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# Effect of Total Income, Financing, Savings and Return Ratio on Profit Sharing of Customers Using Mudarabah Scheme

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## Abstract

The study aimed to investigate the effect of total income, financing, total savings using mudarabah schemes and the ratio on the profit sharing to the customers of KJKS/ BMT from 2005 to 2014, simultaneously as well as partially. The research was conducted KJKS/ BMT in Jabodetabek area using secondary data in 2016. The data was obtained from financial reports and financial statements from KJKS/ BMT Taman Surga from the period of 2005 to 2014 covering fund raising (saving) with mudarabah scheme, credit channeling data, profit sharing ratio, and total revenues from investment, as well as data from various sources. The research used purposive sampling method while two hypotheses were investigated using data analysis of multiple regression method. The eight independent variables were numerical variables which are time series. The data were then processed using computer statistical software SPSS version 16.0. Based on the analysis results, it was found that there is no multicollinearity among the variables. Based on the results of the classic assumption test, the classical assumption with ordinary least square (OLS) method can be met, so that the result of the analysis can be used to analyze the factors affecting the profit sharing. The value of determination coefficient ( $R^2$ ) shows 0.694 and F value is 14722 which indicates significant at level of 1%. It means that joint variables of income, saving, channeling and ratio have significant influence on profit sharing of BMT. Based on t-test, the coefficient value of the income variable is 0.778, which means that if the income increases by 1%, the value of profit sharing will increase by 0.778%. Meanwhile, the coefficient value of the income variable is 1.101, which indicates that if income increases by 1%, the value of profit sharing will increase by 1.101%. It can be seen that the BMT credit channeling has no significant effect on profit sharing. Neither does the BMT ratio have an effect on BMT revenue share.

**Keywords:** *mudarabah, saving, profit sharing, credit channeling, ratio.*

## 1 Introduction

The financial system in Indonesia is performed by two types of financial institutions, i.e. banks and non-banks institutions. Bank is a business entity that collects funds from the public through savings and disburse them for credit or other forms of financing in order to improve people's living standards (article 1 number 2 Islamic banking law and article 1 number 2 Act No. 10 of 1998 on banking) (Hasan, 2009). In dual banking system like in Indonesia, the institutions comprise two types, conventional and sharia banking. According to Law No. 21 of 2008 on Sharia Banking on the definition of sharia bank in article 1 point (1), sharia financial institution is any entity that concerns about sharia bank and sharia business unit, covering institution, business activity, and a way and process in conducting its business activity. Institutionally, sharia financial institutions in Indonesia can be classified into sharia bank, sharia financing bank (*BPRS* or *bank perkreditan rakyat syariah*) and *Baitul Maal Wat Tamwil (BMT)* (Muttaqin, 2008).

BMT is a sharia financial institution that supports the usury free system in each transaction. Instead, they practice a profits and losses sharing (PLS, or *al-ghounm bi al-ghourm*) which is implemented in the system of mudarabah in savings products as well as fund disbursement. These transactions aim to provide fairness and blessedness in all their business, particularly to provide financial assistance for small and medium enterprises (SMEs). As a financial institution, BMT has two main functions similar to those of Islamic banks, i.e. funding and financing. Both fund collection and financing function

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require a good accountability and management practices to attract the public interest to invest their money in KJKS/ BMT.

Financial institutions, both conventional and sharia possess significant roles to enhance communities' business performances by providing them financing and loan. However, according to Hans (2011), in Indonesia's practice of loan management, micro, small and medium enterprises (MSMEs) gain access to formal financial institutions by only 12%. The lack of access to bank credit is due to: 1) credit schemes and bank products are incompatible with the needs of micro, small and medium enterprises, 2) the assumption of MSME credit risk, 3) SMEs do not have collateral required by banks.

One of the saving and financing schemes implemented by KJKS/ BMT is *mudarabah* which, based on fiqh literatures, is a trust agreement based on profit and loss sharing that demands honesty and fairness. Therefore, each party must avoid fraud and unfair income-sharing since fraudulent practices will impair the mutual partnership. In this system, business returns, as well as losses will be shared among the interested parties. For instance, when a customer encounters a *force majeure* or losses not due to negligence or breach of contract, fund providers (investors or depositors) and KJKS/ BMT also bear losses by not earning profit sharing from the customers (entrepreneur). Therefore, in the principles of the sharia, no one has the right of any compensation without incurring any risks.

