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Islamic Ethics and Financial Systems: A Normative Analysis of the Concepts of Profit and Sharia Cooperation

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Abstract

This study constructs a profound analysis of the ethical dimensions within earnings management and cooperation mechanisms (syirkah) inside the Islamic financial ecosystem. Utilizing normative analysis and content analysis methodologies, this research evaluates how Islamic ethical axioms transform materialistic orientations into blessing-based sustainability. The findings demonstrate that the implementation of Tawhid, 'Adl, and Amanah effectively mitigates opportunistic behaviors such as earnings management in its various forms—including taking a bath and income smoothing—which have historically catalyzed systemic vulnerabilities. Furthermore, the profit-sharing paradigm facilitates the seamless integration of financial intermediation with real-sector productivity, fostering macroeconomic stability that is significantly more resilient than interest-based systems. This study concludes that strengthening ethical pillars is not merely a technical adjunct but an absolute prerequisite for global economic homeostasis.

Keywords: Islamic Business Ethics, Earnings Management, *Syirkah*, Financial Stability, *Maqasid al-Shari'ah*

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Introduction

The systemic shocks that have rocked the global financial architecture in recent decades have revealed the inherent structural fragility of interest-based economic systems. The subprime mortgage crisis of 2008 was not merely a liquidity failure, but rather a manifestation of moral decadence and epistemological failure in viewing the nature of wealth. The crisis stemmed from greed and fraud committed by bankers and investors through dubious securities instruments.[1] Complex and non-transparent financial products led to the bankruptcy of major financial institutions such as Lehman Brothers and triggered global financial panic.[2] his crisis was not merely a technical monetary failure, but a representation of a moral crisis in which self-interest was placed above the public interest.[3] The neglect of healthy behaviour in pursuit of unlimited material accumulation created a bubble economy that was vulnerable to destructive explosions.

In contemporary macroeconomic discourse, there is a collective awareness of the urgency of shifting the paradigm from materialistic-secular values towards the integration of transcendental spiritual values. As Chapra and Zarqa assert, materialism is only the physiological substrate for the economic system, while ethics functions as spiritual nourishment that ensures balance (mizan) in market interactions. Without an ethical foundation, the financial system is trapped in a vicious cycle of information asymmetry and opportunistic behaviour. Ethics, often referred to as akhlak in Islam, encompasses all aspects of life, including the economic and financial systems, and all of this is regulated in Islamic law through the words of Allah and the hadith of the Prophet Muhammad conveyed to Muslims.[4] It is in this context that the Islamic financial system emerges as an alternative paradigm that is inseparable from ethics.[5] The Islamic economy is considered more stable because of its connection to the real economy and strict control over harmful practices (fasad) such as usury, gambling, and *gharar*.[6]

This type of research is library research with a descriptive-normative qualitative approach, which presents factual information and analyses it based on applicable Islamic values or norms. The data analysis technique applied is content analysis. This analysis is carried out by reviewing authoritative references (the Qur'an and Sunnah) and the thoughts of Islamic economists to draw systematic conclusions about ethics in the financial system. The analysis process includes data reduction, data display, and inductive conclusion drawing. This article aims to dissect the ethical dimensions of profit management and sharia cooperation patterns as a fundamental solution to the pathologies of the modern financial system.

Result and Discussion

Ethics in the Islamic perspective, or more accurately termed as morals and manners, is the 'spirit' that gives life to the formal rules of Islamic law (fiqh muamalah). Ethics is not an external entity that is optional, but rather a reality that dominates the mind, conscience, and behaviour of

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[1] Adriati Azizah Syafitri et al., "Melawan Sistem Keuangan Dan Di Balik Kehancuran Pasar Properti AS : Sebuah Kajian Moneter Dalam Perspektif Islam," no. March (2023): 83–97.

[2] Fany Renaldy Harahap et al., "Analisis Konsep Dan Dasar Keuangan Islam," *Jurnal Ilmu Komputer, Ekonomi Dan Manajemen (JIKEM)* 2, no. 1 (2022): 1547–54.

