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Factors Influencing Profit Sharing Financing in Islamic Rural Bank: Evidence from Indonesia

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ABSTRACT

This study aims to examine the impact of several financial indicators, namely return on assets (ROA), capital adequacy ratio (CAR), financing to deposit ratio (FDR), non-performing financing (NPF), and operational efficiency ratio (OER), on profit sharing financing, as represented by the profit sharing ratio (PSR). The data utilized comprises annual reports sourced from Islamic Rural Banks registered with the Financial Services Authority (OJK) during the period spanning 2018 to 2020. Sample selection employed purposive sampling technique, resulting in 158 banks with total 474 data being analyzed through panel data regression analysis. The regression model was processed and tested using the STATA application. Findings reveal that (1) ROA positively influences profit sharing financing, indicating that higher ROA leads to increased distribution of profit sharing financing; (2) CAR and FDR do not significantly impact profit sharing financing; (3) NPF positively affects profit sharing financing, suggesting that higher NPF correlates with increased profit sharing financing; and (4) OER positively influences profit sharing financing, indicating that higher OER is associated with increased profit sharing financing.

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1. INTRODUCTION

The presence of the islamic banking industry in Indonesia provides a solution to increasing public understanding regarding the interest system in conventional banks which is declared haram in Islamic law, so that people need financial institutions with Islamic sharia principles (Setyowati, 2017). Based on their activities, islamic banks in Indonesia are

categorized into three types, including Islamic Commercial Banks (*Bank Umum Syariah*, BUS), Islamic Rural Bank (*Bank Perkreditan Rakyat Syariah*, BPRS) and Islamic Business Units (*Unit Usaha Syariah*, UUS). Islamic Rural Bank (IRB) have narrower business activities compared to Islamic Commercial Banks, IRB are prohibited from accepting current account deposits (*simpanan giro*) and cannot serve payments like sharia commercial banks do (OJK, 2021). Therefore, to be able to compete with Islamic Commercial Banks, IRB must have a better scheme to attract customers. Offering a high level of profit sharing is one way that can be done to attract customers (Pujiastutik & Sumanto, 2021) .

The business activities carried out by IRB are only able to collect and provide funds which are channeled through financing products to customers. Financing through a profit sharing system is the main business of Islamic banks in their operational activities because profit sharing is a characteristic of Islamic banks and also differentiates them from conventional banks which apply an interest system (Salman, 2021). In the profit sharing system, the profits or losses obtained will be given fairly according to the share agreement or *ratio* by each party involved in the financing contract (Primadhita et al., 2021). Financing with the profit sharing principle in Islamic banks is divided into two products, including financing with mudharabah contracts and financing with musyarakah contracts.

Apart from being a characteristic of the Islamic banking financial sector which replaces the interest system, the profit sharing system also has an influential role in helping economic equality in Indonesia. As explained in Undang-Undang No. 21 (2008) concerning Sharia Banking which states that the principle of profit sharing applied to the system run by islamic banks will share profits and risks of investment losses that arise among all parties, so that this can create a healthy investment. and fair and in the long term will have an impact on national economic equality because the benefits obtained can be felt by both parties, both the fund owner and the fund manager.

Table. 1
Composition of financing distributed by Islamic Rural Bank in 2016-2021 (in millions of Rupiah)

Contract	2016	2017	2018	2019	2020	2021
Mudharabah	156,256	124,497	180,956	240,606	260,651	230,024
Musharakah	774,949	776,696	837915	1,121,004	1,551,953	2,109,105
Murabaha	5,053,764	5,094,751	6,940,379	7,457,774	7,648,501	8,006,168

Source: OJK Sharia Banking Statistics 2021

Seeing that the progress of the islamic banking industry in Indonesia is increasing, financing through the profit sharing principle is expected to be able to outperform funding distributed by islamic banks, because the system run by islamic banks, such as the profit sharing system, is considered a very appropriate system to use in replacing the interest system in the sector. conventional banks. However, in reality, statistical data from the OJK for 2021 as in table 1, shows that the dominant financing distribution is not profit sharing financing but buying and selling financing. This reflects that the distribution of mudharabah and musyarakah financing which is classified as financing with the profit sharing principle is still not distributed optimally by islamic banks.

Given this phenomenon, a possible solution is to first examine what elements have an impact and influence on profit sharing financing. These elements can be factors originating from external or internal to the banking itself. To assess the internal condition of banking, it can be reflected in several financial ratios presented in financial reports, including *Return on Assets* (ROA), *Capital Adequacy Ratio* (CAR), *Financing to Deposit Ratio* (FDR), *Non-Performing Financing* (NPF), and *Operational Efficiency Ratio* (OER).

Several previous studies have examined the influence of ROA, CAR, FDR, NPF and OER on profit sharing financing. In their research, Harfiah et al., (2016) , Hanifatusa'idah et al., (2019) and Febriani & Wirman (2021) found that ROA had a positive effect on profit sharing financing. However, there is other research that shows that ROA does not affect profit sharing financing, namely research from Winarsih & Asokawati (2019) , Pujiastutik & Sumanto (2021) , Aulia & Saputri (2021) . Meanwhile, a study by Nastiti & Kasri (2019) indicates that ROA negatively affects profit sharing financing. The research conducted by Choirudin & Praptoyo (2017) stated that CAR has a positive impact that significantly influences profit sharing financing. It's different with Amelia & Fauziah (2017) and Nastiti & Kasri (2019) which states that CAR influences profit sharing financing negatively and significantly. And in their research, Winarsih & Asokawati (2019) and Aprilia & Mahardika (2019) have proven that CAR does not affect profit sharing financing.

