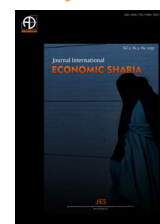




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Reassessing Mudharabah and Musyarakah as Risk-Sharing Alternatives for Interest-Free Financing

Very Wahyudin^{1,*} , Muhammad Zhilal Al Farisi² , Haidar Azhar Al-Ghifari³ , Liya Setiawati⁴

¹Department of Accounting, STIE Gema Widya Bangsa, Bandung, West Java 40623, Indonesia

²Department of Accounting, STIE Gema Widya Bangsa, Bandung, West Java 40623, Indonesia

³Department of Accounting, STIE Gema Widya Bangsa, Bandung, West Java 40623, Indonesia

⁴Department of Management, STIE Gema Widya Bangsa, Bandung, West Java 40623, Indonesia



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ABSTRACT

Purpose - This study evaluates the effectiveness of mudharabah and musyarakah as interest-free financing mechanisms by examining their Shariah integrity, risk-sharing structure, financial viability, and institutional scalability. It also identifies the structural and operational conditions that support or constrain their implementation within Islamic banking.

Design/methodology/approach - A qualitative descriptive-analytical design is employed through library and documentary research within an interpretivist paradigm. Evidence is drawn from peer-reviewed studies, academic literature, regulatory documents, fatwas, and institutional reports. The materials are analysed using document analysis, qualitative content analysis, thematic analysis, and source triangulation to integrate normative, operational, governance, and financial dimensions.

Findings - Mudharabah and musyarakah are effective when genuine risk sharing, equitable profit-and-loss allocation, transparency, and contractual integrity are preserved. Their financial viability depends on financing risk, liquidity, monitoring capacity, and institutional quality. Major constraints include information asymmetry, adverse selection, moral hazard, return-smoothing pressures, collateral design, governance quality, weak financial reporting, limited financial literacy, and uneven Shariah governance.

Originality/value - This study distinguishes substantive Shariah effectiveness from financial-operational effectiveness and integrates contractual design, governance quality, information conditions, and financial outcomes within a unified framework. It shifts attention from formal contract classification toward the institutional mechanisms that determine whether partnership-based Islamic financing becomes scalable, credible, and sustainable.

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1. Introduction

Islamic finance has transitioned from a specialised method of intermediation into a systemically relevant component of the global financial architecture. Its distinctive framework rests on the prohibition of *riba*, excessive *gharar*, and *maysir*, together with the requirement that legitimate returns must originate from trade, investment, asset ownership, or genuine risk-bearing activity. These principles have sustained an ongoing debate over whether Islamic financial institutions generate substantively different economic outcomes from conventional banks or merely operate through differently labelled contractual arrangements (Khandelwal and Aljifri, 2021; Narayan and Phan, 2019; Yaya et al., 2021). Within this debate, partnership-oriented finance occupies a central position because it links financial returns to productive activity and allocates commercial risk between contracting parties instead of guaranteeing fixed returns.

Mudharabah and *musyarakah* are the principal profit-and-loss sharing (PLS) contracts associated with this risk-sharing principle. In a *mudharabah* arrangement, the *shahibul maal* supplies capital while the *mudharib* manages the venture; profits are distributed according to a pre-agreed *nisbah*, whereas ordinary business losses are borne by the capital provider unless misconduct, negligence, or contractual breach is established. In *musyarakah*, partners contribute capital, share profits as agreed, and bear losses in proportion to their capital contributions. These structures are regarded as foundational instruments of Islamic intermediation because they align returns with the risk attached to business outcomes (Abdul-Rahman et al., 2014; Khandelwal and Aljifri, 2021). In Indonesia, their implementation is supported by DSN-MUI Fatwa No. 07/DSN-MUI/IV/2000 concerning *mudharabah* and Fatwa No. 08/DSN-MUI/IV/2000 concerning *musyarakah*, alongside the Financial Services Authority's product guidelines (Hidayat et al., 2025; OJK, 2023).

The significance of these contracts extends beyond mere Shariah compliance. From the perspective of *maqashid al-shariah*, partnership finance can promote distributive justice, transparency, responsible circulation of wealth, and *hifz al-mal*, insofar as financial returns are connected to economic risk exposure (Alhammadi et al., 2018, 2022; Mahyudin and Rosman, 2022). Their financial effectiveness, however, is empirically complex. Evidence indicates that *mudharabah* and *musyarakah* possess heterogeneous risk characteristics, and their associations with credit risk, profitability, liquidity, and efficiency vary across institutions. Warninda et al. (2019) demonstrate that *mudharabah* is not inherently more

hazardous than *musyarakah*, and that the relationship between *musyarakah* financing and credit risk may be nonlinear. These findings challenge the presumption that one partnership contract is intrinsically safer or more profitable than the other.

This normative–operational disparity becomes increasingly evident when information and governance issues are examined. Profit-and-loss sharing agreements require reliable data because returns depend on business performance. Entrepreneurs typically possess superior knowledge of operational conditions, revenues, expenses, and managerial effort, giving rise to adverse selection before financing and moral hazard afterwards. These tensions intensify when accounting documentation is inadequate or difficult to verify, thereby escalating the costs of screening, monitoring, and verification (Abdul-Rahman et al., 2014). Ibrahim et al. (2022) and Salman (2023) indicate that bank-specific factors, such as institutional size and risk-sharing funding conditions, shape the availability of PLS financing, whereas Meslier et al. (2020) reveal that the attributes of Shariah supervisory boards and banking environments influence equity-like financing. Thus, the viability of *mudharabah* and *musyarakah* depends not solely on the permissibility of the contracts but also on institutional, informational, and governance capabilities.

The determination of returns generates an additional source of strain. Islamic financial institutions operate within competitive markets where investment-account holders may benchmark expected returns against alternative financial offerings, potentially encouraging return stabilisation or reserve-based smoothing. Alhammadi et al. (2018) highlight governance issues surrounding profit-sharing investment accounts, while AlShattarat and Atmeh (2016) demonstrate that adapting classical *mudharabah* to contemporary pooled investment structures produces accounting and distributional difficulties. Rouetbi et al. (2023) further show that displaced commercial risk can negatively affect bank performance when institutions absorb part of the return pressure faced by investors. Consequently, net revenue sharing and related arrangements should not be assessed merely by their nomenclature; the critical question is whether allocations are transparent, contractually specified, and tied to verifiable economic outcomes.

Collateral likewise exposes the tension between Shariah principles and regulatory banking standards. Partnership contracts are associated with *uqud al-amanah*, implying that ordinary commercial losses need not be transferred to the entrepreneur through security arrangements. Simultaneously, financial institutions must protect themselves against negligence, fraud, malfeasance, and contractual breach. The OJK's guidelines for *mudharabah* and *musyarakah* combine Shariah principles with prudent risk management rather than treating collateral as an absolute substitute for risk sharing (Anhar, 2022; OJK, 2023; Usmany, 2024). This distinction is significant for MSMEs because stringent collateral prerequisites may disqualify viable yet asset-limited businesses, while insufficient safeguards may elevate opportunistic conduct and financial risk. Collateral design must therefore reconcile contractual integrity, financial accessibility, risk mitigation, and enforcement.

Notwithstanding extensive research on Islamic banking, significant deficiencies persist. Existing studies frequently analyse profitability, credit risk, liquidity, governance, investment accounts, or financial inclusion in isolation rather than synthesising these dimensions into a coherent assessment of partnership finance (Ben Jedidia, 2020; Mutamimah and Saputri, 2023; Safiullah et al., 2024). Moreover, *mudharabah* and *musyarakah* are sometimes classified as equivalent PLS instruments despite their distinctions in capital contribution, managerial authority, and loss allocation. This study addresses such fragmentation by unifying contractual structure, Shariah compliance, information asymmetry, return determination, collateral management, financial literacy, reporting capability, and financial outcomes within a single analytical framework. It thereby moves beyond the conventional PLS-versus-*murabahah* binary and clarifies why different risk-sharing contracts yield varying degrees of substantive and financial effectiveness across institutional settings.

