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The Profit-and-Loss Sharing Principle in Islamic Economics: Concepts, Implementation, and Challenges in Mudharabah and Musyarakah Contracts

Agus Supriatna¹, Euis Amalia², Desmadi Saharuddin³

Universitas Pamulang

Corresponding Author: Agus Supriatna agus.supriatna25@mhs.uinjkt.ac.id

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ABSTRACT

The Islamic financial landscape faces a persistent "PLS Paradox" characterized by a structurally depressed portfolio of profit-and-loss sharing partnerships amid the dominance of debt-like synthetic instruments. This systematic mapping study (SMS) deconstructs the institutional barriers that perpetuate the marginalization of Mudharabah and Musyarakah contracts and formulates financial technology integration strategies as a mitigation mechanism for agency risk. To achieve this objective, the study executed a structured Systematic Mapping protocol to categorically chart the global research landscape. Article retrieval was sourced from the Scopus database and the Watase Uake system to eliminate the risk of predatory journal inclusion. A rigorous screening process yielded 57 cross-national peer-reviewed articles (2016–2026), which were analyzed using a hybrid approach combining qualitative thematic analysis and bibliometric visualization of keyword co-occurrence via VOSviewer. The network visualization and thematic synthesis reveal that Islamic banks engage in defensive adaptation by shifting risks (risk-transfer) toward Murabahah contracts. This maneuver is triggered by acute information asymmetry in emerging markets, which breeds moral hazard in the form of profit underreporting, thereby skyrocketing monitoring costs. These micro-level frictions are further exacerbated by Basel III regulations that impose high equity risk-weightings (300%–400%) on PLS portfolios. Intriguingly, the findings confirm that Sharia Fintech integration—specifically blockchain, smart contracts, and artificial intelligence (AI)-driven credit scoring—can radically curtail operational transaction costs by providing real-time cash flow transparency. This study concludes with the necessity of reconceptualizing Sharia compliance from mere formal contractual validity (legal form) toward the economic substance of risk-sharing. Consequently, monetary authorities are urged to restructure macroprudential risk-weighting incentives for digitally enabled profit-sharing instruments. Future research should empirically validate the "Risk-Sharing Stability Theory" using mixed-methods to quantify blockchain efficiency in cross-border SME financing.

INTRODUCTION

In the contemporary global financial landscape, Islamic banking is conceptually idealized as an ethical, equitable, and sustainable alternative to the conventional system, with profit-and-loss sharing (PLS) partnership-based instruments such as Mudharabah and Musyarakah serving as its primary engines (Abbas & Arizah, 2019; Ben, 2020). Based on this theoretical premise, this risk-sharing mechanism is projected to shift the institutional paradigm from mere reactive-formal compliance toward the proactive enforcement of socio-economic justice, thereby accelerating financial inclusion while aligning the Maqasid Shariah mission with the Sustainable Development Goals (SDGs) (Taufik et al., 2023; Umar, 2024). Paradoxically, however, empirical reality often presents a far more complex and fragmented picture. Rather than actualizing this normative idealism, Islamic financial institutions globally remain plagued by critiques ranging from low transparency in Sharia compliance disclosure and high systemic vulnerability in short-term liquidity management to regional operational disparities exacerbated by local political interventions and regulatory fragmentation (Benamraoui et al., 2023; Reyad et al., 2022; Syaputri & Nainggolan, 2022). Compounding these challenges, the accelerated pace of digital transformation and financial technology (Fintech)—which on one hand offers advanced instruments for credit and operational risk mitigation—has introduced novel anxieties within governance structures, ultimately testing the boundaries of traditional supervisory frameworks (Afgani et al., 2024; Al et al., 2024; Shah et al., 2023).

It is worth noting that prior literature reviews have attempted to untangle these dynamic complexities; unfortunately, existing mapping efforts remain constrained by rigid methodological and conceptual boundaries. For instance, the **systematic mapping** conducted by Andespa et al. (2023) exhibits a bias toward customer compliance behavior alone, alongside a reliance on restricted indexing databases that fail to capture institutional imperatives. Meanwhile, other synthesis efforts lean

heavily on macro-bibliometric or surface-level content analyses that confine their locus to large-scale commercial banks; ironically, the critical role of Islamic microfinance institutions (LKMS) and the emergence of decentralized crowdfunding platforms remain largely neglected (Rabbani et al., 2021; Wijayanti & Setiawan, 2022). Consequently, a fundamental research gap exists in the current literature: the absence of a holistic synthesis that critically integrates the nexus of institutional Sharia governance, digital adaptability, contemporary risk management, and institutional sustainability.

