# Islamic Production Theory: Production and Distribution Costs

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**ABSTRACT**
Production theory in Islamic economics is a concept that regulates production activities based on sharia principles with the aim of creating benefits, justice, and community welfare. In contrast to conventional production theories that are oriented towards profit maximization, production in Islam places moral values, ethics, and social responsibility as integral parts of the production and distribution process. This research aims to analyze the concept of Islamic production theory, production costs, and distribution mechanisms from an Islamic economic perspective. The research uses a qualitative approach with the library *research method*. Data was obtained from various secondary sources in the form of scientific journals, books, regulations, and literature related to Islamic economics, then analyzed using *content analysis techniques*. The results of the study show that the production process in Islam must be based on the principles of halal, justice, efficiency, and sustainability by utilizing resources optimally without causing environmental damage or exploitation of labor. The cost of production is seen as an economic sacrifice that must be managed efficiently and transparently, while distribution is directed to realize the equitable distribution of welfare through a mechanism that is fair and free from the practice of usury, gharar, and monopoly. Thus, Islamic production theory provides an economic paradigm that is not only oriented towards the achievement of profits, but also on social responsibility, business sustainability, and the achievement of Islamic sharia goals (*maqāṣid al-shari'ah*).

**Keywords:** Islamic production; production costs; distribution.

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## INTRODUCTION

Production is one of the main activities in the economic system that plays a role in creating added value, meeting people's needs, and encouraging economic growth. In the perspective of modern economics, production activities are generally directed at maximizing profits through efficient management of production factors. However, an overly profit-oriented orientation often ignores ethical, fair, and sustainability aspects, giving rise to various problems such as labor exploitation, environmental damage, income distribution inequality, and irresponsible business practices (Hassan & Lewis, 2023).

Islamic economics offers a different paradigm in looking at production activities. Production is not only understood as the process of producing goods and services for profit, but also as a form of worship and human responsibility as a caliph on earth. Therefore, all production activities must be based on the principles of monotheism, justice (*'adl*), balance (*tawazun*), trust, and benefit (*maslahah*). These principles direct producers to produce products that are halal, useful, quality, and do not cause harm to society and the environment (Ascarya, 2022).

In Islamic production theory, the cost of production is not only seen as an economic sacrifice incurred to produce goods or services, but also as a mandate that must be managed efficiently, transparently, and responsibly. Efficiency in Islam is not interpreted as an effort to reduce costs at the expense of workers' rights or product quality, but as optimizing the use of resources in accordance with sharia principles. Thus, production cost management must pay attention to the balance between economic efficiency, labor welfare, environmental sustainability, and business sustainability (Rahman & Karim, 2024).

In addition to the production process, distribution is also a very important aspect in the Islamic economy. Distribution not only aims to distribute goods and services to consumers, but also to realize equal distribution of welfare and reduce economic disparities. Islam prohibits the practice of monopoly, hoarding (*ihtikar*), price manipulation, and various forms of distribution that are detrimental to society. On the contrary, the Islamic distribution system encourages the creation of a market mechanism that is fair, transparent, and provides equal opportunities for all economic actors. Instruments such as zakat, infaq, alms, and productive waqf also play a role in strengthening the distribution of wealth so that it does not only circulate to certain groups (Ismail et al., 2025).

The development of the halal industry, digital transformation, and increasing public awareness of halal product consumption further strengthen the importance of applying Islamic production theory in the business world. However, the implementation of sharia production and distribution principles still faces various challenges, including the dominance of conventional production systems, low sharia economic literacy among business actors, and the lack of optimal integration of sharia values in the management of production costs and distribution chains. This condition shows that the study of Islamic production theory is still relevant to be developed as a foundation in building a production system that is not only efficient, but also just and sustainable.

Based on this description, this study aims to analyze the concept of Islamic production theory, production cost management, and distribution mechanism from an Islamic economic perspective. This study is expected to provide a more comprehensive understanding of the application of sharia principles in production and distribution activities so as to be able to support the creation of an economic system that is productive, fair, and oriented towards the benefit of the community.

