

Utilizing *Mudharabah* and *Musyarakah* Financing to Increase Return on Equity (ROE) at PT. Indonesian Sharia Bank Tbk. of Padang Bulan Branch

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ABSTRACT

This study aims to determine the analysis of *mudharabah* (profit sharing) and *musyarakah* (partnership) financing to increase Return on Equity (ROE) at Bank Syariah Indonesia (BSI) Tbk. Research was conducted at BSI's Padang Bulan Branch Office involving descriptive quantitative methods. In the data collection, we used documentation technique from secondary sources published in Indonesia Stock Exchange. Data taken from the company might include financial statements for the years 2018-2020. The results show that *mudharabah* financing decreased, compared to the *musyarakah* financing; the ROE received was still low. Cooperation in the form of *mudharabah* and *musyarakah* financing certainly provided benefits for the bank and the customers. The company faced obstacles in financing, especially *mudharabah* financing and also in ROE due to low customer interest in *mudharabah* financing compared to *musyarakah* financing. In other words, if there is a loss, the loss would only be borne by one party. This of course can raise doubts, both by the bank and the customers. So, indirectly, all this has impacts on the bank preferring to further increase *musyarakah* financing, and also brings impacts on customer motivation to prefer *musyarakah* financing because the financing in the event of a loss would be divided according to the initial agreement. On overall, *mudharabah* and *musyarakah* financing is the profit-sharing financing that most dominantly affects the level of ROE.

Keywords: *Mudharabah* (profit sharing), *Musharakah* (partnership), Bank Syariah Indonesia, Return On Equity

INTRODUCTION

Background

Islamic banks are banks that operate without relying on interest¹ and as financial or banking institutions they are commonly known as interest-free banks, whose operations and products are developed on the basis on Al-Qur'an.

النَّبِيْعُ مِثْلُ الرِّبْوِاَ وَاحْلَ اللّٰهُ النَّبِيْعَ وَحَرَّمَ الرِّبْوِاَ فَمَنْ جَاءَهُ
مَوْعِظَةٌ مِنْ رَبِّهِ فَاَنْتَهَى فَلَهُ مَا سَلَفَتْ وَأَمْرُهُ إِلَى اللّٰهِ وَمَنْ
عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ

“People who eat (take) *riba*' cannot stand but like the standing of a person who is possessed by satan because of (pressure) madness. Their condition like that, is because they say (opinion), actually buying and selling is the same as *riba*', even though Allah has justified buying and selling and forbidden *riba*'. Those who have reached the prohibition from their God, then continue to stop (from taking *riba*'), then for him is what he had taken first (before the prohibition came); and its affairs (up to) to Allah. People who return (take *riba*'), then that persons are the inhabitants of hell; they are eternal in it.” (Q: al-Baqarah: 275)

Such verse above strongly condemns the collection of usury. The principle of profit sharing is a general characteristic and the basic foundation for the operation of Islamic banks as a whole. In sharia, the

principle is based on the principles of al-mudharabah. The legal basis for mudharabah financing is the Indonesian Government Law² concerning amendments to Law No.7 of 1992 concerning banking³ based on the decision letter of the BI directors,⁴ concerning commercial banks based on sharia principles in conducting their business activities which include the distribution of funds through profit-sharing financing based on the mudharabah principle.

Purpose

Given the phenomena above, the purpose of the study on mudharabah and musyarakah financing was to increase ROE at PT Bank Syariah Indonesia Tbk. The study was also conducted to find out problems the company that had constraints on financing, that is, no comparable exists in the ROE generated.

LITERATURE REVIEW

Basic Concepts

Mudharabah and musyarakah financing have differences in the distribution of capital and business management, as well as profit sharing.⁵ For mudharabah financing, the bank contributes 100% of the capital, while the customer only manages the business. Profit sharing is based on the amount of capital contributed. The development of people's mindsets for doing business has caused banks to compete in offering cooperation in business ventures.⁵ Cooperation in the form of mudharabah and musyarakah financing definitely provides benefits for the bank and customer. The income from this investment and working capital financing will be used to repay the bank's capital.