Several previous studies have found that FDR can influence profit sharing financing positively and significantly, namely research from Indriastuti & Kartika (2018), Winarsih & Asokawati (2019) , Doktoralina & Nisha (2020), Pujiastutik & Sumanto (2021), Pensiuningsih et al. , (2021) and Primadhita et al., (2021) . Meanwhile, in their research, Nastiti & Kasri (2019) indicated that FDR has a negative relationship with profit sharing financing. Febriani & Wirman (2021) also conducted similar research which stated that FDR did not have a relationship that could significantly influence profit sharing financing. Furthermore, research conducted by Winarsih & Asokawati (2019) , Pujiastutik & Sumanto (2021) , Pensiuningsih et al., (2021) , Febriani & Wirman (2021) , Primadhita et al., (2021) , and Riyadi et al., (2021) presented findings that NPF can influence profit sharing financing significantly and in a negative direction. In contrast to Nastiti & Kasri (2019) and Hanifatusa'idah et al., (2019) who stated that NPF has a positive impact that can significantly influence profit sharing financing. Apart from that, there are also several researchers who found results that NPF does not affect profit sharing financing, namely research by Sholikhah et al., (2017) and Aprilia & Mahardika (2019).

Nastiti & Kasri (2019) and Riyadi et al., (2021) also obtained research results that OER has quite an impact on profit sharing financing significantly and in a negative direction. Meanwhile, research conducted by Harfiah et al., (2016) , Sholikhah et al., (2017) and also Aulia & Saputri (2021) revealed different findings, namely that OER has quite an impact on profit sharing financing significantly in a positive direction. This is different from research by Kristeningsih et al., (2021) and Choirudin & Praptoyo (2017) which states that OER does not affect profit sharing financing.

Almost all previous research used samples from Islamic commercial banks and the measurements used to measure the profit-sharing financing variable only used the volume of financing. Therefore, this research uses different measurements to measure the profit sharing financing variable by using one of the indicators from *the Islamic performance index* developed by Hameed et al., (2004) , namely *the profit sharing ratio* (profit sharing ratio). According to Hameed et al., (2004) *The profit sharing ratio* can be a measure of the success of Islamic banks in achieving their main goal, namely providing benefits to society in the form of profits through profit sharing financing. This research also uses a different sample, namely the Islamic Rural Bank (IRB), which is rarely used in previous research. Apart from that, IRB also has the main function of collecting and distributing funds that can help the economy in the community.

Literature Review

Profit Sharing Financing from Signaling Theory View

Signalling theory, as illustrated by Spence (1973) through the job market, suggests that companies use financial information to signal good performance to the market. Furthermore, Ross (1977) developed this theory by stating that executives in an entity convey information related to the condition of their entity to stakeholders in order to improve the entity's performance. Basically, signal theory is built on the basis of the asymmetry of information received by several parties with interests (Connelly et al., 2011). Therefore, companies need to provide valid information by publishing financial reports as a signal to interested parties.

The implication of signal theory for this research is that it is based on financing for distributed profits. As is known, the main function of banking is as an intermediary that bridges capital needs between fund owners and fund managers through distributed financing, especially profit sharing financing which is the main product in sharia banking. The higher composition of profit-sharing financing distributed is a positive signal for stakeholders, indicating that the bank has carried out its intermediation function well. An increase or decrease in profit sharing financing can be described through the financial ratios presented in the financial statements. The financial ratios presented can be an indication of an increase or decrease in disbursed financing because the process of calculating these ratios is related to the operational income of banks whose main business segment is profit sharing financing.

Based on Undang-Undang No. 21 (2008) concerning Islamic Bank, financing is defined as a form of distribution or provision of funds between banks and other parties which is divided into several types such as profit sharing financing, leasing financing, buying and selling financing and financing in the form of qardh or loans. -borrow. Choirudin & Praptoyo (2017) said that *the core business* in banking and other sharia financial institutions is financing products that implement a profit sharing system. This profit-sharing financing is based on the principle of justice so that each party involved does not feel disadvantaged, where profits and losses are distributed according to the portion agreed upon at the time of the financing agreement. According to UU No. 21 of 2008 Article 19 paragraph 1 letter c, there are two types of products included in the profit sharing financing category, namely mudharabah financing and musyarakah financing.

Hypotheses Development

Return on Assets (ROA)

Based on a statement from Brigham & Houston (2020) , ROA is the proportion of net profit to total assets as an indicator that measures the company's rate of return on assets. ROA is a measurement ratio indicator that describes the performance of banking management in generating profits. ROA can measure the level of effectiveness of asset management in generating profits from invested capital (Permatasari & Yulianto, 2018) . Based on signal theory, the information presented in financial reports through the ROA value describes the amount of profit obtained from asset management. The profits obtained can later be channeled to financing products (Winarsih & Asokawati, 2019) . So the higher the ROA will provide a signal for increasing the financing distributed (Hanifatusa'idah et al., 2019) .

