Macrothink Institute™
Business and Management Horizons
ISSN 2326-0297
2026, Vol. 14, No. 1

Determinants and Outcomes of Equity-Based Financing in Islamic Banking: A Multi-Level Meta-Analytic Structural Equation Model

Siti Nor Amira Mohamad (Corresponding author)

Academy of Contemporary Islamic Studies (ACIS), Universiti Teknologi MARA (UiTM)

40450 Shah Alam, Selangor, Malaysia

E-mail: sitinoramira@uitm.edu.my

Muhamad Hasif Yahaya

Academy of Contemporary Islamic Studies (ACIS), Universiti Teknologi MARA (UiTM)

40450 Shah Alam, Selangor, Malaysia

E-mail: hasifyahaya@uitm.edu.my

Mohamad Yazis Ali Basah

Faculty of Economics and Muamalat (FEM), Universiti Sains Islam Malaysia (USIM)

71800 Nilai, Negeri Sembilan, Malaysia

E-mail: yazis@usim.edu.my

Darmawan

Faculty of Islamic Economics and Business (FEBI), UIN Sunan Kalijaga

Yogyakarta, Indonesia

E-mail: darmawan@uin-suka.ac.id

Sugito

Branch Manager PT Bank Syariah Indonesia (Persero) Tbk, Yogyakarta, Indonesia

E-mail: sugito08629@bankbsi.co.id

Macrothink Institute™

Business and Management Horizons
ISSN 2326-0297
2026, Vol. 14, No. 1

Received: May 10, 2026 Accepted: July 27, 2026 Published: September 8, 2026

doi:10.5296/bmh.v14i1.23843 URL: https://doi.org/10.5296/bmh.v14i1.23843

Abstract

This paper is a consolidation of studies on equity-based financing (EBF) in Islamic banking with a focus on analyzing some underlying reasons why EBF is still rarely implemented despite its good theoretical support. The analysis is done using Meta-Analytic Structural Equation Modelling (MASEM) on 29 empirical studies. The results show that trust and strong Shariah governance are the significant factors for the adoption of EBF, while risk perceptions and high monitoring costs are the barriers for its adoption. Your practical significance seems to be revealed in two more finding that EBF has positive impact on customer satisfaction and bank performance. Concerns about trust arise in how these financing methods apply in various settings, depending on factors like religiosity and the strength or type of regulatory frameworks. Governance and regulatory frameworks could be the key to making theoretical promises a reality in Islamic Finance (IF), findings from a wide-ranging study by the Institute for International Finance suggest.

Keywords: Islamic banking, equity-based financing, Mudarabah, Musharakah, meta-analysis

1. Introduction

Equity-based financing (EBF) is at the core of Islamic banking, as it reflects the basic Shariah principles of risk sharing and profit and loss sharing (PLS), thus making Islamic finance distinct from conventional interest-based systems (Mohamad et al., 2025). In theory, these contracts are important, but in practice they are rarely used. However, the rest - the majority of Islamic banks lend less than or equal to 5% of their financing portfolios on equity-based products, and almost all adopt debt-like mark-up-based structures (Eid & Asutay, 2019). Various problems arise from the difference between theoretical ideals and practice, such as increased perceived risks and information-risk asymmetry, leading to a higher potential for adverse selection and moral hazard. These problems hinder effective monitoring, lower transparency and make Shariah compliance more difficult, which in turn affects the behaviour of these institutions and makes customers less willing to participate in EBF.

Similar complexities are also reported in recent studies of EBF (Fianto et al., 2017; Mohamad, Basah, et al.) Others emphasize the resilience, justice and economic value of PLS instruments. Another are argue that these contracts is operational constraints (Jedidia, 2020; Asyari et al., Such differences are further compounded by the differences in the regulatory landscape, Shariah governance as well as institutional capacity for local market developments. Thus, the literature is still fragmented into different approaches leading to uncertainty in terms and mixed empirical evidence hampering an integrated understanding of EBF.

Conceptual fragmentation of this sort presents serious challenges for scholars and practitioners seeking to assess the robustness of PLS instruments. This uncertainty about the antecedents, mechanisms and outcomes of EBF, hampers our ability to formulate effective implementation strategies. The evolution of Islamic banking, through digitalization, regulatory improvements, and the sophistication of customers, has made it increasingly necessary to provide a clearer understanding, with empirical bases, of PLS instruments (Meslier et al., 2020).

With the knowledge being fragmented, a means of synthesizing this body of literature is a systematic review with meta-analysis. Synthesising evidence from different contexts, methods used for measurement and theoretical perspectives, meta-analysis can reveal systematic patterns, explain non-systematic findings and provide a framework of how EBF operates. Given that the available literature does not lead to generalizable empirical conclusions, this method seems particularly suited to answer these RQs:

RQ1. To what extent do cash flows and earnings determine EBF adoption and performance?

RQ2. What are the outcomes of EBF for Islamic banks, customers and markets on a broader scale in the economy?

RQ3. What are the factors that affect the performance of EBF?

This research-based meta-analysis integrates antecedents, moderators and effects to increase the understanding of the implementation of equity-based Islamic finance. CT08 offers a set of tools to clarify the concepts around PLS instruments and points of view most likely to lead to a convergence of perceptions of governance quality, customer perceptions and financial

Business and Management Horizons
ISSN 2326-0297
2026, Vol. 14, No. 1

conditions. Furthermore, a complete examination of the diversity across markets on financing outcomes is presented, such as the study by Mohamad and Basah (2022), where moderating factors such as the governance system of the jurisdictions where they are located, the prevalent contract structures, and consumer religiosity are taken into account. The ideational data-driven method aims at reducing conceptual ambiguity, improving empirical generalizability and is meant to provide intelligibility for future research, policy development and strategic advancement of Islamic Banking.