**METHODS**

This research uses a qualitative approach with the type of library *research*. This approach was chosen because the research aims to examine in depth the Islamic theory of production, production costs, and distribution mechanisms based on the perspective of Islamic economics through various relevant literature sources. Literature studies are carried out by collecting, studying, and analyzing various scientific references so as to obtain a comprehensive understanding of the concepts of production, cost management, and distribution in the Islamic economic system (Creswell & Creswell, 2023; Zed, 2018).

The data sources used are secondary data, obtained from national and international scientific journals, Islamic economics books, the Qur'an and hadith as the main legal sources, the Fatwa of the National Sharia Council-Indonesian Ulema Council (DSN-MUI), regulations related to sharia economic activities, as well as official documents issued by Bank Indonesia, the Financial Services Authority (OJK), and other related institutions. The selection of sources is carried out based on the level of credibility, relevance, and up-to-date in order to provide a strong theoretical foundation in accordance with the research focus (Sugiyono, 2023).

The data collection technique is carried out through documentation, namely by identifying, collecting, grouping, and reviewing various literature related to Islamic production theory, production costs, and distribution systems in Islamic economics. The literature used is prioritized to come from reputable scientific publications, the results of the latest research, and references that are directly related to the research theme so as to be able to provide an objective picture of the development of the theory and its implementation.

Data analysis uses *content analysis* which is carried out through the stages of data reduction, data presentation, interpretation, and conclusion drawn. The data that has been collected is then classified based on the themes of discussion, including the concept of production in Islam, production factors, production costs, distribution mechanisms, and the implementation of sharia principles in production and distribution activities. Furthermore, a descriptive-analytical analysis was carried out to explain the relationship between the concepts and their relevance in realizing an efficient, just, and benefit-oriented production system in accordance with the goals of Islamic sharia (*maqāṣid al-syarī'ah*) (Miles, Huberman, & Saldaña, 2014; Creswell & Creswell, 2023).

**RESULTS AND DISCUSSION**

**The Concept of Production in Islamic Economics**

Production in the perspective of Islamic economics has a broader definition compared to conventional economics. Terminologically, production in Islam is a human effort to transform or develop natural resources into goods and services that are beneficial to human life in accordance with sharia principles (Al-Sadr, 2020). This process includes not only the physical transformation of materials, but also the improvement of quality and utility that provides benefits to society as a whole (Anto, 2021).

There are several fundamental principles that are the basis of the concept of production in Islamic economics. First, the principle of monotheism which recognizes that all resources belong to Allah SWT and humans are only as caliphs on earth. This principle implies that the production process must be carried out by considering aspects of compliance with sharia rules and social responsibility (Ibrahim, 2020). Second, the principle of 'adl (justice) which requires that the production process provide proportionate rights to all parties involved, including capital owners, workers, consumers, and the wider community (Hasan, 2019). Third, the principle of maslahah (benefit) which emphasizes that the main goal of production is to create prosperity for all mankind, not just profits for a few (Kahf, 2018).

In Islamic production theory, there are three main factors of production that are the basis of economic activities, namely: natural resources, labor, and capital. However, Islam's view of these three factors is different from conventional economics. Natural resources in Islam are considered as a mandate from Allah SWT that must be managed wisely and sustainably, not as a commodity that can be exploited without limits (Chapra, 2017). Workers have high dignity and are entitled to fair remuneration according to their contribution to the production process (Siddiqi, 2019). Capital in Islam is not only limited to money or physical assets, but also includes knowledge, skills, and innovations that can increase productivity halal and responsibly (Ibrahim, 2020).

Production theory in Islamic economics also emphasizes the importance of the concept of ijtihad in the development of technology and production methods. Ijtihad in this context is an effort to find new ways in the production process that are more efficient, environmentally friendly, and in accordance with sharia principles (Hasan, 2019). This concept is particularly relevant in the era of the industrial revolution 4.0 where digital technology and artificial intelligence increasingly dominate global production processes. Islamic economics does not reject technological advancement, but emphasizes that technology must be used to achieve noble goals and provide benefits to all of humanity (Kahf, 2018).

