



The Effect of Musharakah Financing on Profitability at Islamic Commercial Banks in Indonesia

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Musyarakah
Financing.

Abstract

This research investigates the effect of musharakah financing on the profitability of Islamic commercial banks in Indonesia over the 2017-2022 period. Musharakah financing, a partnership-based financial instrument in Islamic banking, is analyzed for its impact on the Return on Equity (ROE) ratio, a key profitability indicator. The study employs a quantitative approach, utilizing secondary data from the financial reports of nine Islamic commercial banks, resulting in 54 data points. Simple linear regression analysis, conducted using SPSS version 25, reveals that musharakah financing has a negative effect on profitability. The findings indicate that while musharakah financing is a significant Islamic banking product, it may not necessarily contribute positively to the profitability of these banks. Various factors, including the economic conditions during the study period, might have influenced these results. For instance, Indonesia faced an economic slowdown and high exchange rate fluctuations, which could have impacted the returns from musharakah financing. Additionally, the COVID-19 pandemic further strained economic activities, potentially affecting the banks' financial performance. This study's insights are crucial for Islamic commercial banks to re-evaluate their financing strategies and seek ways to enhance their ROE. Future research could expand the scope by including other Islamic financial products and extending the study period for more comprehensive results.

1. Introduction

Banks are business entities that collect funds from the public (Nurulhidayah et al., 2024) in the form of savings and distribute them to the public in the form of credit and/or other forms in order to improve people's standard of living (article 1 point 2 of the Sharia Banking Law). Banking is such an important institution as evidenced by the monetary crisis which devastated banking and had an impact on financial instability. However, the unique thing that emerged was comments from experts in the banking and economic fields who said that when a monetary crisis occurred, Islamic banking remained immune to crises. Previous research has proven that Sharia Banks can survive during the financial crisis in Indonesia (Maliha & Marlina, 2019).

Islamic banks are financial institutions that use Islamic principles (Arsal et al., 2014). In order to serve the community, especially the Muslim community, Islamic banks provide various kinds of banking products. Financing is one of the business products of Islamic banks that generates profits. Likewise, according to Wangsawidjaja (2012: 78) that the majority of

sharia bank income is obtained from rewards in the form of financing business activities. Therefore, financing is still the most dominant activity in Islamic banks. Based on the publication of sharia banking statistics conducted by the Financial Services Authority, it shows that one of the contracts that is growing rapidly and experiencing an increase every year in financing at sharia banks is the musyarakah contract.

Musyarakah financing products issued by Islamic banks have the aim of providing profits or increasing profitability for the bank. The indicator used by the author to measure profitability in this research is Return on Equity (ROE). Where this ratio shows the bank management's ability to manage available capital to obtain net income, the higher the return the better because it means that the dividends distributed or reinvested as retained earnings will also be greater (Arizah et al., 2024; Arsal, 2021; Arsal et al., 2024).

Based on previous research, identifying a research gap for independent variables that influence profitability can be seen from the research results of Neneng Widyaningsih, Sri



Suatini & Nana Diana (2020) which found that there was a positive influence of musyarakah financing on profitability (ROE). Meanwhile, the results of research by Azzahra Hani Putri & Diana (2022) show that there is no effect of musyarakah financing on profitability (ROE). Based on the description that has been explained, researchers are of the opinion that musyarakah financing is one element that can be used affects the profitability of Sharia Commercial Banks so researchers are interested in conducting research with the title "The Influence of Musharaka Financing on Profitability in Sharia Commercial Banks for the 2017-2022 Period".

2. Literature Review

2.1 Sharia Enterprise Theory

According to Triyuwono (2009) quoted in (Puriyanti, T. & Mukhibad, H. 2020), Shariah Enterprise Theory provides the main form of accountability to Allah (vertical) which is then further elaborated in the form of accountability (horizontal) to humanity and the natural environment. Triyuwono (2009) further revealed that the concept of responsibility in this theory is not just a development of the concept of accountability. Shariah Enterprise Theory, but more than that as a result of the premises used by sharia enterprise theory which has a transcendental and teleological character (Arsal, Ulfah, et al., 2022). The implications of this theory support the variable quality of financial reports.

2.2 Stewardship Theory

Stewardship Theory is theory which was coined by Donaldson and Davis, this describes situations where managers are not motivated goals but are more directed at their main target results for the benefit of the organization, so this theory has basic psychology and sociology that has been designed where executives as stewards are motivated to act according to the wishes of principals. besides that, behavior stewards not organizations because stewards are trying to achieve organizational goals. This theory was

designed for researchers to examine situations in which executives Companies as servants can be motivated to act in the best way their (Roezyandhik, DR 2019).

