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Determinants of Profitability in Islamic Commercial Banks with Islamic Financing Aspects

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Abstract: *Financing is one of the business products of Islamic banks that is capable of generating profitability. Through financing efforts to improve the quality of productive assets can be realized. This study aims to examine the determinants of profitability in Islamic Commercial Banks influenced by financing aspects, namely Musyarakah, Murabahah, Ijarah and Qardh. Quantitative research using secondary data, namely financial report data from Islamic General Banks for the 36-month period 2020-2023 obtained from Islamic banking statistics via the website Financial Services Authority. Data analysis using multiple linear regression. The results of the study found that Musyarakah has a positive and insignificant effect on profitability, while Murabahah and Qardh have a positive and significant effect on profitability. While Ijarah has a negative and significant effect on profitability.*

Keywords: *Musyarakah, Murabahah, Ijarah, Qardh, Profitability*

A. Introduction

Banking in Indonesia is increasingly crowded with the presence of Islamic banks that offer financial products and investments in a different way compared to conventional banks that have long existed. Although considered a newcomer, the development of Islamic banking is quite rapid. As a country with the largest Muslim population, Indonesia should be a pioneer and a mecca for the development of Islamic finance in the world, especially Islamic banking. Even conventional banks in Indonesia have taken part in establishing Islamic banks or Islamic business units. This is done to get more customers who are interested in the advantages of Islamic banks because based on Islamic law, Islamic

banking does not recognize loan interest because loan interest is considered usury and sinful (Oktrima & Riani, 2019).

In order to maintain banking activities to exist and continue to provide profits, each bank management is required to maintain the health of the bank from time to time, which means that the bank's health must be assessed every period. Bank health assessments are also carried out for Islamic banks, both Islamic general banks and Islamic people's financing banks. In assessing the level of bank health, Islamic banks have included the risks inherent in bank activities (inherent risk) which is part of the risk management assessment process (Ihyak et al., 2023). Therefore, in determining the level of health of a bank,

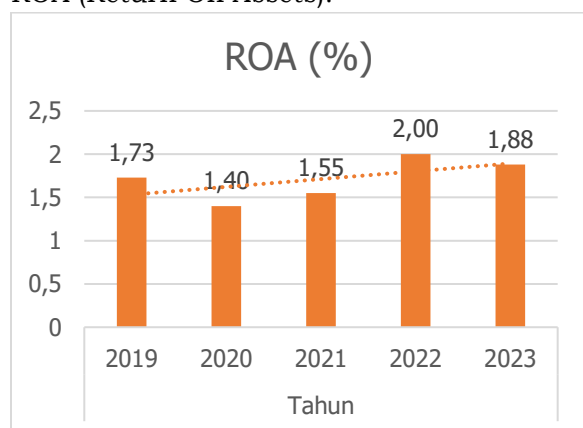


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Bank Indonesia prioritizes the assessment of Return on Assets (ROA) rather than Return on Equity (ROE) because Bank Indonesia prioritizes the profitability value of a bank as measured by assets whose funds are partly derived from public savings funds (RAJINDRA et al., 2021), so that ROA is more representative in measuring the level of banking profitability.

The following data is a phenomenon of the performance of Islamic Banks in Indonesia as seen from the perspective of ROA (Return On Assets).



Judging from the picture above, it shows that the financial performance of Islamic Banks in Indonesia from 2019 to 2023 has a Return On Assets (ROA) value that has experienced a decreasing fluctuation, this means that in several periods Islamic Banks in Indonesia have experienced problems in terms of financial performance, therefore this needs to be considered because in order to maintain business continuity and public trust, of course banks need to maintain the stability of their profitability. Public trust is very important and is the main key to the survival of a bank, because the good or bad public assessment of a bank depends on the bank's financial performance (Van der Crujisen et al., 2023).

Financing is one of the business products of Islamic banks that is capable of generating profitability. Through financing

efforts to improve the quality of productive assets can be realized. ROA high indicates that the bank can manage its assets more profitably. That is, the lower the bank's return on assets, the more effective the company's overall performance, and vice versa (Ibrahim et al., 2022).

There are several types of financing that are characteristic of Islamic banks, first, financing with the principle of profit sharing which in this study uses the musyarakah contract; second, financing with the principle of buying and selling which uses the murabahah contract; third, using the principle of rent which uses the ijarah contract and the fourth uses Qardh financing.

The aspect of profit sharing financing in this study is musyarakah. *Al-musharakah* is a cooperation agreement between two or more parties to carry out certain business (Amin, 2022). Each party provides funds or charity with the agreement that the profits or risks will be shared according to the agreement. Fikri & Wirman (2021), DMS Sari et al., (2021) and Bahri (2022) shows that musyarakah has a significant negative influence on profitability. While, Hartati & Dailibas (2021) found that musyarakah had a positive and significant effect on ROA. However, Amini & Wirman (2021) found positive musyarakah is not significant to ROA. So:

Hypothesis 1: Musyarakah has a significant negative effect on Profitability

One of the most frequently used financing in Islamic banks is Murabahah financing. Murabahah financing is a system used for financing consumption, working capital and investment. The bank buys goods from suppliers to meet customer needs according to the desired specifications. Then, the bank resells the goods to customers and makes a profit by adding the purchase price according to the initial agreement between the two. Research results Putri (2020), Rizky (2021) dan C. I. P.

