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Musharakah Financing: Profitability Improvement Tool for Islamic Banks

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Abstract

Islamic commercial banks are part of country's financial system and play a crucial role in business industry. Similar to other business firms, Islamic commercial banks seek profits, growth and sustainability. This study attempted to analyze the effects of musharakah financing on the profitability of Islamic commercial banks. The majority of literature of finance relates to traditional finance, which has so many weaknesses. In contrast, this study focuses on Islamic banking theory with specific emphasis on Musharakah financing which is essential mechanism in the practice of Islamic banking and finance. The paper adapted correlational research design and employed a questionnaire to collect data from respondents. The data were analyzed using statistical package for social science to examine the extant of the effects of musharakah financing on the profitability of Islamic commercial banks. Results: The results showed that musharakah financing has a positive effect on profitability of Islamic commercial banks ($r = 0.882, p < 0.05$). The study concludes that increase in Musharakah financing significantly improves profitability of Islamic commercial banks. The study presents several managerial implications, suggesting the importance of increasing service exposure to attract new customers, enhance public awareness towards musharakah financing, conduct regular visits to gain deep and accurate information concerning the operations of joint ventures business, and finally, the bank should have clearly written policy on musharakah agreement, financing, management and control systems. This study contributes to the existing literature on Islamic finance and banking, highlighting its growing global practice and theory, driven by community ethical and financial needs, innovation, and market competitiveness.

Keywords: *Islamic Finance, Banking, Financing, Islamic Commercial Banks, Shari'ah Banks, Musharakah, Profitability, Somalia.*

INTRODUCTION

Islamic finance is one of the most fastest growing industry in global financial services (Altameemi & Al Slehat, 2022; Hussain, et al., 2016, Gait & Worthington, 2008) in terms of capital, market growth and innovation. Recently, awareness, reputation and attitude towards Islamic financial systems have raised, which eventually increased the opportunity for potential customers to adapt and practice it (Albaity, & Rahman, 2019). This industry is growing due its attractive features including sharia compliance and ethical consideration for both Muslims and Non-Muslims (Albaity, & Rahman, 2019; Jalil and Rahman, 2014). Among others, these features make Islamic financial sector a significant segment in the world financial system (Saiti and Noordin, 2018). Although, the Islamic finance system was developed to serve for cultural and political end, currently, it is used for industrial and business development, social advancement as well as justice promotion (Hussain, et al., (2021). From its inception in 1960s, Islamic finance contributed to development of the real economy by pooling and transferring funds to the productive investment and financing business sector (Kassim, 2016).

Islamic finance is guided by three fundamental principles to achieve its broad goals namely; equity, participation and ownership principles (Rosyada, (2018). These principles allow entrepreneurs and investors, be business partners by combining funds, ideas and skills and invest profitable opportunities i.e. business, trade, service, on the basis of profit and loss sharing principle (Sarker, 1999). This partnership can be formed mainly on basis of Musharakah and Mudarabah structures. The Mudarabah contract is when one party called 'capital owner' provides funds to another part called 'entrepreneur' for productive activity, i.e. business, on the condition that profits will be shared by the parties, while Musharakah is when parties contribute capital to form new venture or simply business in which profits and losses (PL) will be shared by them (Alrifai, 2015). Ideally, Islamic modes of financing like musharakah has vital role in business and industrial development (Nienhaus, 2011). On the other side, these consent Islamic commercial banks generate profits through partnership financing i.e. Musharakah.

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Shari'ah complaint finance, as its name suggests, is an ethical finance which can effectively work only in an ethical environment. Since Musharakah is partnership contract, partners should comply moral and Shari'ah principles. Nienhaus (2011) asserted that unethical environment can risk financial institutions undertaking musharakah arrangement. However, Musharakah as equity financing is at the heart of the principle of risk sharing (Alrifai, 2015). Due to the risks associated, difficult financing evaluation processes, asymmetric information problems, and lacked qualified individuals who can manage musharakah or this type of partnership and other factors, musharakah would not become popular compared to some other Islamic financial products (Yustiardhi, et al., 2020; Alrifai, 2015). In other words, Islamic finance industry have failed, at least in part, to promote the fundamental Islamic modes of financing like Musharakah financing (Soumadi & Al Smadi, 2023; Farooq & Ahmed, 2013). Musharakah financing is growing, particularly in securitization as Islamic finance principles permit asset-based arrangements (Alrifai, 2015). Recently, studies revealed that Musharakah is less risky for investors compared to mudarabah (Ajmi, et al., 2019).

