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The Influence of *Murabahah*, *Mudharabah*, and *Musyarakah* on the Profitability of Islamic Banking

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Abstract :
This study examines the effect of *murabahah*, *mudharabah*, and *musyarakah* financing on the profitability of Islamic commercial banks registered with the Financial Services Authority (OJK) during the 2021–2023 period. Previous studies have reported inconsistent findings regarding the relationship between Islamic financing contracts and bank profitability, particularly in the context of participatory financing schemes in Islamic banking institutions. This study contributes to the literature by providing empirical evidence on the comparative influence of major Islamic financing contracts on profitability using quarterly multi-bank data from Indonesia. The study employs a quantitative approach using purposive sampling, resulting in three Islamic commercial banks as research samples: PT Bank Muamalat Indonesia, PT Bank Victoria Syariah, and PT BCA Syariah. Data were analyzed using multiple linear regression analysis. The findings reveal that *murabahah* financing has a negative and significant effect on profitability, *mudharabah* financing has a positive but insignificant effect, while *musyarakah* financing has a positive and significant effect on profitability. Simultaneously, *murabahah*, *mudharabah*, and *musyarakah* financing collectively have a significant influence on the profitability of Islamic commercial banks. These findings indicate that financing portfolio composition plays an important role in shaping the financial performance of Islamic banking institutions and highlights the importance of balancing fixed-margin and profit-sharing financing schemes to achieve sustainable profitability.

INTRODUCTION

The profitability of Islamic banks in Indonesia has shown considerable fluctuations in recent years despite the continuous expansion of the Islamic financial industry. According to data published by the Otoritas Jasa Keuangan, several Islamic commercial banks experienced unstable Return on Assets (ROA) performance during the 2021–2023 period, including PT Bank Muamalat Indonesia, PT Bank Victoria Syariah, and PT BCA Syariah. These fluctuations are important because profitability represents one of the primary indicators of banking sustainability, operational efficiency, and financial competitiveness. Persistent instability in profitability may weaken banks' ability to expand financing, manage risks, and maintain public confidence within increasingly competitive

financial markets. Therefore, understanding the determinants of profitability in Islamic banking has become an increasingly important issue for both academics and practitioners (Fauziah, 2021; Alshubiri & Al Ani, 2023).

Islamic banking profitability is closely associated with the structure of financing contracts, particularly *murabahah*, *mudharabah*, and *musyarakah*, which differ in terms of risk exposure, return mechanisms, and governance requirements. *Murabahah* financing is widely utilized because it offers fixed-margin returns, contractual certainty, and relatively lower risk, thereby supporting stable earnings and liquidity management (Kulmie & Omar, 2024). Previous studies have shown that *murabahah* financing contributes positively to profitability through predictable returns and efficient monitoring mechanisms (Sutrisno & Widarjono, 2022), while transparent contractual arrangements and accountable reporting systems further strengthen operational efficiency and financial performance (Ibrahim, 2020; Moosa, 2023; Fadhila & Haryanti, 2020). In contrast, *mudharabah* and *musyarakah* financing embody the principles of profit and loss sharing, partnership, and risk sharing, which theoretically offer higher return potential because banks participate directly in productive economic activities (Sutrisno & Widarjono, 2022; Abdullah & Ramadhan, 2022; Azlina et al., 2022). Participatory financing schemes have also been found to enhance profitability when supported by effective governance, transparent reporting systems, and efficient risk management practices (Kulmie & Omar, 2024; Ibrahim, 2020; Moosa, 2023).

