# SHARIA FINANCING FINANCIAL PERFORMANCE ANALYSIS AND ISLAMIC CITY PERFORMANCE INDEX

**Prince Charles Heston Runtunuwu***
Khairun University
princecharles@unkhair.ac.id

**Jay Rajasekera**
Tokyo International University
jrr@tiu.ac.jp

***Abstract –*** *This study aims to investigate the influence of Sharia financing and Islamicity Performance Ratio on the financial performance of Sharia banks listed on the Indonesia Stock Exchange. The significance value was used as an analytical tool to determine the impact of independent variables on the dependent variable. A significance value of < 0.05 indicated the acceptance of the hypothesis, while a value > 0.05 led to its rejection. The results of the coefficient of determination can be seen in the following table.*

*Keywords: Sharia Financing, Islamicity Performance Ratio, Financial Performance, Sharia Banks, Significance Value, Coefficient of Determination*

## I. INTRODUCTION

Islamic banks are financial institutions that collect funds from the public with sharia principles based on the Al-Quran and Hadith of the Prophet Muhammad SAW. The development of Islamic banks in Indonesia is very rapid due to the large number of adherents of Islam and public interest in Islamic banking (Princess and Gunawan, 2019). The number of Islamic banks continues to increase from year to year.

According to the Statistics of the Financial Services Authority (2019) Islamic banks use a profit sharing system in carrying out their activities, in contrast to conventional banks which use an interest system (Muhammad, 2014). This is in accordance with the prohibition of riba in Islam. Islamic banking has a role in the Indonesian economy, including in achieving economic prosperity, optimal economic growth, socio-economic justice, currency value stability, and effective service. *Mudharabah and murabahah* financing are products offered by Islamic banks. *Mudharabah* financing involves the bank as the capital owner and the customer as the business manager, with profit sharing based on the contributed capital. According to Rivai (Purwanto, 2011) *murabaha* financing involves the purchase of goods by suppliers and resale with a certain profit. Islamic banks have different characteristics from other companies in their performance orientation. Therefore, the performance of sharia banking is also measured by methods that are oriented towards sharia goals. *The Islamicity Performance Index* is one of the measurement tools used to measure materialistic values and Islamic values owned by Islamic banks (Hameed, *et. al*, 2014).

According to Hameed, *et. al*, (2014) the financial performance of Islamic banking is measured using financial ratios such as *return on assets* (ROA), which measures the success rate of a bank in obtaining overall profits (Sutrisno, 2016). Bank performance is influenced by the amount of financing distribution and the composition of the financing itself (Sriwahyuni, 2020). According to Ascarya (2011) *mudharabah* and *murabaha* financing have different effects on the financial performance of Islamic banks (Susilo, 2017). Previous studies conducted by Amalia and Fidiana (2016), Fadholi (2015), Fitriyani, *et. al* .(2019), Pertiwi and Suryaningsih (2018), and Putri (2017 ) gave mixed results. Several studies such as Bustaman and Aditia (2016), Khasanah (2016), Yusnita (2019), Dewanata and Hamidah (2016), and Firda and Mayasari (2020) found a positive effect, while others found an insignificant effect. Dharma and Pristianda's research (2018), which refers to previous research and examines the effect of *mudharabah* and *murabaha financing* on the profitability of Islamic banks. But in reality, not all of the theories described above are in line with the existing empirical evidence. As happened in the development of Islamic banking companies in the 2015-2019 period.

**Tabel 1.** Picture of the development of *Retum on Assets* at Sharia Commercial Banks Listed on the Indonesia Stock Exchange (IDX) in 2015-2019

| year | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Return on Asset (%) | 0.49 | 0.63 | 0.63 | 1.28 | 1.73 |

*Source; Financial Ratios of Islamic Commercial Banks in Indonesia (Sharia Banking Statistics 2019)*

The average *Return on Assets* (ROA) at Islamic Commercial Banks, which consists of 14 banks, has fluctuated with an increasing trend. In 2015, the average ROA of Islamic Commercial Banks was 0.49%. There was an increase in the following year, but remained stable in 2016 and 2017 with a value of 0.63%. This shows sufficient soundness in terms of ROA for Islamic commercial banks. In 2018 and 2019, the average ROA of Islamic Commercial Banks continued to increase from 1.28% to 1.73%, indicating very good health in terms of ROA. In 2015, there was a significant decrease in average ROA with owned resources (total assets), where the company was unable to maximize it into net profit. However, on the contrary, from 2016 to 2019 it continued to increase, showing the company's ability to maximize its net profit.

