draft Test Hypothesis

To test the truth of the hypothesis, then tested the hypothesis tested and proven influence on the profitability of bank financing. The hypothesis being tested is the null hypothesis (H_0) while (H_a) is an alternative hypothesis in this study.

The analysis in this study will use the Partial Least Square (PLS). Modelini treat profitability and financing as latent variables with each of the indicators in each variable. PLS is a method for implementing the Structural Equation Modeling (SEM) for present purposes is considered preferable since this model was developed as an alternative to situations where



the basic theory of weak and on designing models or indicators available do not meet reflective measurement models. PLS is an excellent analytical method because it can be applied at all scales of the data, does not require a lot of assumptions and should not be large sample size (Ghazali, 2006).

Based on the model of hypothesis testing that has been mentioned above, in accordance with the methods of analysis and conceptual model, it can be made a model of path analysis all latent variables in PLS consists of (Ghazali, 2015):

1. Outer model, which specifies relationship between the latent variables (structural model).
2. Inner model, which specifies relationship between the latent variables with the indicator (Measurement Model).

Analysis on PLS done in three stages:

1. Analysis of the model outer performed to ensure that the measurement used to be a decent measurement (valid and reliable). Analysis outer model can be seen from several indicators:
 - a. convergent validity
 - b. discriminant validity
 - c. unidimensional
2. While analysis of the inner workings of the model / structural analysis models to ensure that the structural model is built robust and accurate. Inner evaluation model can be seen from several indicators which include:
 - a. Determinant coefficient (R²)
 - b. Predictive Relevance (q²)
 - c. Goodness of Fit Index (Gof)
3. To test the hypothesis made by looking at the probability value and t-statistics. For a probability value, p-value with an alpha of 5% is less than 0.05. T-tailed value for alpha of 5% was 1.96. So the hypothesis acceptance criteria is when the t-statistic > t-table.



ANALYSIS AND DISCUSSION

Data analysis

Outer Analysis Model

- a. Convergent validity is the factor loading values with the indicator latent variables > 0.7. In this study all CV values above 0.7 except R3

	X1	X2	X3
Md_1	0,92207 4		
Md_2	0,95737 1		
Md_3	0,77810 9		
Mr_1		0,99328 1	
Mr_2		0,99083 0	
Mr_3		0,98979 7	
R_1			0,93422 5
R_2			0,93533 7
R_3			0,46475 5
X1	0,91913 3		
X2		0,99939 7	
Y			0,99157 2



a. Value of discriminant validity

	X1	X2	X3
Md_1	0,92207 4	0,79093 5	0,32389 2
Md_2	0,95737 1	0,93655 6	0,42696 4
Md_3	0,77810 9	0,84471 1	- 0,04119 4
Mr_1	0,90879 1	0,99328 1	0,09191 9
Mr_2	0,89430 8	0,99083 0	0,05645 5
Mr_3	0,95035 9	0,98979 7	0,15125 4
R_1	0,66471 1	0,42861 0	0,93422 5
R_2	0,40965 7	0,17640 2	0,93533 7
R_3	- 0,43866 5	- 0,63330 3	0,46475 5
X1	0,91913 3	0,92677 9	0,12810 8
X2	0,92540 5	0,99939 7	0,10070 9
Y	0,28747 5	0,00729 8	0,99157 2

b. Composite Reliability > 0,7

	Composite Reliability
X 1	0,942326
X 2	0,996644
X 3	0,913068

c. AVE (Average Variance Extracted) > 0,5

	AVE
X 1	0,80426
X 2	0,98671
X 3	0,73671

d. Cronbach alpha > 0,6

	Cronbachs Alpha
X 1	0,943034
X 2	0,995927
X 3	0,861518

For formative indicators do different testing are:

1. Significance of weights, the value must be significantly
2. Multicollinearity, by looking at the value between 5-10 VIF

Inner Testing Model

Evaluation inner model can be done by looking at R2:

	R Square
X 1	
X 2	
X 3	0,61881 3

Here's inner testing the model by looking at Q2 by the formula

$$Q2 = 1 - (1 - 0,618813)$$

$$Q2 = 0,38187$$

The latter by finding the value of GoF. Tenenhaus (2004) in Kritanto (2006)

$$GoF = \sqrt{AVE \times R^2}$$

$$GoF = 0,58345 \times 0,618813 = 0,3610$$

Tenenhaus (2004) nilai GoF small = 0,1, medium = 0,25 dan besar = 0,38

Hypothesis Testing

Test the hypothesis can be seen from the value of t-statistics and probability value. To test the hypothesis using the statistical value of 5% alpha value of t-statistic used was 1.96, so the criteria for acceptance / rejection was received and H_0 H_a rejected when the t-statistic > 1.96. To reject / accept the hypothesis using all- H_a received JILA probability $p < 0.05$



Total Effect

	X 1	X 2	X3
X 1			2,16374 6
X 2			- 1,90649 7
X 3			

The result is Mudharabah significant effect on bank profitability while Musyarakah financing does not affect the bank's profitability.

DISCUSSION

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Criteria for acceptance / rejection was received and H_0 H_a rejected when the t-statistic > 1.96. To reject / accept the hypothesis using all- H_a received JILA probability of $p < 0.05$. In this study resulted that the value of t-statistic for mudharabah was $2.16 > 1.96$, then the hypothesis is accepted. As for the Musyarakah financing is $-1.90 < 1.96$ then the



hypothesis is rejected. The result is Mudharabah significant effect on bank profitability while Musyarakah financing does not affect the bank's profitability.

Contrary to the results of research Kris (2016) on the effect of financing, Musyarakah and murabaha effect on profitability and by Jewel et al (2014) found Mudharabah a negative impact and loss partially positively influence the level of profitability.

CONCLUSIONS AND IMPLICATIONS

Conclusion

From the data analysis it can be concluded that the Mudharabah significant effect on bank profitability while Musyarakah financing does not affect the bank's profitability. This is indicated by the value of t-statistic whereby when the t-statistic > 1.96. To reject / accept the hypothesis using all-Ha received JILA probability of $p < 0.05$. In this study resulted that the value of t-statistic for mudharabah was $2.16 > 1.96$, then the hypothesis is accepted. As for the Musyarakah financing is $-1.90 < 1.96$ then the hypothesis is rejected.

Implication

1. It is expected that further research adds to the source of research data and add variables that affect the financial performance of Islamic banks.
2. This study is expected to contribute that the funding committed by Islamic banks do not affect the profitability of the banks but which may affect the profitability of banks chances are good name of Islamic banks and government policy in supporting economic development in general sharia Islamic banks in particular.

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