The purpose of this study is to evaluate the effectiveness of *mudharabah* and *musyarakah* as interest-free financing mechanisms and to identify the structural and operational conditions that either support or constrain their implementation. It asks, first, how effective these contracts are when assessed in terms of Shariah compliance, distributive justice, risk allocation, and financial viability; and, second, which institutional and operational constraints account for variations in their practical scalability. The study advances theoretical understanding by distinguishing substantive Shariah effectiveness from financial–operational effectiveness, while identifying institutional capacity as the conduit linking contract design to measurable outcomes. It ultimately provides a framework for financial institutions, regulatory bodies, and Shariah authorities to strengthen screening, monitoring, reporting, governance, and risk-management practices while preserving the principles of risk sharing in partnership finance.

2. Literature Review

2.1 Theoretical and Normative Foundations of Mudharabah and Musyarakah

Mudharabah and *musyarakah* serve as the fundamental partnership arrangements that enable Islamic finance to convert the prohibition of *riba* into a mechanism of risk-sharing intermediation. In *mudharabah*, the capital provider contributes funds while the manager (*mudharib*) oversees the operation; profits are allocated based on a predetermined ratio (*nisbah*), whereas ordinary business losses are borne by the capital provider (*shahibul maal*) unless they stem from the manager's wrongdoing, negligence, *taqshir*, or violation of the contract. *Musyarakah* is distinct in that it involves multiple partners who invest capital, distribute earnings according to a pre-agreed ratio, and incur losses in proportion to their capital contributions. These contractual frameworks align with Qur'anic tenets concerning permissible commerce, fiduciary responsibility, and the prevention of inequitable gain, and they are implemented in Indonesian banking through DSN-MUI Fatwa No. 07/DSN-MUI/IV/2000 and No. 08/DSN-MUI/IV/2000 (Dewan Syariah Nasional-MUI, 2020; Hidayat et al., 2025). Their conceptual basis is frequently connected to profit-and-loss sharing (PLS), wherein financial returns are tied to actual business outcomes rather than fixed interest obligations (Abdul-Rahman et al., 2014; Khandelwal and Aljifri, 2021). From the standpoint of *maqashid al-shariah*, this framework pertains to the preservation of wealth (*hifz al-mal*), equitable distribution, transparency, accountability, and socially responsible circulation of resources (Alhammadi et al., 2022; Mahyudin and Rosman, 2022). The differentiation from *murabahah* is thus significant: *murabahah* establishes a transparent profit margin from an asset transaction, whereas *mudharabah* and *musyarakah* subject the involved parties to business outcomes through partnership structures. Consequently, substantive effectiveness cannot be deduced exclusively from profitability. The assessment must also determine whether the contract maintains Shariah compliance, fair risk distribution, asset safeguarding, fiduciary responsibility, and the trust-oriented principles of *uqud al-amanah* while remaining feasible for institutional application.

2.2 Financial Effectiveness and Performance of Profit-and-Loss-Sharing Financing

The financial efficacy of profit-and-loss-sharing financing cannot be generalised to assert that one contract invariably enhances ROA or ROE while another diminishes profitability. Comparative evidence reveals significant variability across contract types, banking attributes, and institutional contexts. Warninda et al. (2019) analysed a decade of panel data from 63 Islamic banks in the Middle East, South Asia, and Southeast Asia, concluding that *mudharabah* was not intrinsically more hazardous than *musyarakah*, which had a reverse U-shaped correlation with credit risk. Indonesian data also complicate straightforward performance narratives. Mutamimah and Saputri (2023) indicated that *mudharabah*

financing exhibited an inverse relationship with financing risk, *musyarakah* had no significant direct impact on financing risk, and elevated financing risk adversely affected financial performance. Ibrahim et al. (2022) further demonstrated that PLS financing is shaped by bank-specific factors—notably risk-sharing deposits and bank size—suggesting that internal funding capabilities are crucial for scalability. Financial efficiency encompasses a liquidity dimension. Ben Jedidia (2020) discovered that profit-sharing investment accounts exhibited a negative correlation with the liquidity of Islamic banks, whereas PLS investment itself did not significantly influence liquidity. Simultaneously, capital, efficiency, and risk engage in a dynamic interplay within Islamic banking, implying that profitability ratios ought to be analysed in conjunction with prudential indicators rather than independently (Safiullah et al., 2024). Rouetbi et al. (2023) further illustrated that displaced commercial risk can impair the profitability of Islamic banks when competitive dynamics compel institutions to forgo a portion of their *mudharib* returns or to accumulate reserves in order to stabilise investment-account yields. Collectively, these findings suggest that ROA, ROE, NPF, liquidity, efficiency, and return-smoothing pressures are interrelated phenomena. Consequently, the pertinent inquiry is not whether a PLS contract is unequivocally superior, but rather the institutional and portfolio circumstances under which each contract yields enduring financial success.

2.3 Operational Challenges and Structural Constraints of Profit-and-Loss-Sharing Financing

The effectiveness of *mudharabah* and *musyarakah* is hindered by challenges relating to information, monitoring, governance, and client competency that are more complicated than the formal contractual guidelines indicate. Since realised returns are influenced by the business outcomes communicated by entrepreneurs or partners, asymmetric information can arise before financing through adverse selection and after financing through moral hazard, resulting in heightened expenses for screening, verification, and monitoring (Abdul-Rahman et al., 2014). Deficient accounting records compound this dilemma because banks find it challenging to accurately discern true business losses from minimised income or ineffective management. This constraint is particularly significant for MSMEs, where limited financial literacy and formal reporting skills may undermine their bankability and financial inclusion (Ali et al., 2020; Ayu and Filianti, 2022; Mujiatun et al., 2023). Practices for determining returns engender further conflict. The existence of profit-sharing investment accounts and return-smoothing mechanisms suggests that Islamic institutions may experience commercial pressures to stabilise returns for depositors, leading to displaced commercial risk when the bank partially absorbs contractual risk sharing (Alhammadi et al., 2018; AlShattarat and Atmeh, 2016; Rouetbi et al., 2023). Consequently, net revenue sharing ought not to be considered inherently non-Shariah; the pivotal factor is whether the basis of distribution is associated with verifiable contractual achievements rather than transforming into a predefined obligation unrelated to performance. Collateral reveals an analogous distinction. Guarantees under *uqud al-amanah* should focus on addressing misconduct, *taqshir*, or breaches of contract, rather than imposing ordinary commercial losses on the *mudharib*—a principle underscored in the directives of DSN-MUI and OJK (Dewan Syariah Nasional-MUI, 2020; OJK, 2023). In conclusion, the quality of governance determines the institutional readiness to adopt equity-like funding. According to Meslier et al. (2020), the characteristics of Shariah supervisory boards affect equity financing, whereas Yaya et al. (2021) identify financing term, risk management, consumer empowerment, and Shariah compliance as crucial governance elements in PLS. As a result, operational restrictions stem from the relationship between contract architecture and the quality of information, accounting frameworks, governance effectiveness, and prudential measures.