[3] Muhammad Adam, "PARADIGMA KEUANGAN ISLAM DALAM MENGHADAPI KRISIS," *Al-Mashrafiyah: Jurnal Ekonomi, Keuangan Dan Perbankan Syariah* 4, no. 1 (2020): 46–57, https://doi.org/https://doi.org/10.24252/al-mashrafiyah.v4i1.12918.

[4] Havis Aravik, Hoirul Amri, and Rahma Febrianti, "The Marketing Ethics of Islamic Banks: A Theoretical Study," *Islamic Banking : Jurnal Pemikiran Dan Pengembangan Perbankan Syariah* 7, no. 2 (2022): 263–82, https://doi.org/10.36908/isbank.v7i2.344.

[5] Saiful Bahri, "Etika Bisnis Lembaga Keuangan Syari'ah," *Iqtishaduna*, 2017, 233–44.

[6] Adam, "PARADIGMA KEUANGAN ISLAM DALAM MENGHADAPI KRISIS."

economic actors.[7] Ethics can be interpreted as manners, therefore it is more of an outer action, an action that does not originate from the heart but is based solely on rational considerations.[8]

The structure of Islamic business ethics is based on five interrelated metaphysical axioms:

1. Tawhid: Belief in the oneness of God, which implies that all economic activities are a divine mandate and a form of worship.
2. *'Adl* (Justice): The principle of placing everything in its proper place, ensuring that there is no exploitation (*dzulm*) of stakeholder rights.
3. Free Will: Humans have autonomy in their actions, but this freedom is limited by the corridors of Sharia law in order to prevent systemic damage.
4. Responsibility: An eschatological awareness that every managerial decision will be held accountable before Allah SWT.
5. *Ihsan* (Benevolence): The highest manifestation of professionalism in which a person works with full awareness of God's supervision, encouraging actions that go beyond formal legal obligations for the public good.[9]

According to Beekun, several parameters of the Islamic ethical system are as follows.[10]

1. Every decision and action is based on intention. Intentions, actions, and results must be halal. A halal intention cannot change a haram action into a halal one.
2. Every good action is worship.
3. Islam gives freedom to everyone, but accountability and justice must not be sacrificed.
4. Islam requires everyone to submit only to Allah Subhanahu wata'ala, not to anyone else.
5. Decisions that benefit the majority or minority do not automatically mean they are ethical; ethics is not a numbers game.
6. Islam is a system that is open to ethics, not personally oriented and not selfish.
7. Ethical decisions are based on the reading of the Qur'an and natural law..

Islam encourages humanity to carry out *tazkiyah* (a process of continuous purification) through active participation in life by behaving ethically in the midst of worldly trials.

When compared to conventional business ethics, there are fundamental differences that separate these two systems, as shown in the following table.

Aspect	Islamic Business Ethics	Conventional Business Ethics
Principles	Tawhid (Transcendental Values)	Secularism (Materialistic Values)
Orientation	Profitability and Blessings (*Barakah*)	Profit Maximisation Alone
Work Ethic	Work as a Manifestation of Worship	Work as a Means of Fulfilling Needs
Mental Attitude	Achieving Excellence for the Pleasure of Allah	Achieving Excellence for Self-Actualisation
Accountability	*Khalifah* (God's Representative) on Earth	Shareholder Interests (CEO-Centric)

[7] Bahri, "Etika Bisnis Lembaga Keuangan Syari'ah."
[8] Achmad Badarudin Latif and Ahmad Yusuf Marzuqi, "MANAJEMEN LABA DALAM TINJAUAN ETIKA BISNIS ISLAM," *JURNAL DINAMIKA EKONOMI & BISNIS* 7, no. 1 (2010): 1–22.
[9] Latif and Marzuqi.
[10] Indah Muliasari and Dalili Dianati, "MANAJEMEN LABA DALAM SUDUT PANDANG ETIKA BISNIS ISLAM," *Jurnal Akuntansi Dan Keuangan Islam* 2, no. 2 (2014): 157–82.