In the *mudarabah* implementation, KJKS/ BMT often encounters liquidity risks which arise when financing businesses. These types of risks are associated with unexpected withdrawals or fund transfer performed by depositors. This might happen due to poor creditworthiness, displaced commercial risk, etc. (Jedidia & Hamza, 2014). To overcome fund withdrawal-related risks, the financial institution can maintain some critical factors such as depositors, creditor customers, profit sharing ratio which eventually determines profit sharing income. However, these interrelated aspects and interaction of these variables are still not yet determined. Thus, the amount of savings, ratio of profit sharing, income from *mudarabah* gained by fund providers have to be established. Furthermore, these variables, when they are accounted either simultaneously or partially, whether they affect the level of income the fund providers gain from KJKS/ BMT.

## 2 Literature Review

KJKS stands for *Koperasi Jasa Keuangan Syariah* or sharia financial services cooperative while BMT is Baitul Maal Wat Tamwil or alternatively can be written with Baitul Maal wat Baitul Tamwil. Literally, baitul maal means house and and baitul tamwil means business home. Historically, the development of Baitul Maal dates back to the history of the Prophet until the medieval civilization of Islam. Baitul maal serves to collect as well as utilize social funds. Meanwhile, baitul tamwil is a profit-driven business institution (Ridwan, 2011).

From that sense, Ridwan (2011) draws a comprehensive understanding that BMT is a business organization that also plays a social role. Its social role is seen on the definition of baitul maal, while the role of BMT as business entity is viewed in the definition of baitul tamwil. As a social institution, baitul maal has similar function and role with *Lembaga Amil Zakat (LAZ)* or zakat fund raiser. These functions include the collection of zakat funds, infaq, alms, wakaf, and other sources of social funds, and zakat distribution to the most appropriate groups in accordance with provisions asnabiah (Law No. 38 of 1999).

As a business entity, KJKS/ BMT further develops its business into financial sector, namely saving and financing. The type of business is similar to that of what sharia banking performs, such as raising the funds from customers and prospective customers and channeled to the halal and profitable economic sectors. However, it is widely open to KJKS / BMT to develop its business activities in the real sectors as well as other financial sectors prohibited for banking institutions to perform. It is due to the nature that KJKS/ BMT is not a bank thus banking regulations are not applicable.

In Indonesia's legal matter, the most appropriate legal entity for KJKS/ BMT is a cooperative, both business (KSU) and savings and loan (KSP). However, it is possible to establish a separate law, considering that BMT operational system is not exactly the same as those of cooperatives, such as

sharia MFI (microfinance institutions) or *LKM (Lembaga Keuangan Mikro) syariah* (Ridwan, 2011:126).

KJKS/ BMT is operationally same as sharia banking in terms of contracts or agreements to customers based on the profit-sharing system. KJKS/ BMT also has a good relationship with its customers. This closeness is analogous to the cooperative activities since they are financial institutions which also have a social and economic function. In cooperatives, their members are also the owners as well. These institutions aim to improve the welfare of their members through joint efforts, while KJKS/ BMT tries to improve the welfare of its customers by performing financing and mentoring its customers. With the principle of profit sharing, KJKS/ BMT is expected to provide more equitable financing to its customers.

Referring to its definition, KJKS/ BMT is a small-scale economic institution aimed at improving and cultivating a qualified micro entrepreneurship activity (SME) by encouraging savings activities and supporting the financing of its economic activities, as well as encouraging communities to set aside their excess funds for infaq and tithe. In addition to the world affairs, the communities are also led to be able to perform the worship which is to spend for infaq and zakat.

In providing financing to small entrepreneurs, KJKS/ BMT uses sharia principles based on the agreement at the initial contract. The financing scheme which is often used in KJKS/ BMT is mudarabah (profit sharing). In addition, there is also murabaha system (buying and selling), musharaka (equity participation), and ijara (rent). Besides, it is also possible that the financing is based on the scheme of qardhul hasan, by which a charity is given by financing certain people who really require capital. This financing fund is taken from baitul maal collected from shodaqo, infaq or zakat maal of the society.