Despite their theoretical advantages, empirical findings regarding the profitability effects of Islamic financing contracts remain inconclusive. *Murabahah* financing may negatively affect profitability when excessive dependence on fixed-margin financing increases financing risk and non-performing financing exposure (Chasanah et al., 2020), while profitability itself may be influenced more strongly by operational efficiency and asset quality than by financing contracts alone (Sobol et al., 2023). Similarly, *mudharabah* and *musyarakah* financing face agency problems, information asymmetry, monitoring difficulties, and operational inefficiencies that may weaken their contribution to financial performance (Fadhila & Haryanti, 2020). Weak monitoring systems, ineffective partner selection, and business performance uncertainty may further reduce the profitability generated by partnership-based financing arrangements (Sutrisno & Widarjono, 2022). Nevertheless, the literature generally suggests that *murabahah*, *mudharabah*, and *musyarakah* financing remain strategically important instruments in Islamic banking and possess the potential to improve profitability when supported by sound governance, effective risk management, and efficient financing allocation (Kulmie & Omar, 2024; Sobol et al., 2023; Ibrahim, 2020; Moosa, 2023).

Several studies have demonstrated that Islamic financing contributes positively to profitability performance. Arifin et al. (2020) reported that *murabahah*, *mudharabah*, and *musyarakah* financing improve bank profitability through revenue generation and productive financing expansion. Similar findings were reported by Kulmie and Omar (2024), who concluded that the three financing contracts contribute positively to profitability growth in Islamic banking institutions. Furthermore, Fauzan and Kurnia (2021) found that participatory financing contracts positively influence Islamic bank profitability by strengthening productive financing activities and enhancing financial returns.

In contrast, other studies have produced contradictory findings. Chasanah et al. (2020) found that *murabahah* financing negatively affects profitability due to increased

financing risk and greater exposure to non-performing financing. Likewise, Bahri (2022) reported that *murabahah*, *mudharabah*, and *musyarakah* financing do not significantly affect profitability. Farida (2020) further found that *musyarakah* financing may negatively influence financial performance when partnership-based financing is not supported by effective risk management and monitoring systems. Similarly, Sutrisno and Widarjono (2022) argued that profit-and-loss-sharing financing schemes have not yet demonstrated optimal contributions to Islamic bank profitability in Indonesia because of operational inefficiencies and monitoring constraints. Sobol et al. (2023) emphasized that the determinants of profitability in Islamic banks differ structurally from those in conventional banking systems, where efficiency, asset quality, and operational costs often play more dominant roles than financing contracts themselves.

In addition to the empirical inconsistency, previous studies also reveal important methodological limitations. Many earlier studies relied on annual observations, limited samples, or focused only on a single financing contract without examining the simultaneous interaction among *murabahah*, *mudharabah*, and *musyarakah* financing. Such limitations reduce the ability of existing studies to comprehensively capture the dynamic relationship between financing structures and profitability. Consequently, the generalizability of previous findings remains limited, particularly within the context of Islamic commercial banks in developing countries.

A theoretical gap is also evident in the existing literature. Most Islamic finance studies normatively assume that participatory financing contracts such as *mudharabah* and *musyarakah* are more aligned with the principles of Islamic economics and are therefore expected to generate better financial outcomes. This study positions itself within the ongoing debate concerning the effectiveness of Islamic financing structures in shaping bank profitability. Unlike previous studies that tend to examine financing contracts separately, this research simultaneously analyzes the influence of *murabahah*, *mudharabah*, and *musyarakah* financing on the profitability of Islamic commercial banks in Indonesia. This study specifically focuses on the 2021–2023 period, during which Islamic banks experienced fluctuating profitability performance amid changing market conditions and increasing financing risks.

The theoretical foundations of Islamic finance suggest that financing composition remains an important determinant of bank performance. Therefore, this study proposes four hypotheses: H1, *murabahah* financing has a significant effect on profitability; H2, *mudharabah* financing has a positive and significant effect on profitability; H3, *musyarakah* financing has a positive and significant effect on profitability; and H4, *murabahah*, *mudharabah*, and *musyarakah* financing simultaneously have a significant effect on profitability.

