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THE EFFECT OF PROFIT SHARING FINANCING ON PROFITABILITY WITH NON PERFORMING FINANCING (NPF) AS AN INTERVENING VARIABLE

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Abstrak : Pembiayaan merupakan salah satu produk perbankan yang memiliki peran penting dalam meningkatkan profitabilitas suatu bank. Namun, selain memberikan manfaat, pembiayaan juga dapat meningkatkan risiko Non-Performing Financing (NPF) yang berpotensi menurunkan profitabilitas. Oleh karena itu, penelitian ini bertujuan untuk menganalisis pengaruh pembiayaan bagi hasil terhadap profitabilitas dengan NPF sebagai variabel intervening pada bank umum syariah di Indonesia selama periode 2015-2019. Penelitian ini menggunakan data sekunder yang diperoleh dari laporan tahunan bank umum syariah. Teknik pengambilan sampel dilakukan dengan metode purposive sampling, yang menghasilkan sampel sebanyak 11 bank umum syariah selama lima tahun. Data dianalisis menggunakan metode *Structural Equation Modeling-Partial Least Square*s (SEM-PLS) dengan perangkat lunak SmartPLS. Hasil penelitian menunjukkan bahwa pembiayaan bagi hasil berpengaruh positif dan signifikan terhadap profitabilitas. Selain itu, pembiayaan bagi hasil juga memiliki pengaruh positif dan signifikan terhadap NPF. Selanjutnya, NPF berpengaruh negatif dan signifikan terhadap profitabilitas. Temuan ini mengindikasikan bahwa meskipun pembiayaan bagi hasil dapat meningkatkan profitabilitas bank, peningkatan NPF yang menyertainya dapat menjadi risiko yang perlu dikelola dengan baik. Oleh karena itu, manajemen bank perlu menerapkan strategi mitigasi risiko yang efektif untuk menjaga keseimbangan antara pertumbuhan pembiayaan dan kualitas aset guna mempertahankan profitabilitas yang optimal.

Kata Kunci : **Pembiayaan bagi hasil, Profitabilitas, *Non-Performing Financing* (NPF).**

Abstract : *Financing is one of the banking products that plays a crucial role in enhancing a bank's profitability. However, besides its benefits, financing can also increase the risk of Non-Performing Financing (NPF), which may negatively impact profitability. Therefore, this study aims to analyze the effect of profit-sharing financing on profitability with NPF as an intervening variable in Islamic commercial banks in Indonesia during the 2015-2019 period. This study utilizes secondary data obtained from the annual reports of Islamic commercial banks. The sampling technique used* *is purposive sampling, resulting in a sample of 11 Islamic commercial banks over five years. Data analysis is conducted using the Structural Equation Modeling-Partial Least Squares (SEM-PLS) method with SmartPLS software. The findings indicate that profit-sharing financing has a positive and significant effect on profitability. Additionally, profit-sharing financing also has a positive and significant effect on NPF. Furthermore, NPF has a negative and significant effect on profitability. These results suggest that while profit-sharing financing can boost a bank's profitability, the associated increase in NPF can be a risk factor that needs to be carefully managed. Therefore, bank management must implement effective risk mitigation strategies to balance financing growth and asset quality, ensuring optimal profitability.*

***Keywords:* Profit-sharing financing, profitability, Non-Performing Financing (NPF).**

INTRODUCTION

The development of the Islamic banking industry in Indonesia continues to progress along with increasing public awareness of the importance of financial principles in accordance with Islamic teachings. One of the main products in Islamic banking is profit-sharing financing, which includes the Mudarabah and Musyarakah schemes. This scheme is preferred because it emphasizes the principle of fair profit sharing between banks and customers, while simultaneously avoiding usury practices that are prohibited in Islam. This financing product has great potential in driving sustainable economic growth, especially in strengthening the small and medium enterprise (MSME) sector which plays an important role in the Indonesian economy (Abduh, 2019).