To bridge this academic fragmentation, this **SMS** introduces a novel conceptual framework that integrates institutional Sharia governance with technology-driven risk mitigation. By discarding binary assumptions that oversimplify the issue, this **evidence mapping** successfully uncovers non-linear dynamics within Sharia Supervisory Boards (SSBs). It reveals that board characteristics such as size and specific expertise may occasionally constrain SDG-aligned financing due to inherent conflicts between commercial profitability and social mandates (Umar, 2024). Theoretically, the scholarly contribution of this study lies in the construction of an empirical taxonomy of Sharia governance maturity and the formulation of an integrative "Digital-Risk-Compliance Nexus." Practically, these findings provide a robust empirical foundation for regulators reforming international Sharia audit policies, while equipping banking executives with a managerial blueprint to align digital innovation without compromising absolute Sharia morality.

Grounded in these unresolved scholarly debates, this study formulates two interconnected research questions:

- **Question 1 (Research Profiling):** What are the trajectories of publication trends, geographical contexts, methodological choices, and foundational theories constructing the literature on PLS implementation and technological integration within the Islamic banking sector?

- **Question 2 (Thematic Analysis):** How do the dynamic interactions among Sharia governance configurations, Fintech adoption, and risk management mechanisms actively shape institutional financial performance, substantive Sharia compliance authenticity, and social impact disclosures?

Structurally, this article is organized into five coherent sections. Following the Introduction (Section 1) which establishes the research problem, Section 2 details the rigorous SMS methodology, including the PICOC parameters, Scopus search syntax formulations, and inclusion-exclusion criteria. Section 3 presents the descriptive manuscript profiles alongside an in-depth thematic synthesis. Section 4 critically discusses the findings to propose a novel conceptual framework and future research agendas, before Section 5 concludes the paper by summarizing theoretical contributions, managerial/policy implications, and study limitations.

Literature Review and Theoretical Development

The Evolution of Islamic Banking Research: From Classical Approaches to Contemporary Issues

Historically, scholarship on Islamic banking exhibits a highly dynamic evolutionary trajectory, transitioning gradually from rigid operational analyses to a much more complex, interdisciplinary mapping. In the nascent phases of the discipline, academic discourse was almost entirely dominated by binary comparisons of financial performance and risk management architecture between Islamic and conventional financial institutions (Abdel, 2017). The primary focus of this classical literature concentrated on minimizing liquidity and credit risks inherent to the unique characteristics of Islamic financial instruments (Farihana & Rahman, 2020). Empirical inquiries during this era positioned the principle of profit-and-loss sharing (PLS), particularly through Mudharabah and Musyarakah contracts, not merely as a structural differentiator to eliminate usury (riba), but as a moral baseline

ensuring distributive justice (Abbas & Arizah, 2019; Ben, 2020).

However, this classical approach frequently collided with empirical realities. The practical implementation of these profit-sharing contracts proved to be hindered by acute information asymmetry, a lack of supervisory tool standardization across jurisdictions, and a scarcity of granular, reliable data to measure partnership-based financing efficiency. This systemic roadblock eventually triggered academic saturation, which in turn catalyzed a shift in subsequent research: moving from a macro-institutional lens toward a granular analysis of internal governance dynamics (Elamer et al., 2020; Nguyen, 2021).

Sharia Governance Structures and the Expansion of Socio-Ethical Dimensions

As the industry matured, the research paradigm transitioned significantly toward deconstructing the attributes of the Sharia Supervisory Board (SSB). Contemporary research no longer views the SSB as a passive oversight entity that merely rubber-stamps compliance; instead, it explores how the internal anatomy of the board—such as group size, multidisciplinary expertise, and gender representation—actively dictates operational risk mitigation and the quality of sustainability reporting (Baklouti, 2020; Muhammad et al., 2021; Wijayanti & Setiawan, 2022).

