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Research Paper

The Contribution of Profit-sharing Characteristics to the Performance of Islamic Banks

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ABSTRACT

Islamic commercial banks are highly identic with the profit-sharing as a sharia banking basic operational system. The profit-sharing becomes a specific characteristic of sharia banks as well as a distinction from conventional banks. Hence, this study aims to examine if the profit-sharing characteristic contributes to the performances of Islamic commercial banks in Indonesia. This study employed time series data derived from the Financial Service Authority (OJK) using regression-mixed test and auto-regressive heteroscedasticity (ARCH). The results pointed out that the profit-sharing system for the lending of *Musharaka* had an impact on the performance of sharia banks; while the profit-sharing for the funding of *Mudaraba* did not support the hypothesis with negative coefficient. The results suggest that the profit-sharing characteristic provides contribution to the performance of Islamic commercial banks through the lending of *Musharaka*. These results further indicate that the profit-sharing characteristic performed by Islamic commercial banks is proven to be effective in improving their performances. This study's results have an implication for Islamic commercial banks to strengthen their profit-sharing characteristics and improve the public trust toward sharia banking system.

Introduction

Islamic commercial banks are financial institutions that operate based on the commitment of Islamic principles in economy. In 1963, Mith Gamr was the first Sharia bank in the Islamic modern world, using the principle of profit-sharing in agriculture (Alharbi, 2015). This principle is also applied in the first Islamic modern bank, established based on initiatives of the Islamic Conference Organization (OKI) members in Jeddah, such as Islamic Development Bank (IDB), which has been operated since 1977

(Alharbi, 2015; Imam & Kpodar, 2013). It becomes one of basic doctrines in any Islamic-based banking system around the world. The concept of profit-sharing implemented and developed in various products of sharia banks becomes the most significant principle, joining with other operational systems (Trisanty, 2018). This concept is used in the product of funding and lending as its basic calculation in obtaining the profit-sharing among customers and the sharia banks. Also, this profit-sharing system becomes one of the characteristics of Islamic commercial banks which makes them differ from conventional banks (Belkhaoui et al., 2020). Such difference is usually called as the profit-sharing versus interest.

The profit-sharing is a cooperation by considering risk and return for both customers and banks (Waeibrorheem Waemustafa, 2013; Abdul Rahman et al., 2020). It is considered as a fair system in providing equal opportunity and position between banks and customers as their partners. Based on this concept, it views that business does not always obtain profit, but also loss; so, the concept considers profit and loss of any entity operated by customer (Alzoubi, 2018). Furthermore, the profit-sharing provides a fair division referring on capital and business performance of the customers in every cooperation. When it comes to the financial activities, common profit-sharing contracts offered by sharia banks are well-known as *Mudaraba* (mutual agreement in the form of business contract in which one party brings capital and the other personal effort) and *Musharaka* (a joint partnership structure in which partners share in the profits and losses of an enterprise). In *Mudaraba* financing, the bank and the customer agree to have a partnership in a business activity, where the bank plays role as capital provider *(as sahibu al mal)* and the customer undertakes the business activity *(Mudarib)*. The partnership is then sealed under a profit-sharing agreement between the bank and the customer. In *Musharaka* financing, the bank and the customer work jointly in financing a business activity and both act as capital providers. Unlike *Mudaraba*, the partnership is then sealed under an agreement that both parties will share profit and loss based on their proportion of investments in the business project.

Currently, studies have examined the relation between financial ratio and sharia banks' performances. Studies conducted by Amijaya et al. (2020) and Malim and Normalini (2018) analyzed the performance of sharia banks by using Non Performing Finance (NPF), Capital Adequacy Ratio (CAR), and Fixed Deposit Receipt (FDR). The result found out that NPF, CAR, and FDR had an impact on the performance of sharia banks. Similar results have been also conducted in overseas banking contexts such as in Pakistan (Aslam & Ismail, 2016), Sudan (Ahmed Mennawi & Ahmed, 2020), and Bangladesh (Sohel, 2017). Moreover, in the context of Syria, (Aldeen, 2020) examined the performances of Islamic and conventional banks through a comparative analysis and the results showed that Islamic banks were better in terms of assets quality. Above

all, it could be concluded that Islamic banks' performances were gradually improved and successfully attracted the attention of the world.

