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# A Sharia Economic Law Review of Profit-Sharing Practices

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**Abstract:**
This study examines profit-sharing practices at Koperasi Insan Madani Syariah in Rantau Karya Village and evaluates their conformity with Sharia economic law. Motivated by the need for equitable Islamic economic arrangements as alternatives to interest-based mechanisms, the research aims to identify how profit-sharing is operationalized and to assess its legal-normative alignment. Employing a qualitative phenomenological approach, data were collected through in-depth interviews, participant observation, and document analysis involving cooperative managers, members, and community leaders. Findings indicate that the cooperative implements profit-sharing primarily through mudharabah mutlaqah and syirkah al-inan arrangements, distributing residual income proportionally based on members' capital contributions and transactional participation; transparency and annual deliberations reinforce member trust, while gaps remain in members' technical understanding of nisbah calculations. The study contributes theoretically by explicating how distributive justice principles under Sharia manifest in micro-cooperative settings and offers practical insights for improving governance, member education, and accountability in Sharia microfinance institutions. The results provide an empirical reference for practitioners and policymakers seeking to strengthen Sharia-compliant profit-sharing mechanisms at the grassroots level.

**Keywords:**
*Profit-Sharing; Sharia Cooperative; Sharia Economic Law; Syirkah Al-Inan; Mudharabah; Koperasi Insan Madani.*



## INTRODUCTION

In the last decade, sharia-based financial systems have grown rapidly as a response to the weaknesses of conventional financial systems, especially regarding fairness, profit sharing, and the avoidance of usury (Kato, 2022). In Indonesia, the expansion of Islamic finance has not only occurred in the banking sector, but also in Islamic cooperatives that serve as a pillar of the community's micro-economy (Loso Judijanto et al., 2024). Islamic cooperatives present a membership-based system, where each member acts as a financier as well as a recipient of business results. The profit-sharing mechanism is the main instrument in realizing Islamic economic justice, but practices in the field are often constrained by the transparency of calculations, the basis for profit sharing, and compliance with the DSN-MUI fatwa and national law.

Academic gaps are still evident in research on rural Islamic micro cooperatives, such as Insan Madani Cooperative in Rantau Karya Village. Most previous studies have focused on Islamic banks or large institutions (Trisanty, 2018), while aspects of governance, accountability, and member trust in micro-Islamic cooperatives are less explored (Honesty et al., 2021). Islamic economic law studies that examine the real application of profit sharing in accordance with the DSN-MUI fatwa and the Islamic Banking Law are also relatively limited (Judijanto et al., 2024). Therefore, field research with a qualitative-phenomenological approach is important to explore the reality of the application of sharia principles in rural micro-cooperatives.

This study uses the theoretical framework of muḍārabah and syirkah al-inan as the basis for analysis. Muḍārabah emphasizes cooperation between the capital owner (shāhib al-māl) and the manager (mudhārib) with profit sharing based on a ratio, while syirkah al-inan allows all parties to contribute capital and bear risks together (Komarudin et al., 2023). These two concepts provide the legal and ethical foundation for the application of profit-sharing mechanisms in Islamic cooperatives, along with the principles of fairness, transparency, and taʿāwun (helping). By combining these theories and the legal principles of Islamic economics, this study examines the extent to which profit-sharing practices in Insan Madani Cooperative are in accordance with sharia provisions and national regulations.

Findings from previous literature show that many Islamic cooperatives in Indonesia still face challenges in compliance with sharia principles, especially in the aspects of regulation and transparency (Loso Judijanto et al., 2024). In contrast, several other studies, such as Ely Siswanto et al. (2020) and Mohd Hassan & Sanusi (2019), emphasize the importance of accountability and control mechanisms in the implementation of muḍārabah in order to maintain institutional integrity and member trust. The research gap arises because few studies explicitly link the actual practice of cooperatives with a review of Islamic economic law, specifically the interpretation of the DSN-MUI fatwa and Law No. 21 of 2008.

This article aims to bridge this gap by combining a qualitative field study and a review of Islamic economic law. Its contributions include enriching the literature on rural micro-Islamic cooperatives, integrating muḍārabah and shirkah theories with local practices, and evaluating compliance with applicable laws and fatwas. Methodologically, the study positions phenomenology as the main approach to understanding the subjective meanings of cooperative members' experiences, while conceptually, it emphasizes the importance of fairness, transparency, and avoidance of usury in the practice of Islamic economics at the grassroots level.