Several previous studies have analyzed the effect of ROA on profit sharing financing. Winarsih & Asokawati (2019) , Pujiastutik & Sumanto (2021), and Aulia & Saputri (2021) stated that increasing ROA does not affect profit sharing financing because it is said that ROA is only a measure of a bank's ability to earn profits by managing its assets so it cannot be used as a useful reference to help increase profit sharing financing. Based on research from Nastiti

& Kasri (2019) it is stated that ROA has a negative impact which can significantly influence profit sharing financing.

Research conducted by Harfiah et al., (2016) , Hanifatusa'idah et al., (2019) and Febriani & Wirman (2021) also conducted research to test the same variable by proving the results that the higher the ROA reflects the bank's financial performance. good in gaining profits so that it can channel financing for higher results. This is in line with the theoretical review that researchers have previously presented. Thus the first hypothesis is formulated as follows:

H_1: ROA has a positive effect on IRB Profit Sharing Financing.

Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio or in Islamic Bank known as Minimum Capital Requirement (KPMM) is the ratio of capital to assets weighted according to risk that must be owned by banks. In POJK Number 5/POJK.03/2015 Article 4 it is stated that the minimum core capital that must be owned by each bank, namely a minimum of 8% of risk weighted assets (RWA). If the bank's capital condition does not reach the specified minimum ratio, the bank is prohibited from distributing its profits (POJK, 2015) . The higher the CAR value obtained, the better the bank's health level. CAR is an indicator of financial ratios which can represent the level of bank capital ownership which is sufficient to finance operational activities including the risks arising from the financing.

Signal theory explains how companies send signals in the form of useful information to stakeholders. CAR is defined as a ratio to reflect the ability of banking capital when bearing possible risks arising from disbursed financing, especially profit sharing financing as the main business of islamic banks (Aprilia & Mahardika, 2019) . This shows that if the CAR value obtained by the bank is higher, it can be said that the bank is able to finance its operational activities optimally in order to obtain profits through distributed profit-sharing financing. So if the CAR value increases, the bank gives a positive signal to users of financial reports because the increasing CAR value will influence the increase in the volume of profit-sharing financing distributed (Choirudin & Praptoyo, 2017) .

Amelia & Fauziah (2017) and Nastiti & Kasri (2019) have conducted research to prove whether the CAR ratio value can influence profit sharing financing or not. The research test showed results that stated that CAR influenced profit sharing financing negatively and significantly. Apart from that, research results were also found which prove that CAR does not have an impact that can influence profit sharing financing, namely based on research conducted by Winarsih & Asokawati (2019) and Aprilia & Mahardika (2019).

Furthermore, research from Choirudin & Praptoyo (2017) found different results that support the theory from the explanation previously described, namely that CAR has a quite significant positive impact in influencing profit sharing financing. This means that the increasing ability of bank capital management means that the bank has sufficient capital to increase the profit sharing financing distributed. So the formulation of the second hypothesis is as follows:

H_2: CAR has a positive effect on Profit Sharing Financing.

Financing to Deposit Ratio (FDR)

FDR is a ratio that represents liquidity risk which can show the extent to which a bank can carry out its intermediation function in channeling financing from the total funds obtained by the bank (Kristianingsih et al., 2021) . Profit sharing obtained from funding that has been distributed to customers is a type of main source of income for Islamic banks. If the composition of the profit sharing funds that have been provided increases, it can open up opportunities for Islamic banks to gain profits from the profit sharing obtained. FDR is a

proportion that compares the composition of funding distributed with funds obtained from customers. This reflects that a high FDR value means that the bank has succeeded in carrying out its intermediation function in distributing financing (Winarsih & Asokawati, 2019) .

In their research, Nastiti & Kasri (2019) indicated FDR negatively correlated with PSF. Similarly, Febriani & Wirman (2021) conducted a study which demonstrated that FDR does not have a significant influence on profit sharing financing. Meanwhile, there are several other studies such as research from Indriastuti & Kartika (2018), Winarsih & Asokawati (2019) , Doktoralina & Nisha (2020), Pujiastutik & Sumanto (2021), Christiansingsih et al., (2021) and Primadhita et al., (2021) presented different research results where the research results support the statement in the theory outlined by the researchers, namely that FDR can significantly influence profit sharing financing in a positive direction. This means that a high FDR ratio shows that the bank has carried out its intermediation function well, which is reflected in the high composition of the financing disbursed. Thus the third hypothesis was formulated by the researcher as follows:

H_3: FDR has a positive effect on Profit Sharing Financing.

Non Performing Financing(NPF)

NPF is a ratio that can represent financing risk. Financing risk arises as a result of non-current financing or the inability of the party receiving the financing to fulfill the agreement made at the time of the financing agreement. The NPF value describes a situation where the customer fails to carry out his obligations based on several things that were agreed upon when the contract was carried out together, resulting in problematic financing (Primadhita et al., 2021) . The high amount of problematic financing can disrupt banking operational activities when the amount of Allowance for Productive Asset Losses (PPAP) owned by the company is no longer able to overcome this risk so that inevitably the bank will take some of the capital it has to cover the problematic financing. If this happens over a prolonged period of time, the bank's ability to channel financing will decrease.

In accordance with signal theory, banks provide signals in the form of financial information presented in their financial reports. One of the financial information that must be submitted is the NPF ratio. The NPF ratio is an indicator that islamic banks really pay attention to considering that the main business of Islamic Bank is financing products, especially financing with the profit sharing principle. The NPF value describes the percentage of problematic financing or non-smooth financing (Kristianingsih et al., 2021) .