2.4 Synthesis and Research Gap

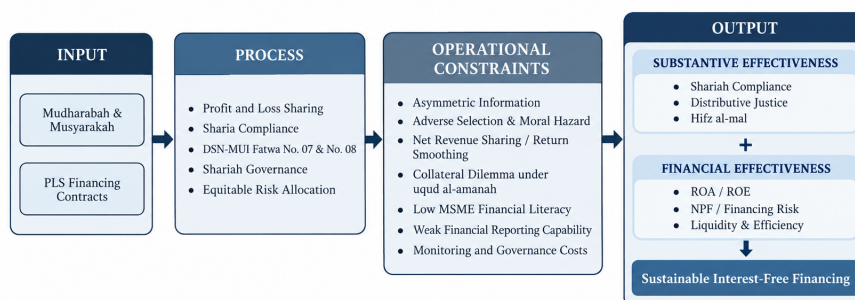
The body of research collectively indicates a disparity between the idealistic expectations of risk-sharing finance and the prerequisites necessary for its enduring application. The theoretical framework classifies *mudharabah* and *musyarakah* as instruments that can synchronise finance with productive endeavours, equitable distribution, and the objectives of Shariah; however, empirical research fails to demonstrate a consistent performance advantage for either contract (Alhammadi et al., 2022; Warninda et al., 2019; Yaya et al., 2021). Outcomes differ based on the composition of funding, governance structures, liquidity risk, oversight capabilities, and the banking context (Ben Jedidia, 2020; Meslier et al., 2020; Mutamimah and Saputri, 2023). Current research is likewise fragmented by its level of analysis. Certain studies concentrate on credit or financing risk, others on liquidity, profitability, Shariah governance, or profit-sharing investment accounts, and only a limited number amalgamate these aspects with the contractual distinction between substantive Shariah efficacy and financial–operational feasibility. This fragmentation constrains comprehension of how a contract might be normatively aligned with risk sharing while also being challenging to scale, or why enhanced financial results may coexist with practices that undermine authentic outcome-based sharing. The present study addresses this deficiency by incorporating four analytical dimensions: contract formulation, Shariah compliance, institutional constraints, and financial implications. It frames asymmetric information, moral hazard, revenue-sharing strategies, collateral oversight, financial literacy, and reporting proficiency as factors that can influence the manifestation of PLS principles into measurable outcomes. This synthesis refrains from treating *murabahah* versus PLS as the exclusive analytical distinction; it acknowledges that *mudharabah* and *musyarakah* possess distinct control and loss-allocation frameworks, necessitating individual assessment. Consequently, the study characterises effectiveness as multifaceted, incorporating substantive justice, Shariah compliance, risk distribution, profitability, funding quality, and sustainability. This cohesive approach directly addresses RQ1 by delineating the criteria for effectiveness and RQ2 by elucidating the structural and operational reasons that account for discrepancies in implementation outcomes.

Figure 1 presents the conceptual framework that underpins this study by integrating four interconnected analytical dimensions. The first dimension concerns contract design, encompassing the structural distinction between *mudharabah* and *musyarakah* with respect to capital contribution, managerial authority, profit allocation, and loss bearing. The second dimension addresses Shariah compliance, which requires contractual integrity, adherence to DSN-MUI fatwas, preservation of *uqud al-amanah*, and alignment with *maqashid al-shariah* through *hifz al-mal* and distributive justice. The third dimension comprises institutional constraints, including asymmetric information, adverse selection, moral hazard, return-smoothing pressures, collateral design, financial reporting capability, financial literacy of MSMEs, and the quality of Shariah governance. The fourth dimension captures financial outcomes, which are measured through profitability (ROA, ROE), financing risk (NPF), liquidity, efficiency, and long-term sustainability. The framework posits that substantive Shariah effectiveness and financial–operational effectiveness are analytically distinct yet mutually reinforcing: a contract may be normatively sound yet difficult to scale, and conversely, financial profitability may coexist with practices that weaken authentic risk sharing. By positioning institutional capacity as the mediating conduit that links contract design to measurable outcomes, the framework provides the analytical foundation for answering both research questions—namely, the criteria for evaluating the effectiveness of *mudharabah* and *musyarakah* (RQ1) and the structural–operational constraints that shape their scalability within Islamic banking (RQ2).

Table 1. Review of Selected Empirical Studies on *Mudharabah* and *Musyarakah* Financing

No	Author(s) & Year	Country/ Context	Method	Key Findings	Relevance/ Gap
1	Alhammadi et al. (2018, 2022)	28 Islamic banks in five countries	Panel analysis, 2002–2013; comparison of risk-return characteristics of profit-sharing investment accounts and shareholders	Holders of profit-sharing investment accounts could encounter varying risk-return scenarios compared to shareholders, whereas corporate governance offers restricted safeguards in certain organisations	Demonstrates that PLS effectiveness should include equitable treatment and governance, not profitability alone
2	Warninda et al. (2019)	63 Islamic banks in the Middle East, South Asia, and Southeast Asia	Ten-year unbalanced panel analysis with linear and non-linear specifications	<i>Mudharabah</i> is not intrinsically more perilous than <i>musyarakah</i> ; <i>musyarakah</i> demonstrates a reverse U-shaped correlation with credit risk	Rejects the assumption of a uniform PLS risk profile and supports contract-specific evaluation
3	Ben Jedidia (2020)	23 Islamic banks in GCC countries	System-GMM panel analysis, 2005–2016	Profit-sharing investment accounts exhibit an inverse relationship with bank liquidity, but PLS investments do not significantly influence liquidity	Shows that PLS effectiveness must consider liquidity and maturity-mismatch risks in addition to profitability
4	Meslier et al. (2020)	88 Islamic banks across 16 countries	Panel analysis using hand-collected governance and equity-financing data	The attributes of Shariah supervisory boards considerably affect the adoption of equity-based financing, with variations observed across different banking contexts	Establishes Shariah governance and institutional environment as determinants of actual PLS adoption
5	Yaya et al. (2021)	Islamic financial institutions in Yogyakarta, Indonesia	Two-stage design: in-depth interviews followed by questionnaire survey	The governance of PLS is contingent upon the duration of financing, the foundation for sharing, risk management, consumer empowerment, and adherence to Shariah principles; PLS is less accessible for new ventures and long-term funding	Reveals a gap between the socio-economic objectives of PLS and its operational implementation
6	Ibrahim et al. (2022)	Indonesian Islamic banking	Monthly time-series data, 2009–2019; SVAR with ARDL and ECM robustness checks	Short-term PLS financing is significantly affected by risk-sharing deposits and the size of the bank, exhibiting minimal responsiveness to traditional interest rate fluctuations	Highlights bank capacity, funding structure, moral hazard, and asymmetric information as important determinants of PLS scalability
7	Mutamimah & Saputri (2023)	Islamic banks in Indonesia	Panel-data moderating regression	<i>Mudharabah</i> financing is negatively associated with financing risk, whereas <i>musyarakah</i> has no significant direct effect; financing risk reduces financial performance	Challenges generalised claims that <i>mudharabah</i> necessarily produces greater financing risk and demonstrates the role of corporate governance
8	Rouetbi et al. (2023)	Six Bahraini Islamic banks	Panel-corrected standard errors analysis, 2008–2018	Displaced commercial risk is negatively associated with Islamic-bank performance and can encourage return smoothing under competitive pressure	Connects return-stabilisation practices with profitability and highlights tensions between commercial competitiveness and authentic risk sharing

Note. Synthesized from Alhammadi et al. (2018), Warninda et al. (2019), Ben Jedidia (2020), Meslier et al. (2020), Yaya et al. (2021), Ibrahim et al. (2022), Mutamimah and Saputri (2023), and Rouetbi et al. (2023).



Source: Developed by the authors based on Abdul-Rahman et al. (2014), Warninda et al. (2019), Meslier et al. (2020), Yaya et al. (2021), and Ibrahim et al. (2022).