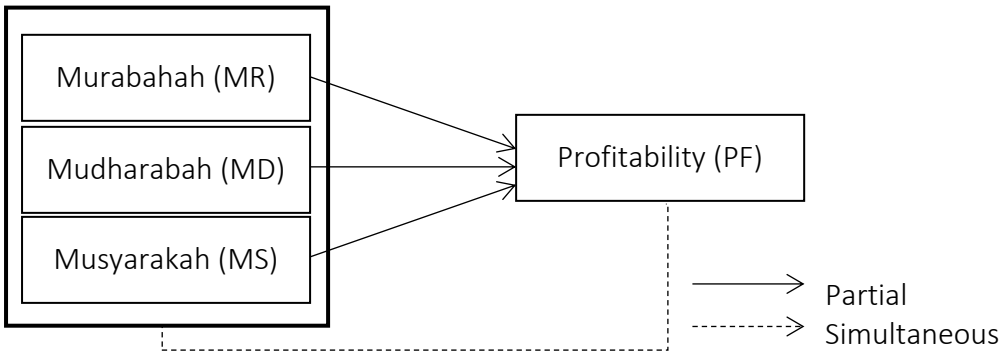

Figure 1. Conceptual Framework Model.

This study contributes to the literature in two important ways. First, it provides updated empirical evidence regarding the comparative effects of the three dominant Islamic financing contracts on profitability using quarterly data from Islamic commercial banks in Indonesia. Second, it strengthens the discussion on the relationship between financing structure, risk characteristics, and financial performance within Islamic banking institutions. The findings are expected to provide both academic contributions and practical implications for Islamic banking management in designing financing portfolio strategies capable of improving profitability while maintaining financial stability.

RESEARCH METHOD

This study examines the effect of *murabahah*, *mudharabah*, and *musyarakah* financing on the profitability of Islamic commercial banks in Indonesia. The research was conducted using data from Islamic Commercial Banks registered with the Otoritas Jasa Keuangan during the 2021–2023 period. The population consisted of 14 Islamic Commercial Banks listed in the Islamic Banking Statistics published by the Financial Services Authority in January 2024. However, not all banks consistently disclosed quarterly financing data for *murabahah*, *mudharabah*, and *musyarakah* contracts throughout the observation period. Therefore, purposive sampling was employed to ensure data consistency and comparability (Ghazali, 2021).

The sample selection criteria included: (1) Islamic Commercial Banks officially registered with the Financial Services Authority as of January 2024; and (2) banks that consistently published quarterly financial reports containing *murabahah*, *mudharabah*, and *musyarakah* financing data during the 2021–2023 period. Based on these criteria, three Islamic Commercial Banks were selected as research samples, namely PT Bank Muamalat Indonesia, PT Bank Victoria Syariah, and PT BCA Syariah. Although the number of sampled banks is relatively limited, the study utilizes quarterly observations over a three-year period, resulting in 36 observational data points. This approach allows the study to capture short-term fluctuations and financing dynamics more comprehensively compared to studies relying solely on annual observations.

This study uses quantitative research methods with secondary data obtained from quarterly financial reports and Islamic banking statistics published by the Financial Services Authority. Quantitative approaches are considered appropriate for examining the causal relationship between financing structures and bank profitability through statistical measurement and empirical testing (Sugiyono, 2020).

The dependent variable in this study is profitability, measured using Return on Assets (ROA). ROA reflects the bank's ability to generate profits from its total assets and is widely used as an indicator of banking financial performance. The independent variables consist of *murabahah* financing, *mudharabah* financing, and *musyarakah* financing. All financing variables were measured using the natural logarithm of the total financing value reported in quarterly financial statements to reduce data fluctuation and improve estimation stability (see Table 1).