2.3 Return On Equity (ROE)

Return On Equity (ROE) According to Financial Services Authority Circular Letter Number 18/SEOJK.03/2015 is the comparison of profit after tax with the average bank capital or equity (Nataliawati, 2018). Return On Equity (ROE) is an indicator to measure management's ability to manage its own capital to gain profits (Hardianti et al., 2024). The Return On Equity (ROE) formula is:

$$ROE = \frac{\text{Laba Bersih}}{\text{Ekuitas}} \times 100\%$$

2.4 Musyarakah Financing

In linguistic terms, musyarakah is often referred to as syirkah, which means "ikhtilath" or mixing. This refers to the blending of two assets such that they cannot be differentiated from one another. Musyarakah can also be understood as a situation where one person combines their assets with those of others, without separating the two (Arsal et al., 2022; Hidayatullah, 2020). Additionally, musyarakah is defined as a cooperative agreement between two or more parties for a specific business venture, where each party contributes funds or expertise. In this arrangement, profits and risks are shared among the parties according to their agreement (Hidayatullah, 2020).

2.5 Hypothesis

Based on the framework of thought, this research hypothesis is formulated as follows:

Ho: Musyarakah financing has no effect on the profitability of Sharia Commercial Banks.

Ha: Musyarakah financing affects the profitability of Sharia Commercial Banks.

3. Research Methods

This research uses quantitative research. This research was conducted by accessing Sharia Banking financial reports on the official website of the Financial Services



Authority www.ojk.com and the official website of the Islamic bank which was used as the research sample. The data source used is secondary data obtained through the official website of the Financial Services Authority (OJK) which was used as a research sample to collect financial report data for Islamic commercial banks.

In this research, the population taken was all 14 Islamic commercial banks registered with the Financial Services Authority. The population frame in this study is the merger of three Islamic banks at the beginning of 2021. The sampling method used is purposive sampling . Purposive sampling . Based on the criteria, the sample from this research is:

Table 3.1

Table 1. Research Sample CriteriaNo	Criteria	Number of Banks
A	Sharia General Banks which registered the Financial Services Authority for the period 2017 to.	14
B	Sharia Commercial Bank which has consecutive financial reports from 2017 to 2022 and has been published on the official website of the Financial Services Authority.	9
C	Sharia Commercial Banks that have complete data based on the variables to be studied, namely musyarakah financing .	9

Data source: SPSS 25 processed 2023

Sampling criteria , the samples that can be used in this research are 9 (nine) Sharia Commercial Banks, namely:

- 1) Bank Muamalat Indonesia
- 2) Bank Victoria Syariah
- 3) Bank Jabar Banten (BJB) Sharia
- 4) Bank Mega Syariah
- 5) Bank Panin Dubai Syariah
- 6) Bank Bukopin Syariah
- 7) BCA Syariah Bank
- 8) BTPN Syariah Bank

9) Aceh Bank

The independent variable (X) in this research is Musyarakah Financing and the dependent variable (Y) is Return On Equity (ROE) The data analysis method is using descriptive statistics, classical assumption testing and hypothesis testing. This research uses a data processing program, namely SPSS version 25.

4. Results and Discussion

4.1 Research result

Descriptive Statistical Analysis

Table 2. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
X	54	0.00	19857952.00	3830595.2778	4407054.13490
Y	54	-4.61	4.54	1.1853	2.01579
Valid N (listwise)	54				

Data source: SPSS 25 processed 2023

From Table 4.1, the results of descriptive statistical tests for each variable are presented. The analysis indicates that Musyarakah Financing (X) has a sample size of 54, with an average of 3,830,595.28 and a standard deviation of 4,407,054.13. The minimum value

recorded is 0.00, while the maximum value is 19,857,952.00. Similarly, the results for Return On Equity (Y) also show a sample size of 54, with an average of 1.19 and a standard deviation of 2.02. The minimum value for

Return On Equity is -4.61, and the maximum value is 4.54.