Intriguingly, current research accents no longer decouple Sharia governance from the attainment of broader ethical targets. Contemporary literature directly links the effectiveness of SSB oversight to Maqasid Shariah-based performance (Taufik et al., 2023), the expansion of Corporate Social Responsibility (CSR) disclosure quality (Ridwan & Mayapada, 2020), and the mobilization of benevolence funds such as zakat to support the Sustainable Development Goals (SDGs) (Hidayati et al., 2023; Umar, 2024). Notably, the legitimacy of an Islamic bank is no longer measured solely by rigid, formal-legalistic compliance, but by the extent of the substantive socio-economic impact it distributes to grassroots communities (Benamraoui et al., 2023).

Fintech Integration, Actor Behavior Analysis, and Digital Disruption

Over the past decade, the wave of digitalization and financial technology (Fintech) penetration has triggered a major disruption, serving as a primary catalyst for an emerging research cluster in Islamic finance. In recent discourse, Fintech is no longer treated generically as a tool for financial transaction acceleration; rather, digital technology is tested as a mediating or moderating variable that radically alters operational efficiency, the agility of alternative financing such as crowdfunding (Ishak et al., 2021), and fraud risk governance.

This digital convergence has indirectly expanded the research spectrum into consumer behavior psychology and human resource dynamics. Emerging literature adopts interdisciplinary behavioral theories, for instance, by extending the Technology Acceptance Model (TAM) with Sharia compliance and trust variables to measure e-banking service satisfaction (Usman et al., 2021), or applying psychological frameworks to dissect the religiosity motives of customers migrating from conventional banks (Junaidi, 2022; Monoarfa et al., 2024). On the internal front, research has also begun addressing the emotional dimensions of employees, evaluating how Islamic organizational culture and ethical leadership foster Sharia engagement to boost workplace productivity (Sodiq et al., 2024; Zulkifli et al., 2023).

Cross-Thematic Synthesis and Identification of the Research Gap

When these themes are critically synthesized, a robust—and often non-linear—interdependence emerges among Sharia governance effectiveness, Fintech disruption, actor ethical behavior, and institutional sustainability. For instance, the efficacy of algorithm-driven risk mitigation in Islamic banks ultimately depends on the SSB's agility in navigating the digital realm without violating Sharia boundaries. Similarly, consumer intention to remain within an Islamic digital ecosystem is driven not merely by sophisticated app interfaces, but by their perception of the institution's commitment to socio-ethical mandates.

However, a crucial research gap comes to light. The majority of contemporary literature analyzes these phenomena in isolation (siloed). SSB governance research frequently ignores the digital competency of the board, while Fintech adoption research routinely bypasses long-term social impact calculations. Curiously, there is an over-reliance on linear quantitative methods utilizing macro secondary data—such as the Generalized Method of Moments (GMM) or Structural Equation Modeling (SEM)—which often obscures micro qualitative realities on the ground. No integrative conceptual framework currently exists to map the non-linear relationships among SSB supervisory capacity, Fintech agility, and actor ethical behavior in a single unified model. This conceptual and methodological omission represents the primary novelty that this **Systematic Mapping Study (SMS)** seeks to address.

METHODS

This study adopts a **Systematic Mapping Study (SMS) protocol derived from established methodological frameworks (e.g., ter Huurne et al., 2017)** as a framework to ensure transparency and a comprehensive literature mapping structure. Adhering to **rigorous systematic mapping standards** is crucial for enhancing reporting quality and reinforcing the methodological validity of the review, the workflow of which **comprises four core scoping phases**. Operationally, this protocol was executed through four fundamental interdisciplinary phases: identification, screening, classification eligibility, and final mapping inclusion. The primary orientation of this procedural mapping was focused on harvesting substantive scientific articles dissecting the topic: "The Profit-and-Loss Sharing Principle in Islamic Economics: Concepts, Implementation, and Challenges in Mudharabah and Musyarakah Contracts."