As a primary characteristic of sharia banks, profit-sharing through *Mudaraba* and *Musharaka* contracts becomes the fundamental system that differentiates sharia banks to conventional banks (Adela, 2018; Ajmi et al., 2019). Hence, research on the impact of the profit-sharing system via *Mudaraba* and *Musharaka* toward the performance of sharia banks has been conducted in various sites. Afkar (2017) mentioned that *Mudaraba* had no impact on the performances of sharia banks, but *Qard* had. The study of Kuswara et al. (2019) depicted that *Murabaha*, *Musharak*a, branch office, cash office, and automated teller machine had a positive impact on the performances of sharia banks, but *Mudaraba* had a negative impact. In a similar direction, a study conducted by Agustin et al. (2018) revealed that *Mudaraba, Musharaka*, and NPF have affected the sharia banks' performances. More recently, Arshed and Kalim (2020) examined sharia banks of seven different countries and stated that *Murabaha* and *Musharaka* had a positive impact on the sharia banks' performances, but *Mudaraba* resulted in a negative effect. Research has also found that *Mudaraba* and *Musharaka* had a positive impact on the performances of Pakistani sharia banks, but assets had a negative effect (Anwar, 2018; Zafar & Nor, 2019). Differently, in Jordan banking context, it was found that *Murabaha* and *Mudaraba* have positively affected the performances of sharia banks, but *Musharaka* has not (Almanaseer & Alslehat, 2016).

In short, studies concerning on the impact of Islamic transaction contracts on sharia banks' performances have been conducted with diverse results, and there has been an inconsistency among the precedent studies' results. Moreover, the previous research limited their focus on the impact of *Mudaraba* and *Musharaka* as a product of Islamic banking system on the banks' performances. This study, in an advanced way, is different in positioning *Mudaraba* and *Musharaka*, not only as a banking system product, but also as the primary characteristic of Islamic commercial banks. The basic concept of the Islamic banking system is profit-sharing that become an icon, slogan, and a distinction from the conventional banks. Since there have been inconsistent results showed by the previous studies, it is highly necessary to revisit the impact of Islamic banking system's core concept, *Mudaraba* and *Musharaka*, on the performances of sharia banks.

In response to the research gap, this study examines profit-sharing contracts as the basic characteristic of sharia banks and their relation to the banks' performances. Particularly, this study seeks for the answers of the question whether or not the profit-sharing characteristic contributes to the performances of sharia banks. Drawing on time series data obtained from the Financial Service Authority (OJK), the results of this study

potentially contribute to providing insights for Islamic commercial banks to strengthen their profit-sharing characteristics and improve the public trust toward sharia banking system. Furthermore, the results provide empirical implication on whether the profit-sharing characteristic is only a slogan, or can contribute to the better performances of Islamic commercial banks.

Hypotheses Development

Sharia banking is commonly known as a profit-sharing-based banking. The system of profit-sharing is applied in the product of funding and lending, providing an agreed return for both sides, bank and customers (Salman & Nawaz, 2018). Hence, it is a system considering the risk-return in providing return as the form of cooperation via *Nisbah*. *Nisbah* is proportion in the form of percentage and its nominal is known after business activity has already been finished. *Nisbah* of the real profit-sharing is obtained after the payment of the profit-sharing in the form of nominal (Ajmi et al., 2019; Yustiardhi et al., 2020).

In detail, this system refers to the concept of economic value of time (EVoT) valuing a result based on productivity and failure in performing business (Muda & Hasibuan, 2018). It contradicts to Time Value of Money (TVoM) assuming on money productivity. TVoM, then, considers that any money expensed will always produce a return and does not tolerate any failure. While, EVoT views that every business will achieve both success and failure in performing its economic activity (Ahmad & Hassan, 2018). In the religious context, Islam forbids money productivity in making money, but money productivity is obtained by the mechanism of legal trading and business (Ahmad & Hassan, 2018). Practically, EVoT will share success and failure of business between bank and customers proportionally. This concept mixes social and economy in terms of economic collaboration (Hamza & Jedidia, 2017). Hence, it becomes the characteristic and main slogan of sharia banks in conducting their financial activities.

The profit-sharing concept provides a fair justice for businessmen in various returns and risks based on a utilized time (Juarez et al., 2020). In business, there will be always up and down while conducting a business activity and such reality becomes the shared concept between sharia banks and customers, where it is called as justice. The justice is based on natural and humanized condition in performing business. Thus, the proportion of profit-sharing under *Nisbah* will be different in nominal from time to time. Any revenue received by sharia banks and customers will be in line with the real profit and loss obtained from the performance of both sides (Khaki & Sangmi, 2012). The profit-sharing product consists of long-term finance and provides a greater extent of profit than long-term (*Murabaha*) (Izhar & Asutay, 2007).