a. **Classic assumption test**
 1) **Normality test**

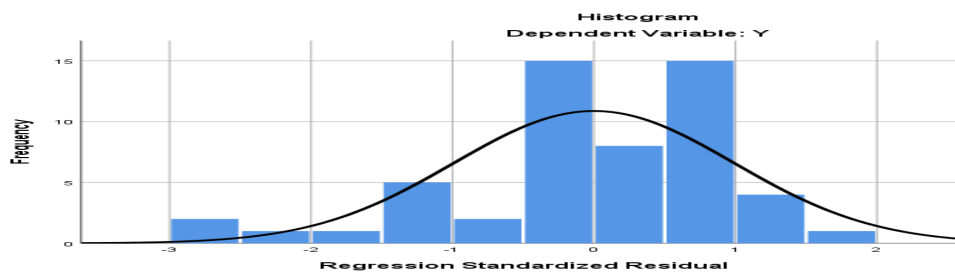
Table 3
One-Sample Kolmogorov-Smirnov Test
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residuals
N		54
Normal Parameters ^{a, b}	Mean	.0000000
	Std. Deviation	1.90074347
Most Extreme Differences	Absolute	.107
	Positive	.071
	negative	-.107
Statistical Tests		.107
Asymp. Sig. (2-tailed)		.182 ^c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Data source: SPSS 25 processed 2023

From the test results table above, the Asymp value is known. Sig. (2-tailed) residual of 0.182, where the result is greater than the

significance value of 0.05, so it can be stated that the data is normally distributed.

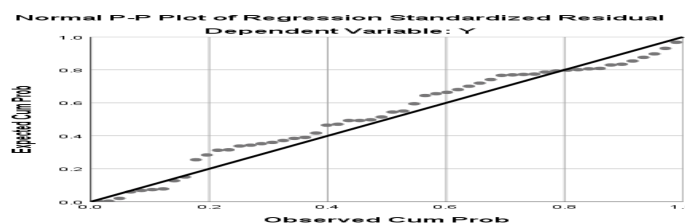


Data source: SPSS 25 processed 2023

Figure 2: Histogram

Based on the Histogram Graph test, it was found that the Residual Frequency mostly gathered at the value 0 or the data distribution

value was in accordance with the normal curve so it was said that the residuals had spread in a normal distribution.

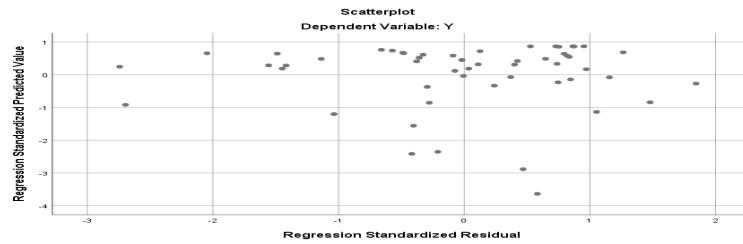


Data source: SPSS 25 processed 2023

Figure 3: PP Plot

From the graph above, the normal probability plot shows that the distribution pattern is normal, and spreads around the

diagonal line and follows its direction. So it can be concluded that the normality assumption can be met.



Heteroscedasticity test Data source: SPSS 25 processed 2023

Figure 4. Scatter plot

From the scatterplot graph above, it can be seen that the data distribution is around the zero point and spreads above whether or not it forms a clear pattern, thus it can be concluded

that there is no heteroscedasticity in the regression pattern so the regression model is suitable for use.

Table 4

Coefficients ^a						
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1,507	,217		6,931	,000
	X	-1.037E-8	,000	-.038	-.277	,783

a. Dependent Variable: ABS_RES

Heteroscedasticity Test

Data source: SPSS 25 processed 2023
 Based on table 4.3, it can be concluded that the significance value of all variables is more than 0.05, so it can be concluded that there

is no or the regression model is free from heteroscedasticity problems.

2) Multicollinearity test

**Table 5
 Multicollinearity Test**

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1,769	,347		5,092	,000		
	X	-1.523E-7	,000	-.333	-2,547	,014	1,000	1,000

a. Dependent Variable: Y

Source: SPSS output



Based on the table above, it can be seen that the tolerance value for the musyarakah variable is $1,000 > 0.10$ and the VIF value is $1,000 < 10$, so that the musyarakah variable is declared to have no symptoms. multicollinearity.

b. Hypothesis testing

1) t test

Table 6
t test

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,769	,347		5,092	,000
	X	-1.523E-7	,000	-.333	-2,547	,014

a. Dependent Variable: Y

Source: SPSS 25 processed 2023

, it can be seen that variable This means that H_a is accepted and H_o is rejected, meaning that there is a negative influence of the musyarakah financing variable (X) on the return on equity variable (Y) because the level of

significance of the musyarakah financing variable is < 0.05 ($0.014 < 0.05$) and the t-count value $< t$ -table ($-2.547 < -2.006$).

