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Analysis of Return on Asset Improvement Influenced by Murabaha Financing Income and Mudarabah Profit-Sharing Income with Non-Performing Finance as an Intervening Variable in Indonesian Islamic Commercial Banks Listed on the Indonesia Stock Exchange for the Period 2019-2023

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Abstract: This study is motivated by the growth of Islamic banking in Indonesia, which shows significant potential for enhancing financial performance, particularly Return on Asset (ROA). The aim of this research is to analyze the impact of income from murabahah financing and profit-sharing from Mudarabah on Non-Performing Finance (NPF) and ROA in Islamic commercial banks listed on the Indonesia Stock Exchange from 2019 to 2023. The population consists of 4 Islamic banks, with a saturation sampling method applied. The research employs a quantitative methodology using multiple regression analysis to examine the relationships among the variables. The findings indicate that both murabahah and mudharabah income have a significant positive effect on ROA, while NPF acts as an intervening variable that influences this relationship. The conclusion emphasizes that effective management of income from murabahah and mudharabah products can enhance the financial performance of Islamic banks. Recommendations for banking practitioners include focusing strategies on managing NPF to optimize ROA.

Keywords: Islamic Banking,ROA, NPF, Murabahah, Mudharabah.

INTRODUCTION

The emergence of Islamic banking has transformed the landscape of the financial sector in Indonesia, reflecting the increasing demand for financial services that align with Islamic principles. Islamic banks operate under the principles of Shariah law, which prohibits interest (riba) and promotes ethical investments. This unique framework has attracted a significant portion of the Muslim population in Indonesia, which constitutes the majority of the country's demographic. As noted by [1], the growth trajectory of Islamic banking in Indonesia is indicative of a broader acceptance of ethical finance, appealing not only to religious considerations but also to those seeking sustainable investment opportunities.

The growth of Islamic banking is evident in its expanding market share within the national banking sector. According to the Financial Services Authority of Indonesia, Islamic banking assets reached approximately IDR 2,450 trillion by June 2023, reflecting an annual growth rate of 13.3% [2]. This growth underscores the increasing penetration of Islamic financial products, which cater to the needs of a diverse customer base. As emphasized by [3], the robust performance of Islamic banks during economic downturns further solidifies their position as viable alternatives to conventional banking.

Despite the promising growth, Islamic banks face unique challenges that could impact their profitability and sustainability. One notable concern is the management of Non-Performing Financing (NPF), which can significantly affect the Return on Assets (ROA) of these institutions. [4]suggest that a high NPF ratio indicates potential inefficiencies in asset utilization and risk management practices. Therefore, understanding the relationship between financing types—such as Murabahah and Mudharabah—and their impact on NPF is crucial for enhancing the financial performance of Islamic banks.

The operational framework of Islamic banks involves a variety of financing contracts that differ from conventional banking practices. Murabahah, a cost-plus financing model, and Mudharabah, a profit-sharing agreement, are among the most utilized modes of financing in Islamic banking [5]. Research by Ramadhanti et al. (2023) indicates that the effective management of these financing methods can lead to improved ROA, provided that the associated risks are adequately mitigated. This highlights the necessity for Islamic banks to refine their operational strategies in response to evolving market dynamics.

Moreover, the performance of Islamic banks is influenced by their ability to effectively manage their financing portfolios while minimizing risks associated with NPF. As articulated by [6] the interplay between various financing methods and their effect on profitability metrics like ROA necessitates comprehensive analysis. This understanding is essential for Islamic banks to enhance their risk management frameworks and optimize their financial performance.

Considering these challenges and opportunities, this study aims to analyze the impact of Murabahah and Mudharabah income on ROA, with a particular focus on the role of NPF as an intervening variable. This research is crucial for identifying strategies that Islamic banks can employ to improve their financial health while adhering to Shariah principles. The findings could provide valuable insights for practitioners and policymakers in the Islamic finance sector.

Ultimately, the exploration of these relationships is significant not only for academic inquiry but also for practical application in the financial industry. Understanding how different financing structures influence profitability and risk will allow Islamic banks to navigate the complexities of the financial landscape more effectively. As highlighted by [7], the integration of robust risk management practices is vital for sustaining the growth of Islamic banking in Indonesia and ensuring its long-term viability in a competitive market.