Table 1. The operational definitions of variables

Variable	Measurement Indicator	Scale
Profitability (ROA)	Net Income / Total Assets × 100%	Ratio
***Murabahah* Financing**	Natural logarithm (Ln) of total *murabahah* financing	Ratio
***Mudharabah* Financing**	Natural logarithm (Ln) of total *mudharabah* financing	Ratio

Musyarakah Financing	Natural logarithm (Ln) of total *musyarakah* financing	Ratio

To examine the influence of financing contracts on profitability, this study employs Multiple Linear Regression Analysis using IBM SPSS Statistics and Microsoft Excel software. The regression model used in this study is formulated as follows:

$$ROA = \alpha + \beta_1 MR + \beta_2 MD + \beta_3 MS + \varepsilon$$

Where:
ROA= Profitability measured by Return on Assets
α= Constant
$\beta_1, \beta_2, \beta_3$= Regression coefficients
MR= *Murabahah* financing
MD= *Mudharabah* financing
MS= *Musyarakah* financing
ε= Error term

The data analysis process consisted of descriptive statistical analysis, classical assumption testing, and multiple regression analysis. Classical assumption tests included normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure the validity and reliability of the regression model. Furthermore, hypothesis testing was conducted using partial significance tests (t-tests) and simultaneous significance tests (F-tests), while the coefficient of determination (R^2) was used to evaluate the explanatory power of the model in explaining variations in profitability.

RESULTS AND DISCUSSION

Results

Descriptive Data

Based on data processed using IBM SPSS Statistics 25, the descriptive statistical results are presented in Table 2.

Table 2. Descriptive Statistics of Research Variables

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Murabahah	36	3,50	5,92	4,7684	0,68078
Mudharabah	36	0,00	4,80	3,6057	1,38945
Musyarakah	36	3,68	5,96	5,0509	0,63225
ROA	36	0,30	2,26	1,5365	0,64970

Source: Processed Secondary Data, 2024

The descriptive statistics indicate that the profitability level of Islamic commercial banks during the 2021–2023 period remained relatively moderate, with ROA values ranging from 0.30 to 2.26 and an average value of 1.54. This finding reflects that Islamic banks experienced fluctuating profitability performance during the observation period. The relatively small standard deviation value (0.65) indicates that the variation in profitability among the sampled banks was not excessively large.

Among the financing variables, *musyarakah* financing recorded the highest average value (5.05), followed by *murabahah* financing (4.77), while *mudharabah* financing showed the lowest average value (3.61). The relatively high mean value of *musyarakah* financing suggests that partnership-based financing increasingly became an

important component within Islamic banking portfolios during the observation period. Meanwhile, *mudharabah* financing exhibited the largest standard deviation (1.39), indicating that this financing scheme experienced greater fluctuation and higher variability across banks and periods. Economically, this condition reflects the relatively unstable nature of profit-sharing financing, which is highly dependent on business performance and market conditions.

Normality Test

A good regression model should satisfy the assumption of normal data distribution. In this study, normality testing was conducted using the Kolmogorov–Smirnov test. Data are considered normally distributed when the Asymp. Sig. (2-tailed) value exceeds the significance level of 0.05.

Table 3. Kolmogorov–Smirnov Z Test

Item	*Murabahah*	*Mudharabah*	*Musyarakah*
Test Statistic	0,115	0,296	0,164
Asymp. Sig. (2-tailed)	0,200	0,078	0,061

Source: Processed Secondary Data, 2024

Table 3, the results indicate that all variables have Asymp. Sig. (2-tailed) values greater than 0.05, namely 0.200 for *murabahah*, 0.078 for *mudharabah*, and 0.061 for *musyarakah*. These findings confirm that the data are normally distributed and satisfy the normality assumption required for multiple regression analysis.

Multicollinearity Test

The multicollinearity test was conducted to determine whether strong correlations existed among the independent variables in the regression model. A regression model is considered free from multicollinearity when the tolerance value is greater than 0.10 and the Variance Inflation Factor (VIF) value is Table 4.