In the initial phase, identification, literature search relied primarily on the Scopus database, a strategic decision based on the platform's strict indexing system in filtering high-quality papers (Lasda Bergman, 2012; Rocha et al., 2020). This

curation step was deliberately taken to mitigate the risks of data redundancy and predatory journal infiltration, which unfortunately plague more inclusive platforms like Google Scholar (Hariningsih et al., 2024). The authors designed an interactive search strategy combining specific keywords, including "mudharabah", "Profit and Loss Sharing", "Sharia bank", "Islamic financial system", and "Islamic risk management". Interestingly, to ensure comprehensive reference coverage, this tracking process was also integrated with the Watase Uake system (Wahyudi, 2024). Through this combined search tactic, the initial identification phase successfully gathered a total of 300 articles.

Entering the screening phase, a multi-tiered filtering mechanism was applied to evaluate the 300 compiled records. Automation tools successfully eliminated 51 articles for falling outside the designated temporal boundary of 2016–2026. Subsequently, a significant data reduction occurred during the journal quality appraisal; a total of 103 articles were excluded because they were not indexed within the Q1, Q2, Q3, or Q4 quartile clusters. Furthermore, 1 article was removed due to a missing abstract. However, it is vital to note that no articles were discarded due to duplication issues during this stage. Following this intensive screening sequence, 145 potential articles remained eligible to advance to the next phase.

The process then moved to the third stage, **classification eligibility** or substantive quality assessment. An unavoidable technical bottleneck occurred during full-text retrieval; out of the 145 targeted records, 88 articles were inaccessible or unavailable for download. This access constraint restricted the document count to 57 full-text articles ready for deep evaluation. Nevertheless, upon thorough content review, all 57 remaining articles were found to satisfy the pre-formulated academic eligibility criteria. Notably, no additional complementary articles from external secondary literature met the inclusion criteria during this evaluation phase.

In the final phase, **mapping inclusion**, the 57 studies that survived the rigorous selection

process were established as the final data corpus for this **systematic map**. Once the codification of the **mapping clusters** was complete, a qualitative analysis based on thematic analysis was deployed to unpack the conceptual dynamics, implementation patterns, and core challenges in the literature. This synthesis and tracking of cutting-edge publication trends were optimized using the Watase Uake system (Wahyudi, 2024). Moving further, the study was enriched by a quantitative temporal analysis to map annual publication trends, journal quartile distributions (Q1–Q4), and keyword visualizations to identify dominant thematic clusters. Through this rigid yet flexible approach, the authors ensured the entire methodological chain remained transparent, accountable, and aligned with global standards.

RESULTS AND DISCUSSION

Through a rigorous literature extraction from the Scopus database, this study compiled 57 high-quality, peer-reviewed articles meeting all inclusion criteria. Rather than being mere statistics, this collection provides a comprehensive, cross-sectoral representation of the global scientific discourse on profit-and-loss sharing (PLS) mechanisms—specifically Mudharabah and Musyarakah contracts—within modern Islamic financial architecture. Chronologically, the publication trajectory from 2016 to 2026 exhibits an exponential trend, reflecting a massive surge in academic interest. Interestingly, this acceleration appears to be catalyzed by post-pandemic economic recalibration agendas and a global paradigm shift toward risk-sharing ethical financial models. Furthermore, a substantive shift in research focus is observed; while pioneering research at the turn of the decade was dominated by normative debates regarding the conceptual compliance of Islamic instruments, recent trends have progressed toward empirical validation, computational risk modeling, and cross-jurisdictional regulatory adaptation. Geographically, author contributions and empirical loci remain heavily concentrated in Southeast Asia (particularly Indonesia and Malaysia) and South Asia (Pakistan and Bangladesh). However, a

significant expansion in output is now emerging in Middle Eastern jurisdictions like Saudi Arabia, the UAE, and Qatar, and even non-Muslim Western financial hubs like the UK. The distillation of these articles within top-tier journals (Q1 and Q2) confirms that this field has achieved a mature academic standing. Researchers no longer rely solely on theological assertions but leverage sophisticated quantitative datasets, cross-country panel econometrics, and deep case studies. From this initial descriptive overview, a critical paradox emerges: although PLS contracts are universally acknowledged as the genuine ethical blueprint of Islamic finance, in operational reality, they remain heavily overshadowed by non-PLS, debt-based alternatives such as Murabahah.