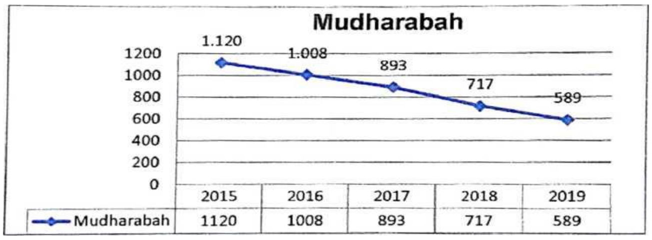



**Figure 1.** *Mudharabah* financing at Sharia Commercial Banks Listed on the Indonesia Stock Exchange (IDX) for 2015-2019

*Source of Financial Statements of Islamic Commercial Banks in Indonesia (Sharia Banking Statistics 2019*

Based on the picture above, it shows that mudharabah financing has decreased from year to year. This is due to the high complexity and risk, as well as the dependence on honesty and mutual trust between the bank and the customer. In addition, the bank cannot determine the profit that will be obtained because it depends on the success of the customer's business when running a business and mudharabah financing. In 2019, there was a drastic decline caused by conditions triggered by Covid-19.

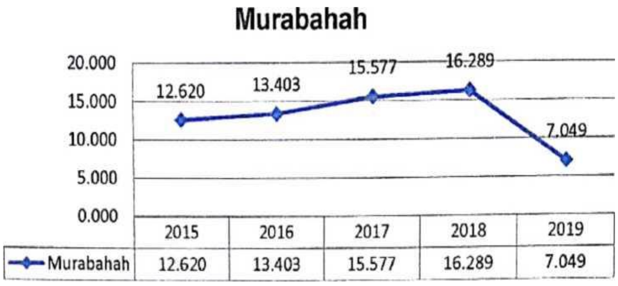



**Figure 2.** *Murabahah financing at Sharia Commercial Banks Registered on the Indonesia Stock Exchange (IDX) for 2015-2019*

*Source of Financial Reports of Islamic Commercial Banks in Indonesia (Sharia Banking Statistics 2019)*

Based on the picture above murabahah financing has increased during the 2015-2018 period, becoming the main choice of customers in Islamic commercial banks. This product is popular because it suits your needs and the transaction process is easy. This increase has made Islamic banks provide more murabaha products, which are businesses that other Islamic banks are interested in because they have low risk. However, in 2019, there was a decrease in the value of murabahah receivables due to the impact of the Covid-19 pandemic. The use of the sharia index in measuring the performance of Islamic banks is considered important by the Muslim community. One of the indicators used is the profitability analysis of Islamic banks, with a focus on return on assets. This index is important for measuring profitability and is determined by Bank Indonesia. Before conducting Islamic financing, an analysis was carried out using *the Islamicity performance index* to determine the company's ability to channel funds. This index reveals materialistic and spiritual values in Islamic banking, and helps in choosing the right bank in managing investments and generating *return on assets* as expected. This study aims to provide an overview of the importance of Islamic financing and analysis of financial performance before raising and distributing funds.

**Research purposes**

The aim of this study,

1. Knowing and analyzing the effect of *Mudharabah financing* on *Return on Assets*
2. Know and analyze the effect of Murabaha financing on *Retum on Assets*
3. Know and analyze the effect of *Profit Sharing Ratio* on *Return on Assets*
4. Know and analyze the effect of *the Equitable Distribution Ratio* on *Return on Assets*

## THEORETICAL REVIEW

### *Signaling Theory*

According to Kretarto (2006) *signaling* theory explains that company management provides financial information as a signal of prosperity to owners or shareholders (Kusuma, 2006). In this regard, Feri (2013) and Mai (2013) state that information such as *return on assets* (ROA) is used as a good signal for investors (Sari and Zohrotun, 2006).

### *Stakeholder Theory*

According to Meek and Gray (1998) *Stakeholders theory* or stakeholder theory states that a company must provide benefits to all stakeholders, and the company's existence is influenced by the support of *stakeholders* (Dewanata, *et. al* (2016). In this regard, Handoko (2014) states that a company's financial performance is measured to evaluate efficiency and effectiveness of the company in generating profit and cash position (Deegan, 2004) In line with that Hery (2015), Prastowo (Fajrin, 2016), Munawir (2012), and Jumingan (2005) stated that financial statements and financial ratios are used to make investment decisions, and *return on assets* (ROA) is an important measure of profitability (Suryani, 2011). ROA describes a company's ability to generate profits from the assets used. Bank's financial performance is also measured using indicators such as capital adequacy, liquidity, and profitability ROA is used to estimate a bank's ability to gain profits and the efficiency level of bank performance. The higher the ROA, the better the bank's position in the use of assets.