Another fundamental difference between the concept of production in Islamic and conventional economics lies in the ultimate goal of the production process itself. In the capitalist economy, the main goal of production is to maximize profits for capital owners, while in Islamic economics, the goal of production is to achieve falah (happiness in this world and the hereafter) through the fulfillment of basic human needs in a fair and sustainable manner (Chapra, 2017). These differences result in differences in production decision-making, resource allocation, and ethical standards applied in the production process (Siddiqi, 2019).

**Production Costs According to Islamic Perspective**

The cost of production in an Islamic perspective has a more comprehensive concept compared to the conventional economic view. In Islamic economics, production costs are not only calculated in terms of materials such as the cost of raw materials, labor, and capital, but also include non-material aspects such as social and environmental costs that may arise from the production process (Al-Sadr, 2020). This concept is known as *just cost* or fair cost which considers all impacts of the production process, both direct and indirect (Anto, 2021).

One of the fundamental principles in the Islamic concept of cost of production is the prohibition of the practice of *gharar* (uncertainty) and *riba* (interest). The prohibition *of gharar* in the context of production costs means that all cost components must be clear, transparent, and accountable. There should be no hidden costs or manipulation of information that can harm one party (Ibrahim, 2020). Meanwhile, the prohibition of *riba* implies that the cost of capital should not be set based on an exploitative interest system, but rather must be based on the principle of fair profit sharing as in the *mudharabah* or *musharakah scheme* (Hasan, 2019).

The concept of production costs in Islamic economics also introduces the term *fair wage* which is different from *the market wage* in the conventional economy. *Fair wages* are wages that are not only based on the law of demand and supply in the labor market, but also consider aspects of the basic needs of workers and their families, inflation rates, and workers' contributions to company productivity (Kahf, 2018). This concept is in line with Islamic principles of the need to give workers rights before their sweat dries and to ensure that workers can live a decent life (Chapra, 2017).

In the context of production cost accounting, Islamic economics developed the concept *of Islamic cost accounting* which distinguishes between halal and haram costs. Halal costs are costs incurred for production purposes that are in accordance with sharia, such as the purchase of halal raw materials, fair wage payments, and operational costs that do not damage the environment (Siddiqi, 2019). Meanwhile, haram costs are costs incurred for activities that are prohibited in Islam, such as bribery fees, costs for the production of haram goods, or costs that harm other parties (Ibrahim, 2020).

The calculation of production costs in Islamic economics also takes into account the concept *of opportunity cost* from a broader perspective. In a conventional economy, *opportunity cost* is calculated based on the best alternative value sacrificed to produce a good or service. However, in Islamic economics, *opportunity costs* also consider the social and spiritual impacts of the use of certain resources (Hasan, 2019). For example, the use of agricultural land for liquor production may be economically profitable, but it has a very high *opportunity cost* from an Islamic perspective because it damages the morale of the community (Kahf, 2018).

Another important concept in Islamic production costs is *cost efficiency*, which is different from *cost minimization* in conventional economics. *Cost efficiency* in Islam does not mean minimizing costs alone, but achieving an optimal level of efficiency by considering aspects of quality, sustainability, and social justice (Chapra, 2017). For example, the use of environmentally friendly technology may have a higher initial cost, but it is more efficient in the long run because it reduces the cost of environmental damage and improves people's well-being (Siddiqi, 2019).

**Distribution of Production in the Islamic System**

The distribution of production is one of the most important aspects of Islamic economic theory that distinguishes it from other economic systems. In an Islamic perspective, the distribution of production must be carried out fairly and equitably based on sharia principles that emphasize the balance between individual rights and social responsibility (Al-Sadr, 2020). The main purpose of distribution in Islam is to create social welfare (*falah*) by ensuring that all parties involved in the production process get a fair share according to their contribution (Anto, 2021).