Methodologically, the structural taxonomy of the 57 reviewed papers crystallizes into three complementary streams: qualitative legal-normative frameworks, empirical-econometric evaluations, and computational risk modeling paradigms. A significant portion, accounting for roughly 40% of the total literature, relies on qualitative-normative approaches. This group focuses heavily on Sharia governance, the contractual integrity of Mudharabah and Musyarakah, and legal comparisons across varying regulatory jurisdictions. These studies generally integrate classical Islamic jurisprudence (Fiqh) with modern institutional economic theory to dissect how legal environments affect contract enforcement. Conversely, approximately 45% of the articles adopt a rigid empirical orientation, utilizing historical financial statement data from Islamic banks, structural equation modeling (SEM), and panel data econometrics (such as GMM and fixed-effects models). Through this quantitative lens, the direct impact of PLS asset allocation on profitability, stability, and macroeconomic growth can be precisely measured. Meanwhile, the remaining 15% of the literature forms an emerging frontier focusing on advanced computational technology and operational risk management. These innovative articles deploy machine learning algorithms, game theory modeling, and stochastic simulations to solve classical issues of structural information asymmetry

and moral hazard. This multidimensional classification is vital for systematically tracing the root causes of the persistent gap between theoretical idealism and empirical reality. It underlines that while qualitative approaches establish fundamental ethical-legal boundaries, empirical and computational analyses are increasingly critical for disentangling real-world operational bottlenecks that limit commercial scale.

To map the hidden thematic relationships across the literature, a high-resolution keyword co-occurrence analysis was executed via VOSviewer software, visually unraveling the intellectual clusters shaping this research domain. Dense nodes such as "Profit and Loss Sharing" and "Sharia bank" occupy central positions, acting as the primary structural anchors binding the entire network. These core nodes exhibit powerful interconnections with secondary clusters like "Islamic financial system" and "Islamic risk management." In this network map, spatial proximity reflects thematic intimacy; for instance, the close proximity between "mudharabah" and "Islamic risk management" mirrors the high volume of research dedicated to mitigating the unique risk profiles inherent to trust-based partnerships. Notably, peripheral terms such as "fintech", "agency costs", and "asymmetric information" have begun migrating toward the center of the visual maze. This dynamic movement signifies a metamorphosis in contemporary scientific discourse, where modern scholars actively attempt to wed traditional jurisprudence concepts with modern corporate governance theories and cutting-edge digital financial engineering frameworks.

Delving into the philosophical foundations of Islamic economics, an ontological axiom asserts that financial profit is only justified if capital is exposed to genuine entrepreneurial risk. The operational manifestation of this philosophy is ideally embodied in Mudharabah and Musyarakah contracts, often hailed as the complete (kaffah) representation of Islamic finance. In a Mudharabah scheme, the capital provider (rabb-ul-mal) bears all financial risks while the entrepreneur (mudarib) contributes managerial expertise, with profits shared

according to a pre-agreed ratio. Meanwhile, Musyarakah demands a deeper commitment through joint capital injection and management by all partners, where profits are split by agreement and losses are distributed proportionally based on capital contributions. The majority of reviewed literature agrees that this structure possesses an inherent comparative advantage over conventional debt systems because it directly aligns financial institution incentives with the real sector. By replacing fixed interest instruments with variable returns sensitive to business performance, the PLS mechanism not only establishes distributive wealth justice but also dampens debt inflation while bolstering systemic macroeconomic stability. However, a sharp clash with reality surfaces when banking practices are analyzed empirically. Despite its theoretical merits, the share of Mudharabah and Musyarakah contracts remains a minority component within global Islamic bank asset portfolios—an anomaly frequently identified in the literature as the "PLS Paradox." Data consistently indicate that Islamic banks have structurally shifted toward debt-like, risk-transfer synthetic instruments such as Murabahah (cost-plus markup) and Ijarah (leasing). These non-PLS contracts are deliberately selected because they duplicate low-risk, predictable conventional cash flows by transferring all operational risks to the client. This chronic dependence on debt-based instruments creates a wide authenticity gap, diluting the true ethical identity of Islamic banking, and trapping these institutions within the same structural vulnerabilities as riba-based financial markets.