Figure 1. Conceptual Framework of *Mudharabah* and *Musyarakah* as Risk-Sharing Alternatives for Interest-Free Financing

3. Methodology

3.1 Research Design and Philosophical Underpinnings

This research utilised a qualitative descriptive-analytical framework grounded in library investigation and situated within an interpretivist paradigm. Qualitative research is suitable when the aim is to comprehend meanings, assumptions, and contextual connections inherent in texts, rather than to quantify causal impacts or demographic factors. Levitt et al. (2018) and Malterud (2001) underscore the necessity of alignment among research inquiries, epistemological frameworks, data origins, and analytical methodologies, whereas Tracy (2010) and Tracy

and Hinrichs (2017) point out the significance of relevance, reflexivity, and interpretative validity as crucial criteria for qualitative research. A descriptive-analytical approach was used because it facilitates methodical description while maintaining awareness of context and significance (Sandelowski, 2010). Library research was suitable because the study examines the normative and operational aspects of *mudharabah* and *musyarakah* through academic literature, regulatory texts, fatwas, and institutional reports instead of engaging directly with participants. Document analysis enables scholars to scrutinise enduring records in a systematic and contextual manner (Bowen, 2009; Ji, 2024). The analytical unit consisted of written assertions, empirical evidence, regulatory stipulations, and theoretical discussions related to contract structure, Shariah compliance, profit-and-loss distribution, financial performance, information asymmetry, collateral, governance, and MSME capacity. This methodology is particularly appropriate for Islamic economics, because principles such as *maqashid al-shariah*, *hifz al-mal*, and *uqud al-amanah* necessitate interpretation within normative, institutional, and socio-economic frameworks.

3.2 Data Collection and Sources

Data were gathered solely from documentary sources, encompassing peer-reviewed journal articles, academic books, government regulations, DSN-MUI fatwas, publications from OJK and Bank Indonesia, institutional reports, and pertinent empirical research. In accordance with Bowen (2009), source identification was treated as a systematic endeavour to locate, evaluate, and select documents that could furnish reliable evidence regarding the normative and operational aspects of profit-and-loss-sharing finance. The search methodology encompassed Scopus, ScienceDirect, Google Scholar, and GARUDA, using various combinations of keywords pertaining to *mudharabah* and *musyarakah*, profit-and-loss sharing, Islamic banking, financing risk, asymmetric information, moral hazard, collateral, financial literacy, and Shariah governance. Scopus and ScienceDirect were emphasised for globally indexed publications, whereas Google Scholar and GARUDA were utilised to locate pertinent Indonesian academic and regulatory resources (Sari and Asmendri, 2020). Inclusion requirements necessitated direct subject relevance, discernible authorship and publication origin, methodological or empirical utility, and a preference for peer-reviewed journal publications from Scopus Q1/Q2 with verifiable DOI metadata. Pioneering methodological studies and governmental records were preserved regardless of their year of publication. Sources were omitted if they were duplicated, unverifiable, non-scholarly, published in exploitative venues, or lacking traceable substantiation. The original student manuscript's references were preserved in the initial source collection and then evaluated for relevance, provenance, and scholarly credibility. This organised approach enhanced transparency and guaranteed that the documentary collection was consistent with the research inquiries and study aims (Snyder, 2019).

3.3 Data Analysis Techniques

The collected documentary materials were examined through document analysis, qualitative content analysis, thematic analysis, and source triangulation, applied iteratively rather than sequentially. Document analysis provided the foundational procedure for interpreting regulatory texts, fatwas, institutional reports, and academic publications as socially situated artefacts rather than as neutral containers of information (Bowen, 2009; Ji, 2024). Qualitative content analysis was then employed to classify and condense recurrent substantive themes across the corpus, following the three-approach framework of Hsieh and Shannon (2005), which distinguishes conventional, directed, and summative strategies for deriving meaning from textual data. Thematic analysis was subsequently applied to identify, refine, and organise patterns relevant to contract structure, Shariah compliance, risk allocation, information asymmetry, return determination, collateral design, financial literacy, governance quality, and financial performance, in line with the six-phase protocol outlined by Nowell et al. (2017). Coding categories were developed both deductively—from the theoretical framework and research questions—and inductively—from recurring claims and counter-claims identified in the source documents. Source triangulation was conducted by comparing interpretations across peer-reviewed studies, DSN-MUI fatwas, OJK regulations, and institutional publications, so that no single documentary type could dominate the analytical conclusions (Korstjens and Moser, 2018; Moser and Korstjens, 2017). Analytical memos were maintained throughout the coding process to document interpretive decisions, category revisions, and possible normative presuppositions, thereby strengthening reflexivity and auditability (Tracy, 2010). The analytical procedure concluded with a comparative synthesis that integrated normative, operational, governance, and financial dimensions into a unified assessment framework, allowing the study to distinguish substantive Shariah effectiveness from financial–operational effectiveness while preserving the contextual specificity of each documentary source.

3.4 Trustworthiness and Ethical Considerations

Trustworthiness was examined via the four standards of credibility, transferability, dependability, and confirmability as suggested by Korstjens and Moser (2018) and Moser and Korstjens (2017). Credibility was enhanced by source triangulation, which involved comparing interpretations across peer-reviewed research, fatwas, regulatory directives, and institutional documents instead of relying on a singular documentary type. This methodology embodies the triangulation concepts articulated by Korstjens and Moser (2018) and contemporary guidelines for enhancing authenticity and validation in qualitative research (Nowell et al., 2017; Tracy and Hinrichs, 2017). Transferability was facilitated by an adequate contextual elucidation of contractual, regulatory, and banking circumstances, allowing readers to evaluate the relevance of the findings to analogous Islamic finance environments. Dependability was improved via an audit trail that recorded search terms, source-selection choices, coding classifications, analytical modifications, and connections between documentary evidence and ultimate interpretations. Confirmability was bolstered by differentiating findings acquired from sources from those interpreted by the researcher. Peer debriefing was employed to scrutinise category definitions, alternative interpretations, and possibly normative presuppositions throughout the analytical process (Nowell et al., 2017). Verification was performed continuously during the analytical procedure instead of being regarded merely as a concluding quality assessment (Hsieh and Shannon, 2005). The research did not include any human subjects, personal identifiers, interventions, or confidential information; thus, informed consent and ethical approval for human subjects were unnecessary. All resources were accessible to the public or properly published, and ethical standards were upheld through precise attribution, clear referencing, truthful depiction of source assertions, and the exclusion of falsified or unsubstantiated evidence.

4. Results and Discussion

4.1 Substantive Effectiveness and Shariah-Based Risk Sharing

The documentary synthesis reveals that the primary advantage of *mudharabah* and *musyarakah* is their significant correlation with risk sharing, contractual equity, and the prohibition of *riba*, rather than any inherent superiority in banking profitability. Table 2 illustrates that both contracts link financial gains to productive endeavours, but they distribute control and risk exposure in distinct manners. This differentiation is crucial because the validity of partnership financing hinges on the consistency of risk bearing, disclosure, and profit distribution with the

contractual principles of the *akad*. Abdul-Rahman et al. (2014) demonstrate that PLS contracts necessitate institutional frameworks that facilitate authentic entrepreneurial involvement, whereas Khandelwal and Aljifri (2021) distinguish risk-sharing contracts from those that predominantly transfer risk. From a comprehensive evaluative standpoint, performance grounded in *maqashid al-shariah* encompasses justice, wealth safeguarding, and socioeconomic objectives that extend beyond conventional accounting returns (Alhammadi et al., 2022; Mahyudin and Rosman, 2022). Yaya et al. (2021) additionally assert that adherence to Shariah, consumer empowerment, and risk-management strategies affect the extent to which PLS financing achieves its socio-economic goals. Thus, the evaluation of substantive performance ought to be conducted through contractual integrity, distributive equity, and Shariah-compliant risk distribution prior to the interpretation of financial results.