The bank's revenue obtained under the profit-sharing system can derive from savings, deposit, *Mudaraba* and *Musharaka*-based finance. Such income is a proportion

received by sharia bank from either its *Mudarib* or *Sahibul mal* in the scheme of *Mudaraba* and party performing cooperation under the scheme of *Musharaka*. A greater revenue obtained by Sharia bank under the profit-sharing scheme will impact on the performance of Sharia bank. Research on profit-sharing and its effect on the performance of Islamic banks has been conducted with mixed results. Afkar (2017) and Kuswara et al. (2019) explain that *Mudaraba* has no effect on bank performance, and so has *Musharaka* (Almanaseer & Alslehat, 2016). Different research results are shown by Agustin et al. (2018) that *Musharaka* affects the performance of Islamic banks. This result is strengthened by Arshed et al. (2017) who conducted research in Islamic banks from seven countries and by Anwar (2018) and Zafar and Nor (2019) in Pakistani banking context. In short, previous studies examined *Mudaraba* and *Musharaka* with mixed results and explained *Mudaraba* and *Musharaka* as explanatory factors for the performance of Islamic banks.

This study has a different explanation than previous studies. This study places *Mudaraba* and *Musharaka* not only as variables that affect the performance of Islamic banks, but also as a characteristic of Islamic banks which is known as profit-sharing system. This study examines whether *Mudaraba* and *Musharaka* are only a jargon for Islamic banks or are they effective in improving the performance of Islamic banks. This research is expected to enrich the study of the profit-sharing system and its role in the performance of Islamic banks. Hence, the following hypotheses are postulated:

H1: A revenue of sharia bank as *Mudarib* in savings and deposit has a positive impact on the performance of the sharia bank.

H2: A revenue of sharia bank as *Sahibul mal* in *Mudaraba* financing has a positive impact on the performance of the sharia bank.

H3: A revenue of sharia bank as *Sahibul mal* in *Musharaka* financing has a positive impact on the performance of the sharia bank.

Method

The present study aims to examine whether the profit-sharing characteristics contribute to the performance of Islamic banks in Indonesia. To reach the objective, this study employed secondary data in the forms of sharia financial banking statements issued by Financial Service Authority (OJK) during the years of 2015 to 2019. The variables involved in this study were sharia banks' profit-sharing revenue in savings and deposits, sharia banks' profit-sharing revenue in *Mudaraba* financing, and sharia banks' profit-sharing revenue in *Musharaka* financing. The test of revenue of *Murabaha* was also conducted as a control variable. Table 1 presents operational definitions and measurements of each variable.

Table 1. Operational Definition of Variables

Variables	Definition and calculation	Data sources
Return on Asset (ROA)	Profit ratio before tax of sharia banks to total of assets.	Indonesian Banking Statistics, OJK
Revenue of the profit-sharing in sharia bank for savings and deposit	This revenue is any income received by sharia banks as *Sahibu al mal* for the product of savings and deposits based on *Mudaraba* contract.	Indonesian Banking Statistics, OJK
Revenue of the profit-sharing in sharia bank for the *Mudaraba* financing	A revenue received by Sharia bank from the product of *Mudaraba* lending as *Sahibu al mal.*	Sharia Banking Statistics, OJK
Revenue of the profit-sharing in sharia bank for the *Musharaka* financing	A revenue received by Sharia bank from the profit-sharing system in the product of *Musharaka* lending as partner.	Sharia Banking Statistics, OJK

This study examined the contribution of sharia banks' revenue based on the profit-sharing derived from funding and lending under the contracts of *Mudaraba* and *Musharaka*, and *Murabaha* as a control variable on the performances of sharia banks measured by return on asset (ROA). Furthermore, this study utilized Auto-regressive Heteroscedasticity (ARCH) model since the data were time-series and tended to have a constantly residual error along the period of time. Also, this study tested the volatility of ROA characterized as fluctuant and was able to show the extent of profit and loss. Volatility depicted the amount of business risk and bankruptcy of sharia banks. In the context of this study, the volatility was measured using ARCH. Moreover, the model employed in this study combined simple regression and ARCH, with the equation was as follows:

$$Y_t = \beta_0 + \beta_1 X_t + e_t$$
$$\sigma_t^2 = \alpha_0 + \alpha_1 e_{t-1}^2 \quad (1)$$