Sources of Information	Integration of *Qauliyah* & *Kauniyah* Verses	*Kauniyah* Verses (Empirical-Material) Only

The financial system is a set of rules that explains the sources of financial funds for the state in the process of allocating these funds for the life of the community. The main role of the financial system is to encourage the efficient allocation of financial and real resources for various purposes and objectives. The financial system is an economic order in a country that plays a role in conducting financial services organised by financial institutions.[11]

The Islamic financial system generally aims to free all types of financial transactions from interest. In addition, it also aims to carry out a series of activities in accordance with principles that comply with Islamic rules, distribute wealth evenly to all parties, and promote economic development..[12]

he Islamic economic system is the implementation of the principles of truth, justice and care in an economic system. The entire concept of Islamic banking and finance is to prevent fraud and to increase equality and benefits for both parties, as well as to provide benefits for the welfare of the people. If these principles can be fully implemented, then we can expect two things, namely no speculative trading or fraud and no mark-ups that will result in losses suffered by one party due to a lack of transparency.[13]

According to Sheikh Yusuf Qaradhawi, the characteristics of the Islamic financial system are as follows:

1. Divine Values.
2. Basic Values of Ownership (*al-milkiyah*).
3. Balance (*al-Muwâẓanah*).
4. The fundamental value of brotherhood and togetherness (*al-Ukhuwwâh wa al-Isytirâkiyyah wa al-jamâ'ah*).
5. The fundamental value of freedom (*al-Istiqlâliyyah*)
6. The fundamental value of justice (*al-'adâlah*). Justice means giving each owner their respective rights without exaggeration or reduction.[14]

Prohibitions in Islamic Financial Activities

In the implementation of financial activities, Islam has regulated the guidelines and prohibitions in such activities. Prohibitions in Islamic financial activities are listed in several verses of the Qur'an and Hadith of the Prophet Muhammad Shallallahu 'alaihi wasallam.

Among the basic principles in Islamic/Sharia financial and economic activities are: not hoarding (Ihtikar), not engaging in monopoly rents, and avoiding prohibited sales and purchases.[15]

Regarding the practice of hoarding goods, there is a hadith narrated by 'Abdullah bin 'Umar, may Allah be pleased with him, that the Messenger of Allah, peace and blessings be upon him, said: 'Let none of you sell above the price of another, and let none of you intercept goods until they reach the markets.' (Narrated by Bukhari)

Furthermore, there are several other prohibitions in Islamic financial activities in general, both in Islamic financial institutions such as Islamic banks and non-bank financial institutions.[16]

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[11] Muh Arafah, "SISTEM KEUANGAN ISLAM: SEBUAH TELAAH TEORITIS," *Al-Kharaj: Journal of Islamic Economic and Business* 1, no. 1 (2019): 56–66.

[12] Harahap et al., "Analisis Konsep Dan Dasar Keuangan Islam."

[13] Imama Zuchroh, "Menyelami Keuangan Islam : Tradisi Dan Legacy," *Jurnal Ilmiah Ekonomi Islam* 8, no. 01 (2022): 531–37, https://doi.org/http://dx.doi.org/10.29040/jiei.v8i1.4348.

[14] Arafah, "SISTEM KEUANGAN ISLAM: SEBUAH TELAAH TEORITIS."

[15] Irni Sri Cahyanti, "Sumber Dan Norma Ekonomi Syariah Di Lembaga Keuangan Syariah Bank Dan Non Bank," *SHIDQIA NUSANTARA: Jurnal Keuangan Dan Perbankan Syariah* 01, no. April 2022 (2022): 2–11.

[16] Arief Budiono, "PENERAPAN PRINSIP SYARIAH PADA LEMBAGA KEUANGAN SYARIAH," *Jurnal Law and Justice* 2, no. 1 (2017): 54–65.

