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The Role of Amanah and Financial Solvency in Improving Financial Performance: Literature Review

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Abstract

This study explores the integration of Amanah (trustworthiness) within the concept of financial solvency to enhance corporate financial performance. Drawing upon Capital Structure and Trade-Off Theories, it develops a new paradigm called Amanah Financial Solvency (AFS), a fusion of financial prudence and Islamic ethical stewardship. Through a comprehensive literature review from Scopus, WoS, ScienceDirect, and Emerald databases, this study reveals that Amanah transforms solvency from a mere financial ratio into a moral construct grounded in accountability, transparency, and integrity. Theoretically, AFS extends traditional solvency frameworks by embedding moral consciousness into financial decision-making. Empirically, it bridges inconsistencies in solvency performance relationships by introducing Amanah as a moderating factor. The study concludes that sustainable financial performance arises not only from rational optimization but also from the ethical equilibrium between profitability, responsibility, and divinity.

Keywords: *Amanah Financial Solvency, Capital Structure, Financial Risk, Islamic Ethics, Financial Performance.*

Introduction

For decades, the discourse on capital structure has remained a central and evolving topic in the field of corporate finance. The intellectual roots of this discussion trace back to the seminal work of Modigliani & Miller (1958), whose theorem posited that in a perfect market, capital structure is irrelevant to firm value. This foundational idea spurred an enduring scholarly debate that has been expanded and refined by later theorists such as Jensen & Meckling (1976), who introduced the agency theory highlighting the conflicts of interest between managers and shareholders; Rajan & Zingales (1995), who emphasized institutional and market determinants; Fama & French (2012); and Brealey (2014), who extended valuation models to include financial behavior and firm performance. These theories collectively enriched the understanding of how debt–equity decisions influence corporate sustainability and profitability.

Subsequent developments brought new dimensions into this debate. The Trade-off Theory (TOT), Kraus & Litzenberger (1973) suggested that firms maximize their value by balancing the tax benefits of debt against the costs of potential bankruptcy, thereby establishing an equilibrium point of optimal leverage (Adiya, Hamidi, Rahim, & Adrianto, 2023; Vijayakumaran & Vijayakumaran, 2019; Zeitun & Goaied, 2022). Meanwhile, the Pecking Order Theory (POT) Myers & Majluf (1984) argued that firms follow a financing hierarchy, preferring internal funds over external borrowing, and debt over equity issuance based on the level of information asymmetry (Bui, Nguyen, & Pham, 2023; Cohen & Yosef, 2020; Maurin, Laurent, & Rozalia, 2020; Ruslim & Michael, 2019; Myers, 2018). Yet, despite these theoretical advances, empirical findings remain fragmented and sometimes contradictory (Ahmed et al., 2024). For instance, while some studies reveal a positive correlation between leverage and firm performance, others highlight its detrimental impact, particularly among smaller enterprises where financing constraints and asymmetric information are prevalent (Alabdulkarim, Kalyanaraman, &

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Alhussayen, 2024; Boshnak, 2023; Ayaz, Zabri, & Ahmad, 2021; Birhane, Borji, Amentie, & Kant, 2024; Olusola, Mengze, Chimezie, & Chinedum, 2022).

Among the core dimensions underpinning these theories is financial solvency, a construct that encapsulates a firm's capacity to meet its long-term obligations and maintain financial health. Solvency represents not merely a financial indicator but also a reflection of organizational resilience and stability (Kliestik, Valaskova, Lazaroiu, Kovacova, & Vrbka, 2020; Zabolotnyy & Wasilewski, 2019; Badi & Ishengoma, 2021; Mohammed & Musa Mubi, 2020). Empirical evidence indicates that sound solvency management through prudent debt control, diversification of income, cash flow regulation, and transparency enhances a company's sustainability (Batrancea, 2021; Santomil & Otero González, 2020). However, the challenge intensifies for Micro, Small, and Medium Enterprises (MSMEs), which often operate under conditions of limited capital access, insufficient collateral, and high borrowing costs (Boshnak, 2023; Kijkasiwat & Phuensane, 2020). In these settings, solvency becomes both a determinant of survival and a measure of managerial prudence (Wu, Opare, Bhuiyan, & Habib, 2022; Ayoush, Toumeh, & Shabaneh, 2021; Hussain, Wen, Hussain, Saad, & Zafar, 2022; Nga & Long, 2021).