According the statistics from Sharia Bank, musharakah financing agreements have increased progressively (Dewantara, & Bawono, 2020), although Islamic bankers are not effective and knowledgeable in assessing, selecting and handling profitable projects and (Elgadi (2016 and Abdalla, 2008). This problem affects the bank's performance and profitability which to some extent reduce the bank's growth and sustainability. Ideally, Musharakah refers joint business enterprise formed to make profit (Al-Saadi & Almunshid, 2013). More broadly, it is an arrangement or structure between two parties or more to finance new business venture in which all parties add or contribute capital in cash or in kind for financing the venture enterprise (Sa'ad, et al., 2019). This type of financing or investment is based on the principle of profit and loss sharing which states that any profits from the musharakah investment will be distrusted between parties based on predetermined ratios while losses will be shared on basis on capital contribution ratios (CCR) (Ahangi, 2013).

Both profits and losses can be only determined at the end not at the beginning. For that, the profit and loss (P&L) sharing mechanism refers to a type of financing that has uncertain returns (Ernawati, 2016). This method of financing lets Islamic commercial banks improve their performance and profitability, and profitability itself is measured by various indicators such as Return on Assets (ROA) and Return On Investment (ROI) which measure the banks' ability to make profits (Syahri & Harjito, 2020 and Hery, 2015). However, some studies indicate that Musharakah financing significantly effect on the profitability level of Islamic banks (Syahri, & Harjito, 2020). In Somalia, the banking industry is growing and delivering a range of financial service. Since banks offer partnership financing based on profit and loss structure, this study attempted to analyze the effects of Musharakah Financing on the profitability of Islamic commercial banks in Somalia.

REVIEW OF LITERATURE

Islamic Banking and Finance: Concept and Nature

While Islamic banks vary from conventional banks, there is still similarities in terms of profit making motive and the nature of banking profession they deliver (Puspitasari, et al., (2023; Aburime, 2008). Islamic banking is interest free banking that provide financial services based on Islamic Shari'ah, ethics and values (Ascarya and Yumanita, 2005 and Gustriani, et al., 2020). This system implements or provides Shari'ah based products and services and therefore is called Shari'ah complaint financial system. Islamic banking theory is still being developed and is not fully formed, but it has a solid foundation in Islamic Jurisprudence (fiqh) with original source known as the revelation, which provides a rational, logical, and balanced framework for all human activity.

The Islamic Jurisprudence (*fiqh*) has two approaches of dealing with the new issues not covered in the textual laws, namely; analogical reasoning and rulings based on maslaha (public interest), which support the innovation and development of new financial services. However, the contemporary practices of Islamic financial system started view decades ago, but growing faster and safer (Hussain, et al., 2016; Gait & Worthington, 2008; and Siddiqi, 2006)). While conventional system mainly offers financial and banking services that Islamically prohibited and not suitable to the community at large, Islamic financial system is based on Shari'ah principles that guides clients, participants and the bank its self to work within boundaries of Shari'ah (Alrifai, 2015).

The Islamic financial industry has realized growth, development and resilience in the global financial environment and despite their motivation of profit making, the industry also seeks to achieve socioeconomic justice (Abdul-Rahman & Nor, 2016; Hussain, et al., 2016; Hassan & Kayed, 2009). This industry primarily provides fair financial services and proper flow of funds since it uses more ethical tools of financing and investing. Ideally, partnership based contracts such Musharakah can promote investment networks and cooperation in business matters among bank institutions, business people, investors and entrepreneurs which eventually allow formation and accumulation of capital.