Table 4. Multicollinearity Test

Variable	Tolerance	VIF
Murabahah	0.730	1,370
Mudharabah	0.253	3,953
Musyarakah	0.248	4,032

Source: Processed Secondary Data, 2024

The multicollinearity test results demonstrate that all tolerance values exceed 0.10 and all VIF values remain below 10. Specifically, *murabahah* financing has a VIF value of 1.370, *mudharabah* financing has a VIF value of 3.953, and *musyarakah* financing has a VIF value of 4.032. These findings indicate that no serious multicollinearity problem exists among the independent variables. Therefore, the regression model is considered statistically acceptable for further analysis. Economically, the absence of multicollinearity suggests that each financing contract possesses relatively distinct characteristics and contributes independently to explaining variations in Islamic bank profitability.

Autocorrelation Test

The autocorrelation test was performed using the Durbin–Watson test to examine whether residual values were correlated across time-series observations. The

results are presented in Table 5.

Table 5. Autocorrelation Test

R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0,679	0,648	0,38520	0,832

Source: Processed Secondary Data, 2024

The Durbin–Watson value obtained in this study is 0.832. Based on the Durbin–Watson decision criteria, this value indicates the presence of positive autocorrelation because it falls below the lower critical limit value. This condition suggests that residuals across observational periods are correlated with one another, which commonly occurs in time-series or panel-based financial data due to persistent movements in banking performance indicators over time. The regression results with caution and emphasized that the findings primarily reflect associative relationships rather than strong predictive causality.

Heteroscedasticity Test

Heteroscedasticity refers to the condition in which the variance of residuals is not constant across observations. To detect this issue, the present study employed the Spearman Rank correlation test by correlating the absolute residual values with each independent variable. The results are summarized in Table 6.

Table 6. Heteroscedasticity Test

Independent Variable	Correlation Coefficient	Probability	Result
Murabahah	0.000	1.000	Homoscedasticity
Mudharabah	0.000	1.000	Homoscedasticity
Musyarakah	0.000	1.000	Homoscedasticity

Source: Processed Secondary Data, 2024

The results indicate that all probability values exceed the significance threshold of α = 0.05, suggesting that the regression model does not exhibit heteroscedasticity. Nevertheless, considering the unusually identical probability values obtained across variables, the heteroscedasticity results were re-examined through graphical residual analysis to ensure consistency. The additional examination confirmed that the residual distribution remained relatively stable and did not display systematic variance patterns, thereby supporting the assumption of homoscedasticity.

Table 7. Partial Regression Results (Uji t / Partial Effects)

Relationship Between Research Variables			Standardized Coefficient (Beta)	t-value	Sig. t
Murabahah	→	ROA	-2,739	-5,912	0,000
Mudharabah	→	ROA	0,064	0,212	0,834
Musyarakah	→	ROA	2,121	3,345	0,002

Source: Processed Secondary Data, 2024

Table 8. Model Feasibility & Simultaneous Test (Uji F dan Goodness of Fit)

Model Statistics	Value
R-Square	0.679
Constant (α)	2.881
F-value	22.522
Sig. F	0.000
F-table	2.87

Source: Processed Secondary Data, 2024

Following the identification of autocorrelation in the previous Durbin–Watson test, the regression model was re-estimated using the Cochrane–Orcutt procedure to reduce serial correlation bias and improve estimator reliability. This adjustment was necessary because autocorrelation may distort standard errors and weaken the validity of statistical inference in time-series and panel-related observations. The revised estimation results demonstrate that the overall model remains statistically significant after correction. The regression equation can be formulated as follows:

$$ROA = 2.881 - 2.739(MR) + 0.064(MD) + 2.121(MS) + \varepsilon$$

The constant value of 2.881 indicates the estimated level of profitability when all financing variables are held constant. This value reflects the baseline profitability level that may be influenced by other factors outside the regression model. The *Murabahah* coefficient of -2.739 indicates a negative relationship between *murabahah* financing and profitability. This finding implies that an increase in the proportion of *murabahah* financing within the financing portfolio tends to reduce ROA, assuming other variables remain constant. Economically, this result may indicate that excessive dependence on fixed-margin financing reduces profitability flexibility, particularly when operational costs and default risks increase during periods of market uncertainty.

