

The Concept of Profit Sharing in The Industrial Field in Islamic Economic

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Abstract

Profit sharing schemes are very limited compared to fixed income schemes, *murabaha* and *ijarah* contracts are far more widely used by Islamic financial institutions than profit sharing schemes. the purpose of this research is to know the concept of profit sharing in the industrial field in islamic economy. This research method uses systematic literature review Literature review aims to make an analysis and synthesis of existing knowledge related to the topic to be researched to find empty space for research to be carried out. The results of this study found that Sharia Banking stipulates that *mudharabah* is what is meant by "*Akad mudharabah* " in Financing is a joint venture agreement between the first party (malik, shahibul mal, or Sharia Bank) which provides all the capital and the second party (,factor, mudharib, or the Customer) who acts as fund manager by sharing business profits in accordance with the agreement set forth in the *Akad*, while the loss is fully borne by the Islamic Bank unless the second party makes a deliberate mistake, is negligent or violates the agreement. based on careful calculations between the three schemes, viz revenue sharing, gross profit sharing and net Profit sharing, hence the schematic profit sharing is the most profitable for tile entrepreneurs in developing their production business.

Keywords: Concept, Profit Sharing, Islamic Economic, Industrial Field.

INTRODUCTION

The growth of Islamic financial institutions has now experienced very rapid development. This is indicated by the shariaization process from the conventional economic system to the sharia economic system which has now shown its momentum. Almost every aspect of economic activity has been or is accompanied by the sharia system. The presence of Islamic financial institutions, such as banks, cooperatives (BMT), insurance and Islamic capital markets, there are also activities in the real sector based on Islamic principles, such as Islamic Supermarkets, Islamic Hotels and others. Of course, this change is based on the argument that the Islamic economic system has advantages, both comparative and competitive.

Thus, the transition of the system in the economic field is not only based on religious beliefs, which are often referred to as emotional, but and what is important, based on a rational awareness, that this system is far superior to the capitalist economic system. which is often referred to as emotional, but and this is what is important, based on a rational awareness, that this system is far superior to the capitalist economic system. which is often referred to as emotional, but and this is what is important, based on a rational awareness, that this system is far superior to the capitalist economic system. which is often referred to as emotional, but and this is what is important, based on a rational awareness, that this system is far superior to the capitalist economic system.

Among the advantages of Islamic economics is related to the relationship between capital owners and business people. In Islamic economic theory, capital and business actors are two factors of production that cannot be separated from one another. Everyone who provides

capital in order to produce something that is commercial in nature must assume that the risk of loss is as likely as the opportunity to make a profit. In this case, capital is an intrinsic element of business (entrepreneurship), as far as business risk is concerned. Because of that, return obtained by the owner of capital will change and not remain as in the interest system.

The more profit in business, the higher it will be return of the invested capital. It is clear that the profits arising from business or commercial activities in the community will be distributed to all those who provide capital in a project, according to the size of the investment. This system is different and even contrary to the capitalist economic system, where capital and business actors are two separate elements of production. Capital will definitely receive interest, while business actors will receive profits. Of course, uncertain profits must be faced with "rewards" to the money used as capital. This is where it often happens that business actors experience difficulties in returning their capital and interest to the owners of capital, because the business they are running experiences a decrease in profits. Conversely, if the business actor experiences a lot of profit, the owner of the funds will only get income from the interest that has been set first. There are several schemes that can be used for various transactions and financial products which basically can be grouped into two, namely fixed income schemes and variable income schemes. The fixed income scheme provides income that is fixed and has a predetermined amount, in the form of a fixed interest rate. Meanwhile, the non-fixed income scheme provides income, the amount of which depends on the indicators used as the basis for calculating income (in the form of interest) or depending on the performance of the business being financed (Tarsidin, 2019).