Islam regulates the behavior of individuals concerning their economic and social relationships. According to Komijani & Taghizadeh-Hesary, (2018) and Moosavian (2007), Islamic finance should comply the following Islamic principles: 1) money has no inherent or intrinsic value, but works as a medium of exchange, 2) encourage real economic activities, 3) give emphasis to risk and reword sharing, 4) avoid prohibited business and activities such gambling, betting and alcoholic drinks, 5) avoid riba (interest), 6) avoid gharar (excessive risk/uncertainty). These principles shape the structure, features and products of Islamic banks. In this regard, Islamic banks (IB) do not offer cash loans, therefore, the relationship between the Islamic commercial bank (IB) and its clients is not creditor-debtor relationship rather, it is a partnership relationship based on sharing risks and rewards (Komijani & Taghizadeh-Hesary, 2018). These features make the Islamic banking system more ethical, moral and value oriented, which could help generate profits, and contribute to the socioeconomic development since it advances interest free loans, and provide financing to business corporations, small and medium enterprises (SME) and other productive projects. The services they extend are mainly based on the profit margin and profit sharing schemes.

Profit and Loss Sharing Principle

The Shari'ah legal framework articulate the boundaries of Islamic bank transactions. Under this framework, Islamic bank transactions can be categorized into two groups: liability-side contracts and asset-side contracts (Komijani & Taghizadeh-Hesary, 2018). The liability side has two sub-parts: Qard hassan (zero interest loans); and Wakala (agency contracts). Qard hassan, also known as benevolent loan is interest free loans in which the bank transfers money to client or business, while Wakala is an agency contract in which the Islamic commercial bank serves and acts as an agent of the depositor against a certain fee (Jalil & Rahman, 2010). On the asset side, the contracts basically concern participatory modes and debt-creating modes. While participatory modes are based on profit and loss sharing; debt-creating methods, are based on fixed charges. The debt-creating modes are low-risk instruments such as Murabaha Salam, Istisna'a. The participatory modes include Musharakah and Mudarabah which characterized with high risk in nature (Abdul-Rahman & Nor, 2016). The profit sharing is permissible and sometimes mandatory, but in the case of Musharakah, there are some differences among jurists on profit ratios i.e. whether it is based on the capital contribution ratio or not. For more clarity, classical jurists, Shafi'i, Ahmed, Malik and Hanifah see it differently (Sarker, 1999 and Usmani, 2002).

Musharakah: Definition

'Musharakah' literally means sharing, and in the context of finance, trade and business, it means a joint enterprise, or joint commercial enterprise, in which all parties contribute investment capital, labour, management and expertise as well as share the profit and loss of the venture (Usmani, 2021; Samad, et al. 2005; Iqbal and Molyneux 2005). The term 'Musharakah' is often used in the context of Islamic finance, conversely, the term 'shirkah' is used normally in Islamic jurisprudence (fiqh). The terms of Musharakah, sharing and shirkah are all interchangeable (Nik Abdul Ghani, 2021 and Hamzah, at el., 2013) and all constitute partnership concept. However, Musharakah is typically appropriate for investments in business ventures and business projects (Hamzah, at el., 2013; Jaffar, 2010). Additionally, it is one of the ideal and real instrument of financing in the context of Islamic finance (Usmani, 2021; Farooq & Ahmed, 2013).

Musharakah: Classification

The shirkah can be classified into two categories: shirkah al-milk (joint ownership) and shirkah al-'Aqd (contract partners). The first category is Shirkah al-milk which may come into existence in two ways: as an optional or compulsory (automatic). If parties decide to own jointly at their own choice, it is an optional partnership while it is compulsory partnership (non-optional partnership) once it comes into operation automatically without any action taken by parties such as offsprings finding themselves co-owning a business or other capital after the death of a parent (Ali, at el., 2022; Usmani, 2002). The second category is Shirkat-al-Aqd, representing a contractual partnership that can be viewed as a "joint commercial enterprise" (Ali, at el., 2022; Usmani, 2002). This kind of shirkah is additionally divided into three types: 1) Shirkat-ul-Amwal, where partners invest some capital into a commercial enterprise, 2) Shirkat-ul-A'mal, which comes into existence when all partners jointly undertake to render some services for their customers, and the fee charged to them is distributed among them parties according to an agreed ratio, 3) Shirkat-ul-Wujooh (Partnership in Goodwill) which shows that there is no capital invested at all, rather, the partners purchase commodities on deferred price and sell at the spot.