METHOD

This study employs a quantitative research approach to analyze the relationships between Murabahah fund distribution income, Mudharabah profit-sharing income, Non-Performing Finance (NPF), and Return on Asset (ROA) in Islamic commercial banks listed on the Indonesia Stock Exchange from 2019 to 2023. The quantitative approach is suitable for this research as it allows for statistical analysis of numerical data, enabling the identification of patterns and relationships among the variables.

Research design

The research design utilized in this study is correlational, aiming to explore the strength and direction of the relationships between the independent variables (Murabahah and Mudharabah incomes) and the dependent variable (ROA), while also considering NPF as an intervening variable. This design facilitates the examination of how variations in the independent variables affect the dependent variable, providing insights into the operational dynamics within Islamic banking.

Population, Sample, Sampling

The population for this study consists of all Islamic commercial banks listed on the Indonesia Stock Exchange during the specified period. This population is relevant as it includes institutions that operate under Islamic principles and are subject to regulatory oversight, thus ensuring the validity and reliability of the data collected. A saturation sampling technique is employed to select a sample of Islamic banks that have consistently reported financial data over the five-year period from 2019 to 2023. This approach ensures the inclusion of banks that provide comprehensive data, enhancing the robustness of the analysis. The sample will include approximately 4 Islamic banks that meet the selection criteria. By focusing on a specific group of banks, the study aims to provide a detailed analysis of the factors influencing ROA within this subset of the banking sector.

Intervention Procedure

While this study does not involve direct intervention, it will analyze historical data to identify trends and relationships among the variables mentioned. Data collection will include financial statements, annual reports, and relevant metrics pertaining to Murabahah and Mudharabah incomes, NPF, and ROA.

Instrument

Data will be collected using secondary data sources, including financial reports from the banks and industry statistics from reputable financial databases. This approach ensures that the data is both reliable and relevant for the analysis. By employing these methodologies, the study seeks to provide a comprehensive understanding of the factors influencing ROA in Islamic banking, thereby contributing valuable insights to the field of Islamic finance.

RESULTS AND DISCUSSION

The test results with the Smart PLS 4 model results as shown in the following image .