Ratio analysis is an important way of expressing a meaningful relationship between financial statement items.⁶ Ratio is useful guidelines in evaluating the company's financial position and activities and making comparisons with year results. - previous year. The financial ratio used is the ROE ratio, which is the rate of return on the

bank's capital. The reason for using ratio is to determine the management's ability to manage available capital to generate net income in mudharabah and musyarakah financing. The amount of profit is certainly related to the amount of financing disbursed and shows the level of success of Islamic banks in carrying out their business activities. The impact arising from the mudharabah and musyarakah financing is that it will attract the real sector.

Mudharabah financing is a collaboration between a partner who gives money to another partner to invest in a commercial company. Profit sharing will be divided based on the agreement at the beginning of the contract, while if there is a loss it will be borne by the owner of the capital. From the results of mudharabah financing, if mudharabah financing is low, it will affect the company's profit and equity which will also experience a decline so that it can be said that the company is in unfavorable condition. Then, if mudharabah financing is high, it will lead to trust in investors to invest their capital in the capital company, because the company is considered to have the ability to pay off its obligations and measure the ability of bank management to manage existing capital to get net income.

Musyarakah financing is a partnership in which two or more entrepreneurs work together as business partners in a business. Each party includes its capital and participates in managing the business. Profits and losses will be divided based on the percentage of capital participation. Then, if musyarakah financing is high, it will create confidence in investors to invest their capital in the company, because the company is considered to have the ability to pay off its obligations and measure the ability of bank management to manage existing capital to get net income. So that it affects the profit and equity ratio of the company.

Based on the explanation above, profit can be measured using ROE because the exists capital/shares of investors who

want to invest funds in the company. The ROE itself is an indicator of financial performance from the aspect of profitability. This ratio is measured by comparing net income with equity. In addition, ROE is often used to measure management's ability to generate profit or loss for owners of capital. The reason the authors choose PT. Bank Syariah Indonesia Tbk. as a place of research is that, from the observations to the bank, it is estimated that it can represent the main problem in this study, and can represent other similar companies.

The ROE is used to determine the bank's ability to generate net income through the use of its own capital.⁷ In other words, this ratio is used to measure how much net profit will be generated from every rupiah of funds embedded in equity capital. The higher the return on equity means the higher the amount of net profit generated from each rupiah of funds embedded in equity. Conversely, the lower the return on equity means the lower the amount of net profit generated from each rupiah of funds embedded in equity.

One of the allocations of these funds is mudharabah and musyarakah financing. Both financing will generate profits from the calculation for the results. The profits will be shared between the bank and its managing customers. The profits will be used to return the capital allocated for financing. The high and low value of mudharabah and musyarakah financing will affect the resulting return and will affect the profitability obtained. The relationship that arises between mudharabah and musyarakah financing on ROE is positive, because if the financing increases it will increase the ROE obtained by Islamic banks.

Return on Equity

The ROE is one part of the profitability ratio. Profitability is a tool used to analyze management performance, and the level of profitability will describe the company's profit position in percentage. This ratio aims to find out and measure how much the rate of return on own capital from

shares invested in the company through the amount of income or profit generated by the company. return on equity measures the company's ability to earn profits available to shareholders.

The ROE is the ratio between net profit and capital (core capital) of the company.⁸ This ratio shows the percentage level that can be generated by ROE is very important for shareholders and potential investors, because high ROE means and an increase in ROE will cause an increase in stock. Investors in the capital market are very concerned about the company's ability to generate and increase profits. this is an attraction for investors in buying and selling shares. Therefore, management must be able to meet the targets applied. Companies that have a high ROE value are considered to have good performance.

This research means to measure the level of profitability of the company. The ROE is used, because ROE measures the company's ability to obtain profits available to company shareholders in the form of equity participation invested by shareholders. The reason for using the ROE ratio is to determine the bank's ability to manage its capital for mudharabah and musyarakah financing.