2. Conceptual Foundation and Meta-Analytical Framework

The past four decades have witnessed quite an evolution in academic discussions on equity based finance. This line was opposed by Islamic economics scholars who argued that risk-sharing and profit-and-loss sharing (PLS) are the most Islamic forms of finance. Sharpe (1964) and Febianto, (2009) rank partnership contracts like Mudarabah and Musharakah above interest-based loans. Such contracts were first designed in the 1980s and chilli peppered into banking systems through of a drafts at that time, but practical issues with such contracts including information asymmetric situation between borrower/borrower—lenders monitoring problems and enforcement complications brought challenges to decentralize root their larger adoption. This has led to a number of Islamic banks converting to debt-type instruments, which in turn received further scholarly attention on the gap between the theoretical construction of Islamic finance and real world practices (e.g. Fianto et al., 2017).

Collectively, by the 2010s, research also turned to governance quality and regulatory frameworks (KCN) to measure fund performance and behavioral accommodations to investment associated equity based products, creating a sprawling yet poorly integrated literature domain4. Recent more complex examinations include cross-country comparisons, Shariah governance and digital innovations that lower monitoring costs and mitigate agency risks. To summarise, these changes show a move away from the original idealised Islamic model of EBF, to a more complex institution-dependent structure as shown in Figure 1.

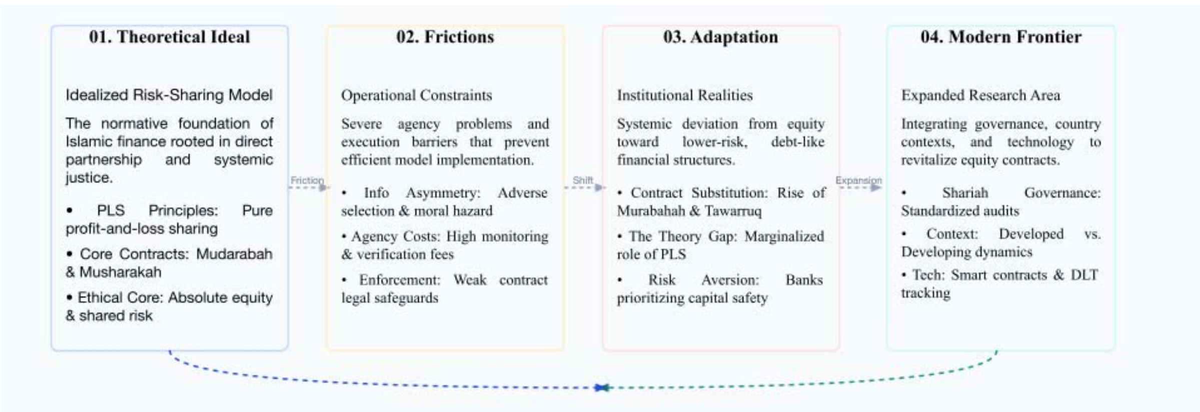

Figure 1. Evolution of EBF

Source: Authors' Own Illustration.

Business and Management Horizons
ISSN 2326-0297
2026, Vol. 14, No. 1

Table 1 summarizes core concepts and research aims of action-led studies that define, categorize, and develop EFB. This review records the evolution of academic thinking on profit-and-loss sharing (PLS) contracts and illustrates how scholarly focuses from theoretical underpinnings to operational limitations have generated different interpretations in this area.

Table 1. Conceptualisations of EBF

Year	Article	Goal	Definition
1983	Foundations of Islamic Economics and Banking	To articulate the theoretical basis for profit–loss sharing as the cornerstone of Islamic finance	EBF is the most authentic Shariah-compliant model in which risk and returns are shared between contracting parties.
1998	Practical Challenges in Implementing Mudarabah and Musharakah	To examine early operational barriers faced by Islamic banks attempting PLS contracts	EBF is a partnership model in which capital and effort are pooled, profits are shared mutually, and losses are borne by capital providers.
2005	Theory vs Practice in Islamic Banking	To analyze why Islamic banks deviate from PLS-based ideals	EBF is theoretically ideal but operationally complex due to information asymmetry, monitoring difficulty, and contract enforcement challenges.
2010	Governance and Agency Problems in PLS Contracts	To explore governance mechanisms that reduce agency conflicts in PLS	EBF is a Shariah-compliant partnership structure characterized by high agency risk requiring strong screening, monitoring, and disclosure systems.
2014	Cross-Country Performance Analysis of Musharakah and Mudarabah	To compare financial and risk outcomes of PLS across jurisdictions	EBF is a performance-linked model affected by regulatory strength, institutional clarity, and Shariah governance quality.
2016	Customer Perceptions of PLS-Based Products	To investigate behavioural drivers of acceptance and trust in PLS instruments	EBF is a fair and ethical financing arrangement whose acceptance depends on trust, religiosity, and perceived Shariah compliance.
2018	Determinants of PLS Use in Islamic Banks	To identify institutional and market factors affecting banks' use of equity contracts	EBF is a risk-sharing mechanism influenced by banks' capabilities, monitoring costs, competition, and macroeconomic conditions.
2020	EBF and Bank Stability	To evaluate the contribution of PLS contracts to financial stability	EBF is a stabilising mechanism that aligns incentives and can reduce fragility when agency risks are effectively mitigated.
2021	Profitability and Efficiency of Mudarabah and Musharakah	To assess empirical profitability and efficiency outcomes	EBF is a contract model capable of delivering long-term profitability when supported by efficient operations and robust governance.
2023	Digital Transformation and the Future of PLS	To explore the role of fintech in revitalising PLS contracts	EBF is a partnership model increasingly enabled by digital technologies that reduce monitoring costs and enhance transparency.
2024	Shariah Governance and EBF Adoption	To analyse the impact of governance systems on PLS adoption	EBF is a Shariah-driven contractual partnership that requires strong governance to build trust and enhance adoption outcomes.
2025	Contemporary Issues in PLS Implementation	To synthesise modern challenges and opportunities surrounding PLS	EBF is a multidimensional construct shaped by behavioural, institutional, regulatory, and technological factors, creating varied adoption and performance outcomes across markets.
The present article		To analyse antecedents, outcomes, and moderators influencing PLS adoption and performance using meta-analysis	EBF refers to Shariah-compliant partnership contracts characterised by risk and profit-loss sharing; its success depends on behavioural, institutional, and market drivers that shape adoption and financial outcomes.