1. Interest is prohibited in all forms of transactions in the Sharia economic system. However, in conventional and Western economies, this method is used to make a profit.
2. Business and investment are handled based on halal (legal, licensed) activities. Sharia financial activities have strict rules. Therefore, Sharia financial activities cannot carry out transactions that are prohibited in Islam, such as the sale of alcoholic beverages, pork, etc.
3. Avoiding *maysir* (gambling) and must be free from elements of *gharar* (defects). The prohibition on seeking profit is explicitly stated in the Quran (Al-Maidah: 90-91). In this verse, the term maysir is used, which means dangerous games, implying that those who engage in gambling are racing to obtain wealth without hard work. Gambling in all its forms is prohibited in Islamic law.[17]

In addition to the above general prohibitions, there are also several hadiths of the Prophet Muhammad (peace be upon him) that contain warnings against sharia financial practitioners who commit fraud in their buying and selling/financial practices. One hadith from Abu Hurairah (may Allah be pleased with him) states that the Prophet Muhammad (peace be upon him) once passed by a pile of food grains, then he put his hand into it and felt it was wet. He asked, 'What is this, O seller of food?' He replied, 'It was rained on, O Messenger of Allah.' He said, "Why did you not place it on top so that people could see it? Whoever deceives is not one of my followers (Narrated by Muslim).

In another Hadith, the Prophet Muhammad Shallallahu 'alaihi wasallam praised sellers and buyers who conduct transactions honestly, saying that they will receive blessings from Allah. It is narrated from Hakim bin Hizam, may Allah be pleased with him, that the Prophet Muhammad, peace be upon him, said: "Both parties in a commercial transaction have the right to cancel it, as long as they have not parted ways, if they speak the truth and explain everything clearly. Then their transaction will be blessed. But if they conceal something and lie, then the blessings in their transaction will be erased." (Narrated by Bukhari and Muslim)

Normative Analysis of the Concept of Profit and Profit Management

In Islamic economic ontology, profit is recognised as a vital instrument for the survival of business entities, an indicator of investor confidence, and a means of distributing welfare to employees. However, profit must meet the criteria of 'blessing', which means that the process of obtaining it does not violate sharia restrictions and its impact brings benefits to the people.

Profit management is often interpreted as management interference in the financial reporting process to maximise personal utility.[18] Although technically some profit management practices are considered legal under conventional accounting standards (PABU), Islamic ethics provide a more in-depth assessment of the moral aspects.[19]

The main ethical challenge arises in the phenomenon of Earnings Management. Technically, managers are often caught up in using accounting discretion to construct financial reports that deviate from economic reality. Based on field evidence, there are four main patterns of earnings management derived from tax motivations, IPOs, and board changes:

[17] Cahyanti, "Sumber Dan Norma Ekonomi Syariah Di Lembaga Keuangan Syariah Bank Dan Non Bank."
[18] MOH. SYAIFUL, "Management Laba (Earnings Management) Dalam Tinjauan Etika Islam," *Ekomadania* 1, no. 1 (2017): 28–55.
[19] Muliasari and Dianati, "MANAJEMEN LABA DALAM SUDUT PANDANG ETIKA BISNIS ISLAM."

a) Taking a Bath: Extreme manipulation of current year profits (either very high or very low) to position new managers in a favourable situation in the future.
b) Income Minimisation: Artificial reduction of profits, generally driven by tax avoidance motivations or political considerations in order to maintain subsidies.
c) Income Maximisation: Increasing profits beyond objective reality, usually done ahead of an IPO or to attract creditors through impressive stock performance.
d) Income Smoothing: Smoothing profits to reduce stock price fluctuations, providing a false sense of security for risk-averse investors.

Normatively, these manipulative practices are classified as unjust acts because they violate the principles of transparency and trust. These practices contain elements of *gharar* (uncertainty) for stakeholders who make decisions based on distorted data. The Qur'an explicitly prohibits the acquisition of wealth through unlawful means as stated in Surah Al-Baqarah verse 188: 'And do not consume one another's wealth unjustly,' and in Surah An-Nisa verse 29 which emphasises trade based on mutual consent (*'an taradhin*). Betraying public trust through accounting fraud is a serious violation of the mandate of trust given by Allah SWT. This practice can be categorised as corrupt because it is based on personal motivation, disregarding the interests of others. Islam emphasises that financial information must be complete, honest, and reflect the true economic reality.