The *Mudharabah* coefficient of 0.064 shows a positive but statistically insignificant relationship with profitability. This suggests that *mudharabah* financing has not yet contributed optimally to improving ROA during the observation period. The insignificant effect may reflect the relatively high uncertainty and monitoring costs associated with profit-sharing contracts, which often limit Islamic banks' willingness to expand this financing scheme. Meanwhile, the *Musyarakah* coefficient of 2.121 demonstrates a positive and statistically significant relationship with profitability. This finding indicates that greater utilization of *musyarakah* financing is associated with higher ROA. *Musyarakah* financing provides stronger opportunities for sustainable profit generation because the partnership structure enables banks to participate directly in productive business activities and share business returns more effectively.

The simultaneous test further shows that *murabahah*, *mudharabah*, and *musyarakah* collectively influence Islamic bank profitability, as reflected by the F-value of 22.522 with a significance level of 0.000. The R-square value of 0.679 indicates that approximately 67.9% of the variation in profitability can be explained by the three financing variables included in the model, while the remaining 32.1% is influenced by other factors outside the scope of this study.

Hypothesis Testing Results

H1. Murabahah Has a Significant Effect on Profitability

The empirical results indicate that the calculated t-value for *murabahah* financing is -5.912, which exceeds the critical t-table value of 1.668 in absolute terms, with a significance value of 0.000. Since the significance value is lower than α = 0.05, the first hypothesis is accepted in terms of significance. However, the direction of the relationship is negative rather than positive. This finding suggests that an increase in the proportion of *murabahah* financing tends to reduce the profitability of Islamic banks. Economically, this result may reflect the limitations of excessive reliance on fixed-margin financing

contracts. Although *murabahah* offers predictable returns and lower uncertainty, a financing portfolio dominated by *murabahah* may reduce profit flexibility, particularly under changing market conditions and increasing operational costs.

Another possible explanation relates to the relatively high credit risk associated with *murabahah* financing. When customers fail to meet payment obligations, banks may experience increased non-performing financing, which subsequently reduces profitability. This finding supports the study conducted by (Chasanah et al., 2020), which reported that *murabahah* financing may negatively affect financial performance when default risks increase.

In addition, the negative relationship may indicate that Islamic banks are still highly dependent on short-term consumptive financing rather than productive financing activities capable of generating sustainable income. From the perspective of risk-return theory, lower-risk financing instruments generally provide lower returns, which may explain the declining contribution of *murabahah* to ROA when its proportion becomes excessively dominant. These findings imply that Islamic banks should not rely exclusively on *murabahah* financing as their primary income source. Instead, banks need to improve portfolio diversification, strengthen financing risk assessment, and optimize margin management strategies in order to maintain sustainable profitability.

H2. Mudharabah Has No Significant Effect on Profitability

The t-test results for *mudharabah* financing show a calculated t-value of 0.212, which is lower than the t-table value of 1.668, with a significance value of 0.834. Since the significance value exceeds $\alpha = 0.05$, the second hypothesis cannot be supported. Thus, *mudharabah* financing does not have a statistically significant effect on the profitability of Islamic banks. This finding indicates that although *mudharabah* financing theoretically reflects the ideal profit-sharing mechanism within Islamic finance, its practical contribution to profitability remains limited during the observation period. One possible explanation is the high level of uncertainty inherent in *mudharabah* contracts. Because returns depend entirely on the performance of the customer's business, Islamic banks face greater exposure to business risk and asymmetric information.

Furthermore, *mudharabah* financing requires intensive monitoring and strong governance mechanisms. Weak supervision may increase the possibility of moral hazard and inaccurate profit reporting by customers. Consequently, Islamic banks may become more cautious in expanding *mudharabah* financing portfolios, limiting its contribution to profitability. In practice, many Islamic banks still prioritize financing schemes with more predictable returns rather than pure profit-sharing contracts. These findings suggest that improving governance quality, transparency, and customer financial literacy is essential for increasing the effectiveness of *mudharabah* financing. Strengthening monitoring systems and contractual clarity may help Islamic banks optimize the profitability potential of participatory financing schemes in the long term.