Source: Authors' own compilation.

One of the main challenges in literature is that some terms (e.g. EBF performance and PLS adoption) are defined differently across studies. For example, Sahid et al. (2025) clearly emphasize financial metrics, Mohamad et al. (2024) measure behavioral outcomes and Ramli I and Ishak T (2022); governance. The PLS term also obscures important differences between contract and asset-backed distinctions that drive risk/oversight (Abedifar, Molyneux, & Ford, 2013). Some of the conflicting results may be due to these inconsistencies in definition rather than genuine contradictions. Lack of consensus is typical for emerging research fields with fragmented concepts and heterogeneous results that point to the need for structured meta-analyses to consolidate knowledge. In the present meta-analysis a multi-level model is proposed, ranging from customer-, bank- and market-level factors. Systematic review based on PRISMA First it identifies its determinants and outcomes for banks/customers, second moderating variables. The aims are to reduce the ambiguity of outcomes and get the major drivers and contexts for EBF clear cut. The proposed framework will be demonstrated with a path diagram showing the antecedents leading to the outcomes with moderators affecting critical linkages.

2.1 Antecedents of EBF Adoption and Performance

With respect to equity-based products, the framework identifies three levels of antecedents that influence the use. At customer level, trust and risk perception tendencies inherent to the individual (risk aversion), as well as understandability of PLS contracts, or significance attached to religiosity and fairness/justice perceptions. As returns are dependent on the honesty of partnerships not rogue dealings with each other which is a key stipulation under Shariah continuous trust will be paramount. PLS risk perception also includes profit variability and uncertainty, which could be a barrier to adoption. More Accurate Risk Assessment, Less Uncertainty By Higher Financial Literacy PLS is generally perceived to be ethical and fair. Therefore, religious beliefs about morality and justice may increase acceptance of PLS . For successful adoption, the capacity of institutions to govern and manage risk with an oversight function matters a great deal, on the institutional side. These ingredients, though they may increase the costs of doing business, are necessary to generate credibility and reduce agency problems. Good governance and monitoring shows a better performance of institutions. At the market level, regulatory frameworks and competition influence exposure to feasible, scalable and innovative equity-based products while macroeconomic stability determines project outcomes of firms on their ability as successful projects emanate larger default rates. These specifications establish minimum standards for both adoption and performance.H1. Customer trust has a positive and profound effect on the adoption of EBF.

H2. The customer risk perception has a strong adverse effect on EBF adoption.

H3. The result demonstrates the positive and significant impact of Shariah governance on EBF adoption as well as performance.

H4. Negative large impact of monitoring costs on EBF adoption and performance

2.2 Outcomes of Equity-Based Financing (EBF)

As shown by Mohamad et al., the main outcomes for banks are profitability (ROA/ROE), asset quality and stability, and the ability of profit-and-loss sharing (PLS) financing to support stable earnings as well as risk diversification. EBF impacts financial, risk and behavioural facets (Darmawan & Prasasti, 2024; Darmawan et al., 2026). Risk sharing can reduce financial fragility by better aligning incentives and sharing losses. However, the inherent difficulties of operations, especially agency conflict but also monitoring, make operations more complex and lead to lower performance, and thus are empirically worthy of investigation. Impacts of equity contracts on operational risk, with specific empirical predictions on NPF behaviors according to contract characteristics and customer repayment behavior. In this context, Shariah-compliant (i.e. fair and transparent) PLS increase customer satisfaction and long-term usage. These outcomes are interlinked: perceived equity leads to increased trust, which leads to adoption, and ultimately reinforces portfolio performance through greater uptake of the service and improved quality of relationship with stakeholders. These relationships generate hypotheses about outcomes that can be iteratively refined using observed effect sizes.

H5. EBF exerts a positive and significant impact on customer satisfaction and continued usage intention.

H6. There is a positive relationship between bank profitability, financial soundness and adoption of EBF.

2.3 Moderators Influencing the Equity-Based Financing (EBF)

However, there is huge variation in the nature of equity financing in some situations, which leads to heterogeneity due to contract type. Mudarabah vs Musharakah Risk-Aversion The type of risk transferred from one contracting entity on the agent side to another non-risk transfer agent forming a new agrarian social contract between entrepreneurs / investors responsible for managing resources within an economic exchange system, where both parties must then be monitored throughout this high transaction cost environment specifically here through remote proxies (and/or joint-client groups) is dependent on the different risks assigned to each party under mudarabah and musharakah, as well as the contract type (external agency or internal syntax) of their relationship. In Mudarabah information asymmetry may play a role in amplifying the effect of perception on risk. Risk sharing ratios and monitoring mechanisms affect the incentives, disclosure practices and oversight costs. The outcomes are conditioned by country-specific factors like regulatory sophistication, stringency of Shariah compliance and the like with regional differences—much evident between GCC countries vis-a-vis those in Southeast Asia or South Asian states. A strong rules-based regulatory environment that further enhances PLS financing and high scores on governance systems can reduce oppurtunism. Methodological features (e.g. data characteristics like sample size or type of respondent; publication rank; country income level) are also attributed to heterogeneity (and thus to effect size and robustness of results). These considerations lead to the formulation of moderation hypotheses, as was done in the above mentioned article. The hypotheses are as follows:

H7. The influence of antecedents at the customer-, bank- and market level on EBF adoption and performance varies by contract type.

