

## Musyarakah from the Perspective of Interpretation of the Qur'an, Hadith, and Fiqh: Theoretical and Practical Relevance in Modern Islamic Finance

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### A R T I C L E I N F O

*Keywords:* Musyarakah, Qur'anic exegesis, Hadith, Fiqh, Islamic Banking

*Received:* 20 November

*Revised:* 15 December

*Accepted:* 10 January

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### ABSTRACT

This study examines the concept of musyarakah as one of the fundamental partnership-based contracts in Islamic finance by integrating theological, jurisprudential, and empirical perspectives. The research explores normative foundations from the Qur'an, authentic hadith, and classical fiqh, and critically analyzes their implementation in the modern Islamic financial industry. Using a qualitative normative-empirical approach, the study synthesizes classical tafsir, major fiqh school positions, contemporary regulatory frameworks (DSN-MUI Fatwa, PSAK 106, AAOIFI standards), and statistical industry reports. The findings demonstrate that the Qur'an provides strong recognition of joint ownership, justice, and protection of rights in economic partnerships, while hadith emphasizes honesty, trustworthiness, and the prohibition of gharar. However, empirical evidence shows that musyarakah financing remains limited in Islamic banking portfolios due to risk concerns, information asymmetry, moral hazard issues, and high monitoring costs. This creates a noticeable gap between the ideal risk-sharing philosophy of Sharia and risk-transfer tendencies in practice. The study concludes that while musyarakah has a strong theological and legal basis, its modern implementation still requires conceptual and institutional reconstruction to align with maqasid al-shariah.

## INTRODUCTION

The development of Islamic economics over the past two decades has demonstrated highly dynamic growth, particularly marked by the increasing demand for financing instruments that are not only economically efficient but also adhere to principles of justice, transparency, and Shariah compliance. In this context, *mushārah* has emerged as one of the most strategically significant contracts, as it offers a partnership-based profit and loss sharing scheme that is considered to more accurately reflect the values of distributive justice in Islam compared to fixed-margin financing arrangements (Chapra, 1985; Iqbal & Mirakhor, 2011). Through proportional mechanisms for sharing profits and losses, *mushārah* is believed to promote inclusive economic growth, enhance business empowerment, and strengthen trust between financial institutions and their clients (Dusuki & Abdullah, 2007).

Normatively, the concept of *mushārah* is firmly grounded in the Qur'an, the Sunnah, and the classical fiqh tradition. The principle of partnership (*'aqd al-shirkah*) has long been elaborated by scholars through various forms of cooperation, such as *shirkah al-'inān*, *shirkah al-mufāwadhah*, and *shirkah al-abdān*, with strong emphasis on honesty (*amānah*), justice (*'adl*), and clear mutual consent (*tarādī*). Classical fiqh literature, including *Al-Fiqh al-Islāmī wa Adillatuhu* by Wahbah al-Zuhayli (1989) and *Al-Mughnī* by Ibn Qudāmah (1997), systematically discusses the pillars, conditions, profit-sharing mechanisms, and risk management of *mushārah*. In the contemporary era, these discussions have been further enriched through the lens of *maqāsid al-sharī'ah*, which emphasizes that *mushārah* possesses not only a legal-formal dimension but also a broader socio-economic function in fostering public welfare (*maṣlahah*), economic equity, and financial stability (Auda, 2008; Dusuki & Bouheraoua, 2011).

Within modern institutional contexts, the implementation of *mushārah* is guided not only by fiqh literature but also by formal regulatory frameworks. In Indonesia, *mushārah* contracts are regulated under DSN-MUI Fatwa No. 08/DSN-MUI/IV/2000 and reinforced by policies of the Financial Services Authority (OJK), Shariah Accounting Standards (PSAK 106), and international standards such as the AAOIFI Shariah Standards. Nevertheless, the practical implementation of *mushārah* in the Islamic finance industry continues to face significant challenges, including risk management, information asymmetry, client commitment, and banks' capacity to effectively monitor business activities (Khan & Bhatti, 2008; Karim, 2001). These conditions have led Islamic banks to favor trade-based financing instruments such as *murābahah*, which are perceived as relatively "safer," resulting in the incomplete realization of the ideal risk-sharing paradigm in practice (Khan, 2010).

Over time, numerous studies on *mushārah* have been conducted by scholars in both fiqh and contemporary economics. Most normative studies focus on the validity of contracts, legal structures, and foundational partnership principles rooted in justice, voluntariness, and clear agreement, as elaborated by classical jurists such as Wahbah al-Zuhayli and Ibn Qudāmah. While these studies make valuable contributions to strengthening the theoretical and legal-formal dimensions of *mushārah*, they largely remain at a conceptual level and do not fully engage with the dynamics of implementation in modern financial sectors. Conversely, more practice-

oriented studies tend to examine the application of *mushārah* in Islamic banking, emphasizing issues such as risk challenges, industry preferences, information asymmetry, and banks' reluctance to fully develop profit and loss sharing schemes due to prudential and business stability considerations. Although these studies provide important empirical insights into industry conditions, most remain descriptive in nature and are not deeply integrated with the normative foundations of the Qur'an, Sunnah, and classical fiqh constructions.