One of the most distinctive mechanisms for the distribution of production in Islamic economics is the concept *of mudharabah* (profit sharing). In this scheme, the owner of capital (shahibul mal) and business manager (mudharib) share production results based on a pre-agreed ratio (Ibrahim, 2020)). This system is different from the interest system in the conventional economy where the owner of capital receives a fixed reward regardless of the results of the effort. In *mudharabah*, risks and profits are shared according to the principles of justice and collective responsibility (Hasan, 2019).

Another important distribution mechanism in Islamic economics is *musharakah* (partnership) which involves the pooling of capital from several parties to run a joint venture. In this system, each partner has the right to participate in business management and share profits according to the proportion of capital contribution (Kahf, 2018). This concept reflects the Islamic principle of the importance of cooperation and collective responsibility in economic activities. *Musharakah* can also be combined with *mudharabah* to create a more flexible and equitable distribution scheme (Chapra, 2017).

In addition to the profit-sharing mechanism, the distribution of production in Islam is also through the concept *of ujrah* (service reward) given to labor. *Ujrah* differs from wages in the conventional system because it is not only based on working time, but also on the quality and results of work (Siddiqi, 2019). In Islam, labor is considered a partner in production who is entitled to a fair share of the produce according to its contribution. This concept is in line with the hadith of the Prophet PBUH which states that "give the worker wages before his sweat dries" (Ibrahim, 2020)).

Other important instruments in the distribution of Islamic production are zakat, infaq, and alms. Zakat is a ritual obligation imposed on certain assets with a predetermined nisab level. The results of zakat collection are distributed to eight groups that are entitled to receive (*asnaf*) as stipulated in the Qur'an (Hasan, 2019)). Infak and alms are voluntary but highly recommended in Islam to create social balance and reduce economic inequality (Kahf, 2018). These three instruments serve as effective wealth redistribution mechanisms in the Islamic economic system.

The distribution of production in Islam also pays attention to the concept of *intergenerational equity* which emphasizes the need to maintain the sustainability of resources for future generations (Chapra, 2017). This principle requires that production is not only distributed to meet the needs of the current generation, but must also be allocated for long-term investments that will benefit future generations. This concept is reflected in the Islamic prohibition against waste (*israf*) and damage (*ifsad*) that can threaten the sustainability of resources (Siddiqi, 2019).