The concept of shirkah is much broader than musharakah. While musharakah is limited to the Shirkat-ul-Amwal (Partnership in trade) and Shirkat-ul-A'mal (Partnership in service), the term shirkah covers all types of joint ownership (Usmani, 2021). However, Musharakah as Islamic mode of financing plays a crucial role in the Islamic financial system, although there are obstacles that challenges Islamic financial institutions to effectively partake Musharakah contracts. Abdul-Rahman, & Nor (2016) identified four major challenges, namely; high risk of investment, difficulty of finding right partners, lack of capital security, and low credit worthiness customers in the market. In the modern global economy, interest based financing is the prevalent way used in financing business loans, consumer loans and all similar transactions in which banks earn interest income as fundamental source of income that mainly increase banks profitability and wealth of its legal owners, while Islamic finance prefers asset based financing (Hassan & Kayed, 2009), so, Musharakah contributes to the business and economic development (Usmani, 2021).

Musharakah: The Basic Rules

Musharakah is a relationship created by the parties through a mutual contract, however, this contract must satisfy all essential elements of a valid contract. The parties should be capable of engaging into a contract; the contract must take place with the free consent of the parties without any duress, coercion, misrepresentation, fraud etc. (Jais, et al., 2020; Schoon, 2016; Usmani, 2002). Additionally, there are some additional requirements to the contract of musharakah and can be summarized as follows. In musharakah agreement, the capital should be quantified and Specified. The parties are not required to bring capital only in liquid form (monetary form) but they can also contribute in kind, on condition of valuing it to current market price, although jurist has different point of view concerning whether capital should be in liquid form or in kind. When it comes to the management of the Musharakah (joint venture), all members have equal right to participate in its management, sometimes, the managerial role can be restricted or reserved to one or group of the investors (partners) (Usmani, 2002). This case, other partners are considered as sleeping partners and not allowed to be involved in the management process or act on behalf of the partnership, i.e. Musharakah.

In terms of profit distribution, the profit sharing ratio should be predetermined and agreed upon the time of designing the contract, on the condition that it cannot be a lump sum and not allowed to wait until the realization of profits to determine the profit percentage owed to each partner, if not so, the contract becomes void (fasid) (Ahroum & Achchab, 2017 and Marifa Academy, 2014). On the other hand, if profits are not realized, the losses from the business must be shared and be equal to size of capital contribution of each partners (Alamad, 2019; Marifa Academy, 2014). If the Musharakah has a maturity date, all assets are distributed in fixed proportion between/among partners and it acceptable for one partner to purchase all assets at their current market price and the proceedings are shared and distributed by other partners (Marifa Academy, 2014; Usmani, 2008). The Musharakah can come to end on the agreement of its members or in case of death or incapacity of a partners. As a general rule, each partner has a right to terminate it at any time after giving due notice to other partners. However, in case of dispute between partners concerning on the liquidation, partition or distribution of non-liquid assets, in this case partition or distribution is preferred, since co-owners have a right to request or ask for partition or separation, and no one can force other partners on liquidation.

Profitability of Islamic Banking Institutions

Basic Concepts of Profitability

Banking institutions seek growth, expansion and sustainability in an approach similar to other business entities. The main goal of any business organization including banking institutions is to earn profit. So, it is necessary for the banks to design effective strategies to survive, earn profit and growth in the competitive environment (Kulmie, et al., 2023). These strategies can also work as a risk management tool since risk effects the financial performance and reduces profitability of banking institutions (Idowu, et al., 2017). Owolabi & Obida (2012) defined profitability as a business's capacity to generate revenue that is greater than costs related to producing that revenue across all of its activities. Islamic commercial banks offer several investment and financial services to their clients and partners such as individuals, families, entrepreneurs, business and corporations. In economic perspective, Islamic banks provide financing and investment facilities to entrepreneurs, commercial entities, and participate socioeconomic development processes.