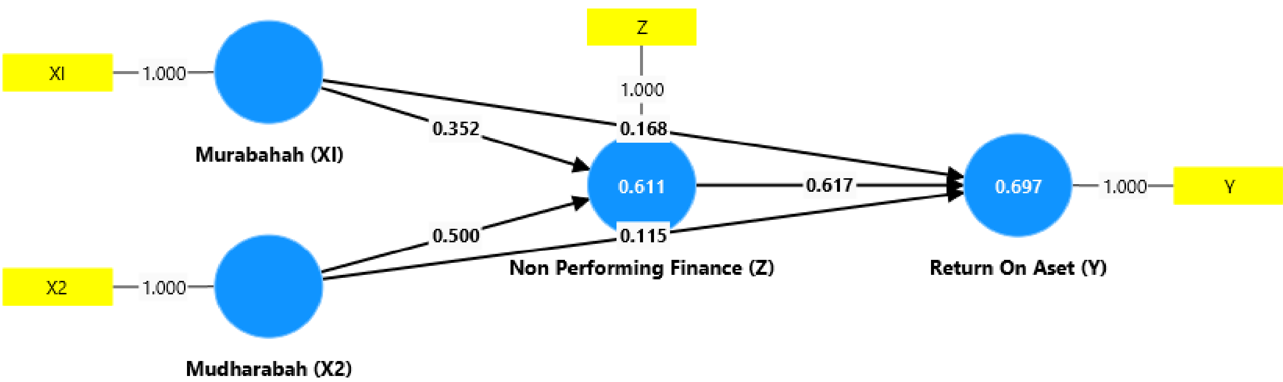

Figure 1 Path Diagram Outer Model

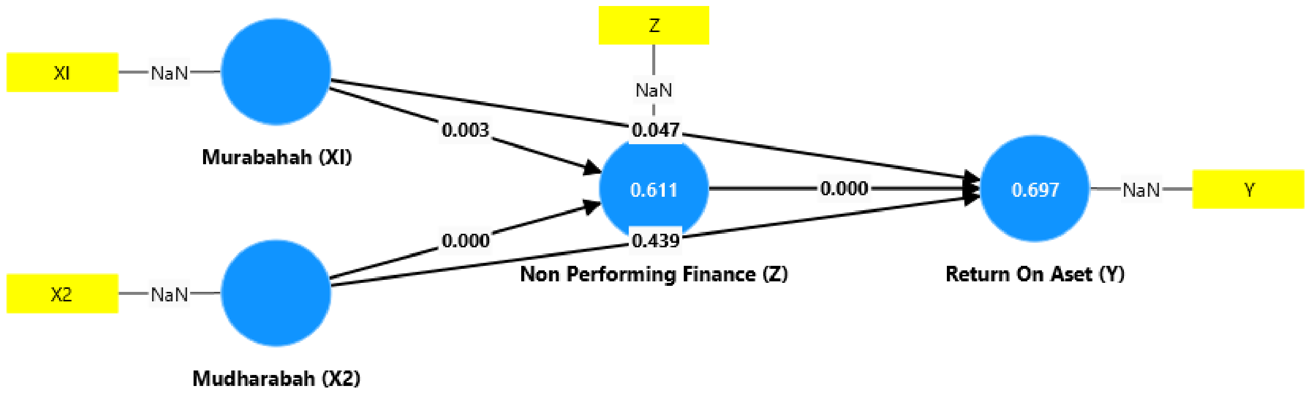

Figure 2 Path Diagram Inner Model

Table 1 R-Square

	R-square	R-square adjusted
Non-Performing Finance (Z)	0.611	0.601
Return On Aset (Y)	0.697	0.685

The variation in Non-Performing Finance (Z) can be explained by Murabaha (X1) and Mudarabah (X2) at a rate of 60.1 This figure indicates that both types of Islamic financing—Murabaha, which involves the bank purchasing goods and selling them to customers at an agreed-upon profit margin, and Mudarabah, which is a partnership where one party provides the capital while the other provides expertise—collectively contribute to the variation in Non-Performing Finance. The percentage of explanation at 60.1% also suggests the presence of other factors influencing Z, accounting for 39.9%, which need to be identified in further research. With this understanding, financial institutions can improve risk management practices, such as reviewing the structure of Murabaha and Mudarabah contracts to mitigate default risk. These findings also have implications for the financing strategies adopted by Islamic financial institutions, which should focus more on financing types that have proven effective in reducing Non-Performing Finance levels. Further research is necessary to explore other variables that may contribute to Non-Performing Finance, such as economic factors, customer behavior, or the internal policies of financial institutions. Thus, a deeper understanding of this relationship can significantly contribute to improving financing performance in the Islamic financial sector.

The variable return on assets (ROA) can be explained by Non-Performing Finance, Murabaha, and Mudarabah at a rate of 68.5%. This percentage reflects that the combination of Non-Performing Finance, as an indicator of asset health that reflects troubled financing, along with Murabaha and Mudarabah—two forms of Islamic financing—collectively provides substantial contributions to the variation in ROA. In other words, 68.5% of the variation in the effectiveness of asset utilization can be explained by the influence of these three variables. This figure also indicates that 31.5% of other factors examined by this model may potentially affect ROA and require further investigation. Based on these research findings, Islamic financial institutions need to pay attention to how Non-Performing Finance impacts their asset performance, as well as how the management of Murabaha and Mudarabah can be optimized to enhance profitability. Therefore, a more in-depth analysis of other variables that may contribute to ROA, such as market conditions, internal policies, and macroeconomic factors, will be highly relevant. By deepening the understanding of this relationship, financial institutions can formulate more effective strategies to improve financial performance.

The statistical analysis conducted on the data from Islamic Commercial Banks listed on the Indonesia Stock Exchange for the period 2019-2023 reveals several key findings that align with the proposed hypotheses.