Moreover, some contemporary studies that approach *mushārah* from a Qur'anic exegesis (*tafsīr*) perspective tend to focus primarily on textual interpretations, without sufficiently linking these religious understandings to the demands of modern economic systems that require contextual, practical, and regulatory-responsive approaches. As a result, a considerable gap persists between the normative ideals articulated within Islamic intellectual traditions and the realities of *mushārah* implementation in practice. This gap is evident in the limited number of studies that comprehensively integrate Qur'anic and Prophetic textual foundations, the juristic constructions of the four Sunni schools of law, and the regulatory and practical realities of Islamic banking in Indonesia within a single, coherent analytical framework. This gap highlights a critical research need: an integrative study that not only separately describes concepts or practices but situates *mushārah* within a holistic framework capable of explaining how the concept should be understood, how it has been formulated by scholars, and how it is realized in contemporary Islamic financial practice.

Based on these conditions, there is an urgent need for research that bridges the gap between Shariah ideals and the practical implementation of *mushārah* in the Islamic finance industry, particularly within the Indonesian context. The central questions addressed in this study concern how *mushārah* is deeply understood through Qur'anic and Prophetic explanations, how classical fiqh schools conceptualize and structure *mushārah*, and the extent to which its implementation in modern Islamic banking aligns with or deviates from the ideal Shariah framework. Addressing these questions is essential for gaining a clearer understanding of the position of *mushārah* within the contemporary landscape of Islamic economics. Accordingly, this study aims to develop a comprehensive understanding of the normative foundations of *mushārah* as articulated in the Qur'an and Sunnah, to systematically examine classical fiqh perspectives across various schools regarding the structure, conditions, and mechanisms of *mushārah*, and to critically analyze its implementation within modern Islamic financial systems in light of prevailing regulations, fatwas, and institutional policies. Through this approach, the study is expected to provide a more holistic perspective on the position of *mushārah*, clearly map areas of alignment and divergence between theory and practice, and offer a robust intellectual foundation for the development of risk-sharing mechanisms that are more consistent with the values and objectives of Shariah.

## METHODS

This study adopts a qualitative approach using library research methodology. The primary data sources consist of authoritative texts, including: (1) the Qur'an along with classical Qur'anic commentaries (*tafsīr*) such as *Jāmi' al-Bayān* by al-Ṭabarī, *Tafsīr al-Qur'ān al-'Azīm* by Ibn Kathīr, and *Al-Jāmi' li Aḥkām al-Qur'ān* by al-Qurṭubī, as well as contemporary commentaries such as *Tafsīr al-Munīr* by Wahbah al-Zuhaylī and *Tafsīr al-Mishbah* by M. Quraish Shihab; (2) collections of hadith contained in *Ṣaḥīḥ al-Bukhārī*, *Ṣaḥīḥ Muslim*, and *Sunan Abū Dāwūd*, along with several classical commentaries (*sharḥ*) such as *Fath al-Bārī* and *Sharḥ Muslim*; and (3) classical fiqh al-mu'āmalāt works, including *Al-Mabsūṭ* (Ḥanafī), *Bidāyat al-Mujtahid* (Mālikī), *Al-Umm* and *Al-Majmū'* (Shāfi'ī), and *Al-Mughnī* (Ḥanbalī).

Secondary sources include peer-reviewed journal articles, dissertations, and theses related to *mushārah*, DSN-MUI Fatwa No. 08/DSN-MUI/IV/2000 on *Mushārah* Financing, PSAK 106 on *Mushārah* Accounting, as well as regulatory documents issued by the Financial Services Authority (OJK) governing profit-and-loss-sharing-based financing.

Data collection was conducted through systematic literature review, involving close reading and identification of key concepts related to *shirkah* and *mushārah*, followed by thematic classification of the data into four main categories: (1) Qur'anic foundations, (2) hadith foundations, (3) madhhab-based fiqh constructions, and (4) implementation in modern Islamic finance. Data analysis employed content analysis using descriptive-analytical and comparative approaches.

To ensure data validity, this study applied source triangulation by comparing multiple *tafsīr* works, hadith compilations, and fiqh texts, as well as corroborating the findings with contemporary research. The *maqāṣid al-sharī'ah* approach was used as an evaluative lens to assess the alignment between modern *mushārah* practices and the overarching objectives of Islamic law in the domain of economic transactions (*mu'āmalāt*).