The higher the NPF value presented indicates the poor quality of the financing disbursed because many customers find it difficult to pay off their obligations or there is even uncollectible financing (Primadhita et al., 2021) . Seeing poor financing conditions causes banks to be more vigilant when they want to distribute financing to customers so that this will have an effect on reducing the composition of the financing distributed.

Nastiti & Kasri (2019) and Hanifatusa'idah et al., (2019) in their research stated that NPF influences profit sharing financing in a positive direction because an increase in NPF will be followed by an increase in the financing disbursed if the bank does not select the financing to be disbursed. Meanwhile, research conducted by Sholikhah et al., (2017) and Aprilia & Mahardika (2019) said something different, namely that the NPF does not affect profit sharing financing.

Meanwhile, in their research, Winarsih & Asokawati (2019) , Pujiastutik & Sumanto (2021) , Pensiuningsih et al., (2021) , Primadhita et al., (2021) , and Riyadi et al., (2021) reveal that NPF influences profit sharing financing in a negative direction. This supports the statement outlined by researchers, where the higher the NPF ratio means the higher the bank's responsibility for the risk of non-current financing. Due to the high risk, banks will exercise greater caution when offering financing, which may result in a reduction in the proportion of

profit-sharing financing they distribute. Therefore, the researcher formulated the fourth hypothesis as follows:
H_4: NPF has a negative effect on Profit Sharing Financing.

Operational Efficiency Ratio (OER)

Operational Efficiency Ratio or also known as Operational Costs over Operational Income (BOPO) is a ratio measuring the level of bank operational efficiency in managing costs used to generate income. In order to obtain high profits, Islamic banks must carry out their operational activities as efficiently as possible so that they can attract customers to give their funds to the bank to be managed. If the bank is able to carry out its operational activities efficiently, its profit will increase so that the OER value obtained will be smaller, and vice versa (Aulia & Saputri, 2021) .

Based on signal theory, banks provide signals through the OER ratio to inform the level of bank operational efficiency which will influence profit sharing financing. The lower the OER ratio in a bank, it shows a positive signal to stakeholders regarding the bank's ability to reduce operational costs to obtain maximum income, where the bank's operational income comes from profit sharing on disbursed financing. According to Choirudin & Praptoyo (2017) a low OER value can indicate the bank's ability to cover the profit sharing given to depositors through profit sharing income obtained from financing.

In research conducted by Harfiah et al., (2016) , Sholikhah et al., (2017) and Aulia & Saputri (2021) revealed research findings that prove that the OER value has a positive impact that can significantly influence profit sharing financing. This is different from research from Kristianngsih et al., (2021) and Choirudin & Praptoyo (2017) whose research results prove that OER does not have a significant impact that can influence profit sharing financing.

The lower the OER indicates a high level of cost efficiency so it will have an impact on increasing the profit sharing financing distributed. This statement has been proven by Nastiti & Kasri (2019) and Riyadi et al., (2021) who stated the findings of research conducted that OER has a negative impact that can significantly influence profit sharing financing. So the formulation of the hypothesis is made as follows:
H_5: OER has a negative effect on Profit Sharing Financing.

2. METHOD

Sample Selection and Data Sources

This research uses quantitative methods with secondary data. The population that is the object of this research is all Sharia People's Financing Banks registered with the Financial Services Authority (OJK) from 2018 to 2020 with a total of 163 IRB. In this research, researchers selected samples using a *purposive sampling method* with several criteria that had to be met, including:

1. IRB which is officially registered with the Financial Services Authority (OJK) during the 2018-2020 period.
2. IRB which published its annual financial reports consecutively for the period 2018 to 2020.
3. IRB have data information needed by researchers in financial reports distributed by each bank.

As in the information presented in the table below, it is known that the population of IRB registered with the OJK until 2020 has a total of 163 IRB. Next, the researcher carried out a screening of the existing population to determine the sample that would be used in the research according to predetermined criteria.

Table 2
Number of Samples Based on Criteria

Criteria	Amount
- Number of IRB registered with OJK for the 2018-2020 period	163
- IRB which did not publish its annual financial reports consecutively during the 2018 to 2020 period	(5)
- IRB which does not have the data information required by researchers in the distributed financial reports	0
- Number of IRB that meet the criteria	158
- Research period	3
Number of research samples	**474**

In the screening process to select samples, researchers found as many as 5 IRB that did not comply with the sample selection criteria because they did not publish their annual financial reports consecutively in the period 2018 to 2020. So from the existing population, researchers selected 158 IRB that were in accordance with the sample selection criteria were for 3 periods, namely from 2018 to 2021, with so many samples used in the research having a total of 474 observations.