H8. In jurisdictions where regulatory and Shariah governance is more established the linkages among antecedents, adoption and performance are stronger.

H9. Religious customers tend to be more influenced by behavioral factors when adopting.

Figure 2 presents the meta-analytical framework that links antecedents, constructs, outcomes, and moderators influencing EBF. Customer antecedents and bank antecedents and market antecedents influence the adoption and performance of EBF adoption and performance.

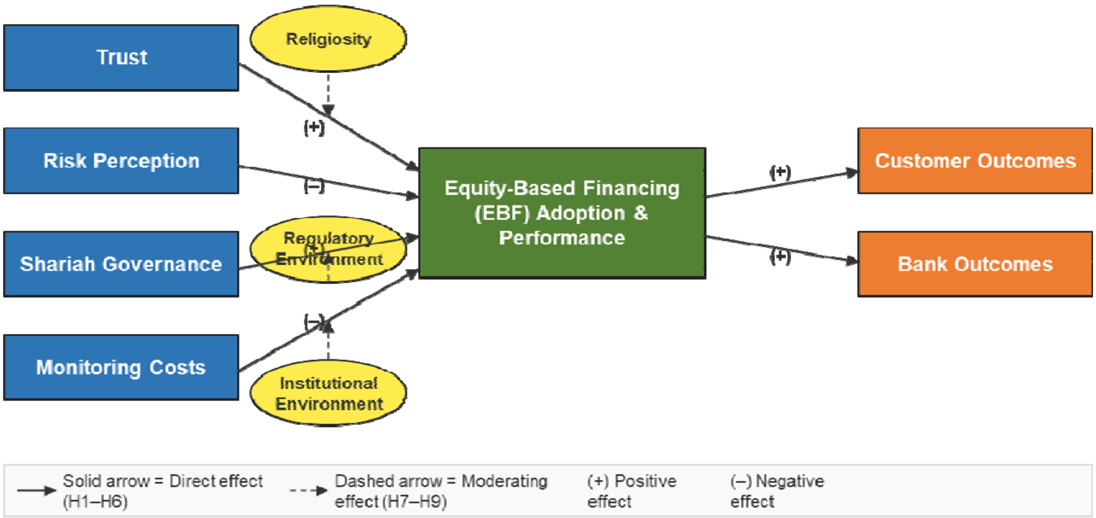

Figure 2. The meta-analytical framework of EBF

Source: Authors' own compilation.

3. Methodology

Meta-Analytic Structural Equation Modelling (MASEM) is used to synthesize the evidence regarding EBF antecedents and consequences. This approach pools effect sizes across multiple banking jurisdictions, building on the knowledge of institutional and behavioural drivers of EBF. The methodological approach consists of five stages: sources identification, inclusion and exclusion criteria, data extraction, moderators coding, and meta-analytic calculations.

3.1 Identification of Sources

Identification The meta-analysis study used an exhaustive search strategy based on Boell and Cecez-Kecmanovic (2014) in three major academic databases: Scopus, Web of Science and Google Scholar. These databases were selected because they contain large numbers of peer-reviewed, multidisciplinary articles in the social sciences that offer cross-disciplinary access to scholarly material on Islamic finance and global banking.

Special attention was paid to specialized journals in Islamic economics, banking and management for collecting high quality data as they are the main sources of research on EBF. The significant publications reviewed are: Journal of Halal Science and Management Research, Pacific-Basin Finance Journal, Journal of Islamic Accounting and Business Research, International Journal of Academic Research in Business and Social Sciences, Journal of Risk and Financial Management, Global Journal Al-Thaqafah, ISRA International Journal of Islamic Finance, Journal of Islamic Marketing, Communications of the Association for Information Systems, Journal of Management Theory and Practice (JMTP), Journal of Research in Social Science and Humanities, The Journal of Finance, and European Finance Review.

Boolean operators ("AND", "OR") were used to search article titles, abstracts, and keywords according to effective search strategies outlined by Chang & McDaniel (1995, pp. 1-12). This approach was oriented to the fields of business, management, finance and accounting. The final search string was: (“Islamic banking”) OR (“Islamic finance”) AND (“Mudarabah” OR “Musharakah” OR “EBF” OR “equity-based financing”) AND (“adoption” OR “performance” OR “satisfaction”). The search process was conducted in accordance with PRISMA guidelines to ensure transparency, replicability and a systematic selection of the studies. To counter “file drawer” bias, we used unpublished work such as dissertations and working papers from ProQuest and other repositories, and citation tracking was used to identify all relevant studies to build a comprehensive evidence base.

The selection process consisted of several filtering stages. Inclusion criteria were research articles published in journals and at conferences only, excluding book chapters for lack of consistent peer review, and excluding studies that provided qualitative data only without any statistical data. The two exclusion criteria were quantitative studies that did not analyze specific EBF relationships. Articles were selected according to their relevance in the eligibility assessment and most of them were highlighted in the extraction of values from correlation matrices. We also excluded studies with an experimental design using mean differences (ANOVA, chi-square tests, or t-tests) since these designs do not provide correlation coefficients to run meta-analytic structural equation modeling (MASEM). Backward and forward citation tracing was performed to identify core articles, trace citations, and review scholars’ works (Mohamad et al., 2025; pp. 231–242). The different steps of this systematic review were performed according to the Preferred Reporting Items for Systematic reviews and Meta-Analyses (PRISMA protocol) [4], as shown in Figure 3.