Despite the abundance of theoretical frameworks and empirical inquiries, most studies on capital structure and solvency remain confined within a materialist perspective, focusing solely on financial optimization and risk mitigation (Daier, Albadran, & Rodin, 2022; Mathur & Kasper, 2019; Poshtdar, Sarraf, Emamverdi, & Noorolahzadeh, 2024). This reductionist approach overlooks the moral, ethical, and spiritual dimensions that may fundamentally shape financial behavior, particularly within Islamic economic systems, where business practices are considered acts of worship and accountability to God (Ghoniyah & Hartono, 2014). Such a paradigm shift introduces the necessity to revisit conventional financial theories through the lens of Tauhidic values, where every economic decision intertwines worldly objectives (*al-dunya*) and afterlife accountability (*al-akhirah*) (Abdullah, Raja Musa, & Ali, 2011; Saleh, Rahman, & Hassan, 2008).

Several conceptual attempts have been made to integrate these values. For example, Ihsan & Ayedh (2015) proposed *amanah* (trustworthiness) as a cornerstone in Islamic governance, emphasizing moral responsibility and transparency. Similarly, Kamaruddin & Auzair (2019) developed a framework for *Integrated Islamic Financial Accountability*, yet their studies remained largely conceptual, lacking empirical testing. Moreover, empirical studies linking financial solvency and firm performance, such as those by Mathur & Kasper (2019), Verdilou et al. (2022), and Alrikabi (2023), have not incorporated faith-based accountability as a moderating or mediating factor. Consequently, a conceptual and empirical void persists at the intersection of capital structure, financial solvency, and Islamic ethical principles. This requires further theoretical study and empirical data testing. Alvarez-Torres et al. (2019) found that the Entrepreneurial Orientation strategy cannot be applied to the financial performance of every company. Cho & Lee (2020) found that entrepreneurial orientation supports the achievement of financial performance through the mediation of market orientation, but not through learning orientation. Hughes et al. (2021) found that the realization of financial performance depends on the management of human resource capital and local business conditions. The controversy of the study is shown by Fariz et al. (2020) that accounting conservatism is a feature of corporate financial statements that comply with Sharia in Malaysia, and that accounting conservatism has a significant relationship with financial performance. Mathur & Kasper (2019) and Poshtdar et al. (2024) that financial solvency affects financial performance. Verdilou et al. (2022) and Horobet et al. (2021) state that financial solvency affects financial performance. Daier et al. (2022) and Alrikabi (2023) state that financial solvency does not affect financial performance.

This research acknowledges that such a gap extends beyond theoretical boundaries; it represents a missed opportunity to contextualize financial decision-making as both a moral and strategic act. MSMEs' business operations, often community-based and value-driven, provide an ideal setting to empirically examine how the integration of *amanah* within financial management practices can enhance solvency and performance. To bridge this intellectual and practical divide, this study introduces a new conceptual framework termed Amanah Financial Solvency (AFS), a model that synthesizes Trade-off Theory and Islamic Tauhidic Paradigm. Unlike conventional solvency concepts centered solely on balance-sheet strength, *Amanah Financial Solvency* redefines solvency as both a financial capability and a spiritual commitment to honor obligations with integrity, transparency, and moral accountability (Albaity & Rahman, 2019). Within this model, *amanah* operates as a spiritual moderator that aligns financial discipline with ethical stewardship, thereby fostering sustainability and stakeholder trust (Obalowu & Adibah, 2023).