Table 2. Dimensions of Substantive Effectiveness in *Mudharabah* and *Musyarakah* Financing

No	Dimension	Synthesized Finding	Analytical Implication
1	Contractual Foundation	Returns are generated through partnership and productive economic activity rather than predetermined interest-bearing obligations	Effectiveness depends on preserving the economic substance of the <i>akad</i> , not merely its formal designation
2	Risk Participation	Capital providers and business partners bear risk according to the contractual characteristics of <i>mudharabah</i> and <i>musyarakah</i>	Genuine risk participation distinguishes substantive risk sharing from risk shifting
3	Profit and Loss Allocation	Profits are distributed according to an agreed <i>nisbah</i> , while losses are allocated according to the contractual structure and capital exposure	Distribution mechanisms must remain consistent with contractual rights, responsibilities, and Shariah principles
4	<i>Maqashid al-Shariah</i> Orientation	Partnership financing can support distributive justice, transparency, responsible wealth circulation, and <i>hifz al-mal</i>	Financial profitability alone is insufficient for evaluating substantive effectiveness
5	Governance Integrity	Shariah supervision, risk management, transparency, and customer empowerment influence the quality of PLS implementation	Effective governance links normative Shariah principles with credible operational practice

Note. Synthesized from Abdul-Rahman et al. (2014), Alhammadi et al. (2022), Khandelwal and Aljifri (2021), Mahyudin and Rosman (2022), and Yaya et al. (2021).

4.2 Financial Effectiveness, Risk, and Performance Heterogeneity

The evidence concerning financial efficacy is varied and fails to provide a definitive hierarchy between *mudharabah* and *musyarakah*. Table 3 aggregates results indicating that the form of contract influences financing risk, liquidity, capitalisation, and operational efficiency. Warninda et al. (2019) illustrate that *mudharabah* is not intrinsically more perilous than *musyarakah*, and that the correlation between *musyarakah* financing and credit risk may be nonlinear. Indonesian evidence indicates that *mudharabah* financing could be inversely related to financing risk, whereas *musyarakah* appears to exert no substantial direct influence, and elevated financing risk diminishes financial performance (Mutamimah and Saputri, 2023). Liquidity factors introduce an additional dimension. Ben Jedidia (2020) concludes that profit-sharing investment accounts may elevate liquidity pressure, even though PLS investment itself is not a major determinant of liquidity. The interplay between risk, capital, and efficiency varies across Islamic banking contexts (Safiullah et al., 2024; Salman, 2023), and financial stability efficiency ought to be assessed in relation to institutional production conditions rather than relying solely on individual ratios. Consequently, ROA, ROE, NPF, liquidity, and efficiency should be analysed collectively. The primary inference is that financial efficiency relies on the composition of the portfolio and the ability to manage risk, rather than merely on the nominal application of a PLS contract.

Table 3. Financial Effectiveness and Risk Dimensions of Profit-and-Loss-Sharing Financing

No	Performance Dimension	Evidence Synthesis	Interpretive Consequence
1	Credit Risk	<i>Mudharabah</i> and <i>musyarakah</i> exhibit different risk characteristics, and the relationship between <i>musyarakah</i> financing and credit risk may be nonlinear	Risk exposure should be evaluated by contract type rather than treating all PLS financing as homogeneous
2	Financing Risk	Evidence from Islamic banks indicates that <i>mudharabah</i> does not necessarily increase financing risk, while the effect of <i>musyarakah</i> may vary across institutional settings	The financial consequences of PLS depend on governance quality, portfolio structure, and bank-specific conditions
3	Liquidity	Profit-sharing investment accounts may create liquidity and maturity-management pressures even when PLS investment itself is not a significant direct determinant of liquidity	Liquidity resilience should be incorporated into assessments of PLS financial effectiveness
4	Capital and Efficiency	Risk, capitalisation, and operational efficiency interact dynamically within Islamic banks	ROA and ROE should be interpreted together with prudential and efficiency indicators rather than in isolation
5	Financial Stability	The stability of Islamic banks is influenced by institutional characteristics, production conditions, and risk-management capacity	A multidimensional performance framework provides a more defensible evaluation of PLS sustainability than single financial ratios

Note. Synthesized from Ben Jedidia (2020), Mutamimah and Saputri (2023), Safiullah et al. (2024), Salman (2023), and Warninda et al. (2019).

4.3 Information Asymmetry, Adverse Selection, and Moral Hazard

Information asymmetry serves as a significant factor elucidating the challenges in operationalising theoretically appealing PLS contracts. Table 4 illustrates that the financing relationship positions banks as monitors, because entrepreneurs or partners typically hold more comprehensive information regarding business quality, actual income, operational expenses, and managerial effort. This disparity can lead to adverse selection prior to financing and moral hazard subsequent to the allocation of resources, particularly in situations where financial documentation is inadequate or difficult to authenticate. Abdul-Rahman et al. (2014) identify institutional and informational impediments as significant reasons for

the underutilisation of PLS potential, whereas Ibrahim et al. (2022) demonstrate that bank-specific factors substantially influence the availability of PLS financing. Governance is significant because enhanced supervision may influence banks' propensity to provide equity-like funding (Meslier et al., 2020). Research on financial inclusion at the consumer level highlights financial literacy and institutional capability as significant factors influencing access to Islamic finance (Ali et al., 2020; Ayu and Filianti, 2022; Mujiatun et al., 2023). These findings align with Yaya et al. (2021), who emphasise the significance of risk management and customer empowerment in PLS governance. Consequently, enhancing verifiable reporting, screening efficacy, and monitoring capabilities is crucial for converting PLS financing from a theoretical concept into a scaled operational system.

Table 4. Information Asymmetry and Agency Constraints in PLS Financing

No	Constraint	Mechanism	Implication for PLS
1	Adverse Selection	Banks may have incomplete information about business quality, entrepreneur capability, and project viability before financing is approved	Screening and due diligence become essential for selecting appropriate PLS partners
2	Moral Hazard	Entrepreneurs may possess private information about managerial effort, revenues, operating costs, and realised performance after funds are disbursed	Effective monitoring is required to ensure that reported outcomes accurately reflect actual business performance
3	Reporting Opacity	Weak bookkeeping and unverifiable financial records reduce the transparency of revenues, costs, profits, and losses	Profit-sharing calculations become more uncertain, costly, and vulnerable to dispute
4	Monitoring Costs	Verification of business performance requires additional institutional resources, technical expertise, and continuous oversight	Higher transaction and supervision costs may discourage banks from expanding PLS portfolios
5	Governance Response	Shariah supervision, customer empowerment, risk management, and internal controls can reduce informational and agency frictions	Strong governance improves contractual credibility and supports the scalability of partnership-based financing

Note. Synthesized from Abdul-Rahman et al. (2014), Ali et al. (2020), Ayu and Filianti (2022), Ibrahim et al. (2022), Meslier et al. (2020), Mujiatun et al. (2023), and Yaya et al. (2021).

4.4 Revenue-Sharing Practices and Return-Smoothing Pressures

The calculation of returns represents another essential demarcation between authentic risk sharing and agreements that merely mimic its superficial semblance. Table 5 consolidates findings suggesting that profit-sharing arrangements can encounter market pressures as banks aim to stabilise depositor yields or mitigate uncertainty related to business revenue. Alhammadi et al. (2018) demonstrate that profit-sharing investment accounts pose governance and ethical dilemmas, because account holders assume risks without possessing governance rights comparable to those of shareholders. From an accounting viewpoint, AlShattarat and Atmeh (2016) emphasise the intricacies that arise when conventional *mudharabah* is modified for contemporary pooled and ongoing investment frameworks. Such pressures become significant when anticipated distributions, benchmarks, or reserves diminish the link between actual results and contractual yields. Rouetbi et al. (2023) illustrate that displaced commercial risk can diminish the profitability of Islamic banks when these institutions bear a portion of the return pressure experienced by investment-account holders. This does not suggest that net revenue sharing is inherently incompatible with Shariah; instead, the critical factor is whether the foundation for sharing is clear, mutually consented to, and linked to demonstrable economic outcomes. Risk-return agreements should consequently maintain significant exposure to business results instead of evolving into fixed commitments (Khandelwal and Aljifri, 2021; Rouetbi et al., 2023).