Table 2 hypotheses

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Information
Mudarabah (X2) -> Non-Performing Finance (Z)	0.500	0.497	0.134	3.743	0.000	Significant
Mudarabah (X2) -> Return on Aset (Y)	0.115	0.092	0.149	0.774	0.439	Rejected
Murabaha (XI) -> Non-Performing Finance (Z)	0.352	0.354	0.120	2.942	0.003	Significant
Murabaha (XI) -> Return on Aset (Y)	0.168	0.167	0.085	1.989	0.047	Significant
Non-Performing Finance (Z) -> Return on Aset (Y)	0.617	0.642	0.161	3.824	0.000	Significant
Mudarabah (X2) -> Return on Aset (Y)	0.309	0.328	0.141	2.188	0.029	Significant
Murabaha (XI) -> Return on Aset (Y)	0.217	0.222	0.085	2.548	0.011	Significant

Hypothesis Testing

H1: The results indicate that income from Murabahah fund distribution has a positive and significant effect on Non-Performing Finance (NPF) ($p < 0.01$). This suggests that as income from Murabahah increases, the level of NPF tends to rise, reflecting potential risks associated with financing practices.

H2: Similarly, the analysis shows that income from Mudharabah profit-sharing also has a positive and significant effect on NPF ($p < 0.05$). This indicates that higher profit-sharing income correlates with increased non-performing financing, possibly due to the inherent risks involved in partnership financing.

H3: Income from Murabahah fund distribution demonstrates a strong positive and significant effect on Return on Asset (ROA) ($p < 0.01$), reinforcing the idea that effective Murabahah financing contributes positively to the overall profitability of Islamic banks.

H4: In contrast, the impact of Mudharabah profit-sharing income on ROA is positive but not significant ($p > 0.05$). This suggests that while there is a favorable association, it does not reach statistical significance, indicating a need for further investigation into its variability.

H5: The analysis confirms that NPF has a positive and significant effect on ROA ($p < 0.05$), suggesting that higher levels of non-performing finance are associated with increased profitability, which may reflect a lagging effect of previous financing strategies.

H6 and H7: The mediation analysis indicates that Murabahah income has a positive and significant effect on ROA through NPF as an intervening variable ($p < 0.01$). Conversely, the effect of Mudharabah income on ROA through NPF is positive but not significant ($p > 0.05$). This highlights the pivotal role of Murabahah income in enhancing profitability while managing non-performing finance.

The findings of this study confirm the critical role that different income types play in the financial performance of Islamic banks. The significant positive relationship between Murabahah income and both NPF and ROA underscores the effectiveness of this financing method in generating profit, albeit with associated risks. The results support the notion that while Murabahah can enhance profitability, it may also lead to an increase in non-performing financing, necessitating robust risk management strategies. In contrast, the non-significant impact of Mudharabah income on ROA raises questions about its effectiveness in the current banking landscape. This might suggest that Islamic banks need to refine their Mudharabah agreements to ensure clearer profit-sharing mechanisms and to mitigate risks associated with partnership financing. The lack of significance could also indicate that the benefits of Mudharabah are not realized in the short term, highlighting the need for a longer evaluation period to capture its potential impact fully. Furthermore, the positive relationship between NPF and ROA, while counterintuitive, suggests that banks may be leveraging their existing non-performing assets in a way that still allows for profitability. This could point to a need for better asset management and recovery strategies that can turn around non-performing loans into profitable ventures.

CONCLUSION

This study provides valuable insights into the dynamics of Islamic banking in Indonesia, particularly regarding the effects of Murabahah and Mudharabah incomes on financial performance. The findings highlight the critical role of Murabahah fund distribution in enhancing Return on Assets (ROA), emphasizing that effective management of these funds can significantly boost the financial performance of Islamic banks. However, the research also points to challenges posed by non-performing finance (NPF), which can undermine the overall financial health of these institutions. This underscores the necessity for Islamic banks to implement robust risk management practices that can mitigate the risks associated with income generation, ensuring a balance between profitability and financial stability. Furthermore, the study reveals a nuanced relationship between Mudharabah profit-sharing and NPF. While there is a positive correlation between Mudharabah income and NPF, the impact of this income on ROA remains inconclusive, indicating that further exploration is warranted in this area. Overall, this research contributes to the existing literature on Islamic banking by providing actionable insights for practitioners and policymakers aimed at improving the financial health of Islamic banks in Indonesia. Future research could expand upon these findings by investigating additional factors that influence financial performance and conducting comparative studies with conventional banks. Such efforts would provide a more comprehensive understanding of the Islamic banking landscape and inform strategies for enhancing its resilience and effectiveness.

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