Variable Measurement

Dependent variable

The dependent variable in this research is profit-sharing financing. Profit-sharing financing refers to financing grounded in the principle of profit-sharing for operational activities between Islamic banks, ensuring an equitable distribution of profits and losses in accordance with the mutual agreement established at the contract's inception. To measure the dependent variable in this study, the researchers utilized the Profit Sharing Ratio (PSR). Referring to research conducted by Pensiuningsih et al., (2021) , it is said that PSR is an indicator of the *Islamic performance index* developed by Hameed et al., (2004) as an index to measure the performance of Islamic banks both in terms of finance and in terms of sharia compliance. Hameed et al., (2004) said that *the profit sharing ratio* can be a benchmark for the success of Islamic banks in achieving their main objectives which have the following formula:

$$\boldsymbol{PSR} = \frac{Pembiayaan\ Mudharabah + Musyarakah}{Total\ Pembiayaan} \quad \text{.....(1)}$$

Independent variable

1. Return on Assets (ROA)

ROA is a financial ratio that assesses a company's profitability in relation to its total assets. Winarsih & Asokawati (2019) say that ROA shows the bank's capability in making efficient use of total assets for banking operations which is formulated as follows:

$$\boldsymbol{ROA} = \frac{Net\ Income}{Total\ Asset} \quad \text{.....(2)}$$

***2. Capital Adequacy Ratio* (CAR)**

Every bank is required to fulfill the minimum capital requirements specified in Bank Indonesia regulations. *Capital Adequacy Ratio* is an indicator used to measure the level of bank capability in terms of existing capital to support banking operational business (Aprilia & Mahardika, 2019) . CAR has the following formula:

$$\boldsymbol{CAR} = \frac{Modal}{Aktiva\ Tertimbang\ Menurut\ Risiko} \quad \text{.....(3)}$$

3. Financing to Deposit Ratio (FDR)

Choirudin & Praptoyo (2017) say that FDR can describe a bank's ability to replace fund withdrawals made by customers by relying on distributed funding as a source of liquidity. The FDR ratio calculation is carried out by comparing the amount of financing composition distributed with the total funds obtained from customers which is formulated as follows:

$$\boldsymbol{FDR} = \frac{Pembiayaan\ yang\ disalurkan}{Total\ dana\ yang\ diperoleh} \quad \text{.....(4)}$$

4. *Non-Performing Financing* (NPF)

Non-Performing Financing is often referred to as substandard, doubtful and problematic financing. The NPF ratio value reflects instances where customers fail to fulfill their obligations as agreed, leading to financing difficulties (Primadhita et al., 2021) .

$$\boldsymbol{NPF} = \frac{Pembiayaan\ Bermasalah/Macet}{Total\ Pembiayaan} \quad \text{..... (5)}$$

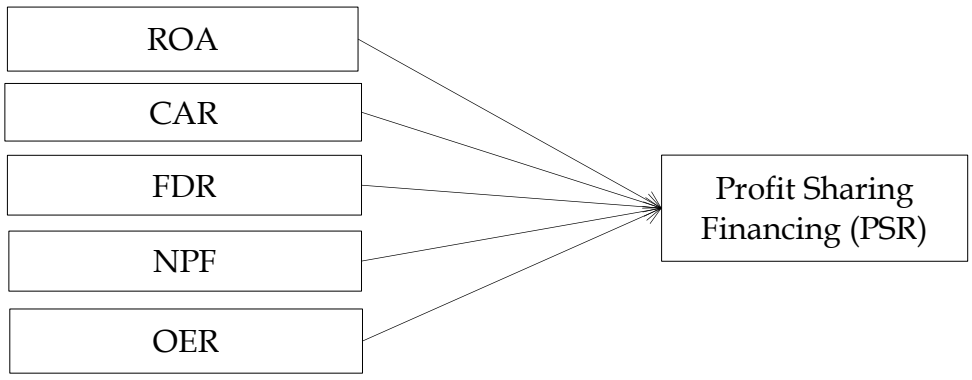
5. Operational Efficiency Ratio (OER)

Operating Expense Ratio is a ratio that depicts how banks manage to minimize operational expenses to optimize operational income. This metric is utilized to gauge a bank's efficiency and capability in conducting operational activities (Riyadi et al., 2021).

$$\boldsymbol{OER} = \frac{Biaya\ Operasional}{Pendapatan\ Operasional} \quad \text{..... (6)}$$

Research Design

Data analysis method



This research aims to analyze the variables ROA, CAR, FDR, NPF and OER at a number of Sharia Rural Banks (IRB) in Indonesia over a period of 3 years. The data used in this research was analyzed using the panel data regression analysis method with the following regression model:

$$PSR_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 CAR_{it} + \beta_3 FDR_{it} - \beta_4 NPF_{it} - \beta_5 OER_{it} + \boldsymbol{\varepsilon} \quad \text{.....(7)}$$

Information:

PSR = *Profit Sharing Ratio*
α = Constant
β = Regression coefficient

ROA = *Return on Assets*
CAR = *Capital Adequacy Ratio*
FDR = *Financing to Deposit Ratio*
NPF = *Non Performing Financing*
OER = *Operational Efficiency Ratio*
ε = Error Rate
it = IRB *i* in year *t*

3. RESULTS AND DISCUSSION

Results

Description of data

The data analyzed in this study consists of secondary data sourced from annual financial reports retrieved from the official OJK website and the official websites of each Islamic Rural Bank (IRB), totaling 158 IRBs. This research uses seven variables, including five independent variables and one dependent variable. After obtaining the data, data processing will be carried out using descriptive statistics to produce average values, standard deviation values, minimum values and maximum values. The data was processed using STATA statistical *software* with the following descriptive statistical results:

Table 3.
Descriptive statistics

Variable	*Obs*	*Mean*	*Std. Dev*	*Min*	*Max*
PSR	474	0.1118964	0.1397262	0	0.6657
ROA	474	0.0146034	0.0403536	-0.321	0.1442
CAR	474	0.3060152	0.3027918	-0.4926	4.69
FDR	474	0.9100895	0.3459609	0	4.3593
NPF	474	0.0859321	0.0892424	-0.0023	0.9347
OERs	474	0.7181116	1.493865	-30.92	3.8266

Source: Stata MP 16 output

Profit sharing financing is measured using *the profit sharing ratio* (PSR), from the existing sample a *mean value of 0.1118964 is* obtained , which indicates that from the entire sample data used, the average proportion of profit sharing financing to the total financing disbursed is 11. 19%. Meanwhile, the standard deviation or standard deviation of the PSR is known to be 0.1397262. The minimum and maximum values of the PSR variable are known to have values of 0 and 0.6657. The ROA variable shows a *mean value* of 0.0146034 with a standard deviation of 0.0403536. The *mean* value of 0.0146034 or 1.46% indicates that the level of IRB's ability to earn profits by managing its assets is quite good and tends in a positive direction. Meanwhile, the minimum ROA value is known to be -0.3021 and the maximum value is 0.1442 . Then the *Capital Adequacy Ratio* (CAR) variable has a *mean value* of 0.3060152 and a standard deviation of 0.3027918. The average CAR of 30.61% indicates that overall the average capital adequacy of IRB is quite good because it has exceeded the stipulated provisions (8%).

The CAR variable ranges from a minimum of -0.4926 to a maximum of 4.69. The FDR variable has a mean of 0.9100895 (or 91.01%), indicating that, on average, IRBs maintain a liquidity level of 91.01%. The standard deviation for FDR is 0.3459609. The NPF variable has a mean of 0.0859321 (or 8.59%), indicating that, on average, problematic financing constitutes 8.59% of IRB operations. The standard deviation for NPF is 0.0892424, with a

range from a minimum of -0.0023 to a maximum of 0.9347. Regarding the OER variable, the mean is 0.7181116 (or 71.18%), signifying that, on average, IRBs exhibit relatively low operational efficiency in managing costs. The standard deviation for OER is 1.493865, with values ranging from a minimum of -30.92 to a maximum of 3.8266.

Classic assumption test

The classical assumption tests conducted for this research included tests for normality, multicollinearity, autocorrelation, and heteroscedasticity.

Table 4
Normality Test Results

Variable	*Skewness*	*Kurtosis*	Information
PSR	1.618221	5.388821	Normally distributed
ROA_new	-1.678626	8.688792	Normally distributed
CAR_new	2.004371	7.714625	Normally distributed
FDR_new	1.093653	7.431568	Normally distributed
NPF_new	2.107307	8.867081	Normally distributed
OER_new	0.9975763	5.900262	Normally distributed

Source: Stata MP 16 output

In the initial normality test, it was found that all data on the independent variables were not normally distributed because *the treatment was carried out* using *winsorization* of 1% so that the data for all variables were normally distributed.

Table 4 above shows that all independent variables are declared free from multicollinearity problems. This is proven by the VIF value for each variable which is less than 10. Likewise, the *tolerance value* (1/VIF) obtained for each variable is greater than 10%.

Table 4
Multicollinearity Test Results

Variable	VIF	1/VIF
FDR_new	6.97	0.143378
OER_new	6.64	0.150539
CAR_new	2.90	0.344295
NPF_new	2.48	0.403525
ROA_new	1.58	0.634175
Mean VIF	4.12	

Source: Stata MP 16 output

The regression model used in this research is the *random effect model* (RE), therefore this model is able to overcome the problems of heteroscedasticity and autocorrelation in a regression model through the same approach, namely *Generalized Least Squared* (GLS). So basically a regression model that uses *a random effect model* (RE) no longer requires heteroscedasticity or autocorrelation tests because there is a *Generalized Least Squared* (GLS) approach in the *random effect estimation model*.

Discussion

The coefficient of determination test is conducted to assess the extent to which the independent variable can effectively explain variations in the dependent variable. The results of this test are represented by the R-squared (R^2) value, which ranges from 0 to 1. Here are the results of the coefficient of determination test (R^2).

Table 5
R^2 Test Results

Number of obs	474
Number of groups	158
R-sq:	
Within	0.0460
Between	0.0001
overalls	0.0024

Source: Stata MP 16 output

Based on the values presented in table 4 above, it can be seen that the R^2 value is 0.0024 or 0.24%. From these results it can be interpreted that the ROA, CAR, FDR, NPF and OER variables can have an influence on the overall profit sharing financing (PSR) variable of 0.24% and the rest is influenced by other factors outside the variables studied.

To test whether ROA, CAR, FDR, NPF and OER have an influence on profit sharing financing, a regression test was carried out with results as shown in table 5. Based on table 5, the test results show the probability value of the ROA variable is 0.008 or smaller than the level significance is 1% ($\alpha = 0.01$) which proves that there is a significant influence. Apart from that, it is also known that ROA obtained a calculated t > t table value, namely 2.66 (2.66 > 2.326) and has a positive value so it $H_1$is accepted. Therefore, it can be concluded that the ROA variable has a positive and significant impact on profit sharing financing. This implies that as the ROA value increases, there is a corresponding increase in the profit sharing financing distributed by the bank.