Ethics related to Profit

With regard to profit, one of the rules in Islam is that the profit/gain may be up to 100% of the capital invested, provided that both the buyer and seller are willing to enter into the transaction and there is no element of fraud between the two parties, either in terms of price or the goods being sold.[20] This is based on the words of Allah subhanahu wata'ala in Surah An-Nisa' verse 29, which states:

يَٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُواْ لَا تَأۡكُلُوٓاْ أَمۡوَٰلَكُم بَيۡنَكُم بِٱلۡبَٰطِلِ إِلَّآ أَن تَكُونَ تِجَٰرَةً عَن تَرَاضٖ مِّنكُمۡۚ وَلَا تَقۡتُلُوٓاْ أَنفُسَكُمۡۚ إِنَّ ٱللَّهَ كَانَ بِكُمۡ رَحِيمٗا

"O you who believe, do not consume one another's wealth unjustly, except in a manner that is mutually agreed upon among you." (QS. An-Nisaa' 29)

In essence, religious principles do not bind traders in their authority to buy and sell their property as long as it complies with the general provisions of Sharia law.
Furthermore, in a hadith, the Prophet once instructed one of his companions to purchase a goat with a capital of one dinar. After that, the companion conducted the transaction and was able to purchase two goats for the price of one dinar, thereby making a full profit, and his actions were blessed by the Messenger of Allah.

عَنْ عُرْوَةَ – يَعْنِى ابْنَ أَبِى الْجَعْدِ الْبَارِقِىِّ – قَالَ أَعْطَاهُ النَّبِىُّ -صلى الله عليه وسلم- دِينَارًا يَشْتَرِى بِهِ أُضْحِيَةً أَوْ شَاةً فَاشْتَرَى شَاتَيْنِ فَبَاعَ إِحْدَاهُمَا بِدِينَارٍ فَأَتَاهُ بِشَاةٍ وَدِينَارٍ فَدَعَا لَهُ بِالْبَرَكَةِ فِى بَيْعِهِ فَكَانَ لَوِ اشْتَرَى تُرَابًا لَرَبِحَ فِيهِ.

From Urwah, the son of Abil Ja'di Al-Bariqiy, he said that the Prophet, peace be upon him, gave him one dinar to buy one sacrificial animal (*udhiyah*) or one goat. So he bought two goats. He sold one of them and got one dinar. Then he went to the Prophet, peace be upon him, bringing one goat and one dinar. Then the Prophet, peace be upon him, prayed for him to have blessings in his

[20] SYAIFUL, "Management Laba (Earnings Management) Dalam Tinjauan Etika Islam."

sales, meaning that even if he bought dust (which is worthless, -ed.), he would still be able to make a profit from it. (Narrated by Abu Daud, no. 3384 and Tirmidhi, no. 1258. Al-Hafizh Abu Thahir said that the chain of narration of this hadith is *hasan*).

From the above arguments, we can conclude that there is no maximum percentage of profit from sales that traders must adhere to. The percentage of profit is left to the conditions of the trade, the trader and the goods, without forgetting Islamic etiquette, such as: *qanaah* (contentment), compassion, and not being greedy.
Furthermore, hoarding is a prohibited act. However, if a merchant buys goods when prices are low, then stores them until prices rise and sells them at that time in accordance with market prices, this action does not constitute hoarding, provided that: (1) it does not harm the public, (2) it does not distort market prices, and (3) the goods are still being sold by other merchants.
In *Takmilat Al-Majmu'*, it is explained, "The hoarding that is forbidden is: buying goods when prices are high and stockpiling them so that their prices will rise even higher. However, if goods are purchased when prices are low (during harvest season) and then held until prices rise and sold at that time, it is not forbidden."

Analysis of the Concept of Sharia Cooperation (Syirkah)
Islamic economics offers the mechanism of Syirkah (Partnership) as an antithesis to the exploitative interest system. Its legal foundation is based on the universal fiqh principle: *'Al-ashlu fil mu'amalati al-ibahah illa an yadulla dalilun 'ala tahrimiha'*—that basically all forms of *muamalah* are permissible unless there is evidence to prohibit them.