The novelty of this research lies in its theoretical, contextual, and practical contributions. Theoretically, it extends capital structure theory by embedding moral and spiritual accountability within solvency mechanisms. Practically, it proposes a faith-based governance model that may serve as a policy reference for organizational financial and performance enhancement in Muslim-majority economies. Therefore, this study aims to develop and empirically validate the Amanah Financial Solvency (AFS) model as a bridge between financial prudence and spiritual ethics. Specifically, it examines how incorporating the principle of amanah into capital structure and solvency decisions affects the financial performance. The overarching objective is to demonstrate that sustainable financial performance is not merely an outcome of rational optimization but a manifestation of ethical consciousness, a harmony between profitability, responsibility, and divinity.

Literature Review

Capital Structure Theory

The evolution of financial management theories has long been anchored in the quest to understand how firms finance their operations and maximize value. The intellectual trajectory of capital structure theory began with the Financial Structure Theory, which offered early insights into how a firm's value could be assessed through three foundational approaches: the Net Profit Approach, the Net Operating Income Approach, and the Traditional Approach (Kruk, 2021). The formal birth of modern capital structure theory is attributed to Modigliani & Miller (1958), who argued that in the absence of taxes, bankruptcy costs, and agency problems, the capital structure of a firm is irrelevant to its value.

Building upon these foundations, subsequent theorists sought to address the imperfections omitted in the Modigliani-Miller model. The Trade-off Theory (TOT) emerged as one of the most influential refinements, emphasizing that firms strive to balance the tax benefits of debt with the rising costs of financial distress and agency conflicts (Stiglitz, McFadden, & Peltzman, 1987). Later refinements by Myers (2018), Rubenstein (1973), and Haugen & Papas (1976) further formalized this trade-off mechanism: firms increase leverage until the marginal tax benefit of debt equals the marginal cost of financial distress. The Trade-off Theory thus provides a rational explanation for why firms typically finance themselves through a mixture of debt and equity rather than relying exclusively on one source. Debt financing offers distinct advantages, such as tax savings and potentially lower cost of capital, yet excessive reliance on leverage exposes firms to the risk of insolvency and diminished investor confidence (Frank & Goyal, 2011; Harjito, 2011; Hovakimian, Opler, & Titman, 2001; Umdiana & Claudia, 2020). The central premise of this theory, therefore, is that firms pursue an *optimal leverage ratio,* a strategic balance where the marginal utility of debt financing equals its marginal cost.

Recent interpretations of capital structure extend beyond mere quantitative balancing to encompass strategic, operational, and contextual dimensions. Nguyen et al. (2021) describe capital structure as the proportional combination of debt and equity used to fund operations and long-term growth, whereas Ngatno et al. (2021) frame it as the proportional configuration that reflects a firm's financing strategy and risk tolerance. Similarly, Hastutik et al. (2022) assert that capital structure decisions lie at the core of financial management, determining the equilibrium that maximizes firm value through the judicious alignment of equity and liabilities. Shu et al. (2023) further expand this perspective, suggesting that capital structure is a pivotal decision influencing other financial dimensions such as investment, diversification, mergers, acquisitions, and market valuation.

Financial Solvency

Financial solvency has emerged as a cornerstone concept in modern financial management, reflecting a firm's long-term ability to meet its financial commitments. It embodies more than a measure of financial endurance; it captures the overall economic soundness, stability, and sustainability of an entity. As defined by Aryajati et al. (2024), financial solvency represents the capacity of an individual or organization to settle all liabilities using the total assets currently owned. When a firm's assets are sufficient to cover its debts while simultaneously sustaining its operational and daily needs, financial distress can be considered resolved. Extending this understanding, Alrikabi (2023) emphasizes that financial solvency constitutes a fundamental indicator in evaluating a company's overall performance. It serves as a diagnostic tool for assessing the organization's ability to fulfill obligations to creditors, customers, or policyholders, while maintaining a financial surplus rather than a deficit. Such solvency, when preserved over time, reinforces a firm's market position, reputation, and stakeholder confidence. Similarly, Ayoush et al. (2021) underscore that solvency is a central dimension of corporate financial health, particularly relevant to industrial firms seeking to gauge their capacity to honor long-term obligations amidst fluctuating market conditions.