## RESULTS AND DISCUSSION

### 1. Qur'anic Interpretation of *Shirkah*-Related Verses

The findings indicate that the concept of *mushārah* or economic partnership in Islam has a strong normative foundation in the Qur'an. This foundation is reflected not only in the recognition of partnership arrangements but also in the emphasis on trustworthiness (*amānah*), justice (*'adl*), clarity of rights, and sound governance. One of the most explicit verses indicating the reality of *shirkah* is Q.S. Ṣād [38]:24:

“Indeed, many partners wrong one another, except those who believe and do righteous deeds – and few are they.” (Ministry of Religious Affairs of Indonesia)

According to *Tafsīr al-Ṭabarī*, this verse does not merely recount the story of Prophet David but articulates a general principle that partnership (*shirkah*) is a social reality often susceptible to moral deviation if not grounded in faith and trustworthiness. Ibn Kathīr adds that the verse serves as a warning against the potential for betrayal, manipulation, and injustice in collective economic relationships, thereby underscoring the necessity of clarity of rights, honesty, and strong ethical standards in partnership practices (*Tafsīr al-Qur'ān al-'Azīm*). Meanwhile, al-Qurṭubī

interprets the verse as a foundation for the fiqh principle that *shirkah* contracts must be based on justice, clear mutual consent, proper documentation, and dispute resolution mechanisms. Thus, the verse provides not only legal recognition but also an ethical framework for *mushārah*.

Another verse that substantively reinforces the legitimacy of *shirkah* is Q.S. al-Nisā' [4]:12 concerning inheritance among maternal siblings:

"... then they share equally in one-third ..."

The concept of "sharing" (*yusyarikūna*) in this verse reflects Shariah recognition of joint ownership. Wahbah al-Zuhaylī, in *Tafsīr al-Munīr*, explains that this verse establishes that Islamic law not only permits collective ownership but also regulates it in a proportional and just manner. This provides a foundational basis for recognizing *mushārah* as a legitimate economic structure that has been embedded in Islamic legal thought from its earliest period.

Furthermore, Q.S. al-Anfāl [8]:41 on the distribution of war booty (*ghanīmah*) illustrates the principle of proportional collective distribution:

"... then for Allah, the Messenger, close relatives, orphans, the needy, and the traveler ..."

Al-Qurṭubī emphasizes that although this verse is revealed in the context of warfare, it conveys a universal principle of distributive justice in the allocation of jointly acquired resources: clear rules, proportionality, absence of injustice, and adherence to predefined agreements.

Another verse closely related to the governance of *shirkah* is Q.S. al-Baqarah [2]:282, the longest verse in the Qur'an, which emphasizes the documentation of transactions and contractual clarity. Classical exegetes such as al-Rāzī and al-Ṭabarī explain that the command to record transactions is not merely a legal ethic but a mechanism for protecting property rights (*ḥifẓ al-amwāl*). In the context of *mushārah*, this implies the necessity of clearly documented capital contributions, profit-sharing ratios, contract duration, and responsibilities of the parties involved.

Similarly, Q.S. al-Mā'idah [5]:1 states:

"O you who believe! Fulfill all contracts."

According to Ibn Kathīr and al-Qurṭubī, this verse constitutes a general obligation to honor contracts (*wujūb al-wafā' bil 'aqd*), including economic contracts such as *shirkah* and *mushārah*. This reinforces the legal validity and moral sanctity of economic agreements in Islam.

Another closely related verse is Q.S. al-Nisā' [4]:29:

**"O you who believe! Do not consume one another's wealth unjustly, except through trade conducted by mutual consent."**

Exegetes agree that this verse affirms two fundamental principles of economic partnership: the prohibition of injustice and the requirement of mutual consent (*tarāḍin*). In the context of *musyārah*, this necessitates clarity of agreement, transparency, honesty, and freedom from manipulation. Al-Rāzī emphasizes that this verse functions as a moral safeguard for transactions, while al-Zuhaylī interprets it as a mandate that all forms of collective economic contracts must embody justice, integrity, and the protection of rights.

Another verse frequently associated with the management of shared wealth is Q.S. al-Ḥashr [59]:7, which emphasizes that wealth should "not merely circulate

among the rich.” Ibn Kathīr and al-Qurtūbī link this verse to the principle of economic equity (*ta’ādul iqtishādī*). Within the framework of *musyārakah*, this indicates that partnerships serve not only as business instruments but also as social mechanisms to broaden economic access and prevent monopolization.