Earning high income is an important thing that every bank needs to pay attention to in order to support all bank operational activities, including disbursing financing. In signal theory, the information presented in financial reports through the ROA ratio can have implications for the high level of profit-sharing financing distributed. An increase in the ROA value indicates that the bank is able to manage its assets optimally to obtain profits, so that with the large profits obtained the bank can carry out its main business, namely distributing financing, including profit sharing financing. The results of this research are in line with previous research conducted by Harfiah et al., (2016) , Hanifatusa'idah et al., (2019) and Febriani & Wirman (2021).

test results on the CAR variable show a probability value of 0.543 or greater than the 10% significance level ($\alpha = 0.1$), which proves that no significant influence was found. Apart from that, it is also known that the CAR obtained a calculated t value < t table, namely 0.61 (0.61 < 1.282) and had a negative value so it $H_2$was rejected. Thus it is concluded that the CAR variable does not have a significant influence on profit sharing financing. This means that the high or low CAR value at a bank has no effect on increasing or decreasing profit sharing financing. The lack of influence of the CAR variable on profit-sharing financing proves that there is an inconsistency in the research results with signal theory which states that the CAR ratio can be a signal for stakeholders regarding the amount of profit-sharing financing distributed by banks.

Table 6

REM Model Panel Data Regression Test Results (Random Effect Model)

Description	*Random Effect Model*		
	Coefficient	***t***	***Prob > |t|***
_cons	0.0725878	3.20	0.001
ROA	0.4005348	2.66	0.008*
CAR	-0.0142134	-0.61	0.543
FDR	-0.0050688	-0.33	0.739
NPF	0.1737366	3.05	0.002*
OERs	0.0351099	2.32	0.020**
Number of obs		474	
R-Square		0.0024	
Wald chi2(5)		13.63	
Prob > chi2		0.0181	
Information :	*significance level 0.01 (1%)		
	**significance level 0.05 (5%)		

Source: Stata MP 16 output

The findings of this research align with the results of studies conducted by Winarsih & Asokawati (2019) and Aprilia & Mahardika (2019). Based on analysis of the results of descriptive statistical tests, it was found that the overall average value of the CAR variable in Islamic people's financing banks during the 2018-2020 period was 30.61%. This shows a fairly high value exceeding the minimum standard set (8%), however a high CAR value does not mean it will increase the profit sharing financing distributed because in distributing financing, especially profit sharing financing, banks need to consider several other factors, not only based only on the adequacy of capital owned so that the financing provided does not harm the bank. The results of this research are also strengthened by one of the samples used, where if we look at the analysis of statistical test results it is known that the maximum value of the CAR variable came from PT IRB Taman Indah Darussalam in 2019 and the minimum value came from PT IRB Adam in 2018. However, even though both IRB in each of these periods did not distribute profit sharing financing, so the value of profit sharing financing was 0. Thus, it can be concluded that the high or low CAR value does not affect profit sharing financing.

Test results on the FDR variable show a probability value of 0.739 or greater than the 10% significance level ($\alpha = 0.1$), which proves that no significant influence was found. Apart from that, it is also known that FDR obtained a calculated t value < t table, namely 0.33 (0.33 < 1.282) and had a negative value so it $H_3$was rejected. Thus, it can be concluded that the FDR variable does not have a significant influence on profit sharing financing. The lack of influence of the FDR variable on profit-sharing financing proves that there is an inconsistency in the research results with signal theory which states that the FDR ratio can be a signal for stakeholders regarding the amount of profit-sharing financing distributed by banks. A high FDR value reflects the high level of financing disbursed by the bank. The financing in question is all financing products offered. Therefore, FDR is said to have no effect on profit sharing financing because in fact, based on Islamic Bank statistical data at the OJK in 2021, the composition of financing that dominates is buying and selling financing. So it can be concluded that the high FDR may be caused by the large composition of buying and selling financing, not from profit sharing financing.

The findings of this research are consistent with those of Febriani & Wirman (2021). Apart from that, the research results are also strengthened based on the results of descriptive statistical test analysis, it is known that the maximum value of the FDR variable was obtained

from PT IRB Nurul Ikhwan in the 2018 period. However, it is known that in that year, PT IRB Nurul Ikhwan did not distribute profit sharing financing so that the financing value The profit sharing is in the minimum position, namely 0. Thus it can be concluded that the high FDR value has no effect on increasing the profit sharing financing distributed.

The test results on the NPF variable show a probability value of 0.002 or smaller than the 1% significance level (α = 0.01) which proves that there is a significant influence. Apart from that, it is also known that the NPF obtained a calculated t value > t table, namely 3.05 (3.05 > 2.326) and has a positive value. Therefore, it can be concluded that the NPF variable has a positive and significant influence on profit sharing financing. As a result, Hypothesis 4 (H4) is rejected because it suggests a different direction of influence. In signal theory, banks will provide signals in the form of financial information presented in their financial reports, one of which is the NPF ratio. The NPF ratio is an indicator that islamic banks really pay attention to considering that the main business of Islamic Bank is financing products, especially financing with the profit sharing principle. The higher the amount of problematic financing, the implication is that it will increase the profit sharing financing distributed, because the more financing distributed by the bank, the higher the risk of customer failure in returning the financing to the bank. Seeing conditions like this should make banks more vigilant when distributing financing to customers.