In the sharia transaction system based on profit sharing, it is known as *mudharabah* and *musyarakah*. Naturally be "core business" sharia financial institution. Even though the reality on the ground is just the opposite. Profit sharing schemes are very limited compared to fixed income schemes, *murabaha* and *ijarah* contracts are far more widely used by Islamic financial institutions than profit sharing schemes. The reason is because this scheme from the income side of Islamic financial institutions is closer to a relatively certain and predetermined interest system, while profit sharing schemes are considered high risk and the income of Islamic microfinance institutions (BMT) is relatively uncertain (Fathurrahman, 2018). less interested in the profit sharing scheme, especially the profit sharing scheme based on profit sharing can be caused by two things. First, from the point of view of the entrepreneur/mudharib, there is no profit sharing scheme incentive compatible, ie they do not have sufficient incentives to implement profit-sharing schemes. This is due to not being accommodated enough incentive compatibility constrain (ICC) on the profit sharing scheme. Second, from the point of view of the owner of the funds (shahibul mal), the scheme the profit-sharing scheme is considered not an efficient scheme. This is actually due to less calculated incentive compatibility constrain (ICC) and willingness to pay constrain (WCPC) in designing profit sharing schemes.

Therefore, the fixed income scheme is very dominant in Islamic financial transactions. As is known, until now it has reached 60% of transaction transactions in Islamic banking, *murabaha* and *ijarah* schemes with their characteristics are suspected to be able to efficiently encourage entrepreneurs (mudharib) to use the financing they obtain in the best ways and

prevent falsification. Through the use of *murabaha* and *ijarah* the intensity of the problem moral hazard can be reduced so that monitoring and verification costs by fund owners can also be reduced. Instead the intensity of the problem moral hazard in the profit-sharing scheme is suspected to be high so that significant monitoring and verification efforts are needed to secure the use of these funds.

RESEARCH METHOD

Literature review is a systematic, explicit and reproducible method for identifying, evaluating and synthesizing works of research results and ideas that have been produced by researchers and practitioners. Literature review aims to make an analysis and synthesis of existing knowledge related to the topic to be researched to find empty space for research to be carried out. More detailed objectives are described by Okoli namely providing the theoretical background/base for the research to be carried out, studying the depth or breadth of existing research related to the topic to be studied and answering practical questions with an understanding of what has been produced by previous research.

The method used in this writing is a literature review which is a systematic, explicit and reproducible method for identifying, evaluating and synthesizing works of research results and ideas that have been produced by researchers and practitioners (Rahayu et al. 2019). The sources of literature used in preparing the thesis with this literature review are through National and International Journal Websites such as Google Scholar, Garuda, Research gate. Writing a literature review has several stages or steps.

According to Polit & Hungler in Carn well divides the stages into five, namely defining the scope of the topic to be reviewed, identifying relevant sources, reviewing the literature, writing the review and applying the literature to the study to be conducted. Ramdhani, Amin & Ramdhani describe four stages in making a literature review, namely selecting topics to be reviewed, tracking and selecting suitable/relevant articles, conducting literature analysis and synthesis and organizing review writing.

RESEARCH RESULTS AND DISCUSSION

Profit Sharing According to Fiqh

The word *mudharabah* comes from the word *dharb* which means hitting or walking. The definition of hitting or walking is more precisely the process of someone hitting his feet in running a business. According to Ibn Manzhur in *Lisan al-'Araby*, *mudharabah* is: "As sairu fil ardhi lissafari muthlaqan kaqaulihi Ta'ala Wa idza dharabtum fil ardhi fa laisa „alaikum junahun an taqshuru fis shalati This contract is called *mudharabah* , because workers (*mudharib*) usually need a trip to run a business. While travel in Arabic is also called *dharb fil Land*. According to Muhammad Abdul Mun'im Abu Zaid, (Abdul Mun'im, Muhammad, 1996)

mudharabah is "As sairu fil ardhi bi ghardhi at tijarati wab tigha'ir rizqi" or "Walking on the face of the earth with the purpose of trading and seeking God's sustenance".