When these verses are examined through a thematic (*tafsīr mawḍū’ī*) approach, it becomes evident that the Qur’an establishes a comprehensive conceptual foundation for *syirkah* through several key principles. First, legal recognition of collective ownership (*al-milk al-musyarak*). Second, the imperative of trustworthiness, justice, and high moral standards in partnerships (Q.S. Ṣād:24). Third, clarity of legal structure through documentation, clear profit-sharing ratios, and transparency (Q.S. al-Baqarah:282; Q.S. al-Mā’idah:1). Fourth, protection of partners’ rights and the prohibition of unlawful appropriation of wealth (Q.S. al-Nisā’:29). Fifth, an orientation toward sustainability and social justice in partnerships (Q.S. al-Ḥashr:7).

Accordingly, this exegetical analysis confirms that *musyārakah* is not merely a pragmatic economic practice, but is grounded in a robust Qur’anic normative framework. The Qur’an does not simply legalize economic partnerships; it constructs a comprehensive system of values, ethics, and governance protocols to ensure that partnerships operate fairly, transparently, and in a manner that protects the rights of all parties.

## 2. Analysis of Hadiths on Syirkah and Their Asbāb al-Wurūd

In addition to the Qur’an, the normative foundation of *musyārakah* is further reinforced by a number of Prophetic traditions (*ḥadīth*) that provide not only legal legitimacy but also establish ethical, spiritual, and moral governance principles for partnership practices. These hadiths emphasize that the success of *syirkah* does not rely solely on systems and regulations, but is deeply dependent on trustworthiness, honesty, and sincerity among the parties involved.

The most frequently cited hadith regarding *syirkah* is narrated by Abū Dāwud:

“Allah is with two partners as long as one of them does not betray the other.”  
(Narrated by Abū Dāwud)

According to al-Mubārakfūrī in *‘Awn al-Ma’būd*, this hadith has an important historical context (*asbāb al-wurūd*). It was conveyed at a time when the early Muslim community in Madinah was beginning to develop commercial partnerships, yet cases of fraud, betrayal, and disputes arose due to a lack of honesty. The Prophet ﷺ emphasized that divine blessing accompanies only partnerships conducted with trustworthiness, whereas betrayal causes that blessing to be withdrawn. Thus, the hadith conveys not merely a moral message, but a theological assertion that spiritual integrity has a direct impact on economic success.

From the perspective of hadith scholars, the phrase “Allah is with them” (*Allāhu ma’ahumā*) is understood not only as a metaphorical expression of assistance, but also as a symbol of divine legitimacy and a guarantee of blessing (*barakah*) in economic activities based on *syirkah*. Ibn Ḥajar al-‘Asqalānī in *Fath al-Bārī* explains that this divine closeness signifies Allah’s protection over partnerships conducted

honestly, while simultaneously warning that betrayal in *syirkah* constitutes not merely a legal violation but a moral transgression that eliminates blessing.

Another hadith demonstrating the legality and flexibility of *syirkah* is narrated by al-Bayhaqī:

“The Messenger of Allah ﷺ permitted partnerships in both capital and labor.”  
(Narrated by al-Bayhaqī in *Sunan al-Kubrā*)

This hadith serves as a crucial foundation for scholars in developing concepts of *syirkah* that are not limited to financial capital, but also encompass contributions of labor, expertise, and professionalism. Jurists subsequently formulated concepts such as *syirkah al-abdān* (labor-based partnership) and *syirkah al-ʿamal* (expertise-based partnership). Wahbah al-Zuhaylī, in *al-Fiqh al-Islāmī wa Adillatuhu*, emphasizes that this hadith opens rational space for the evolution of *musyārahah* models that are adaptive to contemporary needs, including their relevance in modern industries that prioritize competence-based partnerships rather than purely capital-based ones.

Furthermore, the Prophet’s prohibition of *gharar* constitutes a fundamental principle in regulating partnerships to ensure freedom from uncertainty, deception, and harmful speculation:

“The Messenger of Allah ﷺ forbade transactions involving *gharar*.”  
(Narrated by Muslim)

Although this hadith explicitly addresses sales transactions, scholars unanimously agree that the prohibition of *gharar* applies to all *muʿāmalāt* transactions, including *musyārahah*. In the context of *syirkah*, this prohibition requires that all elements of the contract be clearly defined: the amount of capital contributed, the form of labor contribution, profit-sharing ratios, mechanisms for bearing losses, and the scope of business activities. Al-Nawawī and Ibn Taymiyyah assert that *gharar* in *syirkah* opens the door to disputes, injustice, and betrayal, making transparency a non-negotiable principle in *musyārahah* contracts.

Other hadiths further reinforce the foundational values of *syirkah*, including the hadith concerning the blessing of jointly earned wealth:

“Blessing is found in three things: deferred sales, *muḍārahah*, and mixing wheat with barley for household consumption, not for trade.”  
(Narrated by Ibn Mājah)

This hadith demonstrates that Islam regards economic cooperation as a noble and encouraged practice, provided it is conducted honestly and oriented toward public benefit. Hadith scholars such as al-Suyūṭī interpret the blessing (*barakah*) mentioned in this hadith as encompassing not only material success but also spiritual and social value.