However, although the results-based financing system offers various advantages, there are also challenges and risks that need to be faced. One of the main challenges for Islamic banks is the high level of non-performing financing (NPF), which reflects the failure of customers to meet financing obligations. NPF is one of the main indicators in assessing the quality of financing provided by Islamic banks. If the NPF figure increases, the bank must bear the risk of losses that can directly affect its financial stability and profitability. Problems in this financing have the potential to reduce income from profit sharing, which in the end can harm both the bank and customers (Aisyah, 2021).

Profitability is one of the main goals that every bank wants to achieve, including Islamic banks. In Islamic banking, profitability is not only measured from the aspect of financial profit, but also from the bank's ability to manage risk and implement Islamic principles effectively. Therefore, Islamic banks must be able to maintain a balance between providing financing that is beneficial to customers and maintaining the quality of financing to remain healthy. Problems in maintaining the expected level of profitability can occur if the bank is unable to manage financing properly, especially in overcoming the high level of problematic financing (*Non-Performing Financing*/NPF) (Mujaddadi, 2020).

This phenomenon is the background of the study because it is a challenge in the operation of Islamic banking, especially in managing profit-sharing-based financing which has a high risk of increasing NPF. Although profit-sharing financing has great potential in supporting economic growth, this scheme often faces risk failures that contribute to increasing NPF. High NPF can have a negative impact on bank profitability because banks must provide reserve funds to overcome potential losses. This study aims to analyze the role of NPF as an intervening variable that affects the relationship between profit-sharing financing and profitability. By understanding the impact of NPF, it is hoped that Islamic banks can manage risks more optimally and maximize the use of profit-sharing funds to increase profitability.

In addition, the novelty of this study lies in the introduction of NPF as an intervening variable in the relationship between profit-sharing financing and profitability. Previously, many studies only examined the direct effect without considering the role of NPF in the mechanism of the relationship. This study also focuses on Islamic banks in Indonesia, so that it can contribute to risk management and increasing bank profitability. In addition, the proposed conceptual model integrates aspects of financing profitability, NPF, and profit-sharing schemes to provide a new perspective in understanding the factors that influence Islamic banking performance.

RESEARCH METHODS

This study uses a quantitative method with an explanatory approach that aims to describe phenomena systematically based on statistical data and analyze the relationship between variables. The main focus of this study is to examine the effect of profit-sharing financing and the level of non-performing financing (NPF) on the profitability of Islamic commercial banks in Indonesia. The variables used include independent variables (profit-sharing financing), dependent variables (profitability), and intervening variables (NPF). The research data is secondary data obtained from the annual financial reports of Islamic commercial banks, which are available through the official website of the Financial Services Authority (OJK) and the official websites of each bank. The sampling technique used is purposive sampling, which is the selection of samples based on certain criteria in order to accurately represent the population (Sugiyono, 2011).

Data analysis in this study applies the Partial Least Squares (PLS) method with the help of SMARTPLS 3.0 software. The PLS approach was chosen because of its ability to overcome testing limitations, such as multicollinearity problems and non-normal data distribution. The analysis used includes measuring the measurement model (outer model) to assess validity and reliability, as well as testing the structural model (inner model) to test the causal relationship between variables through the R^2 and Q-square values. The hypotheses tested include the effect of profit-sharing financing on profitability with NPF as an intervening variable, as well as the effect of NPF on profitability. The results of this study are expected to provide a deeper understanding of the financing mechanism in Islamic banking and its contribution to bank profitability by considering credit risk factors or NPF (Hartono 2009).

RESULTS AND DISCUSSION

Results

The results of this study were analyzed using SmartPLS software version 3.0. The data used came from 11 Islamic banks in the form of annual financial reports registered with the Financial Services Authority (OJK) during the period 2015 to 2019, resulting in 55 data samples. After all the required data was obtained, the data was then arranged in a table for further processing using the SmartPLS application. The data analysis process with SmartPLS version 3.0 was carried out through several stages, namely testing the measurement model (outer model), testing the structural model (inner model), and testing the hypothesis. This stage aims to ensure the validity and reliability of the model used and to analyze the causal relationship between the variables studied.