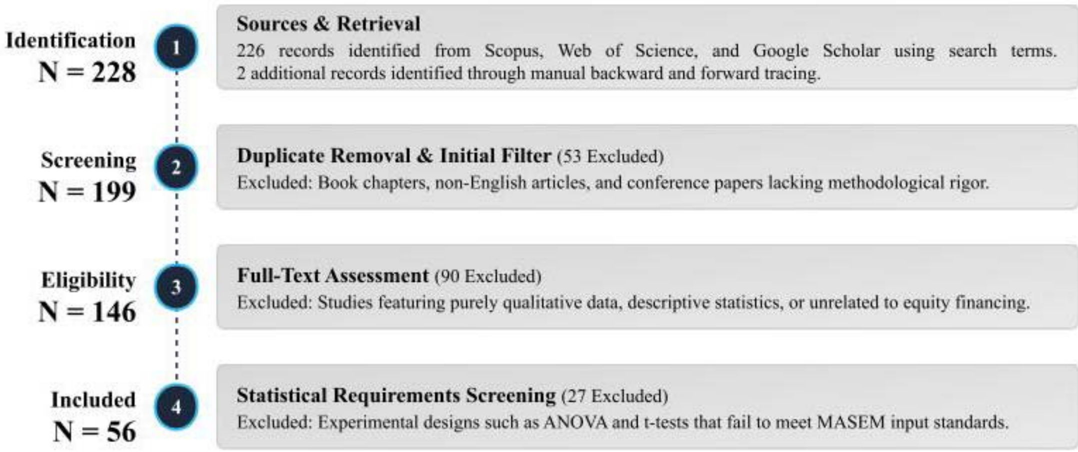

Figure 3. PRISMA flow diagram of the study selection process

Source: Authors' own compilation.

3.2 Inclusion-Exclusion Criteria

In order to guarantee the relevance and quality of the studies included according to the research aims, we elaborated inclusion and exclusion criteria. The meta-analysis was conducted according to established guidelines for literature review and meta-analysis. Only primary, peer-reviewed empirical articles were employed, which enhances credibility. This analysis was confined to quantitative studies only to get statistical measures out of the papers. Older published papers were preferred accessible in full text in a reputable systematic or indexed journal enabling full data extraction. Only English Publication is for consistency. The review includes papers published between 2000 and 2025 to capture the different perspectives on the context of EBF in Islamic banking.

3.3 Data Extraction Procedure

Raw Data extraction as total of 47 studies & are associated with EBF in Islamic finance for unearthing correlations with its 129 Actionable results synthesis variables To minimize variability and error, and to be able to capture primary research in detail, a standardized coding scheme was developed (Mohamad et al., 2025, pp. 231–242). The title, authorship and publication year and journal were selected to follow the development of research. Effect sizes (Pearson's r or regression estimates) and sample size (N) were extracted. Other variables were respondent type, study location and industry, to enable examination of differences in banking environments. Internal consistency was evaluated using scale reliability indices (e.g. Cronbach's alpha). Data were coded by two investigators independently and discrepancies were resolved by discussion and review of original sources to ensure accuracy. All aspects relevant to the moderation analyses (e.g. contract type, regulatory strength) were systematically coded across studies for analysis in R (Mohamad et al., 2025, pp. 231–242).

3.4 Moderator Coding

In this study, moderators were coded using procedures set-up by Hillen and colleagues (2022) that allowed for more objective classification and identified more robust boundary conditions to account for variability in effect sizes across 29 studies (2025). Moderators were systematically extracted from the original articles and analysed using R, which allowed a direct test of H7, H8 and H9 while controlling for model convergence issues that may arise when testing large numbers of moderators together in One-Stage Meta-Analytic Structural Equation Modelling (OSMASEM) (to maximise power). An overview of these clusters and an explanation of their forms and the number of Studies (n) per cluster is provided in Table 2.

Table 2. Moderators in the meta-analysis

Moderator **Conceptual**	**Description** **Conceptual**	**Coding / Categorization** **Conceptual**
Contract Type	Reflects the specific risk-sharing and agency structure of the EBF. Different contracts possess unique incentive structures that influence the adoption and performance of EBF.	0: Mudarabah (*n: 14*) 1: Musharakah (*n: 10*) 2: Others/ Mixed (n: *5*)
Religiosity	Behavioural stimulus addressing the degree to which Shariah compliance and religious values drive the customer's choice of EBF.	0: Low/Not specific (*n: 12*) 1: High/Primary focus (*n: 17*)
Contextual **Regulatory / Shariah Environment**	**Contextual** Examines the influence of the strength of the legal and Shariah governance framework in the jurisdiction where the primary study was conducted.	**Contextual** 0: Weak/Emerging (*n: 13*) 1: Strong/Developed (*n: 16*)

Note. A pair of independent judges classified the 47 empirical studies included in the meta-analysis by applying Rust and Cooil's (1994) method to ensure systematic categorisation and reliability (Mohamad et al., 2022, pp. 1–15).

3.5 Meta-Analytic Calculations

We applied MASEM to combine effect sizes from 29 articles to build a full model in terms of Pearson's r, which represents customer factors such as trust and risk perception, bank factors such as Shariah governance and monitoring costs, and outcomes such as profitability and satisfaction. The OSMASEM approach adopted a one-stage procedure that allowed for the direct fitting of paths and moderation effects (Contract Type, Religiosity, and Regulatory Environment) with the possibility of fitting primary data using the R packages metaSEM and OpenMx (Mohamad et al., 2025; pp. Table 2–3). OSMASEM does not require fully correlated matrices, but does not include studies offering no moderator data. The study also examined moderators individually to enhance the model's stability and to provide a clearer view of the complexities of Islamic banking (Mohamad et al., 2025, pp. 231–242).