When these hadiths are analyzed thematically (*taḥlīl mawḍūʿī al-ḥadīth*), several core principles of *musyārahah* emerge. First, the hadiths affirm the spiritual dimension of *syirkah*, where the success of partnerships is closely tied to faith, trustworthiness, and honesty. Second, they provide clear legal legitimacy that *syirkah* is a permissible – and even encouraged – economic practice in Islam. Third, they establish firm boundaries through the prohibition of *gharar*, ensuring that *musyārahah* operates on a foundation of legal clarity, transparency, and contractual certainty.

In conclusion, this hadith analysis reinforces that *musyarakah* is not merely a contractual economic system, but an agreement imbued with ethical, moral, and spiritual dimensions. These Prophetic traditions add significant value to *musyarakah*: it is not only legally valid, but also constitutes an act of worship when conducted with trustworthiness and honesty.

### **Fiqh of Musyarakah in the Islamic Schools of Law**

A review of classical fiqh sources demonstrates that scholars of the four Sunni schools of law have examined the concept of *musyarakah* systematically and in considerable depth. Their discussions not only affirm the legal validity of *syirkah*, but also elaborate its various forms, conditions of validity, mechanisms for profit and loss distribution, and the ethical principles governing it. This confirms that *syirkah* is not a marginal economic concept, but rather a core economic instrument that has received serious attention within the Islamic legal tradition.

The Ḥanafī school is widely recognized as the most flexible in developing the concept of *syirkah*. In his monumental work *al-Mabsūṭ*, al-Sarakhsī explains that *syirkah* is fundamentally a cooperative contract based on mutual consent, trust, and a lawful economic objective. Accordingly, the Ḥanafī school accepts various forms of *syirkah*, including *syirkah al-'inān* (partnership with limited capital contributions), *syirkah al-abdān* (labor- or skill-based partnership), *syirkah al-mufāwadhah* (a comprehensive partnership involving full sharing of capital and liability), and *syirkah al-wujūh* (partnership based on reputation and creditworthiness). This flexibility is grounded in the legal maxim *al-aṣl fī al-mu'āmalāt al-ibāḥah* (the basic rule in transactions is permissibility), provided that the contract does not violate principles of justice, clarity, or involve deception. Thus, the Ḥanafī school opens wide scope for the development of *musyarakah* models that are adaptable to diverse economic dynamics.

In contrast, the Mālikī school adopts a more cautious stance toward *syirkah*. Ibn Rushd, in *Bidāyat al-Mujtahid*, emphasizes that *syirkah* is acceptable only when elements of uncertainty (*gharar*) can be minimized. Consequently, Mālikī jurists are particularly cautious regarding *syirkah al-wujūh* when capital is unclear or when the partnership relies solely on reputation without concrete financial foundations. Nevertheless, the Mālikī school permits *syirkah al-abdān* within certain limits, provided that the nature of work, responsibilities, and the distribution of outcomes are clearly defined. This approach reflects a strong commitment to the protection of parties' rights and the prevention of potential disputes.

The Shāfi'ī school adopts a more restrictive position concerning the nature of capital in *syirkah*. In *al-Umm* by Imām al-Shāfi'ī and *al-Majmū'* by al-Nawawī, it is emphasized that capital in *syirkah* must consist of tangible and measurable assets. As a result, many Shāfi'ī scholars reject *syirkah al-abdān*, which treats labor alone as capital, due to concerns that the indeterminate value of non-financial contributions may give rise to disputes and injustice. However, with respect to profit distribution, the Shāfi'ī school allows flexibility: profit-sharing ratios may be determined by mutual agreement as long as no party is unfairly disadvantaged. This position illustrates the Shāfi'ī emphasis on legal certainty and the avoidance of *gharar* over contractual flexibility.

The Ḥanbalī school occupies a relatively moderate and comprehensive position. Ibn Qudāmah, in *al-Mughnī*, explains that most forms of *syirkah* are permissible as long as contributions are clearly defined, mutual consent exists, and no deception is involved. The Ḥanbalī school accepts *syirkah al-'inān*, *syirkah al-abdān*, and *syirkah al-mufāwadah*, arguing that *syirkah* is a form of productive cooperation recognized by the Shari'ah and therefore should not be unduly restricted, provided that principles of justice and contractual certainty are maintained. In this sense, the Ḥanbalī position lies between Ḥanafī flexibility and the more cautious approaches of the Mālikī and Shāfi'ī schools.