In this study the authors used *Return on Assets* (ROA) to measure profitability, profitability ratio is the ratio between earnings before interest and taxes with total assets owned by the company. ROA calculation can be measured by the following formula:

$$\mathbf{ROA} = \frac{\textbf{\textit{Profit before tax}}}{\textbf{\textit{Total Assets}}} \mathbf{\times 100\%}$$

Source: Pandia, 2012

According to Kasmir (2013), the factors that affect *Return on Assets* (ROA) are the level of net profit and the level of total asset turnover. If the ROA is low, then the level of net profit is also low due to the low level of total asset turnover, which causes low profit margins. Bank Indonesia as the banking supervisor in Indonesia sets a minimum ROA standard of 1.5% for each bank. The higher the ROA of a bank, the higher the level of profit achieved by the bank, and the better the bank's position in the use of assets. Sharia financing is an important part of Islamic banking and has experienced significant development. This financing involves mechanisms and procedures related to various types of transactions, such as profit sharing, leasing, buying and selling, and lending and borrowing. Financing in a broader context means funding provided to support planned investments, either by the company itself or by other parties. Financing in Islamic banking aims to increase employment opportunities and economic welfare in accordance with Islamic principles (Ismail, 2014).

In sharia financing, there are several types of contracts, such as mudharabah and murabahah. Mudharabah is a business cooperation contract between the fund owner and the fund manager, in which profits are shared based on a profit-sharing ratio. *Murabaha* is a sale and purchase agreement at an acquisition price plus an agreed profit. Islamic banking performance measurement can be done using the Islamic Performance Index *(Islamicity Performance Index)*. This index reveals Islamic values in Islamic banks and consists of ratios that reflect bank performance, such as profit sharing ratios and profit ratios (Suwikyo, 2010).

The profit-sharing ratio is used to measure the activity of Islamic banks in the distribution of profit-sharing contracts. The purpose of this ratio is to determine the extent to which Islamic banks have succeeded in achieving their existence goals in sharing profits through a profit-sharing system. Revenue sharing can be obtained through mudharabah contracts and other types of financing. This ratio is important to identify the extent to which Islamic banks have succeeded in achieving their existence goals in sharing profits through these contracts. In addition, there is also murabahah financing which is a sale and purchase agreement at an acquisition price plus an agreed profit. The sharia basis for a murabaha contract is found in the Al-Qur'an and the hadith of the Prophet. The murabaha financing ratio is used to measure bank activity in financing with murabaha contracts.

**Previous Research**

Several previous studies were used as an empirical basis which is expected to enrich the study of the Effects of Islamic Finance and the *Islamicity Performance Index* on Financial Performance in Islamic banking companies registered with BEL.

Dharma and Pristianda Research (2018) The effect of *Mudharabah* and *Murabahah* financing on Profitability *(return on assets)* of Islamic People's Financing Banks in Indonesia. Using independent research variables: *Mudharabah* and *Murabahah* Dependent: Profitability *(return on assets)*. The results of the study show that *Mudharabah* has a negative and insignificant effect on Profitability *(return on assets) Murabaha* has a negative and insignificant effect on profitability *(return on assets)*. Together, *Mudharabah* and *Murabahah financing* are not significant to profitability *(return on assets).*

Study Haibuan (2019) with the research title Analysis of the Influence of *Murabahah, Mudharabah,* and *Musyarakah Financing* on *return on assets* Case Study at PT Bank Muamalah Indonesia TBK. Period 2015-2018. Variables used Independently: *Mudharabah, Murabahah* and *Musyarakah*. Dependent: *Return on asset*. The research results obtained are *negative Murabahah* Financing and have no effect on *return on* assets (ROA), *Mudharabah* financing has a significant positive effect on *return on assets* (ROA). *Musyarakah* Financing has a significant negative effect on *return on assets (ROA). Simultaneously with Murabahah* financing , *Mudharabah* and *Musyarakah* financing has a significant effect on *return on assets (ROA)*.

Research by Daughters (2017) with the research title *Mudharabah* Financing on the profitability of Islamic banks. Using Independent variables; *Mudharabah:* dependent: Profitability. The results found show *Mudharabah* Financing has no effect on the profitability of Islamic banks.

Research by Fitriani, *et. al* (2019) with the research title the effect of *Murabahah, Mudharabah* and *Non-Performing Financing* (npf) financing on the profitability of Islamic commercial banks registered at Bank Indonesia in 2014-2017. Using Independent variables: *Murabahah, Mudharabah, and Non-performing financing* (npf); Dependent: Profitability. The results of the study show that *Murabahah and Mudharabah* financing have an effect on profitability. *Non-performing financing* (npf) has no effect on profitability.

Fadholi's research (2015) with the research title The Effect *of Murabahah, Musyarakah* and *Mudharabah* financing on the profitability of Islamic commercial banks. Research uses *independent variables: Murabahah,* *musyarakah and Financing Mudharabah Dependent: Profitability*. The results showed that murabaha and musyarakah financing had a positive and significant effect on the level of ROA partially. Simultaneously, *Murabahah, musyarakah* and *Mudharabah financing* have a significant influence on the level of roa.

