

The entrepreneurial role of profit-and-loss sharing modes of finance: theory and practice 🛒

Rasem N. Kayed

✚ Author & Article Information

International Journal of Islamic and Middle Eastern Finance and Management (2012) 5 (3): 203–228.

<https://doi.org/10.1108/17538391211255205>

Purpose

The purpose of this paper is to find out whether profit-and-loss-sharing (PLS) modes of finance have become viable financial alternatives for entrepreneurship and enterprise development or whether they are still merely an academic endeavour.

Design/methodology/approach

The method employed in this study is a combination of extensive examination of existing literature and critical analysis of the outcomes of several relevant studies in order to establish the convergent/divergent relationship between theory and practice in Islamic finance.

Findings

Based on available bank level and country level data, the paper presents evidence that the divergence between the theoretical perspective and the practical implementation of PLS modes of finance is widening to an alarming level. The paper argues that this divergence by no means can be attributed to the construct and the disposition of the PLS instruments; it is rather the product of the negative attitude and the lack of proper infrastructure of the majority of Islamic financial institutions (IFIs) – and their (reluctance) to accommodate entrepreneurship through the genuine implementation of PLS instruments.

Practical implications

The findings of this study draw attention to the visible shortage in practical research pertaining to the application of the principles of PLS modes in financing entrepreneurial activities. The study suggests that the relevance, the direction and the resilience of future research undertakings should be focused on bridging the increasing gap between the prescribed role of PLS instruments and the actual performance of IFIs in promoting socio-economic development through the creation of a vibrant entrepreneurship sector.

The paper points out that while PLS models dominate the theoretical literature on Islamic finance, and whereas the majority of mainstream Muslim scholars and financial authorities overwhelmingly judge PLS models as being compelling financial options and practical developmental tools, the reality of Islamic finance paints a different picture. The paper emphasizes the need for IFIs to conform to their own charters and assume a leading developmental role in order to realize *al-Shariah* objectives (*maqasid al Shariah*). The paper identifies key research areas that warrant the attention of keen researchers with interest in the field of Islamic finance and entrepreneurship development.

Keywords: [Profit-and-loss sharing \(PLS\)](#), [Mudharabah](#), [Musharakah](#), [Entrepreneurship](#), [Small to medium-sized enterprises \(SMEs\)](#), [Human capital](#), [Entrepreneurialism](#), [Finance](#), [Islam](#)

© Emerald Group Publishing Limited

You do not currently have access to this content.

Sign in

Don't already have an account? [Register](#)

Client Account

Email address / Username

Password

[Reset password](#)

[Register](#)

ICE Member Sign In

We use cookies to optimize site functionality and targeting cookies to give you the best possible experience. Your experience, your choice. Learn more here:

[Visit our cookie policy page](#)



Access through your institution

Purchased this content as a guest? Enter your email address to restore access.

Email Address

Pay-Per-View Access €35.00

 Buy This Article

Rental

This article is also available for rental through DeepDyve.