### **3 Research Methodology**

The research data were taken from the financial reports of BMT Taman Surga located in Jakarta, BMT Ubasyada, BMT UMJ, BMT Al Jibaal located in Tangerang, and from various sites and websites and previous research modules as the sources of reference.

The research used secondary data derived from the financial statements on revenue sharing distributed to depositors, savings and deposit funds costumers, financing disbursement data, the amount of income earned from the distribution of mudarabah schemes. The data were obtained from KJKS/ BMT in all Jabodetabek areas in the period of 2005 to 2014.

The collection of data was conducted through literature studies, i.e. obtaining various data from scientific journals, previous research reports and financial institutions associated with the object of research. In addition, the secondary data were also obtained from field study, including observation to the locations of KJKS/ BMT in the entire areas of Jabodetabek in the form of financial statements and profit sharing statement during the period of 2005 to 2014.

Sample in this research was the data of mudarabah saving customers consisting of saving customers and depositors; the data of mudarabah financing customers with secondary data source obtained from KJKS/ BMT. The research used purposive sampling using secondary data sources. The data comprised monthly report of fund raising with mudarabah scheme, investment financing disbursement data, profit sharing ratio and total revenues from credit channeling to financing and investment.

### 3.1 Framework of Thinking

The framework in this study can be described with the figure as seen below.

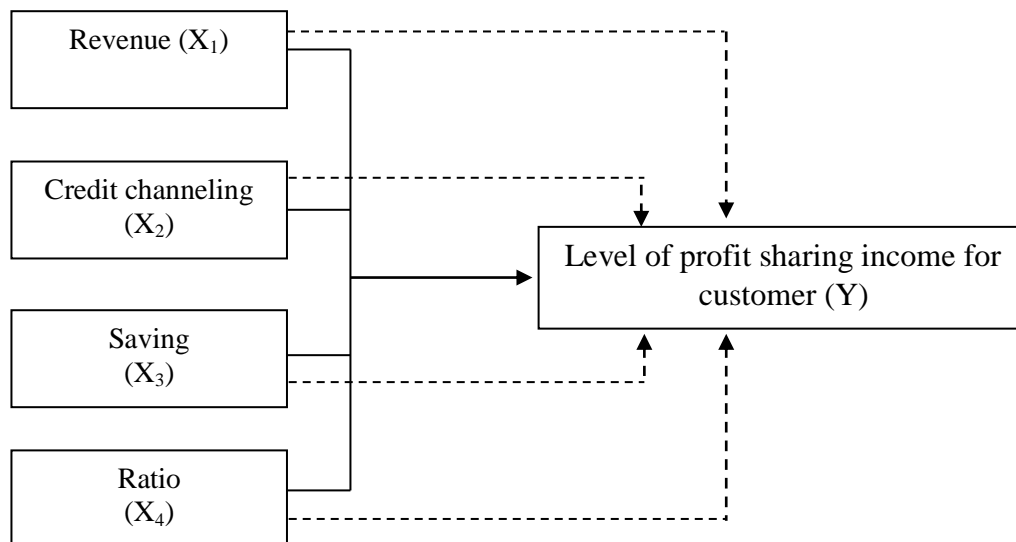


Fig. 3.1. Research Framework of Thinking

### 3.2 Hypotheses

The hypotheses of this research are:

1. H<sub>1</sub>: it is presumed that total income, credit channeling, savings with mudaraba scheme, and ratio does not significantly affect the level of profit sharing for customers simultaneously using mudarabah schemes.
2. H<sub>2</sub>: it is presumed that total revenue, credit channeling, savings with mudarabah scheme, and ratio does not significantly influence the level of profit sharing for customers who partially use mudarabah scheme.

### 3.3 Multiple Regression Method

In analyzing the data in this study, the eight independent variables which are numerical variables were used. These variables are a time series since the data are a series of time from the year of 2005 to 2014. The test was conducted to obtain the results of any factors that had a significant effect on the determination of the return on profit sharing of customers in KJKS/ BMT in Greater Jakarta area. The research model can be written as follows:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + e_i$$

Where:

$Y_i$  is growth of profit sharing customer  $i$ ,  $\beta_0$  is a constant,  $\beta_{1-4}$  is a coefficient of independent variables,  $X_{1i}$  is amount of financing income at time  $i$ , while  $X_{2i}$  is assigned as total disbursement of financing at time  $i$ ,  $X_{3i}$  is assigned as the sum of all mudarabah savings accounts at time  $i$ ,  $X_{4i}$  is the percentage of the profit-sharing ratio of the customer at time  $i$ , and  $e_i$  is an error.