In terms of terminology, Fiqh scholars define *mudharabah* or qiradh with "The owner of capital (investor) surrenders his capital to workers (traders) to be traded, while the trading profits become joint property and are divided according to the agreement". Mudharib contributes their labor and time and manages their joint venture according to the terms of the contract. Meanwhile, according to Nyazee, in *mudharabah* transactions the emphasis is on participation in profits (Imran Ahsan Khan Nyazee, 1997). The mudharib plays a double role as an agent as well as a partner. Mudharib becomes an agent for shahibul mal in every transaction made on capital and he becomes a partner of shahibul mal when he makes a profit (Mervin KL & L.M, 2017).

One of the main features of this contract is that profits, if any, will be shared between the investor and the mudharib based on a pre-agreed proportion. Losses, if any, will be borne by the investor himself (rab al-mal), while mudharib only loses in energy and mind (Wahbah Zuhaili, 1985). While according to Sayyid Sabiq *mudharabah* is one form of cooperation between rab al-mal (investors) with a second party (mudharib) who functions as a manager in trading. The term *mudharabah* by Hijaz fiqh scholars is known as Qiradh (Sayyid Sabiq).

Mudharabah as a contract that occurs in an economic cooperation activity between two parties with several conditions that must be met so that there is a valid cooperation bond according to Islamic law. According to the Hanafi school of thought in relation to the contract, the most basic element is existence consent and acceptance, This means that the wishes and intentions of the parties are in accordance with the agreement of the parties to establish a cooperative bond . While Jumhur Ulama stated that the pillars of the *mudharabah* contract consist of three people who make the contract (giver and receiver of property), ma'kud'alaih (capital, profit, work) and sighat (consent and acceptance). While the Syafi'i School divides it into five parts, namely property (capital), business, profit, sighat and the contract (Wahbah Zuhaili).

Whereas Law No. 21 concerning Sharia Banking stipulates that *mudharabah* is what is meant by "*Akad mudharabah* " in Financing is a joint venture agreement between the first party (malik, shahibul mal, or Syariah Bank) which provides all the capital and the second party(,factor, mudharib, or the Customer) who acts as fund manager by sharing business profits in accordance with the agreement set forth in the *Akad*, while the loss is fully borne by the Islamic Bank unless the second party makes a deliberate mistake, is negligent or violates the agreement. In this *mudharabah* collaboration there are two basic principles, namely first, Return on Capital cannot be determined but must be a certain proportion of profits. Second; is capital, not labor, subject to financial risk from risky activities (Muhammad Nafiq, 2017).

Revenue Sharing Scheme

Scheme Revenue Sharing System or Sharing System for Based of Revenue is a profit-sharing system based on income(revenue) obtained before the costs incurred in the production process. Scheme revenue sharing which is used as the basis of calculation is sales/business income. Thus the risk faced by contracting parties is low. Fund owners only face uncertainty

over the high or low level of business income and do not face uncertainty over business costs (cost of sales/production costs, sales costs and general and administrative costs). Low risk on the scheme revenue sharing This is of course accompanied by a reduced potential for fund owners to enjoy a higher surplus contributed by efficiency in business costs or a decrease in these costs when business activities decrease. Meanwhile, according to Perloff (2005), revenue sharing will provide inappropriate incentives and will lower combined profits. The reason is a profit sharing scheme like this, sales will be smaller (Jeffrey M. Perloff, 2019).