Table 5. Return Determination and Commercial Pressures in PLS Arrangements

No	Issue	Observed Tension	Interpretive Implication
1	Investment-Account Governance	Profit-sharing investment account holders may bear investment risk without governance rights equivalent to those of shareholders	Fairness requires transparent governance, disclosure, and protection mechanisms for risk-bearing investors
2	Modern Contract Adaptation	Traditional <i>mudharabah</i> arrangements may be adapted into pooled or continuous investment structures within modern Islamic banking	Accounting and product design can alter the practical distribution of risk, return, and control
3	Return Smoothing	Competitive pressure may encourage Islamic banks to stabilise returns across periods to retain investment-account holders	Excessive smoothing can weaken the direct relationship between realised business performance and investor returns
4	Displaced Commercial Risk	Banks may voluntarily absorb part of the return pressure faced by investment-account holders	Commercial competition may shift part of the economic risk back to the institution and affect financial performance
5	Revenue-Sharing Basis	Net revenue sharing is not inherently inconsistent with Shariah when the basis is transparent, contractually agreed, and linked to verifiable outcomes	The substantive validity of PLS depends on economic reality and transparency rather than contractual terminology alone

Note. Synthesized from Alhammadi et al. (2018), AlShattarat and Atmeh (2016), Khandelwal and Aljifri (2021), and Rouetbi et al. (2023).

4.5 Collateral, Prudential Governance, and Uqud al-Amanah

The collateral issue exposes a regulatory conflict between fiduciary partnership tenets and sensible banking practices. Table 6 indicates that collateral ought not to be viewed as a means of shifting ordinary business losses from the capital provider to the entrepreneur. Under *uqud*

al-amanah, accountability is fundamentally associated with wrongdoing, carelessness, *taqshir*, or violation of contract, rather than with losses stemming from ordinary economic risks. The DSN-MUI regulations for *mudharabah* and *musyarakah* preserve this differentiation (Dewan Syariah Nasional-MUI, 2020). Recent product directives therefore contextualise implementation within Shariah tenets, prudential standards, and robust banking practices, rather than depicting collateral as an unqualified replacement for risk sharing (OJK, 2023). This elucidation is crucial because an excessively rigid collateral prerequisite may marginalise asset-deficient yet efficient businesses, while a lack of suitable protections might render banks vulnerable to opportunistic conduct. The extensive literature substantiates that equity financing is influenced by Shariah governance and banking contexts (Meslier et al., 2020), whereas institutional frameworks dictate whether risk is authentically shared or simply transferred (Khandelwal and Aljifri, 2021). The suggestion is that collateral policy ought to be tailored to specific functions: while security can regulate contractual breaches and safeguard enforceable commitments, it should not undermine the fundamental loss-sharing principle of partnership financing.

Table 6. Collateral Functions within Shariah and Prudential Governance

No	Dimension	Shariah-Prudential Interpretation	Operational Consequence
1	Fiduciary Basis	<i>Mudharabah</i> and <i>musyarakah</i> retain the trust-based logic of <i>uqud al-amanah</i> , under which ordinary business risk should remain allocated according to the contract	Collateral should not automatically transfer normal commercial losses to the entrepreneur or managing partner
2	Security Purpose	Collateral may function as protection against misconduct, negligence, <i>taqshir</i> , fraud, or contractual breach rather than as a substitute for risk sharing	Security arrangements should discipline non-compliance while preserving the essential loss-sharing structure of the contract
3	Prudential Requirement	Islamic banks remain subject to sound risk management, internal control, and regulatory prudence in implementing partnership financing	Prudential safeguards must operate consistently with both banking regulation and Shariah principles
4	Governance Oversight	Shariah supervision and institutional governance shape how collateral and risk-mitigation mechanisms are designed and enforced	Strong governance helps distinguish legitimate credit protection from inappropriate risk transfer
5	Financial Inclusion	Excessively rigid asset-based collateral requirements may disadvantage viable but asset-constrained MSMEs	Proportionate and function-specific safeguards can support financing access without undermining prudential discipline

Note. Synthesized from DSN-MUI (2000a, 2000b), Khandelwal and Aljifri (2021), Meslier et al. (2020), and OJK (2023).

4.6 Financial Literacy, Reporting Capability, and Shariah Governance

The final implementation layer identified in the documentary synthesis comprises financial literacy, reporting proficiency, and governance competence. According to Table 7, PLS financing relies on information that is adequately trustworthy for banks to assess firm performance, compute distributable returns, and differentiate between commercial losses and managerial impropriety. Inadequate accounting practices, intertwined personal and corporate finances, and a deficient comprehension of partnership agreements can consequently elevate verification expenses and diminish financing preparedness in MSMEs. Ali et al. (2020) recognise financial literacy as a significant demand-side factor affecting Islamic financial inclusion, while Ibrahim et al. (2022) suggest that the size of banks and their capacity for risk-sharing funding influence PLS financing from the supply perspective. The governance of institutions holds equal significance. Meslier et al. (2020) indicate that the attributes of Shariah supervisory boards correlate with equity-financing decisions, whereas Safiullah et al. (2024) reveal that governance at the board level can enhance Shariah governance in Islamic banking institutions. These governance impacts enhance the socio-economic perspective of Yaya et al. (2021), wherein customer empowerment and risk management are fundamental to the execution of PLS. The importance of these results lies in the fact that restricted PLS scalability cannot solely be ascribed to consumer behaviour or contract structure. It signifies a collective competency issue involving clients, financial institutions, regulatory entities, and reporting frameworks.

Table 7. Capability and Governance Conditions for Sustainable PLS Financing

No	Capability	Observed Function	Implication for Scalability
1	Financial Literacy	Understanding partnership contracts, profit-sharing mechanisms, rights, and obligations influences informed participation in Islamic financing	Stronger financial literacy can improve contract comprehension, financing readiness, and compliance with partnership requirements
2	Financial Reporting	Reliable bookkeeping and financial statements provide evidence of realised revenues, costs, profits, and losses	Better reporting quality reduces information asymmetry and strengthens the credibility of profit-sharing calculations
3	Bank Capacity	Bank size, funding structure, monitoring resources, and risk-management capability influence the supply and management of PLS financing	Strong institutional capacity increases the feasibility of scaling partnership-based financing without weakening prudential standards
4	Shariah Supervision	Shariah supervisory boards influence financing decisions, contract implementation, and compliance with partnership principles	Effective Shariah supervision strengthens contractual integrity and reduces the risk of formal compliance without substantive risk sharing
5	Board and Institutional Governance	Board oversight, internal controls, customer empowerment, and governance coordination support risk management and accountability	Integrated governance can improve both Shariah credibility and the financial sustainability of PLS portfolios

Note. Synthesized from Ali et al. (2020), Ibrahim et al. (2022), Meslier et al. (2020), Safiullah et al. (2024), and Yaya et al. (2021).