Research by P Rayadwika *et al.* (2017) with the research title Effect of financing Mudharabah and Musyarakah on *return on* assets in Islamic commercial banks for the 2015-2016 quarterly period. Using Independent variables: *Mudharabah* and Financing Musyarakah dependent: *Return on assets*. The results of the study show that there is simultaneous and significant influence between *Mudharabah* and *Musyarakah* on ROA Simultaneously there is influence and significant between *Mudharabah* and *Musyarakah* on ROA Partially significant on the *Mudharabah variable* on ROA. However, the *Musyarakah variable* has no significant effect on ROA .

Sayudi's research (2019) with the research title Influence *Intellectual Capital* and *Islamicity Performance Index* to Islamic banking financial performance in Indonesia. Research uses the Independent variable: *Intellectual Capital* and *Islamicity Performance Index* Dependent: Financial performance. The results of the study show that partially indicating that the *Intellectual Capital variable* has a positive and significant effect on financial performance, *Profit Sharing Ratio* has a significant effect on financial performance Variable *Zakat Performance Ratio, Equitable Distribution Ratio, Director-Employee Welfare Ratio* and *Islamic Income vs Non-Islamic Income* have no significant effect on financial performance. Simultaneously, it shows that all independent variables, namely *Intellectual Capital* and *Islamicity Performance Index,* have a significant positive effect on financial performance.

Princess Research And Gunawa (2019) with the research title Influence *Intellectual Capital,* Efficiency operational, And *Islamicity Performance Index,* Against the Profitability of Islamic Banks in Indonesia. Research uses the Independent variable: *Intellectual Capital Operational Efficiency,* and *Islamicity performance index.* The results of this study prove that intellectual capital does not affect profitability. The low level of operational efficiency has a negative effect on profitability. *Islamicity Performance Index* has a significant effect on profitability.

**Mindset**

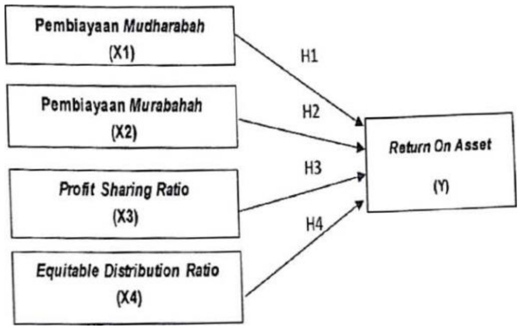
This paper discusses the effect of mudharabah financing, *murabahah financing, profit sharing ratio,* and *equitable distribution ratio* to *Return on Assets* (ROA) in the context of Islamic banking. Mudharabah financing is financing channeled by Islamic banks, and the profits derived from this financing will affect the profitability of Islamic banks. Previous studies have shown that mudharabah financing has a significant effect on the profitability of Islamic banks. Murabaha financing, which is based on profit margins, also affects the company's profitability. Research shows that an increase in murabahah financing contributes to an increase in ROA, and conversely, a decrease in murabahah financing causes a decrease in ROA.

*The profit-sharing ratio* shows the extent to which Islamic banks achieve existence in obtaining profit sharing from financing to customers. The level of compliance of Islamic banks with Islamic sharia can increase public trust and the profitability of Islamic banks. Previous studies have shown that the profit-sharing ratio has a positive and significant effect on ROA. *Equitable distribution ratio* explains the distribution of income earned by Islamic banks to stakeholders. When a company is able to distribute its income evenly and fairly, this will create a harmonious relationship between the company and stakeholders, increase public trust, and increase the profitability of Islamic banks. Research shows that *the equitable distribution ratio* has a positive effect on ROA. Based on previous research and theory, the hypothesis proposed is as follows:

H1: Mudharabah financing has a positive effect on ROA. H2: Murabaha financing has a positive effect on ROA. H3: Profit sharing ratio has a positive effect on ROA. H4: Equitable Distribution Ratio has a positive influence on ROA.

Framework There is a relationship between Third Party Funds DPK), *Capital Adequacy*

*Ratio* (CAR), *Non Performing Loans* (NPL), BI Rate to lending:




*Source; data processed by researchers*

## II. METHODS

### Research Object and Time

The objects of this research are Islamic bank companies listed on the Indonesia Stock Exchange (IDX) and the Financial Services Authority and other sources that support this research. period 2015 to 2021.

### Population and Sample

The population of this study is Islamic Commercial Banks in Indonesia that operate nationally and are listed on the Indonesia Stock Exchange (IDX) or the Financial Services Authority in the period 2015 to 2019. In total there are 14 Islamic Commercial Banks that make up the population in this study (Sugiyono, 2016).