The ROE or profitability of own capital is a ratio to measure net profit after tax with own capital.^{9,10} The higher this ratio, the better the bank is. This means that the position of the owner of the company is getting stronger, and vice versa." So that it can be concluded, ROE is a measurement of the income (income) available to company owners for the capital they have done by the owners of their own capital or often referred to as company profitability which is used to measure the company's ability to create profits or equity. using net profit after tax with own capital for shareholders.

The purpose of using the profitability ratio for the company as well as for parties outside the company, namely:

1. to measure or calculate the profit earned by the company in a certain period.

2. to assess the company's profit position in the previous year with the current year
3. to assess profit development over time
4. other purposes.

Meanwhile, the benefits obtained are to:

- 1) know the level of profit earned by the company in one period
- 2) knowing the amount of net profit after tax with own capital
- 3) as the main indicator in making investment decisions for investors.
- 4) other benefits.

Thus, it is concluded that ROE has very important goals and benefits for internal and external parties. Because to achieve an expected company performance every certain period. The ROE has the purpose and benefit of knowing and measuring the company's ability to generate net income in capital or equity. The factors that affect ROE are sales volume, capital structure, and debt structure.¹¹ "So for companies that use credit to finance the company's activities, they will get a return on value. high equity.

The factors that influence the ROE are:¹²

1. to turn over of operating assets (turnover rate of assets used for operations in a certain period)
2. to have profit margin is the amount of operating profit expressed as a percentage of net sales.

Based on the influencing factors above, it can be concluded that increasing the company's ability to generate capital funds invested by the capital owner in the company can affect the level of ROE. This means that an increase in profit will have an impact on increasing the company's ability to pay obligations financed by the company. The higher the Return On Equity is, the better the results are, meaning the position of the owner of the company's capital is getting stronger. This ratio shows the ability of management to maximize the rate of return to shareholders for every rupiah of equity used by the company.¹³ The higher this ratio is, the better the company is because it provides a greater rate of return to shareholders.

Sharia Bank Financing

The distribution of funds in Islamic banks is called financing. Financing based on sharia principles is divided into several principles, namely based on the principles of buying and selling, profit sharing and rent. Sharia Banking¹⁴ also regulates business activities that do not conflict with Sharia principles, including business activities that do not contain elements of usury, *maisir*, *gharar*, *haram*, and unjust. It also regulates the issue of sharia compliance (sharia compliance) whose authority lies with the Indonesian Ulema Council (MUI) which is represented through the Sharia Supervisory Board (DPS) which must be established at each Sharia Bank and Sharia Business Unit (UUS).

The definition of financing is explained as follows: Financing is the provision of money or claims that can be equated with it, based on an agreement or agreement between the bank and another party that requires the party being financed to return the money or bill after certain period of time with rewards or profit sharing.¹⁵ Financing is the naming of Islamic Bank funds both in rupiah and foreign currencies in the form of financing, receivables, qardh, sharia securities, placements, equity participation, investment temporary capital, commitments and contingencies in administrative accounts as well as Bank Indonesia *wadiah* certificates.¹

From some of these definitions, it can be concluded that financing is the provision of loans or providers of funds given to borrowers or providers of funds given to borrowers or being financed and the party being financed is obliged to pay or return the bill within a certain period of time in accordance with the agreement and with compensation paid. agreed.

Mudharabah Financing

Mudharabah is (investment cooperation)/profit loss sharing is cooperation between two parties in running a business.¹⁶ The first party, called shahibul maal (investor) who provides full capital

(100%). The second party, called the mudharib (manager) who will run the agreed business. Mudharabah is an investment transaction and from the fund owner (shahibul maal) to the fund manager (mudharib) to carry out certain business activities according to sharia, with the distribution of operating results between the two parties based on a pre-agreed ratio.¹ Mudharabah financing is a business cooperation agreement between the two parties where the first party (the owner of the fund) provides all the funds, while the second party (the fund manager) acts as the manager, and the business profits are divided between them according to the agreement. together with financial losses borne only by the owner of the funds.¹⁷