The data obtained from the field study were then processed using computer statistical software SPSS version 16.0. In order to draw conclusions based on the results of regression, the equation model must satisfy the classical assumption to be a BLUE (best linear unbiased estimated) model. The classical assumption test in this study includes multicollinearity test, outocorrelation test, and

heteroscedasticity test.

## **4 Results and Discussions**

### **4.1 Description of study objects**

The study used data obtained from several sharia financial institutions which are located in various districts in Jabodetabek area, such as BMT Taman Surga, BMT Ubasya, BMT UMJ, and BMT Al-Jibal. BMT Taman Surga was established in 2007 and located in Jakarta. Meanwhile, BMT Ubasyada was established in 2007 and BMT UMJ has established since 2008. At last, BMT Al Jibaal has established since 2008. According to the data in 2012, it shows that these institutions entirely have more than 400 customers in mudarabah scheme.

### **4.2 Multicollinearity Test Results**

Using SPSS 16.0 for data analysis, it presents the output display of VIF and Tolerance. It indicates that there is no multicollinearity since the VIF value does not exceed 10 and the tolerance value is not less than 0.10.

### **4.3 Autocorrelation test**

Generally, the indication of autocorrelation often occurs in time series data, while this study uses cross section data. However, to ascertain that there are no indications, the autocorrelation test was still performed. From the result of regression analysis above, it was obtained the value of Durbin-Watson statistic which accounted for 1.778. By using 95% confidence level, the regression test with ten independent variables and the number of observations 34 respondents, k (number of explanatory variables) of 4, Durbin-Watson Upper dU = 1.728 and Durbin-Watson Lower dL = 1.208, then the decision making can be based on the following picture.

### **4.4 Heteroscedasticity Test**

The heteroscedasticity test aims to test whether in the regression model there is a variance inequality of residuals. Heteroscedasticity test in the research was performed by using glejser test, namely by regressing the absolute residual with the independent variables .

There is no heteroscedasticity in the results of the above analysis because no single variable significantly affects absolute residuals. Thus, the assumption of absence of heteroscedasticity in the above analysis is satisfied. Based on the results of the classic assumption test shown above, it shows that the classical assumption in the analysis with ordinary least square (OLS) method can be met, so that the result of the analysis can be used to analyze the factors affecting the profit sharing, where the independent variables include income, saving, channeling and ratio of profit sharing.

### **4.5 Hypothesis Testing and Discussion**

In testing this hypothesis, it will be presented several tests in accordance with multiple linear regression model which are the coefficient of determination ( $R^2$ ), simultaneous test (F test) and partial test (t test). From the analysis, it can be obtained the level of suitability of models and variables that affect the dependent variable.

## **5 Conclusion and Recommendation**

### **5.1 Conclusion**

Based on the results of research, some conclusions can be drawn as follows:

- 1) Total income, financing, total savings using mudarabah schemes, and the ratio that affects the amount of profit sharing disbursed to KJKS / BMT customers during the period of year 2005 to 2014 simultaneously obtained a significant F value of 14.722 at level 1 %. This means that joint variables of income, saving, channeling and ratio have significant effect on profit sharing of BMT.

- 2) Total income, financing, total savings using mudarabahh schemes, and the ratio affecting the amount of profit sharing disbursed to KJKS / BMT customers from 2005 to 2014 partially. From the results, it indicates that income and saving have effects on the value of profit sharing of BMT. On the other hand, the disbursement and ratio do not affect the value of BMT revenue share.

## 5.2 Recommendation

From the results of the above study, the authors recommend for further study on this topic, such as:

- 1) The board of BMT are advised to utilize a special program of financial records for the purpose of accountability.
- 2) For future study, other variables, such as inflation, bad debt, need to be taken into account to investigate the effect on the revenue share.

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