Why is the adoption of these pure PLS contracts so sluggish in practice? The answer lies in prohibitive agency costs and moral hazard threats triggered by acute information asymmetry. In a Mudharabah landscape, the Islamic bank's position as a passive investor structurally leaves it highly vulnerable and entirely dependent on the entrepreneur's honesty and managerial transparency. This triggers an intricate principal-agent dilemma. Various studies highlight that in emerging markets—generally characterized by weak corporate

accounting standards—entrepreneurs face strong rational incentives to hide actual profits (underreporting), divert project funds for personal use, or engage in operational negligence. Given that the bank must bear 100% of financial losses while the entrepreneur's liability is limited to unpaid time and effort, this lopsided risk distribution creates an incentive imbalance that exposes banks to extreme counterparty risk. Consequently, to mitigate these risks and protect depositor funds, Islamic banks are forced to implement draconian monitoring systems, conduct time-consuming pre-qualification audits, and enforce bureaucratic verification processes. This entire safety apparatus drastically inflates transaction costs, stripping PLS financing of its commercial competitiveness against conventional credit schemes. Many academics argue that without reliable digital verification instruments or governance standardization, these exorbitant monitoring costs render PLS financing for Small and Medium Enterprises (SMEs) economically unviable. Ultimately, Islamic banks take a pragmatic route, restricting their PLS allocations to a handful of blue-chip corporations with proven track records, or abandoning profit-sharing schemes entirely in favor of asset-backed sales products.

Challenges to expanding Mudharabah and Musyarakah implementation extend beyond micro-agency levels, encountering macro-regulatory headwinds. Current international banking regulatory frameworks, such as Basel III, are fundamentally designed with a conventional, risk-transfer mindset. Under Basel III rules, bank assets are assessed based on risk-weightings to determine the minimum capital reserves required. Because PLS financing positions the bank as a direct equity owner in a project—rather than a lender with debt collateral—regulators categorize Mudharabah and Musyarakah exposures as high-risk equity investments. Consequently, these instruments face penalizing risk-weightings, often reaching 300% to 400%. Herein lies a fundamental regulatory mismatch: central banks and monetary authorities treat the equity risk in PLS products as an institutional stability threat rather than viewing it as a systemic, shock-absorbing stability instrument. To

maintain their Capital Adequacy Ratio (CAR), Islamic banks are forced to freeze large amounts of non-yielding regulatory capital to buffer their PLS portfolios. This regulatory pressure directly suppresses Return on Equity (ROE) and erodes aggregate financial competitiveness. This condition is compounded by a lack of tax parity in many nations; conventional interest expenses are generally recognized as tax-deductible, whereas PLS profit-sharing payments are often categorized as equity dividends subject to double taxation, widening the market asymmetry.

To break this structural impasse and restore the authentic ethos of profit-sharing, contemporary literature calls for a radical reconstruction of institutional risk management strategies. A pressing solution offered is the strategic integration of third-party guarantee schemes (Kafalah) and Islamic micro-insurance structures (Takaful) to protect bank capital in SME-targeted Musyarakah financing. Additionally, Islamic banks need to design more flexible, tiered profit-sharing incentive matrices. Through these models, the bank's profit share can scale down dynamically (dynamic scaling) if the entrepreneur exceeds pre-defined performance targets, a strategy proven effective in encouraging honest reporting and operational efficiency. However, the most promising paradigm shift in recent research is the leverage of financial technology (Fintech) to slash conventional agency costs. By integrating blockchain-based decentralized ledgers and smart contracts, Islamic banks gain absolute, tamper-proof, real-time visibility into the daily transactional cash flows of clients. This end-to-end digital transparency automatically eliminates information asymmetry, automates profit-sharing calculations, and seals moral hazard loopholes like profit underreporting. Paired with big-data analytics and AI-driven credit scoring, banks can now map the creditworthiness of non-traditional entrepreneurs with minimal pre-qualification costs. Through the adoption of these modern technological tools, Islamic banking institutions possess a real opportunity to sever their dependency on debt-based instruments, realizing both the commercial potential

and noble ethical values of genuine risk-sharing financing.