Results

Table 2 demonstrated the results of descriptive statistics depicting that the ROA of the Indonesian sharia banks was 0.16 in minimal data, under the value stipulated by Financial Service Authority (OJK) which was 2.5. Such value described that overall performances of the sharia banks were under the general expectation of the banks. Moreover, the lending revenue of profit-sharing showed that *Musharaka* was smaller than *Mudaraba* with the values 122.60 and 662.36 respectively. The results have been in line with the characteristic stating that *Mudaraba* is a finance system of risk-share with higher return to customers. Furthermore, the funding revenue with risk-share resulted

in 1992.79, which was higher than other revenues. This finding demonstrates that the number of saving and deposit accounts of sharia banks increased and had an impact on sharia banks' revenue. Such revenue provides an implication that Islamic banks can compete conventional banks in terms of financing of third-party savings.

Table 2. Descriptive Statistics Outputs

	ROA	***Mudaraba***	***Murabaha***	***Musharaka***	**Risk_Share**
Mean	1.058817	122.6037	1487.730	662.3694	1992.792
Median	1.039681	132.4445	1562.528	653.7742	2041.428
Maximum	1.875145	177.7559	1921.251	1101.170	4008.436
Minimum	0.162127	38.57462	999.8941	45.98833	985.0169
Std. Dev.	0.441460	37.99400	262.6788	232.8293	419.9507
Skewness	0.069582	0.773243	0.465616	0.023888	1.250743
Kurtois	1.850509	2.656506	2.049916	2 .388129	9.592191
Jarque-Bera	3.742775	7.005995	4.940837	1.051533	138.7861
Probability	0.153910	0.030107	0.084549	0 .591102	0.000000
Sum	70.94074	8214.447	99677.90	44378 .75	133517.1
Sum Sq. Dev.	12.86253	95273.92	455401 1	3577827	11639670
Observation	67	67	67	67	67

Table 3 shows the output of data analysis using ARCH. According to the results of data analysis using the ARCH model, the probability value in the revenue variable of *Mudaraba* was 0.0000 < alpha 1%, with coefficient value -0.4781. This result means that the revenue of *Mudaraba* has a significant negative effect on ROA or Ha is rejected. It implies that if the revenue of *Mudaraba* increases as of 1 unit, the ROA will decrease as of 0.4781%. Moreover, the probability value in the finance variable of *Musharaka* was 0.0003 < alpha 1%, with coefficient value 0.1860. This result depicts that the revenue of *Musharaka* has a significant positive impact on ROA or Ha is accepted, which means that if the revenue of *Musharaka* increases as of 1 unit, the ROA will increase as of 0.1860%. The results of ARCH analysis further revealed that the probability value in the revenue of risk-share was 0.008 < alpha 1%, with coefficient value -0.12259. This finding illustrates that the revenue of risk-share has a significant negative impact on ROA or Ha was rejected, indicating that if the revenue of risk-sharing increases by 1 unit, the ROA will decrease by 0.12259%.

Table 3. Output of ARCH Analysis

Variable	**Coefficient**	**Std. Error**	**z-Statistic**	**Prob**
C	-10.95796	0.611719	-17.91339	0.0000
LOGMUDARABA	-0.478134	0.028890	-16.55028	0.0000
LOGMURABAHA	1.934210	0.106750	18.11901	0.0000
LOGMUSHARAKA	0.186029	0.051847	3.588033	0.0003
LOGRISK_SHARE	-0.122590	0.046288	-2.648439	0.0081

Variance Equation				
C	0.003510	0.003865	0.908159	0.3638
RESID(-1)^2	2.722620	0.612629	4.444155	0.0000
R-squared	0.635526	Mean dependent var		1.058817
Adjusted R-squared	0.612011	S.D. dependent var		0.441460
S.E. of regression	0.274980	Akaike info criterion		-0.072994
Sum squared resid	4.688062	Schwarz criterion		0.157347
Log likelihood	9.445296	Hannan-Quinn criterion		0.018153
Durbin-Watson stat	0.895202			