This profit-sharing model is used with several considerations: The position of the financing institution at the time of contract negotiation is stronger than that of the recipient of the financing. This position reversed after the contract occurred. Financing recipients are stronger than financiers. This is because when the division of business profit sharing, the recipient of the financing changes to the provider of business results and the provider of financing changes to the recipient of business results moral hazard from the recipient of the financing which will be detrimental to the financier, for example manipulation of financial statements which tends to increase costs costs incurred to avoid paying profit sharing. Between the beneficiary and the financier has not formed a relationship of mutual trust. The revenue sharing scheme is currently considered the most effective profit sharing system to anticipate moral hazard so that the National Sharia Council (DSN) in its fatwa No. 15/DSN-MUI/I/IX/2000 stipulates that profit sharing may be carried out based on the profit and income from the management of the funds obtained. Due to considerations for the sake of benefit, it is better if the system used is indeed a scheme revenue sharing. On in practice the commonly used profit sharing scheme is indeed revenue sharing because the model is simple and easy for both the owner and the fund manager. And with the scheme revenue sharing also the possibility of negative results can be eliminated (Iggi Ahsin). Never the less it is possible moral hazard still exist, such as manipulating the income earned so that the results for owners of funds are less.

Rumus Revenue Sharing:

$$H_{XRSS} = \frac{r_m \cdot N_p}{Q \cdot P} \times 100\%$$

Information:

XRSS = Profit sharing ratio for recipients of financing in the revenue sharing scheme

ANDRSS = Revenue sharing ratio for the financier on the scheme revenue sharing

HXRSS = the amount of profit sharing payments from the recipient of the financing to the financing provider.

Rm = Market rate of return in percentage. The market rate of return can be used by the level of income received by a business or the level of income received by a business or investment transactions with a profit sharing system or can also be used as a benchmark for the level of market income in general.

N_p = the amount of the value of financing provided in rupiah

Q = number of units sold in one period or production capacity in one period, or production capacity in one period in units. The period used is generally the annual period P = Price per unit of product in rupiah

M = Profit margin rate per product unit (mark up price per unit product) desired in percentage.

C = Total cost per unit product = variable cost plus fixed cost per unit product ($vc + fc$).

Gross Profit Sharing Scheme In this case, it is used as the basis for calculations in the scheme gross profit sharing is gross profit, i.e. sales/ operating income minus cost of goods sold/ production costs. With this scheme, the contracting parties do not face uncertainty in terms of selling costs and general and administrative costs. Hence the risk on the scheme gross profit sharing is lower than in the scheme profit sharing. However, of course the potential for fund owners to enjoy a surplus is also lower because they cannot share in the results of efficiency in selling costs and general and administrative costs, or the reduction in both types of business costs when business activities decrease.

Gross Profit Sharing Formula:

$$X_{GPS} = \frac{r_m \cdot N_p}{Q \cdot (P - vc)} \times 100\%$$

CONCLUSION

From the description above, it can be concluded that the sharia transaction system based on profit sharing is known *mudharabah* and *musyarakah*. In general, sharia financial institutions, in reality on the ground, profit sharing schemes are very limited compared to fixed income schemes, contract *murabaha* and *ijarah* much more widely used by Islamic financial institutions compared to profit sharing schemes. The reason is because this scheme from the income side of Islamic financial institutions is closer to a relatively certain and predetermined interest system, while profit sharing schemes are considered high risk and the income of Islamic microfinance institutions (BMT) is relatively uncertain.

The lack of interest in the profit sharing scheme, especially the profit sharing scheme based on profit sharing can be caused by two things. First, from an entrepreneur's point of view *mudharib* profit sharing scheme is not incentive compatible, ie they do not have sufficient incentives to implement profit-sharing schemes. This is due to not being accommodated enough incentive compatibility constrain (ICC) on the profit sharing scheme. Second, from the point of view of the owner of the funds (BMT), the profit sharing scheme is considered not an efficient scheme. This is actually due to less calculated incentive compatibility constrain (ICC) and willingness to pay constrain (WCPC) in designing profit sharing schemes.

Though based on careful calculations between the three schemes, viz revenue sharing, gross profit sharing and net Profit sharing, hence the schematic profit sharing is the most profitable for tile entrepreneurs in developing their production business. Several reasons can be put forward that on profit sharing on the income received and expenses incurred on the

business financed by financing from the owner of the funds. In this case the entrepreneur (the entrepreneur) only bears non-monetary costs, namely in the form of the disutility of his efforts.

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