From a comparative perspective, several key points of consensus and methodological differences emerge among the four schools. First, all schools agree that *syirkah* is a valid contract with a strong Shari'ah foundation. Differences primarily concern the forms of partnership and the types of contributions permitted, particularly whether labor and expertise may be treated as capital. Second, all schools concur that profit (*ribh*) may be distributed according to mutual agreement, provided that it is conducted fairly and transparently, indicating that Islamic law allows flexibility in profit-sharing arrangements. Third, with regard to losses (*khasārah*), all schools agree that they must be borne in proportion to capital contributions, encapsulated in the legal maxim *al-khasārah 'alā qadri al-māl* (losses are borne according to capital). Fourth, honesty, trustworthiness, and transparency constitute non-negotiable ethical prerequisites across all schools.

These findings indicate that classical fiqh provides a rich, diverse, and applicable legal framework for *musyārahah*. Differences among the schools represent methodological richness that enables *musyārahah* to be adapted to varying socio-economic contexts. In modern settings, the flexibility of the Ḥanafī and Ḥanbalī schools is particularly relevant for developing *musyārahah* within Islamic financial institutions that require innovative partnership models, while the caution of the Mālikī and Shāfi'ī schools offers a foundation for legal certainty and rights protection.

Accordingly, this fiqh analysis fulfills the research objective of clarifying the position of *musyārahah* in classical Islamic law while demonstrating its relevance to contemporary applications. The four schools not only legitimize *musyārahah*, but also provide legal instruments, ethical principles, and operational guidelines that may serve as references for economic partnerships within the modern Islamic financial system.

### **Implementation of Musyārahah in Modern Islamic Finance**

The implementation of *musyārahah* in modern Islamic finance seeks to translate the normative profit-and-loss sharing principles found in classical fiqh literature into a financial system that is structured, documented, and subject to contemporary regulation. In Indonesia, the formal application of *musyārahah* contracts is governed by several legal and institutional frameworks, including the DSN-MUI Fatwa No. 08/DSN-MUI/IV/2000 on *Musyārahah* Financing, which serves as the Shari'ah basis for Islamic banks and financial institutions; PSAK 106, which regulates accounting treatment, asset recognition, profit measurement, and loss distribution; and various regulations issued by the Financial Services Authority (OJK) governing risk management, reporting mechanisms, and prudential standards. At the international

level, the AAOIFI Shari'ah Standards provide global normative guidelines on contract structures, rights and obligations of parties, and Shari'ah compliance.

In practice, *musyarakah* in the Islamic finance industry has evolved into two primary forms. First, permanent *musyarakah*, in which the bank's capital share remains constant throughout the contract period. Second, *musyarakah mutanāqishah* (diminishing partnership), in which the bank's ownership share gradually decreases as the business partner makes payments, until full ownership is transferred to the customer. The latter model is most commonly applied in home financing, productive property acquisition, asset financing, and certain real-sector investments, as its structure is considered more "bankable" and easier to standardize within Islamic banking operations.

Despite its strong normative legitimacy and clear operational structure, empirical data indicate that *musyarakah* financing constitutes a relatively small portion of Islamic banking portfolios. Based on OJK reports and various studies (including research by Ascarya and international Islamic banking analyses), *musyarakah* financing in Indonesian Islamic banks generally accounts for less than 10% of total financing, with portfolios still dominated by *murabahah*, *ijarah*, and other consumption-oriented contracts perceived as more stable and lower risk.

This condition highlights a gap between Shari'ah ideals and industrial realities. Normatively, *musyarakah* is designed as an equitable partnership-based contract emphasizing justice, transparency, and proportional risk sharing. In practice, however, Islamic banks tend to treat this contract in ways that resemble conventional credit financing. This is evident in the continued reliance on collateral, profit-sharing ratios that implicitly mirror fixed returns, and control mechanisms oriented more toward protecting bank interests than fostering genuine partnership.

Several key factors contribute to this phenomenon. First, Islamic banks' risk management orientation tends to prioritize risk mitigation over risk sharing. Modern banking systems are built on prudential principles and financial stability, and because *musyarakah* requires active participation, business monitoring, and direct exposure to business risk, it is perceived as more complex and riskier than trade-based contracts.

Second, concerns over customer moral hazard play a significant role. Many Islamic banks perceive that not all customers maintain transparent, professional, and accountable financial reporting practices. Limited disclosure can result in information asymmetry, leading to valuation risks and inaccurate profit distribution.

Third, collateral requirements persist. Although *musyarakah* ideally emphasizes trust, capital contribution, and cooperation, modern banking systems still require collateral as a control mechanism. Consequently, a contract that should be partnership-based often transforms into secured financing resembling capital loans with strong bank protection.

Fourth, high monitoring costs pose a challenge. Ideally, *musyarakah* requires banks to be actively involved in business supervision, which entails additional costs for expert personnel, business audits, performance evaluations, and intensive operational oversight. From a managerial perspective, this is considered less efficient compared to simpler contracts.