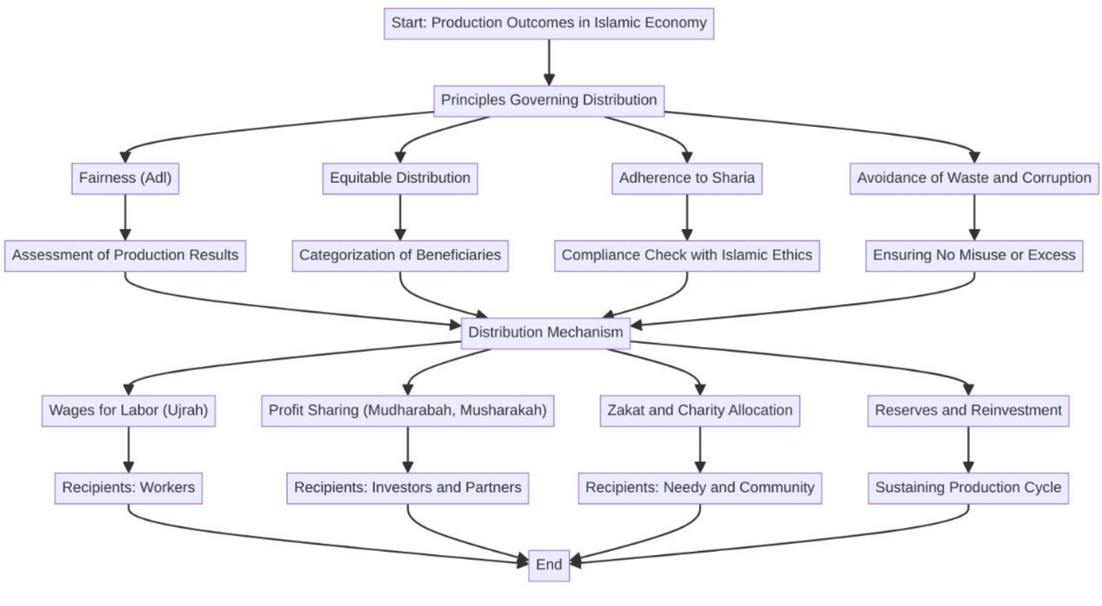

*Figure 1. Distribution of production flow diagrams in the Islamic economic system*

**Comparison with Conventional Economics**

The fundamental difference between Islamic production theory and conventional economics can be seen from various aspects, ranging from production goals, resource allocation mechanisms, to the distribution of production (Al-Sadr, 2020.). Conventional economics, especially in the neoclassical tradition, views production as an activity to convert inputs into outputs with the aim of maximizing profits or utilities (Anto, 2021). On the contrary, Islamic economics views production as a worship that must be carried out with good intentions and in accordance with sharia principles to achieve prosperity in this world and the hereafter (Ibrahim, 2020).

In the aspect of production costs, conventional economics focuses on minimizing costs to achieve production efficiency and maximize profits. This concept often ignores external costs such as the environmental and social impacts arising from the production process (Hasan, 2019). In contrast, Islamic economics emphasizes the concept *of just cost* which takes into account all costs, both internal and external, in the production process (Kahf, 2018). In Islam, the ideal cost of production is one that is not only economically efficient, but also socially just and environmentally friendly (Chapra, 2017).

Another significant difference lies in the view of natural resources and labor. In conventional economics, natural resources and labor are often treated as commodities whose value is determined by market mechanisms (Siddiqi, 2019)). This can result in overexploitation of natural resources and labor exploitation to minimize production costs. On the other hand, in Islamic economics, natural resources are seen as a mandate from Allah SWT that must be managed wisely and sustainably, while labor has high dignity and is entitled to fair remuneration according to its contribution (Ibrahim, 2020)).

In terms of the distribution of production, conventional economics relies on market mechanisms and factors of production to determine the share of each party. In this system, capital owners often get the largest share through a system of interest or dividends, while workers receive wages determined by the labor market (Hasan, 2019). On the other hand, Islamic economics offers a variety of fairer distribution mechanisms such as *mudharabah*, *musharakah*, and *ujrah* that ensure that all parties get a proportionate share according to the contribution and risks incurred (Kahf, 2018).

In ethical and moral aspects, conventional economics often separates between economic activity and ethical considerations, assuming that the market will regulate itself efficiently (Chapra, 2017). In contrast, Islamic economics integrates ethical and moral dimensions in every aspect of production and distribution. Principles such as halal, thayyib (good), and 'adl (fair) are standards that must be met in every economic activity (Siddiqi, 2019). This integration is intended to create an economic system that is not only efficient but also fair and sustainable (Ibrahim, 2020).

**Contemporary Implementation and Challenges**

The implementation of Islamic production theory in the context of contemporary economics faces a variety of complex challenges and opportunities. On the one hand, the growing awareness of the importance of an ethical-based and sustainability economy has created a greater demand for Islamic economic alternatives (Al-Sadr, 2020). On the other hand, the dominance of the global capitalist economic system and the lack of a comprehensive understanding of Islamic economics among practitioners and policymakers remain major obstacles (Anto, 2021).

One of the potential sectors for the implementation of Islamic production theory is Micro, Small, and Medium Enterprises (MSMEs). MSMEs often have a more flexible structure and are close to community values, making it easier to adopt Islamic production principles such as *mudharabah* and *musharakah* (Ibrahim, 2020)). Several case studies show that MSMEs that implement Islamic economic principles tend to be more resilient in dealing with economic crises and have better relationships with stakeholders (Hasan, 2019). However, the main obstacles for MSMEs are limited access to sharia financing and lack of Islamic economic literacy among business actors (Kahf, 2018).