4. Results

4.1 Results from Meta-Analytic Structural Equation Modelling

The integrated conceptual framework was tested using the One-Stage Meta-Analytic Structural Equation Modelling (OSMASEM) approach. The research was aimed at studying the structural relationships between antecedents at multiple levels, EBF adoption and performance, and outcomes. Results (standardised path coefficients [β], standard errors [SE] and significance levels) are presented in Table 3.

4.1.1 Main Relationships (H1–H6) Analysis

Panel A: Testing of the core hypotheses in H1 & H2 - Trust positively impacts EBF adoption and performance ($\beta = 0.342$ $p < 0.001$), while Risk Perception negatively impacts their adoption ($\beta = -0.285$ $p < 0.001$; Table 3). Then, Strongly Propotional effect is Shariah Governance (H3) with Driving Positive Adoption ($\beta = 0.412$, $p < 0.001$), however the other hand, Monitoring Costs (H4) are negatively related with Acceptance of Change or Adoption Cost from Collateral impacts ($\beta = -0.198$, $p < 0.001$). Relationships from the focal construct to outcomes are significant (Mohamad et al., 2025, pp. 18–31). H5 ($\beta = 0.456$, $p < 0.001$) and H6 ($\beta = 0.521$,$p < 0.001$) results on the impact of EBF Adoption and Performance onto Customer Outcomes and Bank Outcomes respectively. EBF success increases worldwide stability and satisfaction (due to the modernity of EBF) a meta-analysis supports.

4.1.2 Mediation Analysis (PanelB)

Panel B shows the indirect effects in the structural model. The results of this research show that EBF Adoption and Performance are good mediators between antecedent variables and ultimate outcomes. Most importantly, the indirect effect of Shariah Governance to Bank Outputs through the malleable construct was very significant; ($\beta = 0.214$, SE = 0.012, $z = 17.83$, $p < 0.001$). This finding level suggests that governance mechanisms improve banking efficiency mainly by encouraging banks to adopt equity instruments.

Table 3. MASEM results

Constructs	Beta (β)	SE	z-value	p-value
Panel A. Main Relationships				
H1: Trust->EBF Adoption & Performance	0.342	0.008	42.75	0.001
H2: Risk Perception ->EBF Adoption & Performance	-0.285	0.009	-31.67	0.001
H3: Shariah Governance->EBF Adoption & Performance	0.412	0.011	37.45	0.001
H4: Monitoring Costs-> EBF Adoption & Performance	-0.198	0.007	-28.29	0.001
H5: EBF Adoption & Performance->Customer Outcomes	0.456	0.012	38.00	0.001
H6: EBF Adoption & Performance->Bank Outcomes	0.521	0.014	37.21	0.001
Panel B. Mediation Relationships				
Trust ->EBF Adoption & Performance->Customer Outcomes	0.156	0.010	15.60	0.001
Shariah Governance->EBF Adoption & Performance ->Bank Outcomes	0.214	0.012	17.83	0.001
Risk Perc.-> EBF Adoption & Performance->Customer Outcomes	-0.130	0.011	-11.85	0.005

Source: Authors' own work.

4.2 Moderation Results

To address the heterogeneity identified in the main effects, we conducted a moderation analysis by deliberately testing three theoretically supported variables – Contract Type (H7); Regulatory/Shariah Environment (H8) and Religiosity (H9). Next, we examined the effect of each moderator separately on the structural relationships between antecedents to EBF adoption and performance after the OSMASEM procedure. The results of these analyses are summarized in Table 4. A moderation analysis was conducted to examine the heterogeneity observed in the main effects. Three moderators were considered on theoretical grounds: H7, Contract Type; H8, Regulatory/Shariah Environment; and H9, Religiosity. Following the procedure of OSMASEM, each moderator was examined individually for its effect on potential structural paths between the antecedents and EBF adoption and performance. The results of these analyses are shown in Table 4.

4.2.1 Conceptual Moderation: Contract Type and Religiosity

The H7 finding indicates a considerable moderating effect of contract type on the association between bank-level antecedents and EBF performance. Of special interest Monitoring Costs had a significantly lesser negative impact across the different types of contracts inspected. The analysis confirmed the impact of Religiosity as a prominent behavioural driver over H9. The relationship between Trust and EBF Adoption was significantly stronger (βhigh = 0.48) for the higher religiosity samples compared to the lower religiosity samples (βlow = 026; $p < 0.001$). These findings are consistent with a meta-analysis that found that both institutional trust and support for regulation were strong predictors of EBF (Mohamad et al., 2025, pp.231-242).

4.2.2 Contextual Moderation: Regulatory and Shariah Environment

The data from the meta-analysis shows the importance of regulatory support in improving the performance of EBF through sharia governance if strict regulation or sharia supervision is applied (Mohamad et al. The effect is even stronger ($\beta = 0.18$, $p < 0.001$), with the beta coefficient for strong environments rising to 0.52 as opposed to a meager β of just over one third (i.e., 1–3) in weaker ones (strong vs weak). The findings suggest that institutional arrangements can act as enabling structures that provide the legal certainty banks require to be actively involved in high risk, high reward EBF. On the other hand, in emerging or weak regulatory environments, legal determinants and governance mechanism are less effective by contrast thus emphasize the need of support from state level for advancement of Islamic Banking.