In the variance equation residual on lag 1, the probability was 0.000 < alpha 1%, indicating that current error period was influenced by the previous error period. Hence, the equation model is as follows:

$$Roa = \beta_0 + \beta_1 Mudaraba + \beta_2 Murabaha + \beta_3 Musharaka + \beta_4 Riskshare$$

$$\sigma_t^2 = \alpha_0 + \alpha_1 e_{t-1}^2$$

or

$$Roa = -10.9579 - 0.4781 Mudaraba + 1.9342 Murabaha + 0.1860 Musharaka - 0.1226 Riskshare$$

$$\sigma_t^2 = 0.00351 + 2.7226 e_{t-1}^2$$

Discussion

The present study aims to examine the impact of profit-sharing characteristic by means of *Mudaraba* and *Musharaka* contracts on sharia banks' performances. The results of data analysis using ARCH model reveal that the revenue of *Mudaraba* has a significant negative impact on sharia banks' performances measured by the ROA. Meanwhile, the revenue of *Musharaka* has a significant positive impact on the banks' performances. Moreover, the revenue of risk-share has a significant negative impact on the ROA of sharia banks. Hence, it can be concluded that among the variables involved in this study, the revenue sharing by means of *Musharaka* is revealed as the variable having a significant positive influence on the sharia banks' performances.

So, what do the results imply? First, the finding of this study depicts the negative correlation between *Mudaraba* revenue sharing and the sharia banks' performances. The finance of *Mudaraba* has high-risk character for banks when it becomes *Sahibu al-mal* (Belkhaoui et al., 2020). On the other side, banks' customers as *mudarib* will compensate the profit-sharing of a relatively high finance since the risk is lower than sharia banks. Such characteristic becomes trade-off policy, increasing the revenue proportion of sharia banks via the finance of *Mudaraba* where it decreases customers of finance since they will pay a higher profit-sharing to sharia banks. In contrast, the selection of the finance of *Mudaraba* is relatively strict since it has high-risk in nature. Thus, it seems troublesome and moral hazard (Abdul-rahman & Nor, 2017). In addition, Ajmi et al. (2019) and Syarifudin (2020) explained that *Nisbah* of a higher profit-sharing for sharia

banks is an asymmetric information of compensation from Sharia bank.

Here, sharia banks have a relatively smaller information of fund than customers. A higher compensation for customers makes them choose other products of sharia banks or conventional banks as competitor. Moreover, finance as a product of the banks has various options of products and compensation offered in the system of profit-sharing, margin, or interest. A transfer of customers in other products from sharia banks decreases the revenue and performance of the banks. The testing result of the profit-sharing related to *Mudaraba* was significantly negative, showing that customers of sharia banks were sensitive to the amount of compensation that must be paid. A higher financing compensation made customers and prospectus tended to select a cheaper and more competitive financing product from compensation or interest offered by conventional banks. Therefore, the increasing compensation for sharia banks via *Mudaraba* could decrease the revenue and performances of sharia banks manifested by ROA. Sharia banks could still maintain the portion of *Nisbah* between the sharia banks and customers competitively, so that it became the option of customers and prospectus.

The characteristic of sharia banking system through the profit-sharing in the finance of *Mudaraba* has not supported the performance of sharia banks. It was due to a relatively higher profit-sharing of the banks than interest rate in conventional banks. A competitive product of conventional banks could be an alternative as the profit-sharing offered by sharia banks that was deemed expensive by the customers. This finding confirms the study of Kuswara et al. (2019) and Agustin et al. (2018) arguing that *Mudaraba* has significantly negative impact on the performances of sharia banks. Additionally, this result supports the finding of Afkar (2017) stating that *Mudaraba* has no effect on the performances of sharia banks. However, in contrast, this result contradicts with the research conducted by Arshed et al. (2017) describing that *Mudaraba* and *Musharaka* have impact on the sharia banks' performances. In a similar direction, this result is also different from the studies of Almanaseer and Alslehat (2016) conducted in Jordan and Anwar (2018) and Zafar and Nor (2019) in the context of Pakistani banking.

Second, the result of ARCH analysis in this study shows that revenue sharing by means of *Musharaka* contract has a significant positive impact on the sharia banks' performances through ROA. It indicates that *Musharaka* is an ideal finance as the product of sharia banks, since the sharia banks and their customers are under an equal position and the proportion is in accordance with respectively capital deposited. Also, the compensation in the product of *Musharaka* is in line with the proportion of capital having been deposited. This proportional compensation is well-accepted by both sharia banks and customers, and they do not have any issue with the partner portion. In

addition, *Musharaka* is a product interested by the customers, though it is under the *Mudaraba.* It is the part of the profit-sharing system as an ideal finance pattern of Islamic economy since both sides are equal. This product is more flexible and efficient but highly depends on the conventional banking system (Adela, 2018).