**Tabel 2.** List of Research Population

| No | Sharia Commercial Banks |
|---|---|
| 1. | PT. Aceh Bank |
| 2. | PT. Bank NTB Syariah |
| 3. | PT. Bank Muamalat Indonesia |
| 4. | PT. Bank Victoria Syariah |
| 5. | PT. Bank BRI Syariah |
| 6. | PT. Bank Jabar Banten Syariah |
| 7. | PT. Bank BNI Syariah |
| 8. | PT. Mandiri Syariah Bank |
| 9. | PT. Mega Syariah Bank |
| 10. | PT. Bank Panin Dubai Syariah |
| 11. | PT. Bukopin Sharia Bank |
| 12. | PT. Bank BCA Syariah |
| 13. | PT. Bank BTPN Syariah |
| 14. | PT. Maybank Syariah Indonesia |

*Source: Sharia Banking Statistics, December 2019 OJK*

In this study, the sampling technique used purposive sampling method with certain criteria according to the research objectives. The sample was selected based on time series data from 2015 to 2019 and financial reports published successively by Islamic Commercial Banks in Indonesia. The sample consists of 11 banks that meet these requirements (Wijaya, 2013).

**Tabel 3.** List of research samples

| No. | Shariah Commercial Banks |
|---|---|
| 1. | PT. Bank Muamalat Indonesia |
| 2. | PT. Bank Victoria Syariah |
| 3. | PT. Bank BRI Syariah |
| 4. | PT. Bank Jabar Banten Syariah |
| 5. | PT. Bank BNI Syariah |
| 6. | PT. Mandiri Syariah Bank |
| 7. | PT. Mega Syariah Bank |
| 8. | PT. Bank Panin Dubai Syariah |
| 9. | PT. Bukopin Sharia Bank |
| 10. | PT. Bank BCA Syariah |
| 11. | PT. Maybank Syariah Indonesia |

*Source: Sharia Banking Statistics, December 2019 OJK*

In this study, there were 3 sharia commercial banks which were not sampled. PT. Bank Aceh Syariah was not used as a sample because it started operating in 2016 at the OJK. PT. Bank Nusa Tenggara Barat Syariah was not used as a sample because it started operating in 2018 at the OJK. PT. The Sharia National Pension Savings Bank does not meet the sample criteria because it does not have mudharabah and musyarakah variables from 2015 to 2019. Therefore, the sample used in this study consisted of 11 Islamic banks with a total of 55 observational data from 2015 to 2019.

### Data Types and Sources

This study uses quantitative research methods with secondary data. The types of data used include Third Party Funds (DPK), *Capital Adequacy Ratio* (CAR), *Non Performing Loans* (NPL) as independent variables, and Credit as the dependent variable. Secondary data was obtained from Bank Mandiri's annual report from 2010 to 2019.

### Data collection technique

This study uses data collection methods through documentation studies on the official website of the Indonesia Stock Exchange (IDX) and related Islamic Commercial Banks. Data is collected through previous research journals and company financial reports that provide the necessary information. Only data relevant to the research variables are recorded.

### Data Analysis Models

According to Sugiyono (2016), the data analysis method in this study includes descriptive analysis and multiple linear regression analysis. The data will be processed using the SPSS for Windows 20 program. Descriptive analysis is used to describe data statistically, such as presenting data through tables, graphs, calculating averages, medians, and percentages. Multiple linear regression analysis is used to evaluate the relationship between variables and predict the dependent variable. Prior to the regression analysis, classical assumption tests were performed which included normality tests, multicollinearity tests, autocorrelation tests, and heteroscedasticity tests.

**Tabel 4.** Variable Operational Definitions

| Variable | Variable Concept | Indicator | Scale |
|---|---|---|---|
| ROA | *Retum On Assets* is a comparison of profit (after tax) with capital (core capital) or profit (before tax) with the total assets owned by the Bank in a certain period. (Pandia, 2012: 70) | ROA _ Profit Before Tax - 10QO/o Total Assets *(Pandia, 2012: 70):* | Ratio |
| *Mudharabah* | *Mudharabah* is a financing agreement between Islamic banks as *shahibul* maa/and customers as *mudharib* to carry out a business activity, where Islamic banks provide 100% capital to customers and customers run their business (Ismail, 2014: 168). | Total *Mudharabah Financing (Agustina. 2014)* | Ratio |
| *Murabahah* | In a *murabahah contract,* the seller sells goods by asking for an excess of the purchase price of an item. Where the difference between the purchase price and profit is called the profit margin (Ismail, 2014) | Total Receivables *of Murabahah (Agustina, 2014)* | Ratio |

### Hypothesis test

The t test is used to evaluate the effect of individual independent variables on the dependent variable. If the significance value is > 0.05, H0 is accepted; if the significance value is < 0.05, H0 is rejected. Independent variables with tcount > t-table have a partially positive effect on the dependent variable. The coefficient of determination $R^2$ test measures how well the model explains the variation in the dependent variable. Adjusted $R^2$ takes into account the number of X variables in the model to compare the two $R^2$.

