Profit Sharing among Labour, *Mudharib* and *Shahibul Maal* under *Mudharabah* Contract: Evidence from Indonesia

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Abstract: This paper aims to study the probability of changes in income distribution as a result of business practice of profit sharing agreement among production factors of workers/labour, managers (*mudharib*) and investors (*shahibul maal*) within the framework of *mudharabah* scheme. The ordered logit econometrics model was applied for this purpose. Data were taken from entrepreneurs/businessmen who applied the *mudharabah* scheme in Indonesia. The research result shows five variables that determine the probability of changes in distribution. These are business profits, company age, changes in the organisation, total employment and the level of mandate of *mudharib*.

Keywords: Functional income distribution, *mudharabah*, profit sharing
JEL classification: O12

1. Introduction

One of the institutional businesses of profit sharing in Indonesia is *mudharabah*. Based on a study of its meaning, scholars of *fiqh* and the Financial Services Authority of Indonesia define *mudharabah* as joint ventures, financial agreements or investment of funds from the funder (*shahibul maal*) to the fund manager (*mudharib*) to conduct certain business activities conforming to Islamic law with profit sharing agreements based on the terms agreed upon (an-Nabhani, 2010; Financial Services Authority of Indonesia, 2017). When viewing at the economics literature, in which *mudharabah* is equal to profit sharing or *sharecropping* that induces the issue of functional income distribution, placing the workers/labour as one of the parties in joint ventures becomes an interesting topic in the development of Islamic economics and business practices to ensure fairness. Workers will receive additional revenues from profit-sharing apart from

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