

# CHAPTER I

## INTRODUCTION

### A. Background of Research

The development of Islamic banking in Indonesia is conducted in the form of dual-banking system within the framework of the Indonesian Banking Architecture (API), to present more alternatives of banking services to the Indonesian citizen. Along with this, the system of Islamic banking and conventional banking support the mobilization of public funds more widely to improve financing for national economy sectors.

In some cases, both Islamic banks and conventional banks have some similarities, such as the technical acceptance of money, transfer mechanism, general conditions in the field of financing and so forth. The basic point in the difference between Islamic banks and conventional banks is that the contract undertaken that has consequences worldly and hereafter because of the contract which is based on Islamic law.

Characteristics of the Islamic banking system which is operates on the principle of profit sharing provides an alternative banking system are mutually beneficial for society and the bank, highlighting aspects of fairness in trade and ethical investment, promoting the values of togetherness and brotherhood in production, and avoid speculative activity in the financial transaction. By providing a variety of products and banking services with various financial schemes, Islamic banking become a credible alternative to the banking system and can be used by all segments of Indonesian society without exception.

In the context of the management of the macro economy, the widespread use of a variety of products and Islamic financial instruments will be able to bring the relationship between the financial sector and real sector and create harmonization between both sectors. The more widespread use of the product and Islamic instruments, in addition to support financial activities and business community will also reduce speculative transactions, thus supporting the stability of the financial system as a whole, which in turn it will contribute significantly to the achievement of mid-long term price stability.

With the implementation of ACT 21 year 2008 concerning in Islamic banking which issued on July 16, 2008, the development of national Islamic banking industry increasingly has adequate legal base and will accelerate the growth faster. With the impressive development progress, which reached an average asset growth of more than 65% in the last five years, it is expected that the Islamic banking industry's role in supporting the national economy will be increasingly significant.

Islamic banking is now becoming a trend in the society as an alternative to avoid usury. Not a few conventional banks in Indonesia established Sharia Business Unit (UUS) and Islamic Unit Banks (BUS). Obviously Indonesia with majority citizen is Muslim makes the development of Islamic bank phenomenon become increasingly popular. It is well known that the Islamic banks provide another alternative beside conventional banks which is known it is contains usury in the form of interest, while Islamic banks use profit sharing system. Until now the presence of Islamic banks is not only a trend but a necessity of society.

The society needs toward Islamic banks became a reason for the emergence of Islamic banks. The prohibition against usury as it has been presented in the Qur'an gave rise to new needs in the society for financial products and services in accordance with Islamic teachings. Islamic bank offers a wide range of financial product and service which is free from elements of usury. Some forms of Islamic banking services that most demanded by the society is mudarabah financing and musharakah financing and also sale and purchase agreement, murabahah.

**Table 1.1**  
**Composition of Financing Provided by Islamic Banks and Sharia Business Unit**

<b>Financing Composition of Islamic Commercial Bank and Islamic Business Unit)</b>						
<b>Contract</b>	<b>Dec</b>					
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Mudharabah	6.597	8.631	10.229	12.023	13.625	14.354
Musharakah	10.412	14.625	18.96	27.667	39.874	49.387
Murabahah	26.321	37.508	56.365	88.004	110.57	117.37
Salam	0	0	0	0	0	0
Istishna	423	347	326	376	582	633
Ijarah	1.305	2,341	3.839	7.345	10.481	11.62
Qardh	1.829	4.731	12.937	12.09	8.995	5.965
Others	0	0	0	0	0	0
<b>Total</b>	<b>46.886</b>	<b>68.181</b>	<b>102.66</b>	<b>147.51</b>	<b>184.12</b>	<b>199.33</b>

(Source: OJK, Islamic Bank Statistics, June 2015)

Those three types of financing, according to data from Bank Indonesia in monthly report per June 2015, known in the Islamic bank financing which still dominated by a murabahah contract, the presentation reaches 57.76% of the total financing, followed by musharakah financing 26.5% and mudarabah 7.31%, the rest is channeled through other contracts.

From the data provided by Bank Indonesia it is quite sad to see the tendency that people prefer murabahah financing which is more consumptive than musharakah and mudharabah financing while this type is more productive. And this trend occurred almost throughout in the Islamic bank both domestic and overseas.