Sari & Sulaeman (2021) found that murabahah has a significant positive effect on ROA. However, the results of the study Amini & Wirman (2021) dan Bahri (2022) found that murabahah has no significant effect on ROA. So:

Hypothesis 2: Murabahah has a significant positive effect on Profitability.

Islamic banks operate ijarah products that affect profitability. (Tehuayo, 2018). Ijarah is a rental agreement for the rental of goods between two parties, a bank (large) with the customer (lessee) as the lessee in the case of an individual bank, to gain profit from the rented goods. The greater the ijarah financing distributed, the higher the profits obtained by the sharia bank, so that it can help in returning capital or profit. Research result Yanti (2020), Hartati & Dailibas (2021) dan Dewa, Rini & Suhono (2022) found that ijarah had a positive and significant effect on ROA, while the results of the study Amini & Wirman (2021) and found that ijarah had a significant negative effect on ROA, but the research results R. M. Sari et al., (2021) dan Muyassaroh et al., (2022) found that ijarah has no significant effect on ROA. So:

Hypothesis 3: Ijarah has a positive and significant effect on Profitability.

Qardh financing also affects ROA. Qardh financing is the provision of funds or bills that can be equated with it based on an agreement or agreement between the borrower and the lender that requires the borrower to repay his debt after a certain period of time (Noor et al., 2021). The lender can receive compensation, but it is not permitted to be required in the agreement. Qardh financing is a loan agreement from a bank (Muqridh) to a certain party (Muqtaridh) which must be returned with the same amount as the loan. The bank (Muqridh) can ask for collateral for the loan to the customer (Muqtaridh) who borrows.

Results study Garwautama et al., (2021) dan El Husna (2022) found that Qardh has a positive and significant effect on ROA. The

greater the qardh funds distributed to Islamic bank partners, the more positive reciprocal relationships between Islamic bank partners will be created, thereby fostering trust. While Ramadhan (2023) menemukan Qardh berpengaruh negatif signifikan terhadap ROA. Namun Khairani & Puteri (2024) menemukan Qardh tidak berpengaruh terhadap ROA. So:

Hypothesis 4: Qardh has a positive and significant effect on Profitability

Based on the facts and results of previous research, this research aims to test the determinants of Profitability in Islamic Commercial Banks through financing aspects, namely Musyarakah, Murabahah, Ijarah and Qardh.

B. Materials and Methods

Quantitative research using secondary data, namely financial report data from Islamic Commercial Banks for 36-month period 2020-2023 obtained from Islamic banking statistics via the website *Financial Services Authority*. Data analysis using multiple linear regression with the equation:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Information :

Y = Profitability

X1 = Musyarakah

X2 = Murabahah

X3 = Ijarah

X4 = Qardh

a = Constant Number

β = Regression Coefficient

e = Residual Value

C. Result and Discussion

To see this influence can be seen through the value of the regression equation used in the following table:

Table 1. Summary of Hypothesis Testing

Variable	Coefficient	t count	Sig.
Musyarakah	0.129	1,286	0.070
Murabahah	0.221	2,431	0.009
Lease	-0.191	-2,109	0.024
Qardh	0.202	2,314	0.011
Constant	96.207	3.358	
R Square	.607		
Adj. R Square	.582		

The results of multiple linear regression calculations obtained the following equation: Profitability= 96.207 - 0.129X1 + 0.221X2 - 0.191X3 + 0.202X4 + e

The results can be explained as follows: The coefficient of the musyarakah variable is positive, which means that if there is an increase in musyarakah of 1 unit, then Profitability will increase by 0.070. The coefficient of the murabahah variable is 0.221 with a positive direction, which means that if there is an increase in murabahah of 1 unit, then Profitability will increase by 0.221. The coefficient of the Ijarah variable is 0.191 with a negative direction, which means that if there is an increase in ijarah of 1 unit, then Profitability will decrease by 0.191. And the coefficient of the Qardh variable is 0.202 with a positive direction, which means that if there is an increase in Qardh, then Profitability will increase by 0.202.

The partial test above, the t-value of Musyarakah which is 0.129 with a significance value of 0.070 shows that musyarakah has a positive but not significant effect on Profitability, meaning the first hypothesis (H1) is Musyarakah has a significant negative effect on Profitability rejected.

Then, the Murabahah t-value of 2.431 with a significance value of 0.009 shows that Murabahah has a positive and significant effect on Profitability This means the second hypothesis (H2) is Murabahah has a

significant positive effect on Profitability accepted.

The t value of Ijarah is -2.109 with a significance value of 0.024 indicating that Ijarah has a negative and significant effect on Profitability. This means that the submission of the fourth hypothesis (H3) states that Ijarah has a positive and significant effect on Profitability accepted.