The services that Islamic banks provide are classified into four categories; interest free loans, fee based services, profit margin based services, and profit sharing structures. Despite the opportunities banks gain from the expanded menu of services, it reduces the risk related to nature of the banking business since it allows banks to diversify their financing and investing transections. This demonstrates how banks are committed to increase their profitability and manage risks. Simply, high profitability indicates the effectiveness of risk management strategies and the efficiency of bank operations (Kulmie, et al., 2023 and Hardianto & Wulandari, 2016).

Profitability: A Financial Performance Measurement Tool

Profitability is an indicator used in measuring financial performance and operational efficiency. It shows the management's effectiveness and efficiency to utilize resources in producing satisfactory income or return. In order to measure the bank's capacity or ability to produce earnings from its invested funds, the following ratios are mostly used ratios used in measuring the profitability of banks as well as other profit seeking organizations: (1) return on assets (ROA), and (2) return on equity (ROE) (Akinwumi, et al., 2017). Return on assets can be stated as "a comparison between net income and average assets." While return on equity is defined as "the ratio between net income and the average equity or investment of bank owners" (Gustriani, et al., 2020). In this sense, Islamic banks desire to maximize their profit by utilizing all Shari'ah complaint instruments including profit and loss sharing and profit margin methods. Profit and loss sharing mechanism such Musharakah is one of the real methods for investing and financing business and projects. If Islamic commercial banks are active member, i.e., managing partner, in Musharakah contract or joint venture, then the bank has the capacity to manage it, and conversely if the bank is sleeping partner, his role will be limited to only guidance and advisory role, meaning, the bank provides knowledge, information, critical thinking and analysis to support decision makers of the joint venture. Rammal (2004) stated that the ratio of profit allocated to the sleeping partner (s) should not exceed the capital contribution ratio as investment in the business, while some scholars declared this condition is not important. However, management's result is measured with business income, or profits generated from the partnership (Nidaussalam, 2016).

Islamic commercial banks constantly look for legal and legitimate (halal) sources of income. As a result, they take part in any successful ventures and projects through the Musharakah financing, which helps the bank create multiple streams of income and generate profits. However, the profitability of the financial institutions depends on more than just how the attractiveness of the projects to partnership program to participate and invest in. Hence, profitability is linked with several internal and external factors, such as bank capital, bank size, risk management, credit, liquidity, and management decisions, market share, competition, ownership, inflation (Supiyadi, et al., 2019; Widarjono, 2018; Sriyana, 2015; Petria et al., 2015; Almazari, 2014; Tan & Floros, 2012). The bank's management team should consider institutional and environmental factors and strategically think how to allocate and utilize resources effectively and efficiently.

Effects of Musharakah on Profitability of Islamic Commercial Banks

The literature of Islamic finance and banking has rapidly increased in the last decade. Researchers contributed their work in this area, particularly the nature, functionality and the products of Islamic finance and their relationship with profitability, financial performance, and growth. in Kenya, a study by Islam & Omar on the effects of Musharakah contracts on the financial performance of Islamic Banks discovered a substantial positive correlation between Musharakah financing and the financial performance of Islamic banks. Also, the findings from this research revealed that any additional investment on musharakah contracts will lead an increase in profitability (Islam & Omar (2017). The study concluded that the bank management need to market their Islamic financial service to increase their product exposure so as to enhance bank's financial performance. In Indonesia, Widarjono (2021) investigated the role of equity financing (Musharakah and Mudarabah) on the profitability of Indonesian Islamic banks. The results from this study revealed that Musharakah financing significantly contributes to the performance and profitability of Islamic banks in Indonesia. The implication of this results for Islamic banks which currently focus on debt-based financing is to increase their practices of equity financing. If so, this paradigm shift will bring Islamic banks to their nature to deliberately concentrate on profit sharing financing.