A. *Outer Model*

1. *Convergent Validity*

Convergent validity is used to measure the extent of the relationship between latent variables and their indicators. Indicators are declared valid if they have a loading factor value of more than 0.5. Based on the results of the analysis, all indicators in this study have loading factor values above 0.5, so it can be concluded that the data used has a good level of validity and can be processed to the next stage.

2. *Discriminant Validity*

The *discriminant validity* test aims to determine whether the loading value of an indicator is greater than the loading value on other constructs. Data is said to have good *discriminant validity* if the cross loading value is greater than 0.7. The test results show that each construct in this study has good *discriminant validity*.

3. **Uji Reliabilitas**

After going through validity testing, the next stage is reliability testing using *composite reliability* values. A variable or construct is declared reliable if it has a *composite reliability* value of more than 0.5. Based on the results of the analysis, all constructs in this study have a value of more than 0.5, so it can be concluded that the data used has met the reliability criteria.

B. *Inner Model*

1. **Uji Koefisien Determinasi (R-Square)**

R-square testing is conducted to measure the extent to which endogenous variables are influenced by other variables in the study. An *R-square* value of 0.75 indicates a strong model, a value of 0.50 indicates a moderate model, and a value below 0.25 indicates a weak model. The results of data processing using SmartPLS 3.0 show the following results:

a. *R-square* for Non-Performing Financing (NPF) is 0,068
b. *R-square* for Profitabilitas is 0,301

These results indicate that the NPF variable has a weak influence from profit-sharing financing, while profitability is moderately influenced.

2. **Uji Goodness of Fit**

The goodness of fit test in this study was conducted by looking at the *Q-Square* value. The closer to 1, the better the research model. The calculation results show that the *Q-Square* value is 0.349, which indicates that the research model has a good level of goodness of fit.

3. **Uji Hipotesis**

Hypothesis testing is done by looking at the *T-statistics* and *P-values*. A hypothesis is declared accepted if the *T-statistic* value is greater than 1.96. The
The effect of profit-sharing financing on profitability has an *original sample* value of 0.045 with a T-statistic value of 2.670. Because the *T-statistic* value is greater than 1.96, it can be concluded that profit-sharing financing has a positive and significant effect on profitability.

a. The effect of profit sharing financing on Non-Performing Financing (NPF) has an *original sample* value of 0.168 with a *T-statistic* value of 6.058. Because the *T-statistic* value is greater than 1.96, it can be concluded that profit sharing financing has a positive and significant effect on NPF.
b. The effect of NPF on profitability has an *original sample* value of -0.565 with a *T-statistic* value of 20.280. Because the *T-statistic* value is greater than 1.96, it can be concluded that NPF has a negative and significant effect on profitability.

Discussion

A. The Influence of Profit Sharing Financing on the Profitability of Islamic Banks

Based on the research results, profit-sharing financing has a positive and significant impact on the profitability of Islamic banks. This is evidenced by the T-statistic value of 2.670 and the original sample value of 0.045, which indicates that the greater the amount of profit-sharing financing distributed, the greater the bank's profitability. The profit-sharing financing mechanism using mudharabah and musyarakah contracts allows banks to gain profits based on customer business performance, thus contributing to increasing bank profits.

Profit sharing financing provides flexibility for customers in managing their businesses without any fixed interest burden, so that it can support the growth of the real sector which also has an impact on increasing the profitability of Islamic banks. If the financing is distributed productively, the bank has the potential to obtain more optimal profit sharing from the customer's business profits. Thus, the income obtained through this financing scheme can be more stable and sustainable for Islamic banks.

This finding is in line with research conducted by Maulida Nurul Baiti and Dwi Wahyuningsih, which concluded that profit-sharing financing contributes to increased profitability. However, the effectiveness of this financing scheme is highly dependent on the bank's ability to manage risk and select projects or businesses that are worthy of funding. If the bank is able to channel financing to businesses that have the potential to grow and have good risk management, then the level of profitability can continue to increase.