## METHOD

The type of research used in this study is qualitative research with a phenomenological approach, which aims to explore in depth the subjective experiences of Insan Madani cooperative members related to profit sharing practices, revealing the essence of the meaning of the phenomenon (Van Manen, 2014 in Taylor, 2025), this approach allows researchers to explore the perceptions, meanings and lived experiences of participants (Ahmed Ali Alhazmi & Kaufmann, 2022). The research data consist of primary data, namely in-depth interviews with cooperative administrators, managerial staff, cooperative members, and religious leaders/neighborhood leaders; direct participatory observation in the field related to the profit-sharing process; and internal cooperative documentation (financial reports, meeting notes, contract agreements). In addition, secondary data included regulations (Law No. 21/2008, Law No. 25/1992), DSN-MUI fatwas on muḍārabah/ musyarakah contracts, literature related to Islamic economics, and relevant empirical studies. Data collection techniques included semi-structured interviews, direct observation and field notes, and document analysis. In selecting secondary literature, the researcher set inclusion criteria: documents/regulations/research published in the last 10 years (2015-2025), open-access, and relevant to the topic of profit sharing and Islamic cooperatives; exclusion criteria: documents not relevant to the cooperative context or not available in full access. The sampling technique was purposive sampling and snowball sampling until data saturation was reached, where additional interviews no longer provided new information (Hossain et al., 2024).

Data analysis was carried out through the inductive thematic analysis method within the phenomenological framework, namely recognizing themes of meaning from interview transcripts, observation notes, and documents, followed by data reduction, essential meaning, and structuring the phenomenon experience (Taylor, 2025). The analysis runs iteratively, parallel to data collection. The researcher functions as the "main instrument" in data interpretation, triangulating between data sources (interviews, observations, documents) to increase credibility (Sutton & Austin, 2015; Rampin et al., 2021). The result is a thematic description and meaning structure that reconstructs the profit-sharing experience from the participant's perspective, then connected to the theoretical framework of muḍārabah, shirkah al-inan, and Islamic economic law regulations in the discussion section.

## RESULTS AND DISCUSSION

### Results

Based on the results of field research with a qualitative phenomenological approach conducted at Insan Madani Syariah Cooperative in Rantau Karya Village, Geragai District, East Tanjung Jabung Regency, Jambi, the main findings are obtained that represent the practice of profit sharing and its compliance with the principles of sharia economic law. Data were obtained through in-depth interviews with six key informants, namely the head of the neighborhood association (RT), the cooperative manager, the finance staff, a religious leader, and three active members of the cooperative; plus-direct observation of cooperative activities and analysis of internal documents such as financial statements, contract agreements, and minutes of the Annual Members Meeting (Year-End Meeting). The thematic analysis resulted in three main themes that describe profit-sharing practices in the cooperative, namely: (1) operational mechanisms of profit sharing; (2) members' perceptions and experiences of fairness and transparency; and (3) conformity of practices with the principles of Islamic economic law and the muḍārabah contract.

The first theme, the operational mechanism of profit sharing, shows that the profit-sharing system applied by Insan Madani Syariah Cooperative uses a pattern of accumulating profit percentages based on member transactions. Each member receives a profit-sharing share of 1% of the total annual transactions made, both as savers and borrowers. Based on an interview with the cooperative manager (Mrs. Rita Yulianawati), the system has been running for more than five years and is discussed openly at every Year-End Meeting. The cooperative management manages members' funds based on the principle of muḍārabah contract, where capital comes from members, and profits are shared based on a mutually agreed ratio, without any fixed interest system. Observations show that the mechanism for collecting and distributing funds is done directly through the cooperative unit, with simple bookkeeping compiled every month. In the context of financial management, there is no indication of the application of interest (riba), but all transactions use a profit-sharing calculation with a proportion according to the capital contribution of each member. This is in line with the practice of Islamic microfinance institutions that apply profit sharing as a substitute for conventional interest (Muneeza et al., 2023).

The second theme, members' perceptions and experiences of fairness and transparency, shows that most cooperative members consider the profit-sharing mechanism to be fair and beneficial in improving their economic welfare. Based on interviews with members (Ms. Mega Utami, Ms. Siti Alisyiah, and Ms. Refa), members stated that they have never felt disadvantaged by the profit-sharing policy, as the cooperative routinely provides annual reports and explains transaction details. Transparency is carried out through the Year-End Meeting, where the management reads out the financial statements in detail and presents the total income and Net Income allocation to members. This finding strengthens the empirical study by Rahim et al. (2022), which shows that transparency and accountability are the main factors that strengthen members' trust in Islamic cooperatives. In the context of Insan Madani cooperative, transparency is not only shown through written reports, but also through direct communication between the management and members, in accordance with the sharia principle of openness (mubāyanah) in muamalah contracts (Nurfadilah & Ismail, 2021). However, from the results of observations and in-depth interviews, it was also found that a small number of members still did not understand the concept of ratio calculation, although they recognized that the distribution of Net Income was carried out fairly and without coercion.