This cooperation mechanism is manifested in two main instruments:

1. ***Mudharabah***: A partnership in which the capital owner (shahibul mal) provides all the funds, while the manager (mudharib) provides expertise. The integrity of this system is confirmed by the words of 'Ali bin Abi Talib Radiyallahu 'Anhu: 'Profits are determined by agreement, and losses are borne entirely by the capital owner' (as long as they are not due to the negligence of the manager). According to Syafi'i Antonio, Mudharabah is a business cooperation agreement between two parties, where the first party (Shahibul Maal) provides all the capital (100%) and the other party becomes the manager. The profits from a Mudharabah business will be shared according to the agreement in the contract, but the losses are borne by the capital owner, unless the losses are due to the negligence of the manager. If the losses are caused by fraud or negligence on the part of the manager, then the manager is responsible for those losses. One of the arguments for the permissibility of Mudharabah is the Hadith of the Prophet narrated by Ibn Majah from Shuhaib: "The Prophet said, 'There are three things that contain blessings: non-cash sales, muqaradhah (mudharabah), and mixing wheat with barley for household needs, not for sale. (Narrated by Ibn Majah from Shuhaib). Dalam pelaksanaannya, ada dua akad yang digunakan yaitu :
    a) ***Mudharabah Muthlaqah***: Mudharabah Muthlaqah: The manager is given complete freedom to invest in any business field as long as it does not violate sharia law.[21]

    b) **Mudharabah Muqayyadah**: The capital owner provides specific restrictions regarding the type of business, time, or location of the business.[22]

[21] Muhammad Hatta, "Implementasi Muḍārabah Pada Lembaga Keuangan Syariah," *Milkiyah : Jurnal Hukum Ekonomi Syariah* 1, no. 2 (2022): 27–34.
[22] M. Nur Rianto Al Arif, *Lembaga Keuangan Syariah; Suatu Kajian Teoritis Praktis*, ed. Anwar Abbas, 1st ed. (Bandung: CV PUSTAKA SETIA, 2012).

2. **Musyarakah:** A concept of joint ownership in which all parties contribute both capital and labour, with proportional sharing of risks and returns according to each party's share. In terms of fiqh, Imam Asy-Syaukani wrote as follows, "(Sharia partnership) is realised on the basis of mutual consent between two or more people, each of whom contributes a certain amount of capital. The joint capital will then be managed profitably on the condition that each party receives a profit in accordance with the amount of capital contributed to the partnership. However, if everyone agrees and is happy, the profits will be divided equally among them, even if the amount of capital is not the same.[23] One of the arguments for the legality of Musyarakah is the Hadith narrated by Abu Daud from Abu Hurairah, the Messenger of Allah SAW said: "Allah SWT said: 'I am the third party between two partners as long as neither of them betrays the other. If one of them betrays the other, I will withdraw from them.'" (Narrated by Abu Daud, authenticated by al-Hakim, from Abu Hurairah).

The validity of this cooperation agreement (*shulh*) requires absolute compliance with the following principles:

a) Agreement must be reached through deliberation and consensus without coercion.

b) It is strictly prohibited to include terms that permit what is forbidden or forbid what is permitted in the contract clauses.

c) Each party is morally and legally bound by the agreed-upon promises as long as they do not conflict with Sharia law.

Normatively, these two contracts reflect Islamic ethical axioms such as justice (Al-Adalah) and balance (*Al-Muwazanah*).[24] This system ensures that wealth does not only circulate among capital owners (anti-monopoly), but is distributed through productive activities in the real sector. Justice in sharia cooperation is realised through a profit and loss sharing (PLS) system.[25] In this system, capital providers and managers share risks fairly, which differs from the interest system where risks tend to be borne solely by the debtor. PLS encourages transparency and strengthens the relationship between banks and entrepreneurs as business partners, rather than merely a debtor-creditor relationship.[26] In addition, Sharia-based cooperation prevents excessive speculation (maysir) because every transaction must be based on identifiable real assets.[27] This protects the financial system from moral hazard and information asymmetry, which are often the causes of financial crises.[28]