In detail, the impact of *Musharaka* on the ROA depicts that the profit-sharing system via *Musharaka* has affected the performance of the sharia banks. As the characteristic, the profit-sharing system of the sharia banks provides an impact on their performances. The positive coefficient depicts that if the sharia banks increase the proportion of capital in the finance of *Musharaka*, it can improve their performances. Precisely, the product of *Musharaka* can boost quality and quantity of sharia banks' performances, so that customers can be well-known with the product and utilize it in their business activities. This finding, moreover, supports the study conducted by Elgadi and Yu (2018) arguing that *Musharaka* has an impact on the ROA and ROE. Also, it confirms the research performed by Sulaiman et al. (2018) stating that the profit-sharing characteristic of sharia banking system in terms of *Musharaka* has an impact to the performances of sharia banks. It is further in the same vein with the study of Ahmed (2008) describing that *Musharaka* has become the one-third choice of the finance in Sudan, so that it supports the banks' performances.

Third, this study results in the finding that the revenue of risk-share has a significant negative impact on the ROA. Other revenues of sharia banks in the profit-sharing is derived from savings and deposit, where the banks acts as *Mudarib*. Any fund of customers deposited in sharia banks is managed by the banks and the result of such management is shared in accordance with proportion agreed by the customers. The amount of the profit-sharing received by the customers and the sharia banks is in line with the results of fund management by the banks. This finding confirms the study of Bendob et al. (2017) arguing that the profit-loss sharing in the funding has no impact on the ROA. In contrast, the finding is contradicted with the research conducted by Kurniawansyah (2016) stating that the profit-loss sharing in the funding has an impact on the performances of sharia banks. Also, it is different with the study of Vegirawati et al. (2018) finding that the result of financing, profit-sharing of funding, and commitment have a positive impact on the performances of sharia banks; while, *Wadiah* has a negative impact.

The negative relationship as depicted in this study shows that the customers of sharia banks were sensitive about the compensation received. The *Nisbah* policy in the funding of *Mudaraba* was trade off. In addition, a higher compensation for the sharia banks will accordingly reduce the compensation for the customers, and vice versa. A higher revenue of banks does not support the performance of the sharia banks, since such extent reduces the proportion of compensation to customers of sharia banks. As a

result, sharia banks' customers can transfer their fund deposit to a more competitive conventional bank with a higher interest rate. The transfer conducted by the customers potentially results in the decreasing performances of the sharia banks since the Third-Party Savings (DPK) as managed fund sources of Sharia bank decreases. The sharia banks necessarily maintain its *Nisbah* of the profit-sharing competitively with the customers and the conventional banks.

Eventually, this study proves that the concept of the profit-sharing via the finance of *Musharaka* has an impact on the performances of the sharia banks. This concept is not just a slogan, icon, and character, but can be implemented factually and real-time into the system of sharia banks. The utilization of the profit-sharing system has significantly contributed to the performance and it is in line with expectation and hope of sharia banking activists. Also, the system has become the characteristic and distinction with the conventional banks, where it can be implemented, operated, and contributed to the sharia banks' performances. This result implies that the profit-sharing is an effective system and has been accessed by customers in fulfilling their financial necessities. Additionally, public has known sharia banks for 28 years, particularly in Indonesia, and become the best choice in supporting economic activities. It is the part of operational system of sharia banking in competing with conventional banks, regarding on products and services. Sharia banks can apply the ideal concept into operational procedure by still referring to the principles of Islamic economy. Such application can provide convenience for customers, who are strictly practice religious teachings to obtain profit in economic activity.

Conclusion

The in-hand study sheds some light on the contribution of profit-sharing characteristic to the performances of sharia banks. Using ARCH model of analysis, the results reveal that the finance by means of *Musharaka* contract has a significant positive impact on the performances of sharia banks, showing that the product *Musharaka* finance can provide benefits for both customers and the banks. The results further show that the finance and funding using *Mudaraba* contract has been found to have a negative impact on the sharia banks' performances. A higher profit-sharing of sharia banks makes customers plan to select the products of financing and deposit in other financial institutions or conventional banks. Therefore, sharia banks are necessarily to maintain the proportion of *nisbah* and a competitive equivalent of rate for the customers and the conventional banks. Despite the compelling results, this study does not go further to other related issues. Therefore, a systematic review on the sharia banks' performances which is correlated to ethical statement and sustainability should be undertaken to enrich the studies and research on sharia banking system. Future research can also be conducted

using individual Islamic bank data and can be developed by comparing Islamic banks' performances within various countries.

Author's Declaration

The author made substantial contributions to the conception and design of the study. The author took responsibility for data analysis, interpretation and discussion of results. The author read and approved the final manuscript.

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