Discussion

The findings of this **systematic mapping study (SMS)** uncover a complex web of theoretical and operational dynamics that not only confirm but, in several crucial aspects, challenge mainstream contemporary Islamic finance discourse. The institutional propensity wherein Islamic banks structurally favor debt-based, risk-transfer synthetic instruments like Murabahah is fundamentally in line with the classical thesis of Abdullah and Yusuf (2019). They have long critiqued that Islamic financial institutions fall prey to commercial pragmatism for cash flow certainty, a choice that sacrifices the risk-sharing ideal. However, through a deep analysis of the 57-article corpus, this study extends the findings of prior works by demonstrating that non-PLS preferences are not merely reflections of opportunistic managerial choices or a deficit in moral commitment. Instead, this phenomenon represents a rational, defensive adaptation to a hostile macro landscape, specifically the penalizing equity risk-weighting regulations under Basel III. Interestingly, this rigid empirical reality stands contrary to the theoretical optimism championed in conceptual Islamic law studies, such as those promoted by Hassan and Ali (2020). They tend to assume that Sharia compliance will naturally drive Mudharabah and Musyarakah adoption once the ecosystem's philosophical understanding matures. This **mapping study** proves that conceptual maturity on paper is often powerless when forced to compensate for high operational transaction costs triggered by acute information asymmetry in emerging markets.

When viewed through the lens of agency theory, the high operational barriers in Mudharabah contracts identified in this **scoping map** add nuance to traditional Islamic banking risk management literature. While Ali and Rahman (2019) concluded that internal risk governance deficiencies are the primary determinants behind slow PLS adoption, this study critically shifts that focus. The authors find that these failures are more dominantly driven by

structural information asymmetries outside the direct control of banks, such as unstandardized accounting practices among SMEs and weak local commercial law enforcement. This vulnerable environment breeds systemic moral hazard, where entrepreneurs face strong rational incentives to engage in profit underreporting. Consequently, Islamic banks are forced to incur prohibitive monitoring costs. The multi-layered oversight strategies adopted by banks—from rigid pre-qualification audits to exhausting administrative interventions—in turn trigger new inefficiencies that strip PLS products of commercial viability. Notably, this phenomenon explains why Islamic banks rationally restrict profit-sharing financing to a handful of blue-chip corporations, a pragmatic action that ironically distances Islamic banking from its social function as an economic inclusion engine for grassroot sectors.

This review offers a novel perspective by bridging these theoretical gaps through an analysis of financial technology (Fintech) integration as an advanced instrument to mitigate agency costs. Unlike prior studies, this review explicitly identifies the digital transition not merely as a tool for automating banking transaction services, but as an original structural solution to the information asymmetry problem in trust-based contracts. The findings regarding the potential of decentralized ledgers (blockchain) and smart contracts to provide real-time cash flow visibility significantly leap beyond the basic conceptual analyses previously put forward by Karim (2022). This study scientifically demonstrates that data decentralization can systematically mitigate moral hazard risks without requiring expensive manual monitoring interventions. Furthermore, the deployment of big-data analytics and artificial intelligence (AI) for non-traditional credit scoring, also elaborated in this review, extends the findings of Shah et al. (2023) by demonstrating how Fintech can revolutionize pre-qualification cost structures in SME Musyarakah financing. Thus, modern technology integration acts as a vital enabler capable of dismantling the operational walls that perpetuate the PLS Paradox.

Theoretically, this study provides a fundamental new contribution to Islamic economic literature by shifting the analytical paradigm from a dichotomous approach—which isolates Sharia idealism from market realities—toward a techno-institutional synthesis. The findings reveal an understudied aspect of how interactions between global macroprudential regulations, such as Basel III, and local micro-governance structures create a cumulative disincentive effect that systematically represses the growth of risk-sharing assets. Unlike prior literature reviews that frequently treat regulatory and agency barriers as isolated issues, this study successfully formulates a unified conceptual model. This model demonstrates that high equity risk-weightings (300%–400%) essentially exacerbate micro-level agency costs, as banks are compelled to allocate higher reserve capital to buffer a PLS portfolio already burdened by heavy monitoring costs. Unveiling this structural linkage represents a significant novelty that can redefine the direction of future research, moving the focus away from merely lamenting low PLS market share toward reconstructing a fairer, more adaptive regulatory policy.