H3. Musyarakah Has a Positive and Significant Effect on Profitability

The t-test results for *musyarakah* financing indicate a calculated t-value of 3.345, which is greater than the critical t-table value of 1.668, with a significance value of 0.002. Since the significance value is below $\alpha = 0.05$, the third hypothesis is accepted. This finding demonstrates that *musyarakah* financing has a positive and significant effect on the profitability of Islamic banks. The positive effect of *musyarakah* financing reflects the

strategic role of partnership-based financing in supporting sustainable income generation. Through *musyarakah* contracts, Islamic banks and customers jointly contribute capital and share both risks and returns. This mechanism enables banks to participate directly in productive economic activities, thereby increasing opportunities for higher returns.

In addition, *musyarakah* financing is commonly associated with long-term investment projects that provide more stable and sustainable revenue streams. Compared to consumptive financing, *musyarakah* tends to strengthen the productive sector and support real economic growth, which ultimately contributes positively to bank profitability. *Musyarakah* financing also reflects the core principles of Islamic finance, namely fairness, partnership, and shared responsibility, which strengthen the institutional credibility of Islamic banks. To maximize the benefits of *musyarakah* financing, Islamic banks should improve project selection mechanisms, strengthen partnerships with credible business actors, and enhance monitoring systems to minimize operational and investment risks.

H4. Murabahah, Mudharabah, and Musyarakah Simultaneously Have a Significant Effect on Profitability

The simultaneous test results show an F-value of 22.522, which is greater than the F-table value of 2.87, with a significance value of 0.000. Since the significance value is lower than $\alpha = 0.05$, the fourth hypothesis is accepted. These findings indicate that *murabahah*, *mudharabah*, and *musyarakah* financing simultaneously have a significant effect on the profitability of Islamic banks. This result demonstrates that the profitability of Islamic banks cannot be explained by a single financing contract alone. Instead, profitability is influenced by the combined interaction of various financing structures with different levels of risk, return, and operational characteristics. The coexistence of fixed-margin financing and participatory financing creates opportunities for portfolio diversification and risk balancing.

Murabahah financing contributes to short-term liquidity and stable cash flows, *musyarakah* financing supports long-term profitability through productive partnerships, while *mudharabah* financing provides opportunities for business expansion despite its relatively high uncertainty. Therefore, an optimal financing composition becomes essential for improving the financial performance of Islamic banks. The results further imply that Islamic banks should adopt more adaptive financing strategies by balancing profitability objectives with prudent risk management practices. This study provides important empirical evidence regarding the interaction between Islamic financing structures and bank profitability. Understanding the distinct characteristics of each financing contract enables Islamic bank management to formulate more effective financing policies and improve long-term financial sustainability.

Discussion

These findings strengthen the relevance of risk–return tradeoff theory and signaling theory in explaining Islamic banking profitability. Financing contracts that provide stable returns may enhance short-term income certainty, whereas participatory contracts may generate higher long-term returns but involve greater uncertainty and monitoring costs. In this context, financing decisions become strategic indicators of managerial quality and institutional governance (Alamudi & Hasan, 2023; Sa & Susilo,

2021; Rahim et al., 2024).

This result supports the findings of Chasanah et al. (2020), who reported that *murabahah* financing may weaken profitability when credit quality deteriorates. Similarly, Sobol et al. (2023) emphasized that operational efficiency and asset quality are more influential determinants of profitability than the financing contract itself. From the perspective of signaling theory, the negative effect suggests that the dominance of *murabahah* financing may be interpreted by the market as a sign of limited financing diversification and weak risk optimization. Moosa (2023) also argued that differences in accounting treatment for *murabahah* transactions may create informational uncertainty in Islamic financial reporting.