4.7 Discussion

The results clarify the primary issue presented in the Introduction: the pertinent inquiry has shifted from whether Islamic banking can formally provide interest-free partnership agreements to whether the institutional framework governing those agreements ensures authentic risk sharing while maintaining the viability of banks. This differentiation directly addresses the disparity between the normative attractiveness of *mudharabah* and *musyarakah* and their inconsistent operational scalability. The synthesis corroborates the institutional theory proposed by Abdul-Rahman et al. (2014), which posits that the efficacy of PLS is contingent upon monitoring, information, and incentive frameworks rather than merely the contractual legal structure. It further broadens the risk-sharing viewpoint of Khandelwal and Aljifri (2021) by demonstrating that meaningful efficacy necessitates both engagement with business results and governance structures capable of preventing risk sharing from devolving into risk shifting. In alignment with the Literature Review, financial outcomes continue to exhibit variability. Warninda et al. (2019) dispute the simplistic notion that *mudharabah* is inherently more perilous than *musyarakah*, whereas evidence from Indonesia indicates that financing risk and performance are influenced by governance and banking attributes (Ibrahim et al., 2022; Mutamimah and Saputri, 2023). The findings regarding liquidity and return stabilisation expand the notion of effectiveness beyond ROA and ROE, because PLS frameworks can create pressures related to maturity and liquidity, while displaced commercial risk may arise when organisations attempt to ensure consistent investor returns (Ben Jedidia, 2020; Rouetbi et al., 2023).

These results bolster the *maqashid al-shariah* viewpoint articulated in Section 2, because the performance of Islamic banks transcends mere profitability when distributive justice, *hifz al-mal*, transparency, and socioeconomic objectives are fundamental aims (Alhammadi et al., 2022; Mahyudin and Rosman, 2022). The significance of governance evidence is equally paramount. Meslier et al. (2020) illustrate that Shariah supervisory frameworks affect equity financing, whereas Saffiullah et al. (2024) indicate that governance at the board level can enhance Shariah governance. Figure 1 thus encapsulates the primary theoretical contribution of the study: *mudharabah* and *musyarakah* serve as partnership-oriented inputs, yet their transformation into substantive and financial efficacy is contingent upon the quality of implementation and is constrained by factors such as information asymmetry, moral hazard, return determination, collateral structuring, financial literacy, reporting standards, and governance quality. The framework further elucidates the matter of collateral. Official product directives endorse prudential regulations while preserving Shariah attributes, indicating that collateral should discipline misconduct or contractual violations rather than eliminate ordinary business-risk distribution (OJK, 2023). The results address RQ1 by illustrating that efficacy encompasses multiple dimensions, and respond to RQ2 by indicating that scalability relies on an institution's ability to authenticate information, manage collective risk, and uphold contractual fidelity. The study thereby transcends a mere PLS-versus-*murabahah* binary and offers a contract-specific and governance-aware elucidation of sustained interest-free financing (Narayan and Phan, 2019; Yaya et al., 2021).

5. Conclusion

This study assessed the effectiveness of *mudharabah* and *musyarakah* as interest-free financing mechanisms by examining their Shariah integrity, distributive logic, risk allocation, financial viability, and institutional scalability. The findings demonstrate that the effectiveness of both contracts cannot be evaluated solely through formal contractual compliance or short-term financial performance. Substantively, *mudharabah* and *musyarakah* embody genuine risk sharing only when profit allocation, loss bearing, disclosure, and managerial responsibilities remain consistent with the economic substance of the underlying contract. Financially, their outcomes depend on financing risk, liquidity conditions, portfolio composition, monitoring capacity, and institutional quality rather than on a fixed superiority of one contract over the other. Operationally, information asymmetry, adverse selection, moral hazard, return-smoothing pressures, collateral arrangements, weak financial reporting, and limited financial literacy remain important constraints. Governance quality further determines whether Shariah principles are translated into credible financing practices. These findings reinforce the study's central novelty by distinguishing substantive Shariah effectiveness from financial-operational effectiveness, while demonstrating that the two dimensions remain closely interconnected. Accordingly, *mudharabah* and *musyarakah* can function as sustainable alternatives to interest-based financing only when contractual design is supported by reliable information, proportional safeguards, effective governance, and institutional mechanisms capable of preserving authentic risk sharing.

The study contributes theoretically by developing an integrated understanding of partnership-financing effectiveness that connects contractual substance, information quality, governance capacity, and financial outcomes within a single analytical framework. This approach moves beyond conventional assessments that classify financing merely as Shariah-compliant or compare profit-and-loss-sharing instruments collectively with sale-based contracts. The study instead demonstrates that *mudharabah* and *musyarakah* should be evaluated separately because their allocation of capital, managerial authority, monitoring responsibility, and loss exposure differs materially. Methodologically, the documentary synthesis integrates normative principles, empirical evidence, regulatory guidance, and institutional considerations without reducing effectiveness to a single financial indicator. Practically, the findings imply that Islamic banks should strengthen screening, monitoring, business-reporting assistance, risk assessment, and Shariah governance while avoiding practices that transform genuine risk sharing into fixed-like financial obligations. Regulators and Shariah authorities should design prudential safeguards that protect institutions against misconduct and contractual breach without transferring ordinary business risk away from the party required to bear it. MSME-support institutions should also strengthen financial literacy and accounting capacity to improve financing readiness. Socially, credible partnership financing can broaden access to productive capital, strengthen distributive justice, support wealth protection, and reinforce the developmental role of Islamic finance. Collectively, these contributions position partnership financing as an institutional system rather than merely a contractual product.

Limitations and Future Research

This study has several limitations that define the boundaries of its conclusions. Methodologically, the analysis is based on library research and documentary evidence and therefore does not incorporate primary data from Islamic-bank managers, Shariah supervisory boards, regulators, entrepreneurs, MSME owners, or financing customers. Consequently, the relationships identified among governance, information quality, collateral, financial literacy, and financing effectiveness represent analytical synthesis rather than direct causal evidence. The study also does not examine individual financing transactions, making it impossible to observe how contractual terms, monitoring procedures, profit calculations, disputes, or loss allocation are implemented in specific cases. Contextually, considerable emphasis is placed on Indonesia because the regulatory framework, fatwas, institutional guidance, and several empirical studies originate from the Indonesian Islamic-banking environment. Although international evidence is incorporated to improve conceptual comparison, the findings cannot automatically be generalised to jurisdictions with different legal systems, banking structures, regulatory regimes, or Shariah-governance arrangements. Temporally, documentary evidence is sensitive to changes in regulation, financial technology, accounting standards, risk-management systems, and Islamic-bank product strategies. Heterogeneity among the reviewed studies also limits direct comparison because their definitions, samples, indicators, and analytical approaches

differ. These limitations do not weaken the study's conceptual contribution; instead, they establish clear boundaries for interpretation and identify areas in which direct empirical validation is required.

Future research should empirically test the framework developed in this study through designs capable of identifying the mechanisms that determine the effectiveness and scalability of *mudharabah* and *musyarakah*. Quantitative studies could employ bank-level panel regression, structural equation modelling, or other econometric approaches to examine relationships among contract composition, governance quality, financing risk, liquidity, information asymmetry, collateral dependence, and financial performance. Such studies should analyse *mudharabah* and *musyarakah* separately rather than treating them as homogeneous profit-and-loss-sharing instruments. Mixed-method research could combine transaction-level financial data with interviews involving bankers, Shariah scholars, regulators, entrepreneurs, and MSME clients to explain why formally similar contracts produce different implementation practices and outcomes. Comparative studies across countries, banking institutions, and regulatory systems would help distinguish Indonesia-specific constraints from broader structural characteristics of Islamic finance. Longitudinal research could assess whether digital accounting systems, regulatory reforms, governance improvements, and technological monitoring tools increase the feasibility of partnership financing over time. Field experiments and quasi-experimental studies could also evaluate the effects of financial-literacy programmes, bookkeeping assistance, alternative collateral arrangements, and strengthened monitoring systems. These research directions would provide stronger causal evidence and advance the literature from normative evaluation toward empirically grounded explanations of when risk-sharing finance becomes commercially viable, institutionally scalable, and consistent with its Shariah foundations.