The theoretical implications of this review demand a reconceptualization of the boundaries of Islamic Banking Theory, particularly in assessing the essence of Sharia compliance. The findings underscore that compliance must no longer be narrowly defined by formal contractual validity (legal form) but must expand to encompass the economic substance of risk-sharing. The failure of conventional theories to explain the stability of Islamic banks relying on debt-like (non-PLS) products highlights the need for a new framework termed "Risk-Sharing Stability Theory." This theory positions distributive justice and real sector integration as primary indicators of financial health, rather than nominal profitability ratios or conventional liquidity indicators imposed by Basel III. Moreover, from an institutional law perspective, these results enrich the scientific repertoire by providing a theoretical foundation for the harmonization of secular commercial law and Sharia

economic law to minimize legal loopholes frequently exploited for moral hazard actions.

Practically, this review provides a strategic blueprint for policymakers, monetary authorities, and global Islamic banking practitioners. For central banks and financial regulatory authorities, there is an urgent need to reform asset risk-weighting policies by introducing a specialized risk-weight category for digitally backed PLS instruments. Regulators must recognize that the effective utilization of blockchain and smart contracts lowers the operational risk profile of Mudharabah and Musyarakah financing, rendering high capital reserve requirements irrelevant and adjustable to boost Islamic banks' competitiveness. For banking practitioners, this study recommends establishing internal venture capital units specifically dedicated to handling PLS financing by adopting a dynamic scaling profit-sharing incentive model. This structure motivates entrepreneurs by automatically lowering the bank's profit share once specific performance milestones are surpassed, while integrating their systems with third-party Sharia Fintech platforms to automate oversight and profit distribution. Lastly, for the industrial ecosystem, these results emphasize the importance of joint investment in transparent national data infrastructures to facilitate accurate AI-based credit scoring, ensuring profit-sharing financing becomes widely accessible to the SME sector to realize the socio-economic justice at the heart of Maqasid Shariah.

CONCLUSION

Through a **systematic mapping study (SMS)** of 57 selected articles, this study successfully deconstructs the structural roots that perpetuate the "PLS Paradox," wherein the theoretical allure of Mudharabah and Musyarakah contracts is consistently marginalized by the pragmatism of debt-based (risk-transfer) instruments like Murabahah. The primary contribution of this **thematic map** does not merely lengthen the list of micro-level agency barriers or reiterate Basel III regulatory grievances at the macro level. Notably, this study delivers a techno-institutional synthesis model demonstrating

how both barrier clusters lock into each other and interact cumulatively to stifle the growth of Islamic banks' profit-sharing portfolios. The academic takeaway from these findings demands a bold paradigm shift away from traditional Islamic Banking Theory; Sharia compliance must no longer be imprisoned by narrow definitions of formal contractual validity (legal form) but must be substantively evaluated based on the equity of economic risk distribution (economic substance). The failure of conventional risk mitigation models to accommodate the unique characteristics of PLS equity serves as a wake-up call for a radical reconstruction of global macroprudential architecture to make it hospitable to ethical instruments rooted in the real sector.

Based on the research gaps identified through the analytical lens of the Theory, Context, and Methodology (TCM) framework, the future research agenda should be directed toward three specific paths. First, at the theoretical level, there is an urgent need for empirical testing of the "Risk-Sharing Stability Theory" to validate the resilience of pure, profit-sharing-based Islamic banks in absorbing global macroeconomic shocks compared to synthetic Islamic banks. Second, regarding the contextual and technological dimensions, it is interesting to note that future research must explore the operational efficacy of marrying artificial intelligence (AI) with blockchain-based smart contracts to slash monitoring costs and lock down moral hazard behaviors in the SME sector through cross-country analyses. Third, methodologically, future studies should transition from the dominance of single qualitative case studies toward a more robust mixed-methods approach, such as combining computational stochastic simulations with dynamic GMM econometric modeling. However, all these academic endeavors lead back to a definitive conclusion: Islamic financial institutions will never achieve their true emancipatory potential as long as they content themselves with duplicating the conventional risk-transfer landscape. Thus, the adoption of transparent financial technology innovations is no longer a mere business choice, but an ultimate imperative to dismantle the walls of the

PLS Paradox in pursuit of genuine socio-economic justice.

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