B. The Influence of Profit Sharing Financing on Non-Performing Financing (NPF) of Islamic Banks

The results of the study indicate that profit-sharing financing has a positive and significant impact on NPF, with a T-statistic value of 6.058 and an original sample value of 0.168. This indicates that the higher the amount of profit-sharing financing distributed by Islamic banks, the higher the NPF level. The main factor causing this condition is the greater risk of profit-sharing financing compared to buying and selling financing, because the profits obtained depend on the customer's business performance which can change according to market and economic conditions.

In the profit-sharing financing scheme, the bank does not set a fixed profit, but rather obtains a portion of the customer's business profit. If the financed business experiences losses or does not run according to expectations, the bank will also feel the impact. This condition has the potential to increase NPF, especially if many customers have difficulty in managing their business or experience obstacles in returning financing. Although this system reflects the principle of justice in Islam, the risk of default remains higher compared to financing based on buying and selling.

The results of this study are in line with the findings of Lilis Sudarwati and Maulida Nurul Baiti, who stated that increasing profit-sharing financing also has an impact on increasing NPF. To overcome this risk, Islamic banks need to implement stricter risk mitigation strategies, such as conducting a more in-depth business feasibility analysis, conducting regular business monitoring, and providing assistance to customers in managing their businesses. By implementing these steps, banks can minimize the potential for an increase in NPF which can negatively affect the bank's financial performance.

C. The Influence of Non-Performing Financing (NPF) on the Profitability of Islamic Banks

Based on the analysis results, NPF has a negative and significant impact on the profitability of Islamic banks, with a T-statistic value of 20.280 and an original sample value of -0.565. This shows that the higher the NPF level of a bank, the lower the level of profitability obtained. This condition occurs because the increase in NPF reflects the large amount of problematic financing that cannot be returned by customers, so that banks experience a decrease in income from the financing sector and must provide larger funds for loss reserves.

A high NPF level can be an indicator of the low quality of financing provided by the bank. If more and more customers experience default in repayment of financing, the bank's cash flow will be disrupted, so that the expected income cannot be fully realized. In addition, banks are required to allocate funds as reserves for problematic financing, which ultimately reduces the profits that can be obtained. Therefore, Islamic banks must keep the NPF level under control so as not to have a negative impact on profitability.

This finding is in line with research conducted by Novika Anisa Firdausi, Budihariyanto, Afifudin, and Junaidi, which shows that NPF has a negative impact on the profitability of Islamic banks. To reduce this negative impact, banks need to implement more effective financing risk mitigation strategies, such as tightening customer feasibility analysis, conducting continuous monitoring of financed businesses, and providing financing restructuring schemes for customers experiencing financial difficulties. With optimal risk management, banks can maintain their profitability levels to remain stable despite facing challenges in financing management.

CONCLUSION

Based on the results of the data analysis and discussion above, the following conclusions were obtained:

1. The results of the hypothesis testing show that Profit Sharing Financing (X1) has a positive and significant influence on Profitability (Y), with an original sample value of 0.045 and a T-statistic value of 2.670.
2. The test results show that Profit Sharing Financing (X1) has a positive and significant effect on Non-Performing Financing (Z), with an original sample value of 0.168 and a T-statistic value of 6.058.
3. The test results show that Non-Performing Financing (Z) has a negative and significant influence on Profitability (Y), with an original sample value of -0.565 and a T-statistic value of 20.280.

This conclusion indicates that profit-sharing financing contributes to increasing the profitability of Islamic banks directly. However, on the other hand, this financing also has the potential to increase the risk of Non-Performing Financing (NPF), which can ultimately reduce bank profitability. Therefore, an effective risk management strategy is needed in distributing profit-sharing financing so that the negative impact of increasing NPF can be minimized.

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