## III. RESULTS AND DISCUSSION

### Description of the Research Object

This study uses data from Islamic banking listed on the Indonesia Stock Exchange (IDX) in 2015-2019, including 14 Islamic Commercial

Banks and 20 Islamic Business Units. The data used is secondary data from the annual report of Islamic banking obtained from the official website of the relevant bank. The purposive sampling method was used to select the research sample, with 11 Islamic banks that met the criteria. The analysis was carried out using a quantitative analysis method using Microsoft Excel 2019 and SPSS 20 to test the data, with the aim of obtaining relevant information in the data and solving existing problems.

**Research Statistics**

Descriptive statistical tests are used to provide an overview of the data by looking at the minimum, maximum, average, and standard deviation values. The minimum is the smallest value in the data, the maximum is the largest value, the average is the total amount of data divided by the amount of data, and the standard deviation is the square root of the difference between the data values and the average divided by the amount of data. Data from each variable was processed using SPSS 20. The results of the descriptive statistical test can be seen in the following table.

**Tabel 5.** Results description statistics

| Variable | Min. | Max. | Means | Std. Dev. |
|---|---|---|---|---|
| Y_ROA | -8.52 | 0.60 | -4.2705 | 2.12128 |
| X1_MUDHARABAH | 0.00 | 32.11 | 25.1726 | 8.18993 |
| X2_MURABAHAH | 25.33 | 31.86 | 28.8410 | 1.64376 |
| X3PSR | -2.86 | 6.49 | 0.0062 | 2.00093 |
| X4 EDR | -5.68 | 3.91 | -1.0528 | 2.24539 |

*Source; data processed, 2020*

In the table above, there are minimum and maximum values for each variable. For the ROA variable, the minimum value is -8.52 and the maximum value is 0.60. The average ROA is -4.2705 with a standard deviation of 2.12128. The Mudharabah variable has a minimum value of 0.00 and a maximum value of 32.11. The Mudharabah average is 25.1726 with a standard deviation of 8.18993. The Murabahah variable has a minimum value of 25.33 and a maximum value of 31.86. The average Murabaha is 28.8410 with a standard deviation of 1.64376. The PSR variable has a minimum value of -2.86 and a maximum value of 6.49. The average PSR is 0.0062 with a standard deviation of 2.00093. The EDR variable has a minimum value of -5.68 and a maximum value of 3.91. The average EDR is -1.0528 with a standard deviation of 2.24539.

**Classic assumption test**

The classical assumption test is used to ensure that the regression model shows a significant and representative relationship. In this study, classical assumption tests were carried out to examine data normality, multicollinearity, autocorrelation, and heteroscedasticity. The normality test was carried out using graphical analysis (Normal PP Plot) and statistical analysis *(One Sample Kolmogorov Smirnov*).

**Tabel 6.** Normality Test Results

| Equality | Asymp. Sign |
|---|---|
| Structure 1 | 0.916 |

*Source: Secondary data processed, 2021*

From the table above, it can be seen that the *Kolmogorov Smimov values* for all regression equations are significant above 0.05. This means that the regression model meets the assumption of normality. From the results of the normality test with statistical tests it can be concluded that the regression models in this study are feasible to use.

Multicollinearity test was conducted to determine whether there is a correlation between the independent variables in the regression model. Ghozali (2017) explained that multicollinearity symptoms can be identified by looking at the tolerance value which is close to 1 (VIF < 10 and Tolerance > 0.1). The following table shows the presence of general multicollinearity in the model.

**Table 7.** Multicollinearity Test Results

| Variable | *tolerance* | VIF |
|---|---|---|
| X1_MUDHARABAH | 0.790 | 1,266 |
| X2_MURABAHAH | 0.663 | 1.508 |
| X3PSR | 0.663 | 1.508 |
| X4 EDR | 0.821 | 1.217 |

*Source; secondary data is processed; 2021*

From the table above, it can be concluded that all independent variables in all substructures have a VIF value of less than 10 and a tolerance value of more than 0.1. This indicates that there is no multicollinearity problem in the regression model. Thus, it can be confirmed that there is no linear relationship between the independent variables in this study.

**Autocorrelation Test Results**

The Durbin-Watson test (DW) is used to test for a correlation between the confounding error in period t and the confounding error in period t-1 in the regression model. This tests the existence of assumption deviations that often occur in observations that are free from autocorrelation. The output of the autocorrelation test can be seen in the following table:

**Table 8.** Autocorrelation Test Results

| Model | Durbin-Watson |
|---|---|
| 1 | 2.007 |

*Source: Secondary data processed; 2021*

From the table, the DW value obtained is 2.007. Based on the terms of the Durbin Watson test, namely dU < DW < 4 - dU, it can be concluded that there is no positive or negative correlation. In this case, 4 - dU = 4 - 1.7240 = 2.276. Thus, it can be seen that 1.7240 < 2.007 < 2.276. Therefore, it can be concluded that the regression model does not experience autocorrelation problems.