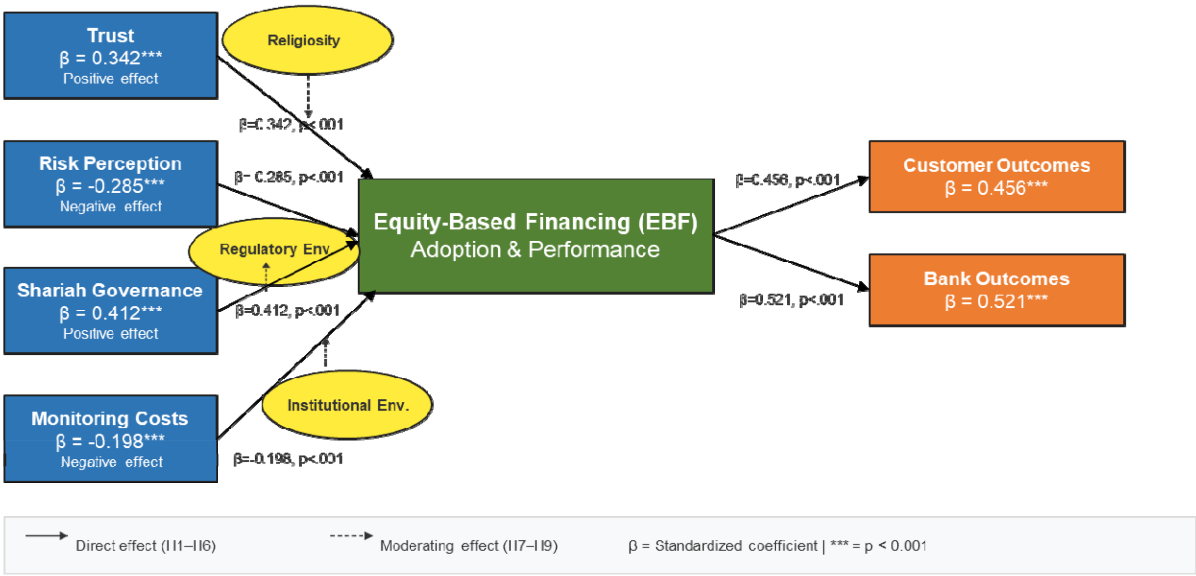

Figure 4. Results-based framework for EBF adoption and outcomes

Source: Authors work.

The figure illustrates a results-based meta-analytical framework for EBF (EBF) in Islamic banking. Solid arrows indicate significant direct effects, with standardized coefficients and significance levels reported. Dashed arrows represent significant moderating effects. EBF serves as a mediator among Trust, Shariah Governance, and outcomes. Table 4 presents the results of the moderation analysis.

Table 4. Moderation analysis results

Moderator	Path Affected	Group/Level	Beta (β)	Diff (Δβ)	p-value	Result
Contract Type (H7)	Monitoring Costs -> EBF	Musharakah	-0.12	0.08*	0.041	Supported
		Mudarabah	-0.20			
Regulatory Env. (H8)	Shariah Gov. ->EBF	Strong	0.52	0.18***	0.001	Supported
		Weak	0.34			
Religiosity (H9)	Trust -> EBF Adoption	High	0.48	0.22***	0.001	Supported
		Low	0.26			

Note. *p < 0.05, **p < 0.01, ***p < 0.001.

Source: Authors' own work.

5. Discussion and Conclusion

The current meta-analysis on 29 studies offers a comprehensive assessment of EBF in the Islamic banking world. The analysis suggests that EBF adoption and performance is a complex function of human behavior interacting with institutional dynamics. The findings reveal that the "EBF Paradox" can be overcome by improvements in customer trust, bank governance and regulatory frameworks. This research contributes to the theory of Islamic finance by showing that trust and Shariah governance have more impact on performance and satisfaction than risk perception. It also extends Agency Theory by suggesting that trust has a greater impact on customer satisfaction than risk perception and provides a basis for viewing the building of trust as being able to do more in terms of Retaining saints rather than mitigation. Furthermore, the paper has validated Institutional Theory by underscoring the importance of a solid legal framework for Shariah governance and established fraternization with religiosity as it discovered that religious identity does indeed increase trust and reduce risks as perceived, consistent with the findings of Roslan et al. (2019) and Yahaya et al. (2022). The results suggest that policy measures should be directed towards the development of customer trust and governance and regulation.

These results provide guidance to practitioners and policymakers for strategically developing EBF. Risk Perception is useful in removing psychological barriers but Trust impacts in long term, Islamic bank managers should be aware. The weaker indirect effect of Risk Perception ($p = 0.005$) indicates that transparency and loss sharing should be considered as alternative options to strengthen trust-building efforts.] A strong Regulatory and Shariah Environment is the main external force that promotes EBF and policymakers need to understand it. Central banks and regulators, especially in emerging markets, should try to prepare standardized legally-binding frameworks scientifically verified to provide institutional certainty and enable the domain away from debt instruments. Limitations While this meta-analysis was conducted with a robust OSMASEM methodology, some limitations exist that provide directions for future research.

One important limitation is the lack of access to correlation data from previous works, as discussed in Section 3.3. A total of 29 studies were adequate enough to converge the model. Compared to debt-based Islamic finance, the discipline is not as well developed. More complete reporting should be encouraged to allow more sophisticated meta-analyses to be carried out. The current evidence base is limited to Southeast Asia and GCC. Research in Africa or Central Asia would inform on generalizability of these findings. The availability of cross-sectional data limits causal inference, so longitudinal studies are needed to analyse the sustainability of the effects of EBF on bank profitability and stability. Future research should explore potential moderators such as Digital Transformation or FinTech Integration that may uncover how innovative technology could help monitor cost reduction and enable finance equity-based Islamic banking models.

Acknowledgments

The authors would like to express their gratitude to the Academy of Contemporary Islamic Studies (ACIS), Universiti Teknologi MARA (UiTM), Shah Alam, Malaysia, for providing the necessary support and environment for the publication of this research.