The findings are consistent with Kulmie and Omar (2024) and Ibrahim (2020), who found that participatory financing contributes positively to profitability when supported by effective governance and efficient project management. The positive relationship also supports the argument that Islamic banks achieve stronger financial performance when financing is directed toward productive sectors rather than purely consumptive activities. In practical terms, this finding implies that Islamic banks should expand partnership-based financing portfolios and strengthen monitoring systems to minimize information asymmetry and moral hazard. However, the success of *musyarakah* financing depends heavily on the bank's ability to select reliable business partners and maintain effective supervision mechanisms, as emphasized by Farida (2020).

This result is in line with Sutrisno and Widarjono (2022), who concluded that profit-loss sharing financing has not yet produced optimal profitability outcomes in Indonesian Islamic banking. Similar observations were made by Salman (2022), who highlighted the importance of governance quality, transparency, and reporting mechanisms in determining the effectiveness of participatory financing contracts. The integration of digital financial technologies, smart contracts, and improved monitoring systems may strengthen the future effectiveness of *mudharabah* financing by reducing information asymmetry and enhancing accountability (Nurkholidah et al., 2024; Saputri & Hayati, 2025; Ayub et al., 2024).

This finding supports previous studies conducted by Sari et al. (2021) and Widanti and Wirman (2022), which emphasized the importance of financing diversification in improving Islamic bank performance. Effective financing management strategies therefore require not only careful selection of financing contracts but also strong institutional governance, operational efficiency, and transparent financial reporting. The findings of Fadhila and Haryanti (2020) further indicate that Islamic Governance Score and bank size strengthen the relationship between financing structures and financial performance, suggesting that governance quality plays a critical role in supporting sustainable profitability.

This study further highlights that the profitability of Islamic banks is closely associated with managerial capability in integrating sharia principles, financing diversification, and risk governance within a dynamic financial environment. Strong governance frameworks ensure that Islamic banks maintain compliance with sharia principles while simultaneously achieving sustainable economic performance (Alam et al., 2022; Uddin et al., 2024; Tashkandi, 2023). From a broader institutional perspective, the development of Islamic financial practices in Indonesia is also supported by legal institutions and dispute resolution mechanisms within the Islamic judicial system, which provide certainty and protection for sharia-based financial transactions (Fattach &

Maskun, 2022; Meskovic et al., 2024).

The findings therefore provide important practical implications for Islamic banking institutions to strengthen financing portfolio management, improve governance quality, and increase the proportion of productive partnership-based financing. In addition, this study contributes theoretically by demonstrating that the relationship between Islamic financing contracts and profitability is highly context-dependent and cannot be explained solely through normative assumptions regarding sharia compliance. Rather, profitability is influenced by the ability of Islamic banks to integrate financing structures, governance systems, market dynamics, and regulatory frameworks in a holistic manner.

CONCLUSION

The findings reveal that *murabahah* financing has a significant negative effect on profitability, indicating that excessive reliance on fixed-margin financing may weaken financial efficiency and limit sustainable profit growth. Conversely, *musyarakah* financing exerts a positive and significant influence on profitability, demonstrating the strategic value of partnership-based financing in generating productive and sustainable returns. Meanwhile, *mudharabah* financing shows no significant effect, suggesting that its profitability contribution remains constrained by governance challenges, information asymmetry, and monitoring limitations. Simultaneously, *murabahah*, *mudharabah*, and *musyarakah* financing significantly affect profitability, confirming that financing diversification is essential for achieving an optimal balance between risk and return. The findings encourage Islamic banks to strengthen productive partnership-based financing while reducing excessive dependence on *murabahah*-oriented portfolios. However, the study is limited by its focus on three financing contracts and ROA as the sole profitability indicator. Future research should incorporate additional financing instruments, governance and efficiency variables, and alternative profitability measures to develop a more comprehensive understanding of Islamic banking performance.

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