Another challenge in the implementation of Islamic production theory is the standardization and harmonization of practices. Although the principles of Islamic economics are sourced from the Qur'an and As-Sunnah, their interpretation and implementation can vary between institutions and countries (Chapra, 2017). The lack of universal standards often creates confusion among practitioners and consumers, as well as hinders the integration of Islamic economics into the global economic system (Siddiqi, 2019). Efforts to create international standards such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have made significant contributions, but there are still many areas that need to be developed (Ibrahim, 2020).

The dynamics of digital technology and the industrial revolution 4.0 have created new opportunities for the implementation of Islamic production theory. Blockchain technology, for example, can support transparency in *mudharabah* and *musharakah contracts*, as well as facilitate a fairer and more efficient distribution of production (Hasan, 2019)). Islamic fintech platforms can also increase MSMEs' access to profit-sharing-based financing, while artificial intelligence technology can help optimize production costs by considering sustainability and social justice aspects (Kahf, 2018). However, the development and implementation of this technology requires significant investment and special expertise that is still scarce in the field of Islamic economics (Chapra, 2017).

Regulatory challenges are also an important obstacle in the implementation of Islamic production theory. Many countries, including countries with a majority Muslim population, still have regulatory frameworks oriented towards conventional economic systems (Siddiqi, 2019)). Regulations on taxation, consumer protection, and business practices often do not accommodate Islamic economic mechanisms such as *mudharabah* and *musharakah* (Ibrahim, 2020)). Efforts to create a regulatory framework that supports the Islamic economy require strong political will and collaboration between governments, academics, and practitioners (Hasan, 2019).

Islamic economic education and literacy are crucial aspects that are often overlooked in the implementation of Islamic production theory. Many business actors and consumers still have a limited understanding of the principles of Islamic economics and their implementation in business practices (Kahf, 2018). This lack of literacy results in misunderstandings about the concept of Islamic economics, such as the perception that Islamic economics is only limited to the prohibition of interest without understanding the philosophy and alternative mechanisms offered (Chapra, 2017). Therefore, investment in Islamic economic education at all levels, from schools to professional training, is essential for the successful implementation of Islamic production theory (Siddiqi, 2019).

**CONCLUSION**

Islamic production theory is an economic concept that places production activities as part of the worship and responsibility of humans as caliphs on earth. In contrast to conventional production theories that are oriented towards profit maximization, production in Islamic economics emphasizes a balance between achieving economic benefits, adherence to sharia principles, and social and environmental responsibility. The entire production process must be carried out based on the values of monotheism, justice (*'adl*), trust, benefits (*maslahah*), and sustainability so that they are able to produce halal, quality, and beneficial goods and services for the community.

The results of the study show that the management of production costs in the Islamic economy is not only directed at the efficiency of resource use, but must also pay attention to the aspect of fairness in the provision of wages, the use of halal raw materials, protection of the environment, and the fulfillment of the rights of all parties involved in the production process. Meanwhile, the distribution system in Islamic economics aims to realize the equitable distribution of welfare through a mechanism that is fair, transparent, and free from the practice of usury, gharar, maysir, monopoly, and hoarding (*ihtikar*). Distribution is not only carried out through market mechanisms, but also strengthened by Islamic social financial instruments such as zakat, infaq, alms, and productive waqf to reduce economic disparities and improve people's welfare.

Thus, Islamic production theory offers a more comprehensive economic paradigm because it integrates economic, social, moral, and spiritual dimensions in every production and distribution activity. The application of these principles is expected to be able to create a productive, efficient, just, sustainable production system, and contribute to the realization of community welfare in accordance with the goals of Islamic sharia (*maqāṣid al-syarī'ah*).

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