In the broader financial ecosystem, solvency is not merely an accounting metric but a reflection of institutional stability. According to Poshtdar et al. (2024), financial solvency encapsulates the overall fiscal condition of an organization, whether corporate or financial institution, by illustrating its ability to sustain operations and fulfill liabilities in the long run. Echoing this, Batrancea (2021) defines solvency as a firm's ability to maintain equilibrium between assets and long-term debt, ensuring that its capital structure remains robust enough to support continued growth. Mathur & Kasper (2019) further refine this notion by asserting that financial solvency extends beyond corporate boundaries, encompassing the adequacy of financial resources, whether individual or institutional, to meet recurring obligations and sustain economic well-being.

Financial Risk

Financial risk stands as one of the most fundamental yet complex constructs in corporate finance, representing the inherent uncertainty that accompanies financial decision-making. At its core, financial risk reflects the likelihood that a firm may face financial distress or collapse when it relies excessively on debt to meet financial obligations in the absence of sufficient cash reserves. As articulated by Onsongo et al. (2020), this type of risk captures the probability of default arising when a company's cash balance fails to sustain its debt commitments, often triggered by external shocks beyond managerial control. Liu & Huang (2022) define it as a comprehensive measure of a firm's financial soundness, incorporating not only its performance outcomes but also its capacity to absorb shocks and maintain regulatory compliance. Similarly, Heo et al. (2021) broaden the definition by framing financial risk as the willingness of individuals or organizations to engage in financial behaviors whose outcomes are uncertain and potentially adverse.

From a systemic perspective, Syed & Bawazir (2021) conceptualize financial risk as a pervasive threat that affects businesses, financial markets, and individuals alike. It embodies the potential for shareholders, investors, or other stakeholders to experience financial losses due to fluctuations in cash inflows and outflows, market volatility, or operational disruptions. Adding to this systemic view, Liu et al. (2022) warn that financial risk can inflict severe and contagious effects across financial institutions and the economy at large. In the context of business operations, Nguyen et al. (2019) emphasize that financial risk is an inescapable aspect of entrepreneurial and corporate activity, embedded within every transaction and decision that involves uncertainty. It is thus not a phenomenon to be eliminated but rather one to be anticipated, measured, and strategically managed.

Amanah

The concept of *Amanah* (trustworthiness) occupies a central position in Islamic ethics and governance, representing both a moral obligation and a spiritual contract between human beings and the Divine. Linguistically, the term *Amanah* originates from the Arabic root 'amuna–ya'manu–amānatan, signifying a state of tranquility and security—an assurance that one is free from fear, deceit, or betrayal. It also derives from 'amana–ya'munu–amanatan, which connotes the idea of safekeeping (*wadī'ah*) and responsibility, encompassing core virtues such as honesty (*ṣidq*), sincerity (*ikhlāṣ*), fulfillment of promises (*wafā'*), and steadfast commitment (*thabāt 'alal 'ahdi*) (Yurmaini, Hasibuan, & Anshari, 2023). In essence, *Amanah* reflects obedience, faithfulness, and integrity in carrying out one's duties, attributes that lead to peace of mind and divine contentment.

At the practical level, *Amanah* signifies being trustworthy, dependable, and faithful in upholding responsibilities. As emphasized by Ihsan et al. (2022), trust functions as the cornerstone of business relationships and institutional credibility. The spiritual depth of *Amanah* transcends the human domain and extends into a divine covenant. The Qur'an vividly portrays this sacred trust in Surah Al-Ahzab (33:72), where Allah entrusted *Amanah* to humankind a responsibility so immense that the heavens, the earth, and the mountains declined to bear it for fear of its gravity. This passage signifies that *Amanah* embodies moral accountability, linking human agency with divine trust. Similarly, Surah Al-Anfal (8:27) admonishes believers not to betray Allah and the trust placed in them, underscoring *Amanah* as an ethical boundary in all social and economic relations (H. Ihsan, Eliyanora, & Gustina, 2021).