Ethical Statement

This study is a qualitative library-based research that relies exclusively on publicly available documentary sources, including peer-reviewed academic literature on *mudharabah*, *musyarakah*, risk-sharing contracts, and Islamic banking; regulatory documents including Fatwa DSN-MUI No. 07/DSN-MUI/IV/2000 concerning *Mudharabah* and No. 08/DSN-MUI/IV/2000 concerning *Musyarakah*; official regulations and publications issued by the Financial Services Authority (Otoritas Jasa Keuangan, OJK); institutional reports from Islamic banks and Shariah financial institutions; and other publicly accessible academic and regulatory materials. The study does not involve human participants, personal data, animal subjects, interviews, surveys, or any form of intervention requiring informed consent. Therefore, ethical approval from an institutional review board was not required.

All sources used in this study have been properly cited and acknowledged in accordance with academic integrity standards. The interpretation of classical and contemporary Islamic legal texts has been conducted with scholarly rigour, and the analysis of institutional documents has been restricted to publicly disclosed information. The research was conducted in compliance with the ethical principles of Islamic economics—including *amanah* (trustworthiness), *'adl* (justice), and *ihsan* (excellence)—as well as the publication ethics of the *Journal International Economic Sharia* (JIES). The authors affirm that no conflicts of interest, fabrication, falsification, or plagiarism occurred at any stage of the research and writing process.

Informed Consent Statement

Informed consent was not applicable to this study, as it is a library-based qualitative research that relies exclusively on publicly available secondary sources. These sources include peer-reviewed journal articles on *mudharabah*, *musyarakah*, risk-sharing contracts, and Islamic banking; regulatory documents including Fatwa DSN-MUI No. 07/DSN-MUI/IV/2000 concerning *Mudharabah* and No. 08/DSN-MUI/IV/2000 concerning *Musyarakah*; official regulations and publications issued by the Financial Services Authority (Otoritas Jasa Keuangan, OJK); institutional reports from Islamic banks and Shariah financial institutions; and other publicly accessible academic and regulatory materials. No human participants were involved in the data collection, analysis, or interpretation process, and no personal, sensitive, or identifiable data were accessed at any stage of the research.

References to specific Islamic banks, Shariah financial institutions, or regulatory bodies are limited to their publicly disclosed institutional documentation and are used solely for analytical purposes within the framework of *fiqh muamalah* and *maqashid shariah*. No interviews, surveys, focus group discussions, or any form of direct engagement with *shahibul maal*, *mudharib*, bank management, or regulators were conducted. Consequently, informed consent procedures were neither required nor applicable to this study.

Author Contributions

Very Wahyudin: Conceptualization, Methodology, Writing – Original Draft, Supervision.

Muhammad Zhilal Al Farisi: Data Curation, Formal Analysis, Writing – Review & Editing, Project Administration, Corresponding Author.

Haider Azhar Al-Ghifari: Investigation, Resources, Visualization, Validation.

Liya Setiawati: Supervision, Writing – Review & Editing.

All authors have read and approved the final version of the manuscript and agree to be accountable for all aspects of the work.

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Data Availability Statement

The data that support the findings of this study are derived from publicly available secondary sources, including peer-reviewed journal articles on *mudharabah*, *musyarakah*, risk-sharing contracts, and Islamic banking; regulatory documents including Fatwa DSN-MUI No. 07/DSN-MUI/IV/2000 concerning *Mudharabah* and No. 08/DSN-MUI/IV/2000 concerning *Musyarakah*; official regulations and publications issued by the Financial Services Authority (Otoritas Jasa Keuangan, OJK); institutional reports from Islamic banks and Shariah financial



institutions; and other publicly accessible academic and regulatory materials. No new empirical data were generated or analysed in this study, and no human participants were involved. All sources used are properly cited in the reference list. Additional information regarding the documentary selection criteria, source provenance, and analytical framework is available from the corresponding author upon reasonable request.

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Conflict of Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper. The authors further confirm that they have no affiliation with, nor financial interest in, any Islamic bank, Shariah financial institution, regulatory body, or commercial entity whose activities are discussed or analysed in this study. No funding, sponsorship, or material support was received from any commercial or institutional entity in connection with the research, authorship, or publication of this manuscript. The authors confirm that there are no conflicts of interest regarding the publication of this manuscript.

Declaration of Generative AI and AI-Assisted Technologies

During the preparation of this manuscript, the authors used generative AI tools solely for grammatical improvement, spell-checking, language refinement, and document formatting. The AI tools were not used to generate primary arguments, conceptual frameworks, research findings, or conclusions, nor were they used to analyse data, interpret sources, or fabricate references. All substantive intellectual contributions—including the research design, documentary analysis, thematic synthesis, and interpretation of *mudharabah* and *musyarakah* as risk-sharing financing mechanisms—were conceived, conducted, and verified entirely by the authors.

The authors further confirm that all AI-assisted outputs were critically reviewed, revised, and validated against the original documentary sources, including peer-reviewed academic literature, Fatwa DSN-MUI No. 07/DSN-MUI/IV/2000 and No. 08/DSN-MUI/IV/2000, and official publications of the Financial Services Authority (Otoritas Jasa Keuangan, OJK). No AI-generated content was incorporated into the manuscript without human verification. All authors take full responsibility for the accuracy, validity, originality, and integrity of the content of this article, and for compliance with the publication ethics of the *Journal International Economic Sharia* (JIES).

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Author Biographies



Very Wahyudin is affiliated with the Department of Accounting, STIE Gema Widya Bangsa, Bandung, West Java, Indonesia. His research interests focus on Islamic accounting, Islamic banking, *fiqh muamalah*, and the application of Shariah-compliant financing contracts within contemporary Islamic financial institutions. He is particularly interested in how classical partnership-based contracts such as *mudharabah* and *musyarakah* can be evaluated through the *maqashid al-Shariah* framework, and how concepts such as *hifz al-mal*, *maslahah*, and distributive justice can be operationalized to assess the contribution of risk-sharing financing to equitable economic outcomes.



Muhammad Zhilal Al Farisi is affiliated with the Department of Accounting, STIE Gema Widya Bangsa, Bandung, West Java, Indonesia. His academic interests include Islamic banking, financial reporting under Shariah principles, risk management in profit-and-loss sharing contracts, and the operational challenges of *mudharabah* and *musyarakah* financing. His research emphasizes the importance of transparency, contractual integrity, and Shariah governance in ensuring that partnership-based Islamic financing remains both credible and scalable, particularly in the rapidly evolving landscape of Islamic finance in Indonesia.



Haidar Azhar Al-Ghifari is affiliated with the Department of Accounting, STIE Gema Widya Bangsa, Bandung, West Java, Indonesia. His research focuses on Shariah compliance assessment, information asymmetry in Islamic financial contracts, and the governance mechanisms that safeguard risk-sharing arrangements between capital providers (*shahibul maal*) and entrepreneurs (*mudharib*). He is particularly interested in how regulatory frameworks, including Fatwa DSN-MUI and OJK guidelines, can be strengthened to mitigate moral hazard and support the sustainable growth of interest-free financing.



Liya Setiawati is affiliated with the Department of Management, STIE Gema Widya Bangsa, Bandung, West Java, Indonesia. Her research interests encompass Islamic management, financial inclusion, Islamic social finance, and the socio-economic dimensions of Shariah-compliant business practices. She has a particular interest in the development of ethical and inclusive financial ecosystems that align with *maqashid al-Shariah*—especially *hifz al-mal* and *hifz al-nafs*—in the context of risk-sharing financing and the institutional transformation of Islamic banking toward more equitable and sustainable economic outcomes.