Several studies investigated the influence of profit and loss sharing (PLS) financing on bank income, growth and their riskiness including Alandejani and Asutay (2017); Abusharbeh (2014); Misman (2012) and Grassa (2012). Profitability is the ultimate test to measure the effectiveness of risk management. According to Warninda, et al., (2019), participating in Musharakah financing can decrease Islamic bank credit, which eventually improves profitability, and performance. Rahman & Handayati (2023) analyzed the effect of profit sharing financing and buying and selling financing on financial performance. The researchers analyzed date obtained from the financial reports of BPRS Bhakti Sumekar, and the results revealed that profit sharing financing and buying and selling financing have a significant influence on financial performance. This result presents useful implication for the management of banks in managing their financing instruments and improving financial performance. Ahmed (2015) analyzed the effect of Islamic financial contracts on the financial performance of Islamic commercial banks in Kenya, and found that their performance is influenced by Islamic financial contracts including Musharakah. The results showed that the financial performance has increases with banks offering Islamic financial contracts. The researcher recommended that other banks should consider to the adoption of Islamic financial system and services since this these products significantly influence the profitability of Islamic Commercial banks.

Yanikkaya, et al. (2018) examined the patterns of profitability for Islamic and conventional banks in the United Kingdom and Islamic Cooperation Countries, and found that financing through profit-loss sharing technique encourages risk-sharing compared to financing based on profit margin. This result can be explained that the adoption of the technique of profit-loss sharing can assist for the bank institutions to generating value for shareholders. Hussain, et al., (2016), stated that 20% of the annual growth of Islamic finance shows its resilience, and the effectiveness of its fundamental principles i.e. equity, participation, and ownership, that govern the institution's financial activities including musharakah financing. These principles ensure appropriate leverage and assist in limiting speculation and moral hazard problem. Elgadi (2016) analyzed reports of 27 Islamic banks and the results revealed that the profit and loss sharing model (Mudarabah and Musharakah) significantly boost profitability. The role of Islamic financial contracts is not limited to only at microeconomic level. Studies show that these arrangements improve corporate investment efficiency (Guizani & Ajmi, 2022) and contribute small business growth, which in turn, improves macroeconomic conditions. Therefore, researchers recommend for the policy makers to multiply efforts to further expand the PLS financing (Guizani & Ajmi, 2022).

METHODOLOGY

The study employed a correlation research design to analyze the effects of musharakah financing on profitability of banking institutions. Research design provides comprehensive and detailed guidelines for research techniques used to produce answers to research problems (Asenahabi, 2019 and Creswell, 2014, Orodho, 2003). Correlational research design enables the researcher to measure the research variables and investigating the relationship between variables. A questionnaire was used in this study to collect the data from a Sample of 56 respondents from Salaam Somali Bank. The questions were closed ended and based on the Likert type fivepoint scale. The researcher used expert to ensure the relevance, wording and clarity of the items or questions in the instrument. The researcher also carried out a pilot study in order to ensure that the instrument is reliable. The data was analyzed using the Statistical Package for Social Science (SPSS) software.

RESULTS AND DISCUSSION

This section presents data presentation, analysis, interpretation of results and discussion. The background characteristics of the respondents is presented and the major findings of the study with discussions are also presented. Pearson's correlations were used to analyze the relationship between study variables.

Demographic Characteristics of Respondents

The background characteristics of the research participants, including their gender, age, and level of education are presented in the first section. This information is crucial since it sheds light on the nature of the study's participants. Using descriptive statistics like frequencies and percentages, the background characteristics of the subjects were examined.

Table 1. Demographic characteristics of respondents.

		Frequency	Percentage
Gender	Male	41	73.21
	Female	15	26.79
	Total	56	100
	20 – 24	7	7.14
	25 – 30	26	46.43
Age	31 – 36	18	32.14
	Above 36	8	14.29
	Total	56	100
	Diploma	14	25
Education level	bachelor's degrees.	37	66.07
	Master's degrees	5	8.93
	Total	56	100

According to table 1, results for respondents' gender indicate that men represented the majority of respondents (73.21%), while women accounted up 26.79%. The discrepancy can be attributed to a number of reasons present in Somalia, where the culture influences marriage, employment and education matters. The findings show that respondents between the ages of 25 and 30 formed the majority (46.43%), followed by those between the ages of 31 and 36 (32.14%). People aged 20 to 24 made up 7.14% of the population, while people over 36 made up 14.29%. In terms of educational level, it was discovered that 66.07% of respondents had bachelor's degrees, 25.00% had diplomas, and 8.93% had master's degrees. These results indicate that the majority of respondents were energetic and had a sufficient level of literacy to understand and interpret the contents of the questionnaire.