Musharaka Financing

Musyarakah financing is a cooperation agreement between two or more parties for a particular business, where each party contributes funds provided that they are divided based on an agreement, while losses are based on the contribution of funds.¹⁸ Partners jointly provide funds to fund certain businesses in the community, both existing and new businesses. Musyarakah is financing based on a cooperation agreement between two or more parties for a particular business, each party contributing funds provided that the profits and risks will be shared according to the agreement.”¹⁹

So that it can be concluded that musyarakah is a cooperation agreement between two or more parties for a particular business in which each party contributes funds with an agreement that the profits and risks will be shared in accordance with the agreements specified at the beginning of the agreement.

Previous Research

From the results of the research conducted above, there are those who state that mudharabah and musyarakah financing have a positive effect on return on equity (ROE). And there are also those who state

that mudharabah and musyarakah financing have no effect on ROE. Therefore, the researcher wants to do further research on the analysis of mudharabah and musyarakah financing on ROE at Bank Syariah Indonesia Tbk.

Conceptual Framework

From results show that mudharabah financing has a negative and significant effect on ROE levels, while musyarakah financing has a positive and significant effect on ROE levels partially.⁵ Simultaneously, mudharabah financing and this musharakah has a significant effect on the level of ROE. Mudharabah financing is the profit-sharing financing that most dominantly affects the level of ROE. From some of the statements above, it can be concluded that low mudharabah and musyarakah financing will reduce the company's profit and equity and vice versa if the mudharabah and musyarakah financing increases it will also result in increased company profits and equity. The company is said to have a strong position if the company is able to increase profitability as measured by ROE. This means that the company must be able to increase the capital/shares invested by shareholders or investors.

MATERIALS AND METHODS

The method used in this study is a descriptive method with a quantitative approach, namely in an effort to find and collect data, compile and interpret existing data. Research aims to compile a description or phenomenon of a problem in detail which describes in full, regularly and thoroughly to an object of research. The source of data in this study is secondary data. Secondary data is research data obtained by researchers directly by conducting research into the company under study and indirectly, namely through intermediary media (obtained and recorded by other parties) that have been published. data and information obtained by conducting research directly to the company in addition to accessing the company's

website²⁰ and the Indonesia Stock Exchange website.²¹

Financial Ratio Analysis

Analysis of the data used in this study is the analysis of financial ratios, profitability ratios, namely ROE. The ROE ratio reflects how much return is generated for shareholders for every rupiah of money invested.

$$ROE = \frac{\text{Net Profit}}{\text{Total Equity}} \times 100\%$$

RESULT & DISCUSSION

The ROE is one part of the profitability ratio. The profitability ratio shows the company's ability to generate profits over a certain period. Profitability is a tool used to analyze management performance, the level of profitability will describe the company's profit position. This ratio aims to find out and measure how much the rate of return on own capital from shares invested in the company through the amount of income or profit generated by the company. return on equity measures the company's ability to earn profits available to shareholders. So it can be concluded, the ROE is a measurement of the income (income) available to company owners on

the capital they have done by the owners of their own capital or often referred to as company profitability which is used to measure the company's ability to create profits or equity. which uses net profit after tax with own capital for shareholders. Financing is the provision of loans or providers of funds given to borrowers or providers of funds given to borrowers or being financed and the party being financed is obliged to pay or return the bill within a certain period of time in accordance with the agreement and with the agreed compensation.

Mudharabah financing, namely a business cooperation contract between the first party who provides all the capital and the second party who acts as the manager of the funds by dividing the business profits in accordance with the agreement stated in the contract. Meanwhile, the loss is fully borne by the Islamic Bank unless there is a second party who makes an intentional mistake, is negligent or violates the agreement. Musyarakah financing is a cooperation agreement between two or more parties for a particular business in which each party provides a portion of the funds provided that the profits will be divided according to the agreement. Meanwhile, the loss will be borne according to the portion of each fund.