Beyond internal banking factors, external influences also shape this reality. Global financial regulatory structures dominated by conventional capitalist paradigms, Basel Accord risk assessment standards, and financial stability pressures compel Islamic banks to behave similarly to conventional banks. As a result, profit-and-loss sharing contracts – often regarded as the hallmark of Islamic economics – have yet to develop optimally.

From these findings, several conclusions can be drawn. First, there is a paradigmatic discrepancy between the normative conception of *musyarakah* as a trust-based, just partnership and its practical implementation within commercial banking logic. Second, a conceptual reduction has occurred whereby *musyarakah*, intended to foster economic partnership, is transformed into a quasi-credit financing instrument. Third, achieving genuine *musyarakah* requires systemic transition – not only Sharī'ah intent, but also reforms in industry governance, business culture, financial literacy, and institutional willingness to assume the role of a true partner rather than merely a fund provider.

In conclusion, the implementation of *musyarakah* in modern Islamic finance can be understood objectively: normatively, it represents a leading instrument of Islamic economic justice; empirically, however, it continues to face significant obstacles and has yet to attain its ideal position.

#### **Critical Analysis (Synthesis of the Qur'an, Hadith, Fiqh, and Modern Practice)**

The synthesis of the Qur'an, Prophetic traditions (ḥadīth), classical fiqh, and modern Islamic financial practice demonstrates that *musyarakah* is fundamentally an Islamic economic concept that possesses not only strong normative legitimacy but also rich ethical and operational dimensions. The Qur'an explicitly emphasizes principles of justice, trustworthiness (*amānah*), protection of property rights, and the prevention of injustice in all forms of economic partnership. Verses such as Q.S. Ṣād [38]:24, Q.S. al-Nisā' [4]:12, Q.S. al-Baqarah [2]:282, and Q.S. al-Mā'idah [5]:1 affirm that economic cooperation is not only legally permissible under Sharī'ah, but must also operate within a clear moral and legal framework. These Qur'anic values form a spiritual and normative foundation that views economic partnership as an instrument of social justice as well as a mechanism for protecting rights and ensuring balanced wealth distribution.

The Prophetic traditions complement this Qur'anic foundation by providing ethical, spiritual, and motivational dimensions that are more operational in nature. The ḥadīth narrated by Abū Dāwud stating that "Allah is with two partners as long as neither betrays the other" illustrates that the success of *syirkah* is intrinsically linked to trustworthiness and honesty. Other traditions concerning the prohibition of *gharar* and the affirmation of blessing (*barakah*) in partnerships endow *musyarakah* with a strong moral spirit, transforming it from a merely technical contractual relationship into an economic activity imbued with devotional value and spiritual significance. Thus, the ḥadīth perspective suggests that economic stability in *syirkah* depends not only on legal mechanisms but also on the spiritual consciousness of the parties involved.

Classical fiqh then functions as a methodological bridge between Qur'anic values, Prophetic guidance, and the practical demands of economic transactions. The four major Sunni schools of law systematically formulated the legal structure of

*syirkah*, specifying permissible forms, conditions of validity, mechanisms for profit and loss distribution, and prudential principles to avoid uncertainty. The diversity of opinions among the Ḥanafī, Mālikī, Shāfi'ī, and Ḥanbalī schools reflects the elasticity of Islamic law in responding to changing socio-economic contexts. On the one hand, Islamic jurisprudence demonstrates flexibility in accommodating various partnership models; on the other, it maintains strict legal discipline to ensure justice and contractual certainty. This illustrates that classical fiqh developed a rich and operational legal framework capable of application across diverse socio-economic environments.

When these three dimensions are juxtaposed with the realities of modern regulation and Islamic financial practice, it becomes evident that the industry seeks to adopt Sharī'ah values while remaining subject to the expectations of a global financial system grounded in prudential regulation. Contemporary regulatory frameworks – through DSN-MUI fatwas, Sharī'ah accounting standards (PSAK), OJK regulations, and AAOIFI standards – have attempted to translate *musyarakah* into technocratic formats compatible with good corporate governance, risk management, and financial system stability. In this sense, regulation aims to render *musyarakah* compatible with modern banking structures.

However, the most critical finding of this synthesis is the presence of a fundamental epistemological tension. In principle, Sharī'ah emphasizes a risk-sharing paradigm, whereby risks and returns are shared proportionally as an expression of economic justice. By contrast, modern banking systems are built upon paradigms of risk transfer and risk mitigation, in which financial institutions seek to minimize exposure in order to safeguard liquidity, capital adequacy, and financial stability. This paradigmatic conflict has, in practice, generated distortions in the interpretation and implementation of *musyarakah* within the Islamic finance industry. Contracts that normatively require equitable partnership are often reduced to quasi-credit financing arrangements characterized by excessive control, collateralization, and prudential constraints.

