

ABSTRACT

This research was written in order to find out the relation between market share and concentration to profitability of the Islamic banking industry. There are three hypothesis with regard to market structure and performance or structure-conduct-performance paradigm use adjusted Smirlock model. The first hypothesis is traditional hypothesis, there is positive correlation between concentration and profitability. The second hypothesis is differentiation hypothesis, there is positive correlation between market share and profitability. And the third is efficiency hypothesis, there is no relationship between market share and concentration with profitability. The samples consist of 4 Islamic banking industries at period Q₁2009 until Q₄2011.

The selection of samples used purposive judgement sampling method and data analysis was treated as panel data. The statistic method used to test on the research hypothesis was panel data regression.

The result showed that market share had significant relations and positive correlation with profitability. But, concentration had no significant relations and had negative correlation with profitability. It means that Indonesian banking industry strongly support differentiation hypothesis.

Keywords : *market structure, concentration, market share, traditional hypothesis, differentiation hypothesis, efficiency hypothesis, profitability, Islamic banking industry*