The t-value of Qardh is 2.314 with a significance value of 0.011 indicating the submission of the third hypothesis (H4), namely that Qardh has a positive and significant effect on Profitability accepted.

The Adjusted R squared value obtained is 0.582 or 58.20%. This shows that the variation of the independent variables used in the limited model explains 58.20%. Profitability influenced by musyarakah, murabahah, ijarah and qardh which means 41.80% Profitability influenced by other factors outside the research model.

Discussion

The Influence of Musyarakah on Profitability The research results found that Musyarakah did not have a significant influence Profitability. This meansNot only financing is able to make the value of musyarakah financing increase the profitability of Islamic General Banks, but profit sharing also influences it because the purpose of musyarakah financing is as profit sharing financing to finance an investment. (Isfiyanti et al., 2020) stated that in musyarakah financing, profits and losses will be divided based on the percentage of capital participation so that it does not affect profitability.

Results this study supports the findings (Amini & Wirman, 2021)found positive musyarakah insignificantly towards ROA. However, this is different from the research results (Fikri & Wirman, 2021), (DMS Sari et al., 2021) and (Bahri, 2022) shows that musyarakah has a significant negative influence on profitability. While (Hartati &

Dailibas, 2021) found that musyarakah has a positive and significant effect on ROA. This is because in musyarakah financing, each party, namely the Islamic bank and the customer, contributes funds so that it has a fairly large risk and has an effect on Profitability.

The Influence of Murabahah on Profitability

The results of this study found that Murabahah had a significant positive effect on Profitability. This means that people prefer murabahah financing products because they are easier to apply and the process is not complicated, so that more than half of the income recorded by Islamic banks mostly comes from murabahah financing, this will affect net profit.

The results of this study are in line with the results study (Putri, 2020), (Rizky, 2021) dan (C. I. P. Sari & Sulaeman, 2021) menemukan bahwa murabahah berpengaruh positif signifikan terhadap ROA. (Putri, 2020), customers obtain funds from the bank to purchase productive and consumptive needs and the bank obtains profits from murabahah financing, the income obtained will be calculated into the bank's profit so that the profit can influence the increase Profitability. However, this is different from the research results (Amini & Wirman, 2021) and (Bahri, 2022) found that murabahah had no significant effect on ROA.

The Influence of Ijarah on Profitability

The results of this study found that Ijarah had a significant negative effect on Profitability. This means that there is a fluctuation Ijarah financing results and had decreased can be caused by goods leased by the bank to customers will allow several risks to occur, such as damage to goods and depreciation of goods which results in the bank having to bear the damage even though it still gets rental fees, additional costs

(repairs) and allocating funds for depreciation costs of goods. These costs (damage and depreciation of goods) incurred by the bank can affect the profit obtained by Islamic banks and can reduce the profitability of Islamic banks. The higher the value of Ijarah financing, the lower the profitability.

The results of this study are in line with the research results of Khumaini & Armina (2019) and (Amini & Wirman, 2021) found that ijarah has a significant negative effect on ROA. However, the results of this study are not in line with the results of the study (Yanti, 2020), (Hartati & Dailibas, 2021) and (DewaRini & Suhono, 2022) found that ijarah had a positive and significant effect on ROA. The lease of ijarah each period experiences an increase or decrease. The increase and decrease will affect the level of profit sharing income and rental income so that it will generate profit and then affect the level of Bank profitability.

The Influence of Qardh on Profitability

The results of this study found that Qardh had a significant positive effect on Profitability. It means The higher the Qardh financing, the higher the profitability development. what the bank gets will change. Because Qardh has a role and function as platformed financing that is not forced and is right on target, it can have a positive influence on the profitability of Indonesian Islamic General Banks.

The results of this study are in line with the results of the study (Garwautama et al., 2021) and (El Husna, 2022) found that Qardh has a positive and significant effect on ROA. The greater the qardh funds distributed to Islamic bank partners, the more positive reciprocal relationships between Islamic bank partners will be created, thereby fostering trust. While (Ramadan, 2023) found that Qardh had a significant negative effect on ROA.

D. Conclusion

Berdasarkan analisis yang telah dilakukan dapat disimpulkan :

1. Musyarakah tidak memengaruhi peningkatan Profitabilitas. Dalam pembiayaan musyarakah keuntungan dan kerugian akan dibagi berdasarkan persentase penyertaan modalnya sehingga tidak memengaruhi profitabilitas.
2. Murabahah positif signifikan berpengaruh terhadap Profitabilitas. Artinya penyaluran pemberian dana murabahah yang tinggi akan meningkatkan keuntungan bagi perbankan syariah.
3. Ijarah signifikan berpengaruh terhadap Profitabilitas. Semakin tinggi nilai pembiayaan Ijarah maka semakin turun profitabilitasnya.
4. Qardh positif signifikan berpengaruh terhadap Profitabilitas. Artinya semakin tinggi pembiayaan Qardh, maka perkembangan Profitabilitas yang didapatkan bank akan mengalami perubahan.

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