The results of this research are also in line with research conducted by Nastiti & Kasri (2019) and Hanifatusa'idah et al., (2019) . Where when there is an increase in the NPF value it will be accompanied by an increase in the financing disbursed. This might happen if the bank does not make a selection before distributing profit-sharing financing. Apart from that, the results of this research are also supported by one of the samples used, namely PT IRB Berkah Ramadhan in 2018 which had an NPF value of 49.34%, much higher when compared to the average value of the NPF variable as a whole in the sample data, namely 8 .59% and is known to have a PSR value of 65.35% which is almost close to the maximum value of the PSR variable (66.57%). Meanwhile, several sample data, namely PT IRB Nurul Ikhwan (2019), PT IRB Taman Indah Darussalam (2019) and PT IRB Saruma Sejahtera (2018 & 2019) are known to have an NPF value of 0 and the PSR in that period also has a value of 0. Therefore It can be concluded that the higher the NPF value can influence the increase in profit sharing financing, and vice versa, the lower the NPF value can influence the reduction in profit sharing financing.

The test results on the OER variable show a probability value of 0.020 or smaller than the 5% significance level (α = 0.05) which proves that there is a significant influence. Apart from that, it is also known that OER obtained a calculated t > t table value, namely 2.32 (2.632 > 1.645) and has a positive value. Thus, it can be concluded that the OER variable has a positive and significant influence on profit sharing financing, so H_5it is rejected because it is in a different direction. Based on signal theory, banks provide signals through the OER ratio to inform the level of bank operational efficiency which will influence profit sharing financing. A high OER value indicates the large operational expenses incurred by a bank. Operational expenses themselves are all bank expenses used to finance its business activities, where the main business of Islamic banks is profit sharing financing. Therefore , a high OER value will have implications for increasing profit-sharing financing, meaning that the more profit-sharing financing that is distributed, the greater the bank's operational burden to finance this financing.

The results of this research are also in accordance with the findings of Harfiah et al., (2016) , Sholikhah et al., (2017) and Aulia & Saputri (2021) . which proves that the OER value has a positive impact which can significantly influence profit sharing financing because increasing the amount of profit sharing financing can cause large operational expenses incurred by banks . Apart from that, the results of this research are also supported by one of

the samples used, namely PT IRB Saka Dana Mulia in 2020 which had an OER value of 110.05%, much higher when compared to the average value of the OER variable as a whole in the sample data, namely 71.18% and is known to have a PSR value of 60.8% which is almost close to the maximum value of the PSR variable (66.57%). Meanwhile, PT Asri Madani Nusantara in 2020 was known to have an OER value of -3092% and the PSR value in that period was known to be only 1.23%, which is very far from the average value. Therefore, it can be concluded that a higher OER value can influence an increase in profit sharing financing, and vice versa, a low OER value can influence a decrease in profit sharing financing.

4. CONCLUSION

This research aims to examine the internal factors of financial ratios such as ROA, CAR, FDR, NPF and OER on profit sharing financing at Islamic Rural Banks registered with the Financial Services Authority . The total sample was 158 IRB in Indonesia selected using a purposive sampling method for 3 years of observation, namely 2018-2020. Based on the results of the tests conducted, it can be concluded that ROA, CAR, FDR, NPF, and OER collectively influence profit sharing financing. It is partially known that ROA has a positive and significant influence on profit sharing financing. This proves that the higher the ROA value will have an effect on increasing the profit sharing financing distributed. Next, partially the CAR variable proven to have no effect on profit sharing financing. This indicates that the size of the CAR value at a bank has no effect on increasing or decreasing profit sharing financing. The results of the regression test on the FDR variable prove that FDR has no influence on profit sharing financing. Therefore, the FDR value does not have a significant impact on increasing or decreasing profit sharing financing. Furthermore, it was found that NPF has a positive and significant influence on profit sharing financing. This indicates that an increase in the NPF value is associated with an increase in profit sharing financing. Additionally, OER also has a significant positive influence on profit sharing financing. Therefore, a higher OER value is associated with increased profit sharing financing.

There are several limitations in this research which are expected to be refined by future researchers. Several limitations in this research include that the independent variables used are limited to the internal factors of several ratios in the reported financial ratios, namely ROA, CAR, FDR, NPF and OER as independent variables. So this allows for the influence of external factors and other internal factors outside the variables studied on profit sharing financing. This research also only focuses on IRB in Indonesia with an observation period of three years, therefore it is hoped that future researchers can expand the research object and extend the observation period so that they can obtain more accurate results.

This research contributes significantly to both the theoretical framework and practical applications within the banking sector in Indonesia. Theoretically, it enhances the understanding of how internal financial ratios such as ROA, CAR, FDR, NPF, and OER impact profit sharing financing in Sharia Rural Banks. By establishing that ROA, NPF, and OER have a positive and significant effect on profit sharing financing, while CAR and FDR do not, the study provides nuanced insights into which financial health indicators are most influential in driving profit-sharing initiatives. Practically, these findings offer valuable guidance for bank management and policymakers in optimizing financial strategies to enhance profit sharing financing. The clear delineation of influential versus non-influential factors enables more targeted and effective decision-making processes, potentially leading to improved financial performance and stability within the sector. This research also underscores the need for comprehensive analysis that includes both internal and external factors over a more extended period, paving the way for more holistic future studies

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