According to the conception of an ideal, a model of Islamic bank financing is more directed towards financing with the principle of sharing that emphasizes patterns of partnership between the bank and the customer. This is understandable because the financing model profit and loss sharing that is mudharabah and musharakah possessed relatively high risk due to the uncertainty of income benefit (return) and the classic problems principle-agent problem.

The financial performance of the bank is one of the successes for the health of a bank. The bank's financial performance assessment can be seen from the profitability by using the number of the Return on Assets (ROA). Return on Assets is a company's financial ratios related to profitability in measuring the company's ability to generate profits or earnings in the income level, assets and certain share capital. By knowing the ROA, we can assess whether the company has been efficient in using its assets in operating activities to generate profit (Hanafi and Halim 2003: 27). ROA is also used to measure the net benefits derived from the use of the asset. In other word, the higher ratio, the better productivity of asset in net profit. This turn would increase the company's attractiveness to investors. The increasing attractiveness of the company to makes the company more attractive to investors is because the rate of return or dividend

will be even greater. It will also have an impact on stock prices of these companies in the capital market which will be increased so that the ROA will affect the company's stock price.

The results that want to be achieved in this study is to determine the effect of musharakah, murabahah, and ijarah financing towards profitability (ROA) in Islamic commercial banks.

Based on the background of the problems that have been raised, researcher want to conduct the research and compile them in a thesis entitled “**Analysis of the Influence of Musharakah, Mudharabah, and Ijarah Financings Towards Profitability in Islamic Banks (period of January 2012-June 2015)**”.

## **B. Research Limitation**

There are a lot of factors that may influence profitability in Islamic banks. However, the relationship among musharakah, mudarabah, and ijarah period 2012-2015 are interesting to be examined. Study limitations aim to restrict the analysis problems that may occurred. Therefore, this study is restricted to the following limitations:

1. Focus on Islamic banks in Indonesia during research period.
2. This study only examines musharakah, mudharabah, and ijarah financing and profitability (ROA) in Islamic commercial bank.
3. The study period is from January 2012 – June 2015, monthly time series data.

### **C. Problem Statement**

Based on the background that explained before, then the problem which is going to solve in this paper defined as:

1. How does the long-run relationship (cointegrated) among those variables such as musharakah, musharabah, ijarah and ROA?
2. How does the causality and short-run relationship among those variables such as musharakah, musharabah, ijarah and ROA?

### **D. Research Purposes**

Based on the description of the background and the formulation of the problem above, the purposes of this study are:

1. In order to know the long-run relationship (cointegrated) among musharakah, mudharabah, ijarah, and Return on Asset (ROA).
2. In order to know the causality among those variables and the short-run relationship among musharakah, mudharabah, ijarah, and Return on Asset (ROA).

### **E. Research Benefits**

The result of this study is expected to provide benefits to related parties, those are:

1. It can help explain the short-run and long-run relationship among ROA, musharakah, mudarabah, and ijarah.
2. It is expected to be an input for the banker to have deep understanding in financing factors which influence profitability (ROA) in Islamic banks.

3. It is expected could be input analysis and comparison for the other researchers.

## **F. Research Plans**

In order to understand the undergraduate thesis clearly, so the researcher divided the materials into several sub-chapters with systematic writing as follows:

**Chapter I**, Introduction; This chapter describes the general information that the background of research, research limitation, problem statement, research purposes, benefits of the research, and research plans.

**Chapter II**, Literature Review; This chapter contains the theory that some excerpts taken from the book, in the form of understanding and definition. This chapter also explains the basic concepts of musharakah, mudharabah, and ijarah financing in Islamic banks, and the concepts of Return on Asset (ROA) and other definitions associated with the financing variables. This chapter also contains of previous studies, theoretical framework, and hypothesis.

**Chapter III**, Research Methodology; This chapter contains the definition of variables that used in this research, data and the source, the methodology of cointegration test for long-term analysis and Vector Error Correction Model (VECM) for short-term analysis.

**Chapter IV**, Variables Overview; This chapter describes the general overview of financing in Islamic bank; musharakah financing, mudharabah financing, ijarah financing, and Return on Asset (ROA).

**Chapter V, Research Findings;** This chapter contains the result from the analysis of cointegration test and Vector Error Correction Model (VECM), the result table and diagram, the analysis of empirical result with the theoretical framework and previous study.

**Chapter VI, Conclusions;** This chapter contains of conclusion from the research, suggestion for the policy maker in Indonesia and suggestion for the next research.