Effects of Musharakah on Profitability of Islamic Commercial Banks

This study aims to investigate how Musharakah financing affects the profitability of Islamic Commercial banks. To do this, participants were asked to provide responses to a variety of questions regarding the effect of Musharakah on profitability of Islamic Commercial banks. Table 2, below provides a summary of the results of the study.

Table 2. Correlations between Musharakah and profitability of Islamic Commercial Banks.

		MUSHARAKAH	Profitability
MUSHARAKAH	Pearson Correlation	1	.884**
	Sig. (2-tailed)		.000
	N	56	56
Profitability	Pearson Correlation	.884**	1
	Sig. (2-tailed)	.000	
	N	56	56

**. Correlation is significant at the 0.01 level (2-tailed).

According to Table 2, the value of the co-efficient (r) is .884 while $p < 0.05$. The value of r being positive, it means that Musharakah financing has substantial positive effect on profitability of Islamic commercial banks. As a result, it indicates that an increase in Musharakah financing is anticipated to greatly boost Islamic Commercial Banks' profitability. Additionally, the researcher employed the statistical approach known as coefficients (beta values) to examine the data. This made it possible to assess how Musharakah financing affects the financial success of Islamic Commercial Banks. The results are presented in Table 4.30 below.

Table 3. Coefficients[a].

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.168	.257		-.654	.516
	MUSHARAKAH	1.286	.092	.884	13.911	.000

a. Dependent Variable: Profitability

According to the study results in table 3, Musharakah financing had a beta value of 0.884. Therefore, it can be deduced from the findings that an increase of 100% in musharakah financing or contracts will boost the profitability of Islamic Commercial Banks by 88.4%.

The goal of the study was to determine how Musharakah Financing affected the profitability of commercial Banks in Somalia. Correlations revealed that Musharakah financing has a statistically positive effect on profitability of Islamic Commercial banks significantly ($r = 0.882$, $p < 0.05$). This means that a substantial increase Musharakah financing is expected to improve profitability of Islamic Commercial bank significantly. The findings are in agreement with findings of many other previous researchers. For example, Rahman and Rochmanika (2012) looked at four Indonesian Islamic banks and discovered that financing based on partnership trading significantly affects how well Islamic commercial banks perform. The study's findings agreed with those of Bashir (2001), who researched at the factors influencing the performance of Islamic commercial banks and discovered a strong correlation between Islamic products like Musharakah financing and bank performance. A study conducted by Yarrow (2014) also indicated that an Islamic banking component of partnership financing has a positive and significant effect on customer satisfaction which is vital in profitability of any firm. Overall, the study's results are consistent with Kirigo's (2014) assertion that Kenyan commercial banks will function better if they offer more Islamic banking services.

CONCLUSION AND RECOMMENDATIONS

This study analyzed the effects of musharakah financing on profitability of Islamic commercial profitability in Somalia. The findings revealed that Musharakah financing had a significant positive effect on Islamic commercial banks 'profitability ($r = 0.884$, $p < 0.05$). The study concludes that an increase in Musharakah financing significantly improves the profitability of Islamic commercial banks. The following recommendations are suggested in order to improve the financial performance and profitability of Islamic commercial banks.

1. The management of Islamic banks should increase their service menu to attract new customers, enhance public awareness towards Islamic financial services, particularly musharakah financing.
2. The management need to conduct regular visits to gain deep and accurate information concerning the operations of joint ventures business.
3. The bank management should come up with clearly written policy on musharakah agreement, financing, management and control system. This policy should be distributed to or available to all stakeholders, clients and employees. Further, this policy should be reviewed and adjusted when necessary.
4. Since the scope of this study is restricted to the effects of musharakah financing on profitability of Islamic Commercial banks, it is suggested that other related studies be such as, financial performance and operational efficiency of Islamic Commercial banks in Somalia, such credit risk, industry structure and control, and regulatory frameworks.

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