

198885 - They formed a business partnership; how should the profits be shared among them?

the question

I am from Sri Lanka. I started to establish a company in partnership with three other partners, and with myself we are four partners.

Their roles are as follows: the first partner is an investor; the second partner is the one who will bring the projects; the third partner is the one who will implement the projects; the fourth partner will also be involved in implementing projects, but not on a continual basis.

We have encountered some difficulty in distributing shares among us. I hope that you can advise us in the light of the Qur'an and Sunnah.

Detailed answer

The partnership that has been established among you is called, in fiqhi terminology, *mudaarabah*; it is a partnership in which the money (capital) comes from one party and the work is done by another party, whether the party is one person or more than one person. The profits are shared among the partners according to what has been agreed upon among them, on condition that the profit or share agreed upon is a specific percentage of the profit, such as half, one quarter and so on.

It says in a statement of the Sharee'ah Standards Council:

1.

It is stipulated with regard to profits that the manner in which they are distributed should be known in a manner that rules out there being any unknown factors and prevents disputes arising; that should be on

the basis of a known share of the profits, not on the basis of a set amount of money or a certain percentage of the capital.

2.

The agreement on the shares of profits must be made at the time of drawing up the partnership contract. It is also permissible for both parties to change the amount of the shares at any time, with the consent of both, so long as the period to which this agreement applies is stated clearly.

3.

If neither party said anything about the shares of profits, if there is a custom to refer to with regard to this distribution, then it must be followed, such as if the custom is that the profit is to be shared between them equally. If there is no such custom, then the mudaarabah partnership is rendered invalid, and the active partner may take a wage like that of his peers for the work that he has done. End quote.

Based on that, the basic principle is that if each partner's share of the profits is known from the beginning of the partnership between them, that agreement should be followed.

If there was no such agreement or stipulation of shares of the profits, then reference must be made to custom. The cases of partnerships similar to yours should be examined to see how much each party took, then that should be applied to your partnership.

If there is no such custom that you can follow, then this partnership becomes invalid, and you three are entitled to a payment from that investor (i.e., payment that is deserved by someone who does work like that which you did) in return for the work that you have done.

And Allah knows best.