Challenges in the Practice of *Mudharabah* and *Musyarakah*

Although considered the 'backbone' of the Islamic financial system, the implementation of *Mudharabah* and *Musyarakah* in practice faces significant obstacles:

a) Dominance of Sale and Purchase Agreements: In practice, the proportion of profit-sharing financing (PSF) tends to be much smaller than sale and purchase agreements such as

[23] Rahmat Ilyas, "KONSEP DASAR DALAM SISTEM KEUANGAN SYARIAH," *Asy-Syar'iyyah: Jurnal Ilmu Syari'ah Dan Perbankan Islam* 2, no. 1 (2017): 121–42.
[24] Harahap et al., "Analisis Konsep Dan Dasar Keuangan Islam."
[25] Budiono, "PENERAPAN PRINSIP SYARIAH PADA LEMBAGA KEUANGAN SYARIAH."
[26] Al Arif, *Lembaga Keuangan Syariah; Suatu Kajian Teoritis Praktis*.
[27] Arafah, "SISTEM KEUANGAN ISLAM: SEBUAH TELAAH TEORITIS."
[28] Ilyas, "KONSEP DASAR DALAM SISTEM KEUANGAN SYARIAH."

Murabahah. For example, data shows that profit-sharing financing in Turkey accounts for only 0.7% and in Malaysia only 1.9% of total credit in a given period.[29]

b) Moral Hazard and Asymmetric Information Issues: Financial institutions are often reluctant to use PLS due to the risk of asymmetric information, where customers (*mudharib*) know more about the real conditions of their business than the bank. This creates opportunities for customers to manipulate their profit reports to minimise the profit sharing that must be paid.[30]

c) Intensive Monitoring Requirements: In order for the profit-sharing system to run fairly, banks are required to conduct very strict supervision of their customers' businesses, which has implications for high operational costs for banks.

d) Fund Disbursement Risk: In some Islamic banks, *Mudharabah* contracts are only used on the fund collection side (savings/deposits) but are rarely used on the fund disbursement side (financing) due to the high risk that the bank must bear the financial loss alone if the customer's business fails.

Integration of Ethics, Real Economy, and System Stability

The synergy between profit management ethics and the sharia cooperation system creates economic stability through the elimination of information asymmetry. When a manager realises his role as Allah's representative (*Khalifah*), financial report transparency is no longer merely regulatory compliance, but a manifestation of piety. Rejecting profit management is an effort to maintain *Mizan* (balance) of information in the market, which prevents price distortions and wrong investment decisions.

The profit-sharing system inherently connects the monetary sector with the real sector. Unlike interest, which burdens businesses with fixed costs regardless of performance, profit sharing ensures that the financial sector only grows in line with real productivity in the field. This acts as an automatic brake on the bubble economy. In addition, the integrity of leaders in considering the interests of the people above those of private groups is the key to creating social justice, in accordance with the principle: *'Tasharruf al-imam 'ala al-ra'iyyah manuthun bi al-maslahah'* (The policies of leaders towards the people must always be based on the common good).

Conclusion

The Islamic financial system stands strong not merely because of the technical elimination of interest, but because it is built on a foundation of ethics that includes honesty, justice, and trustworthiness. Profit is recognised as a valid indicator of success, but the blessings it contains are a higher criterion. Manipulative profit management practices are not only illegal from an accounting perspective, but also theologically invalid. The syirkah mechanism offers far superior stability because it fairly unites risk and reward, preventing the inflation of financial assets that are not based on the real sector. Mudharabah and Musyarakah contracts through profit-sharing mechanisms ensure that financial activities are always linked to productive activities in the real sector. Consistent implementation of ethics will create a financial system that is more resilient to crisis shocks and capable of realising equitable social welfare. The implications of this study emphasise that for practitioners and policymakers, strengthening ethics-based supervision and substantive transparency are urgent steps towards realising a truly resilient and beneficial financial system.

[29] Budiono, "PENERAPAN PRINSIP SYARIAH PADA LEMBAGA KEUANGAN SYARIAH."
[30] Hanni Khairani, "ETIKA BISNIS ISLAM TENTANG MANAJEMEN LABA," *SKRIPSI*, 2015.

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