Table 1: Transactional status of ROE

Year	Mudharabah Financing	Musyarakah Financing	Net Profit	Equity	ROE
2018	475.300.000.000	7.406.955.000.000	106.600.000.000	5.026.640.000.000	2,12%
2019	414.096.000.000	11.019.873.000.000	74.016.000.000	5.088.036.000.000	1,45%
2020	315.016.000.000	14.171.405.000.000	248.054.000.000	5.444.288.000.000	4,55%
Median	401.470.666.000	10.866.077.666.000	110.910.000.000	5.186.321.333.000	2,71%

In 2018, fluctuating (up and down) in mudharabah financing experienced a fairly good increase of Rp. 475,300,000,000 followed by a net profit of Rp. 106,600,000,000. However, it was not followed by musyarakah financing and equity, which was Rp. 7,406,955,000,000 and Rp. 5,026,640,000,000. with a roe rate of 2.12%. In 2019, there were also fluctuations, namely in mudharabah financing there was a decrease followed by net profit of Rp. 414,096,000,000 and Rp. 74,016,000,000. However, it is not followed

by musyarakah and equity financing, which is Rp. 11,019,873,000,000 and Rp. 5,088.036,000,000 with a roe rate of 1.45% In 2020, financial developments are good with an increase, namely in musyarakah financing, net income and equity of Rp. 14,171,405,000,000, Rp.248,054,000,000 and Rp. 5,444,288,000,000 but not followed by mudharabah financing of Rp. 315,016,000,000 with a roe rate of 4.55%.

The ROE of a company shows the rate of return on the capital used by the company for the company's operational

activities. ROE also shows the company's performance, the better the ROE value, it can be concluded that the company has a good performance. If the ROE is low, it shows poor performance.

CONCLUSIONS

The increase in mudharabah financing was due to an increase that also occurred in the company's profit and equity, but the dominant one that experienced an increase was equity because the mudharabah financing itself was capital/shares invested by the capital owner in the company using the profit-sharing method in accordance with the initial agreement. And the decline that occurred in mudharabah financing was also due to the lack of interest of investors to invest in the company so that it decreased and it greatly affected the profit and equity that would be generated and it can be seen from the mudharabah financing bar chart and the high and low return on equity of financing. The results obtained also affect the company's profits and equity, especially the profits generated are very influential and will also have an impact on the condition of the company so that with the research that occurs, the company can be said to be in a bad condition in carrying out profit sharing financing used with mudharabah financing. So, mudharabah financing is more influential for increasing company profits and equity or Mudharabah financing is the most dominant profit-sharing financing to increase ROE.

The annual increase in musyarakah financing also affects the profit and equity generated, but unlike mudharabah financing, which more dominantly affects ROE. With the increase in musyarakah financing every year, it is not followed by profits which also increase every year and it can be seen that the profit generated in 2019 is the lowest profit and this means that it is not necessarily with the increase that occurs every year in musyarakah financing, the profit generated will also increase. This is also followed by the resulting equity that is unstable/unlike musyarakah financing

which has increased every year but has also decreased. But the decline that occurred was not as much as the decrease in the company's net profit. This is because the profits are divided according to the agreed ratio and one party may ask for a profit that is more in accordance with the portion of his work. Losses are divided proportionally according to the capital deposited by each party. The function of the guarantee in the musyarakah contract is as a step to protect funds against the capital provided by the bank to customers and as a reinforcement of the customer's seriousness in running the business to be run. The proportion of profit sharing does not have to be proportional to the percentage of equity participation, because in principle the participation is not only capital but also expertise and time. In the event of a loss, each party is responsible according to the proportion of their respective capital.

Judging from the mudharabah and musyarakah financing that occurred from 2018 to 2020 the company was still unable to increase mudharabah financing as measured by ROE. This is due to the lack of interest of investors/shares in the company, with losses borne only by the owner of the funds, the company is able to increase the cost of musyarakah every year. However, it is not comparable to the ROE generated by the company because the distribution of profits and losses on musyarakah financing is distributed based on how much of the contribution they have invested in the company. So, there is very little impact of investment in experiencing the company's losses.

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