The third theme, conformity of practices with the principles of sharia economic law and the muḍārabah contract, shows that the cooperative has implemented a profit-sharing system in accordance with the basic principles of sharia, although there are still limitations in the technical understanding of the contract law at the member level. Based on an interview with a religious figure (Al-Ustadz Habib Maulana, L.C.), the contract used by the cooperative is muḍārabah mutlaqah, in which the manager is given discretion in managing funds for members' productive activities, with a profit sharing of 2% of net profit, 1% for members, and 1% for cooperative operations. This structure is considered in accordance with the principles of Sharia economic law because it does not contain elements of usury, gharar, or maisir (Maulana, 2024). From the results of documentary observations, each contract agreement is written in the form of an agreement letter signed by members and cooperative management without coercion. In the Year-End Meeting, this provision is socialized again to members, emphasizing the principles of ta'awun (mutual help) and 'adl (justice) as recommended in QS. Al-Maidah [5]:2 and An-Nisa [4]:58. This is in line with the results of research by Umar et al. (2021), which shows that Islamic cooperatives that apply the muḍārabah system with the principles of justice and mutual agreement can improve the economic welfare of members without causing social conflict.

Based on the results of thematic analysis of all interview transcripts and observation notes, additional sub-themes were obtained that strengthen the main findings. First, the socio-economic impact of profit-sharing practices, where cooperative members feel an increase in welfare through the distribution of Net Income and the provision of annual allowances such as Holiday Allowance. Second, the application of sharia values in cooperative activities, which include deliberation, mutual assistance, and the avoidance of speculative practices. Third, the role of the government and non-bank financial institutions, which the head of the RT (Mr. Agus) mentioned as important partners in fostering and educating cooperative members regarding sharia economic principles. This finding is in line with research by Hidayat et al. (2023), which asserts that collaboration between local governments and Islamic cooperative institutions is a determining factor in the successful implementation of Islamic economics at the micro level.

In addition to the interviews, documentary data from the cooperative shows a pattern consistent with the informants' narratives. Based on the 2024 AGM report, the total Net Income distributed to members reached 1% of the total transaction volume of IDR 1.2 billion. The distribution is done proportionally to the contribution of capital and the activity of members in transactions. The financing instruments used are dominated by muḍārabah (60%) and musyarakah (40%). No record of sharia violations was found, and all financial statements were internally verified by the cooperative supervisor. These results are reinforced by the literature on the effectiveness of profit-sharing models in Islamic microfinance institutions (Kurniawati et al., 2022), which shows that the application of the principles of fairness, transparency, and active member involvement is the main success factor of sharia-based institutions.

From the overall empirical data, it can be concluded that the practice of profit sharing in Insan Madani Syariah Cooperative has reflected the implementation of the principles of sharia economic law, although there is still room for improvement in terms of sharia education for members and increasing the professionalism of financial management. In general, the relationship between members and management is participatory, transparent, and based on a collective spirit according to the principle of shirkah al-inan. This result is consistent with the findings of similar research in various sharia micro cooperatives in Indonesia (Sari & Hasanah, 2024), which confirms that sharia-based cooperatives tend to have a higher level of social trust than conventional cooperatives.

## Discussion

The results show that the practice of profit sharing in Insan Madani Cooperative has been formed in a relatively stable pattern: each member obtains proportional Net Income based on capital contribution and active transactions, while the manager acts as a business partner in the muḍārabah mutlaqah scheme. These findings directly address problem formulations (a) and (b) regarding "how it is practiced" and "to what extent it is consistent with Islamic economic law." Thus, this study succeeded in confirming that the profit-sharing mechanism of Insan Madani Cooperative is not merely descriptive, but has been operationalized in a form that can be analyzed from the perspective of Sharia norms.

Conceptually, this practice can be understood through the framework of muḍārabah and shirkah al-inan, where capital is provided by the member (shāhib al-māl) and management is transferred to the manager (mudhārib), with a mutually agreed ratio. The finding that the manager has discretion in managing the business, including the selection of the type of business and the allocation of internal funds, is a characteristic of muḍārabah mutlaqah, which is justified in shariah literature as long as it does not contain elements of gharar or excessive uncertainty. When members also actively participate in business activities, the aspect of shirkah al-inan emerges, because members are also business actors and not merely passive investors. The integration of the two concepts strengthens the legitimacy of cooperative practices as a vehicle for sharing profits and risks according to the principles of justice (ʿadl) and mutual assistance (taʿāwun).