2) Coefficient of Determination Test (R^2)

Table 7
Coefficient of Determination Test (R^2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.333 ^a	.111	,094	1.91893

a. Predictors: (Constant),

Source: SPSS 25 processed 2023

Based on table 4.7, it can be concluded that the R Square value is 0.111, which means that the influence of variable X on Y is 11.1%

and the remainder is influenced by other variables not examined in this research.

3) Simple Linear Regression Analysis

Table 8
Simple Linear Regression Analysis

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,769	,347		5,092	,000
	X	-1.523E-7	,000	-.333	-2,547	,014

a. Dependent Variable: Y

Source: SPSS 25 processed 2023



The simple linear regression results obtained show the regression equation:

$$Y = 1.769 - 1.523X$$

Where Y is the dependent variable and X is the independent variable. The constant 1.769 shows the intercept or intersection point on the Y axis when the X value is equal to zero. This means that if the X value is equal to zero, then the Y value will always be equal to 1.769. The regression coefficient -1.523 shows the relationship between the independent variable X and the dependent variable Y. A negative regression coefficient value indicates a negative relationship between

4.2 Discussion

In this research, researchers analyze how musyarakah financing affects the financial performance of sharia commercial banks, especially in terms of ROE. ROE is a measure that shows how effective a bank is in generating profits for its shareholders. After collecting and analyzing data from a number of Islamic commercial banks, researchers found that musyarakah financing has a significant influence on ROE. This means that when Islamic commercial banks use musharaka financing for projects or investments, their financial performance, especially ROE, tends to decline. These results indicate that musyarakah financing, even though it is a form of financing commonly used in the sharia financial system, does not have a positive impact on the profitability of sharia commercial banks.

The results of this research are important because a low ROE can indicate problems in generating adequate profits for bank shareholders. In Indonesia, in the 2017-2022 period there were several difficult market conditions, such as an economic slowdown and high exchange rate fluctuations. In 2018, Indonesia experienced an economic slowdown with economic growth of only 5.17% (Central Statistics Agency , 2018) , and decreased in the following year to only 5.02% (Central Statistics Agency , 2019) . Apart from that, exchange rate fluctuations also occurred during this period,

where the rupiah experienced depreciation against the United States dollar.

In the context of musyarakah financing , difficult market conditions in Indonesia can have an impact on investment returns and the resulting ROE. According to a study by Sariyah and Yusnida (2019), difficult market conditions can affect the profitability of musyarakah financing in Indonesia. In this research, it was revealed that in 2014-2016 there was an economic slowdown and exchange rate fluctuations which affected the profitability of musyarakah financing . Apart from that, in a study by Pramono and Nugraha (2019) regarding the influence of market risk on ROE in musyarakah financing in Indonesia, it was concluded that market risk can influence ROE in musyarakah financing . Pramono and Nugraha (2019) also revealed that fluctuations in exchange rates and interest rates can be market risks that affect ROE in musyarakah financing in Indonesia.

The COVID-19 pandemic which began in early 2020 was also one of the factors that worsened market conditions in Indonesia and throughout the world. This pandemic has caused a decline in global economic and trade activity, as well as disrupting supply chains in various sectors, including the financial sector. According to Bank Indonesia, the COVID-19 pandemic has affected the Indonesian economy in 2020 with an economic contraction of 2.07%. This condition has an impact on the performance of sharia banking, including musyarakah financing .

5. Closing

5.1 Conclusion

Based on the results of research that has been carried out through the stages of data collection, data processing and data analysis regarding the influence of musyarakah financing on profitability in sharia commercial banks for the 2017-2022 period, it can be concluded that musyarakah financing has a negative influence on profitability (ROE). Musyarakah financing has a negative effect because the return on equity is slow and the



collection and allocation of musyarakah financing funds in generating profits on the return on equity allocated for financing is not the main source.

5.2 Suggestion

Based on the research results obtained, the following can be recommended:

- By obtaining the negative influence of musharaka financing on ROE (Return On Equity) profitability, sharia commercial banks can analyze the factors that cause this, so that sharia commercial banks can take appropriate steps to increase ROE and improve their overall financial performance.
- In this research, many limitations were still found, namely that the sample used was still limited to Islamic commercial banks, did not extend to other sharia sectors and also the period used was only 6 years from 2017-2022. Future research to the totality of existing financing, not only musyarakah financing but also mudharabah and murabahah financing and use a longer period may

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