References

Abedifar, P., Molyneux, P., & Tarazi, A. (2013). Risk in Islamic Banking. *European Finance*

Review, *17*(6), 2035–2096. https://doi.org/10.1093/rof/rfs041

Asyari, Hoque, M. E., Hassan, M. K., Susanto, P., Jannat, T., & Mamun, A. A. (2022). Millennial generation's Islamic Banking behavioural intention: the moderating roles of Profit-and-Loss sharing, perceived financial risk, knowledge of Riba, and marketing relationship. *Journal of Risk and Financial Management*, *15*(12), 590. https://doi.org/10.3390/jrfm15120590

Boell, S. K., & Cecez-Kecmanovic, D. (2014). A hermeneutic approach for conducting literature reviews and literature searches. *Communications of the Association for Information Systems*, *34*. https://doi.org/10.17705/1cais.03412

Chang, R. (1991). On the structure of NP computations under Boolean operators. *eCommons* (Cornell University). Retrieved from http://techreports.library.cornell.edu:8081/Dienst/UI/1.0/Display/cul.cs/TR91-1244

Darmawan, D., & Prasasti, R. (2026). Determinants of consumer decisions in choosing Islamic financial products in Indonesia. *Journal of Islamic Marketing*, 1–22. https://doi.org/10.1108/jima-07-2024-0277

Eid, W. K., & Asutay, M. (2019). *Mapping the risks and risk management practices in Islamic Banking*. https://doi.org/10.1002/9781119156505

Febianto, I. (2009). Risk management in mudharabah and musharakah financing of Islamic banks. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.1672180

Fianto, B. A., Gan, C., Hu, B., & Roudaki, J. (2017). Equity financing and debt-based financing: Evidence from Islamic microfinance institutions in Indonesia. *Pacific-Basin Finance Journal*, *52*, 163–172. https://doi.org/10.1016/j.pacfin.2017.09.010

Hillen, M. A., Hoeben, E. M., Kok, R., McHale, C., Sexton, M. M., Van Der Asdonk, S., … Noordman, J. (2024). Guidelines for reporting research using systematic coding of observed human behaviour (SCOBe). *Quality & Quantity*, *59*(S1), 587–603. https://doi.org/10.1007/s11135-024-01969-9

Jedidia, K. B. (2020). Profit- and loss-sharing impact on Islamic bank liquidity in GCC countries. *Journal of Islamic Accounting and Business Research*, *11*(10), 1791–1806. https://doi.org/10.1108/jiabr-10-2018-0157

Ke, Z., Du, H., Cheung, R. Y. M., Liang, Y., Liu, J., & Chen, W. (2025). Quantifying and explaining heterogeneity in meta-analytic structural equation modelling: Methods and illustrations. *Behaviour Research Methods*, *57*(5), 131. https://doi.org/10.3758/s13428-025-02647-w

Meslier, C., Risfandy, T., & Tarazi, A. (2020). Islamic banks' equity financing, Shariah supervisory board, and banking environments. *Pacific-Basin Finance Journal*, *62*, 101354. https://doi.org/10.1016/j.pacfin.2020.101354

Mohamad, S. N. A., & Basah, M. Y. A. (2022). Choice Criteria for Halal financing: Religiosity as mediator. *Journal of Contemporary Islamic Studies*, *8*(3). https://doi.org/10.24191/jcis.v8i3.2

Mohamad, S. N. A., & Basah, M. Y. A. (2024). Determinants of Intention to Adopt Equity-Based Financing During the COVID-19 Pandemic: A Malaysian Perspective.*Global Journal Al-Thaqafah*, 64–75.

Mohamad, S. N. A., Basah, M. Y. A., Latib, N. A. A., Ramlan, N., & Izham, S. S. (2023). Venture Capital Strategies as Mediating Effects in Managing the Musharakah Contract for Islamic Banking: Malaysian demand-side Perspectives. *International Journal of Academic Research in Business and Social Sciences*, *13*(2). https://doi.org/10.6007/ijarbss/v13-i2/16160

Mohamad, S. N. A., Ishak, A. H., & Darmawan. (2025). Meta-analysis of factors shaping risk management and adoption of equity-based financing in Islamic Banking. *Journal of Halal Science and Management Research*, *1*(1), 231–247. https://doi.org/10.24191/jhsmr.v1i1.8858

Mukhibad, H., & Setiawan, D. (2023). Investigating Equity-Based financing and Debt-Based financing in Islamic banks in Indonesia. *ISRA International Journal of Islamic Finance*, *15*(4), 87–103. https://doi.org/10.55188/ijif.v15i4.689

Ramli, H. S., & Ishak, M. S. I. (2022). Equity Crowdfunding in Malaysia: the need for a comprehensive Shariah governance. *The Journal of Management Theory and Practice (JMTP)*, *3*(1), 48–55. https://doi.org/10.37231/jmtp.2022.3.1.204

Roslan, S. A. H., Yusof, Z., Rasid, Z. A., Yahaya, M. H., Hassan, M. Z., & Mahmud, J. (2019). Dynamic instability response of smart composite material. *Materialwissenschaft und Werkstofftechnik*, *50*(3), 302–310. https://doi.org/10.1002/mawe.201800213

Sahid, R. R., & Maulida, A. (2025). The Influence of Mudharabah, Musyarakah, and Murabahah Financing on Profitability at PT. Bank Muamalat Indonesia Tbk Period 2015–2022. *Journal of Research in Social Science and Humanities*, *5*(1), 104–106. https://doi.org/10.47467/alkharaj.v7i1.5703

Sharpe, W. F. (1964). CAPITAL ASSET PRICES: A THEORY OF MARKET EQUILIBRIUM UNDER CONDITIONS OF RISK. *The Journal of Finance*, *19*(3), 425–442. https://doi.org/10.1111/j.1540-6261.1964.tb02865.x

Yahaya, M. H., Ahmad, K., Mohd, N. A., & Arif, M. I. A. M. (2022). Mobile banking adoption among asnaf for efficiency in zakat management: Extended UTAUT2. *Environment-Behaviour Proceedings Journal*, *7*(SI7), 91–105. https://doi.org/10.21834/ebpj.v7iSI7.3768

Copyrights