**Heteroscedasticity Test**

Furthermore, a heteroscedasticity test was carried out to see whether there was an unequal variance of the residuals between one observation and another in the regression model. In this study, the results of the heteroscedasticity test can be seen in the following table:

**Table 9.** Heterescedasticity Test Results

| **Variable** | ***Sig*** |
|---|---|
| X1_MUDHARABAH | 0.461 |
| X2_MURABAHAH | 0.514 |
| X3_PSR | 0.015 |
| X4_EDR | 0.022 |

*Source; processed data; 2021*

From the table, it can be seen that there are no statistically significant independent variables affecting the dependent variable (RES or AbsRES values). This can be seen from the significance value which is greater than 0.05, namely 0.461 for mudharabah, 0.514 for murabaha, 0.015 for PSR, and 0.022 for EDR. Thus, it can be concluded that all independent variables have no significant effect on the dependent variable. In addition, the results of the heteroscedasticity test also showed that there were no symptoms of heteroscedasticity in all the variables used in the research model.

**Multiple Regression Analysis**

Next, a multiple regression analysis was performed using the previously performed multiple linear regression method.

**Table 10.** Results of Multiple Regression Analysis

| Variable | Unstand. Coef. | | Stand. Coef. | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | -7.057 | 5.745 | | -1.228 | .225 |
| X1_MUDHARABAH | -.061 | .036 | -.236 | -1.709 | .094 |
| X2_MURABAHAH | .134 | .195 | .104 | .688 | .495 |
| X3_PSR | .054 | .160 | 051 | .338 | .736 |
| X4_EDR | -.443 | .128 | -.469 | -3.461 | .001 |

*Source; processed data; 2021*

From the table above, the results of the multiple linear regression test show a constant value (a) of -7.057 and a regression coefficient (b) for the independent variables, namely -0.061 for mudharabah, 0.134 for murabaha, 0.054 for PSR, and -0.443 for EDR. By using the regression equation given, it can be concluded the following things:

1. The constant value (a) is -7.057, which indicates that if mudharabah, murabaha, PSR and EDR financing is fixed or zero, then ROA will decrease by -7.057.
2. The regression coefficient for mudharabah financing (b1) is -0.061, which means that every 1% increase in mudharabah financing will reduce ROA by -0.061, assuming the other independent variables are constant.

3. The regression coefficient for murabahah financing (b2) is 0.134, which means that every 1% increase in murabahah financing will increase ROA by 0.134, assuming other independent variables are constant.
4. The regression coefficient for the PSR variable (b3) is 0.054, which means that every 1% increase in PSR will increase ROA by 0.054, assuming the other independent variables are constant.
5. The regression coefficient for the EDR variable (b4) is -0.443, which means that every 1% increase in EDR will reduce ROA by -0.443, assuming the other independent variables are constant.

Based on these results, it can be concluded that murabaha financing is the most profitable type of financing for Islamic banking.

## HYPOTHESIS TEST

### Partial Test Results (t)

In partial testing using the t test, it is carried out to find out whether each independent variable has a significant effect on the dependent variable. The following are the results of the t test (partial testing):

**Table 11.** Partial Test Results (t)

| Variable | Q | *Sig.* |
|---|---|---|
| X1_MUDHARABAH | -1,709 | 0.094 |
| X2_MURABAHAH | 0.688 | 0.495 |
| X3_PSR | 0.338 | 0.736 |
| X4_EDR | -3,461 | 0.001 |

*Source; processed data; 2021*

From the table, it can be concluded that the effect of the independent variables separately on the dependent variable is as follows:

1. Mudharabah Variable (X1): Has no significant effect on Return on Assets (ROA).
2. Murabahah Variable (X2): Has no significant effect on ROA.
3. PSR Variable (X3): Has no significant effect on ROA.
4. EDR Variable (X4): Has a significant influence on ROA.

Thus, the EDR variable (X4) is a variable that has a significant influence on ROA, while the Mudharabah (X1), Murabahah (X2), and PSR (X3) variables do not have a significant effect on ROA.

### Test Results for the Coefficient of Determination ($R^2$)

This test aims to examine the effect of Sharia Financing and *the Islamicity Performance Ratio* on the financial performance of Islamic banks listed on the Indonesia Stock Exchange. The analysis tool used is the significance value, where the hypothesis is accepted if the significance value is < 0.05 and rejected if the significance value is > 0.05. The results of the test for the coefficient of determination can be seen in the following table:

**Table 12.** Test Results for the Coefficient of Determination ($R^2$)

| Model | R | R Square | Adjusted R Square | std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .497 | .247 | .186 | 1.91339 |

*Source: Processed data; 2021*

From the table above, a correlation coefficient (R) of 0.497 is obtained, which indicates a 4.97% relationship between Islamic financing and *Islamicity Performance Ratio* and *Return on Assets*. This means that the independent variables in the study can explain some of the variations in the dependent variable. The coefficient of determination (Adjusted R Square) is 0.247009 or 24.70%, indicating that the contribution of independent variables (sharia financing and Islamicity Performance Ratio) affects 24.70% of the variability of *Return on Assets*, while the remaining 75.3% is influenced by other factors outside the model.