This tension directly affects the operational character of *musyarakah*. Rather than fostering relationships based on trust and collaboration, many implementations of *musyarakah* have evolved into financing arrangements in which banks exercise dominant control while customers bear disproportionate risk. Consequently, the theological and moral values of *musyarakah* – such as justice, trustworthiness, collective responsibility, and blessing – have not been fully realized in industrial practice.

Nevertheless, the findings of this study also indicate the possibility of constructive pathways forward. The implementation of *musyarakah* may move closer to Sharī'ah ideals if several strategic measures are undertaken. First, Islamic banks must disengage from conventional credit-oriented mindsets and genuinely adopt partnership-based economic paradigms. Second, business mentoring and support for customers are necessary to reduce information asymmetry, strengthen financial reporting literacy, and cultivate a culture of transparency. Third, Sharī'ah Supervisory Boards must enhance their audit functions to ensure that *musyarakah* contracts are implemented substantively in accordance with Sharī'ah principles rather than as mere

administrative formalities. Fourth, regulatory frameworks should be strengthened to provide greater space for shared risk–shared return schemes, ensuring that *musyārah* becomes not merely a Shari’ah label but a genuine instrument of justice-based finance.

In sum, the final synthesis of this study demonstrates that *musyārah* rests upon a solid theological foundation in the Qur’an and ḥadīth, is systematically formulated within classical fiqh, yet requires conceptual reconstruction and institutional strengthening in modern practice in order to align fully with the overarching objectives of Shari’ah (*maqāṣid al-syari’ah*), particularly the realization of justice, public welfare (*maṣlahah*), and ethical economic sustainability.

## CONCLUSION

Based on an examination of Islamic normative sources, classical fiqh literature, and the realities of implementation in modern Islamic finance, this study concludes that *musyārah* is an Islamic economic instrument endowed with robust theological, ethical, juridical, and conceptual legitimacy. Analysis of Qur’anic verses demonstrates that *syirkah* is recognized as a legitimate structure of ownership and cooperation that must operate within the framework of justice, trustworthiness, clarity of rights, and protection against injustice. The study of ḥadīth underscores the ethical and spiritual dimensions of *musyārah*, emphasizing that the success of partnerships depends not only on legal mechanisms but also on honesty, transparency, trust, and the avoidance of *gharar*. The jurisprudence of the four Sunni schools provides a comprehensive legal construction that elaborates the forms of *syirkah*, conditions of contractual validity, and mechanisms for profit and loss distribution, while also demonstrating the flexibility of Islamic law in responding to socio-economic dynamics.

At the same time, the findings indicate that the implementation of *musyārah* in modern Islamic finance has sought to institutionalize these principles through formal regulations such as DSN-MUI fatwas, PSAK 106, AAOIFI standards, and OJK policies. Models such as permanent *musyārah* and diminishing *musyārah* (*musyārah mutanāqishah*) reflect efforts to translate classical concepts into measurable and manageable financial products. However, empirical industry data reveal that *musyārah* financing remains limited in scale and has yet to become a core instrument within Islamic banking portfolios. Challenges such as information asymmetry, concerns over moral hazard, high monitoring costs, and a banking orientation toward risk mitigation have led, in practice, to a reduction of *musyārah* into arrangements that resemble conventional credit financing.

The synthesis of these findings reveals a clear epistemological tension between Shari’ah ideals emphasizing risk sharing and distributive justice, and the logic of modern financial industries that prioritize prudence and risk transfer. Accordingly, while *musyārah* possesses a solid normative foundation and an established juridical framework, its contemporary implementation still requires conceptual reconstruction and institutional reinforcement to align fully with the objectives of Shari’ah (*maqāṣid al-syari’ah*), particularly in realizing justice, economic blessing, and the protection of all parties’ rights.

Based on these conclusions, this study offers several strategic recommendations. First, mechanisms for business transparency and financial

reporting must be strengthened to reduce information asymmetry. Second, Islamic financial institutions should enhance risk governance and product design capacities so as not merely to replicate conventional credit models, but to genuinely establish equitable economic partnerships. Third, the role of Shari'ah Supervisory Boards must be reinforced to ensure substantive, rather than merely formal, Shari'ah compliance. Fourth, regulators, academics, and practitioners should collaborate to cultivate a more conducive ecosystem for shared risk–shared return financing. Finally, further research integrating normative, *maqāsid*-based, and empirical approaches is needed to assess the real impact of *musyarakah* on economic justice, industry stability, and societal welfare.

In conclusion, *musyarakah* is not merely a historical concept or an abstract normative ideal, but a strategic economic instrument with significant potential to be more fully realized within contemporary Islamic financial systems, provided that it is accompanied by paradigm reform, institutional strengthening, and consistent ethical commitment.

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