In comparison with previous studies, there are important commonalities and differences. For example, Loso Judijanto et al. (2024) mentioned that Islamic cooperatives in Indonesia often face problems with transparency and financial understanding of members, making sharia compliance an operational constraint. The study found that although there are members who do not understand the details of the ratio, the transparency of the written documentation has minimized internal conflicts, demonstrating that intensive education and communication are essential (Loso Judijanto et al., 2024). In contrast, the study "Sharia Cooperative Practices in Jember" shows that many Islamic cooperatives fail to consistently apply sharia principles due to limited knowledge and internal compliance (Muneeza et al., 2023). The results of this study suggest that rural micro cooperatives far from urban centers can adopt sharia practices if supported by participatory governance and adequate member understanding. In addition, quantitative research on Islamic financial institutions (Sandia et al., 2025) found that factors such as liquidity and profitability affect the growth of profit-sharing financing in Islamic banks; although the context is different, this confirms that aspects of financial performance remain relevant in ensuring the viability of profit-sharing mechanisms.

The scholarly contributions of this article include: (1) enrichment of the theories of muḍārabah and shirkah al-inan through an empirical study of micro cooperatives; (2) proof that cooperative practices operating at the village level can combine member participation, transparency, and sharia legal compliance; (3) understanding that member education and financial communication are critical variables in the success of profit-sharing mechanisms; and (4) offering a coherent implementation model between local practices and the sharia normative framework that can serve as a reference for other Islamic cooperatives. Thus, this article not only expands the field of theory but also has the potential to become a blueprint for the practice of Islamic cooperatives in similar areas.

This study has limitations that need to be acknowledged. First, the scope of field data is limited to one micro cooperative in one village, so generalizations to other cooperatives should be made with caution. Second, the status of the cooperative's financial data depends on the honesty of the management and internal documentation, which is prone to reporting bias. Third, although triangulation was used, data interpretation relies heavily on the role of the researcher as the main instrument, which can lead to hermeneutic subjectivity. Fourth, external variables such as local economic conditions, government intervention, or socio-cultural factors were not analyzed in depth. Therefore, the findings should be expanded through comparative studies between cooperatives and complementary quantitative analysis.

Based on these limitations, further research can conduct comparative studies among Islamic cooperatives in various regions, using mixed methods to obtain quantitative evidence that strengthens generalization. For cooperative practitioners, recommendations include strengthening member education programs on the Nisbah-mechanism, clarifying contract documents, and conducting open financial reporting every period. For policymakers, it is recommended to formulate regulations that support the accountability of Islamic cooperatives, such as Net Income reporting standards and mandatory internal audits, so that national Islamic cooperatives can function as legitimate pillars of an inclusive economy.

## CONCLUSION

This study concludes that the practice of profit sharing in Insan Madani Syariah Cooperative in Rantau Karya Village has been running in accordance with the principles of sharia economic law, with the implementation of muḍārabah mutlaqah and syirkah al-inan contracts that emphasize justice, transparency, and mutual agreement between the management and members. The cooperative's profit-sharing system does not use fixed interest as practiced by conventional financial institutions, but is based on capital contributions and active participation of members. Field findings show that although some members do not fully understand the concept of nisbah, the open financial reporting mechanism and annual deliberation process have created a sense of trust and economic solidarity among members. The practice has also proven to improve members' welfare and strengthen the cooperative's role as a sharia-based economic institution at the local community level.

In terms of scientific contribution, this research broadens the understanding of the application of the profit-sharing principle in the context of Islamic micro cooperatives, as well as strengthens the theory of Islamic economic law as an instrument of distributive justice in the non-bank financial sector. Practically, the results provide an empirical model for other Islamic microfinance institutions and cooperatives in building governance based on sharia transparency, participation, and accountability. Conceptually, this research shows that the integration of Islamic moral values such as ta'awun, 'adl, and amanah can be a normative foundation in a sustainable profit-sharing economic system, not only to avoid usury practices, but also as a means of community economic empowerment.

In the future, further research is recommended to expand the scope of the study to various Islamic cooperatives in different regions to compare the effectiveness of the profit-sharing model based on local socio-economic and cultural conditions. Quantitative or mixed methods studies are also needed to empirically measure the relationship between the level of transparency, member participation, and financial success of cooperatives. In addition, there is a need to strengthen policies from the government and related institutions to establish accountability standards and Sharia audits for cooperatives, so that this justice-based economic practice can develop more professionally and sustainably at the national level.

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