## RESEARCH RESULT

### *Mudharabah* Financing on *Return on Assets*

*Mudharabah* financing has no negative influence and significance on *Return on Assets* (ROA) in Islamic commercial banks. A higher level of mudharabah financing is associated with a lower level of ROA. This research refers to *Signaling Theory* which explains that Islamic banks provide signals through their financial reports, which can distinguish good or bad financial performance. The results of this study are also in line with previous research by Rachman and Rohmanika (2012) and Friska Putri (2017), who found that mudharabah financing has a negative effect on the profitability of Islamic banks. However, the results of this study are inconsistent with the research of Dyah, *et. al* (2017) which states that mudharabah financing has a positive influence on the ROA of Islamic banks.

### ***Murabahah* Financing on *Return on Assets***

Murabaha financing has no negative influence and significance on *Return on Assets* (ROA) at Islamic commercial banks. Income from murabaha financing, which comprises margin, is associated with a lower ROA rate. This may be caused by the accelerated repayment of murabahah financing which results in less than optimal profit. The results of this study refer to *the Signaling Theory* which explains that Islamic banks provide signals through their financial reports, which can influence investment decisions. The results of this study are in line with Sari's research (2013 ) , who found that murabaha financing has no effect on the ROA of Islamic banks. However, the results of this study are inconsistent with Fadholi's research (2015 ) , which states that murabaha financing has a positive and significant effect on the level of ROA in Islamic commercial banks.

### ***Profit Sharing Ratio* (PSR) Financing on *Return on Assets***

The profit-sharing ratio has no influence and negative significance on *Return on Assets* (ROA) in Islamic commercial banks. The profit-sharing ratio is not able to optimize the ability of Islamic banks to generate profits, which results in a decrease in ROA. The results of this study refer to *the Signaling Theory*, which explains that the information conveyed by Islamic banks through *profit sharing ratios* can provide signals regarding the ability of banks to fulfill their obligations. The results of this study are in line with Rahma's research (2018), who found that *the profit sharing ratio* has no effect on the ROA of Islamic banks. However, the results of this study are inconsistent with Nurdin and Suyudi's research (2019), which states that *the profit sharing ratio* has a positive and significant influence on the financial performance of Islamic commercial banks.

### ***Equitable Distribution Ratio (EDR)* Financing on *Return on Assets***

Equitable distribution ratio has no influence and significance on *Return on Assets* (ROA) in Islamic commercial banks. *Equitable distribution ratio* is not able to improve financial performance as represented by ROA because Islamic banks allocate more funds for dividend distribution and employee salary payments rather than benevolent funds. This sharing practice can make customers assume that Islamic banks prioritize internal interests such as shareholders and employees. This can affect public trust and potentially reduce the desire to save funds in Islamic banks, which results in a decrease in Islamic bank ROA. The results of this study are in line with *stakeholder theory* which emphasizes the importance of companies providing benefits to all parties involved. This research supports Pudyastuti's research (2018 ) who concluded that *the equitable distribution ratio* has no significant effect on ROA. However, the results of this study are inconsistent with the research of Dewana, *et. al* (2016) who found that *the equitable distribution ratio* has a positive but not significant effect on ROA.

## IV. CONCLUSION

The research results conclude the following:

1. Mudharabah financing has no significant effect on *Return on Assets* (ROA). The path regression coefficient of -0.061 indicates that there is no significant relationship between *mudharabah* and ROA. The t-count value of -1.7409 is also smaller than the t-table value which indicates not significant. The probability of 0.094 is also not significant, with $p < 0.05$.
2. Murabahah financing has no significant effect on *Return on Assets* (ROA). The path regression coefficient of 0.134 indicates that there is no significant

relationship between *murabahah* and ROA. The t-count value of 0.688 is also smaller than the t-table value which indicates not significant. The probability of 0.495 is also not significant, with $p < 0.05$.

3. Profit sharing ratio has no significant effect on *Return on Assets* (ROA). The path regression coefficient of 0.054 indicates that there is no significant relationship between *the profit-sharing ratio* and ROA. The t-count value of 0.388 is also smaller than the t-table value which indicates not significant. The probability of 0.736 is also not significant, with $p < 0.05$.
4. *Equitable Distribution Ratio* has a significant effect on *Return on Assets* (ROA). The path regression coefficient of -0.443 indicates a significant relationship between the equitable distribution ratio and ROA. The t-count value of -3.461 is also smaller than the t-table value which indicates significance. A probability of 0.001 also shows significance, with $p < 0.05$.

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