Within Islamic thought, *Amanah* governs both the vertical relationship between humans and Allah (*habl min Allah*) and the horizontal relationship among humans (*habl min al-nas*). When individuals internalize *Amanah*, they manage rights and responsibilities with justice, compassion, and sincerity, thereby fostering societal harmony (H. Ihsan & Ayedh, 2015). Furthermore, the Qur'anic worldview asserts that all worldly resources belong solely to Allah, while humans serve as stewards (*khalīfah*) entrusted to manage these resources responsibly (QS. Ash-Shura 42:38). As Kamaruddin & Auzair (2019) argue, this theological principle reframes economic and managerial practices as acts of stewardship, where resource utilization must align with divine accountability rather than mere material gain. In the realm of financial management, *Amanah* translates into prudence, honesty, and fairness in handling entrusted funds. Wulandari & Subagio (2015) emphasize that financial *Amanah* involves maintaining integrity in managing capital provided by the *shāhib al-māl* (fund owner) and ensuring the *mudhārib* (fund manager) fulfills their obligations transparently and ethically. This moral discipline establishes mutual trust between investors and managers, reducing agency conflicts and fostering sustainable partnerships.

Financial Performance

Financial performance has long been recognized as a critical indicator of an organization's overall health, efficiency, and sustainability. It reflects the extent to which an enterprise achieves its financial and operational objectives, serving as a benchmark for decision-making and long-term competitiveness. According to Muthuveloo et al. (2017), evaluating financial performance plays a pivotal role in determining an organization's capacity to survive and adapt amid increasingly competitive and dynamic business environments. In the field of accounting and corporate finance, financial performance is traditionally assessed using quantitative indicators derived from financial statements, such as profitability, liquidity, solvency, and leverage ratios (Fariz, Mohammed, Zulkepli, & Kamaluddin, 2020). In this respect, Callen et al. (2016) emphasize that accounting conservatism and debt covenants can serve as contractual mechanisms that reflect corporate efficiency in wealth allocation, while Lara et al. (2016) demonstrate that investment efficiency, supported by strong governance structures, constitutes another determinant of sustainable financial outcomes.

Financial performance, therefore, encompasses a firm's financial condition over a specific period, covering both the acquisition and utilization of funds. As noted by Fatihudin et al. (2020), its assessment depends on various indicators such as capital adequacy ratio, liquidity, leverage, solvency, and profitability each offering a distinct perspective on organizational stability and efficiency. Daryanto et al. (2020) argue that the analysis of financial ratios is indispensable for determining firm value and evaluating managerial effectiveness. Moreover, financial performance plays a vital role in evaluating both organizational effectiveness and competitive advantage. According to Durohman et al. (2023), performance assessment determines the degree of goal attainment by individuals or groups, while Latif et al. (2022) emphasize that financial institutions, in particular, must excel in financial management to ensure efficiency, effectiveness, and sustainability. This perspective aligns with Ononye et al. (2022), who define financial performance as the extent to which financial activities contribute to organizational objectives, underscoring its link to operational excellence and strategic achievement.

Empirical studies also associate superior financial performance with a combination of internal and external factors. Dong (2015) identifies a positive correlation between profitability, leverage, and labor costs with service quality, suggesting that financial soundness translates into operational capability. Similarly, Lee & Chung (2016) found that firms recognized for "Excellent Quality Competitiveness" exhibit superior growth, stability, and profitability compared to their counterparts. Further, Amarteifio (2020) asserts that high-quality financial information enhances firm performance by improving access to external capital and facilitating business expansion. In parallel, Augustyn et al. (2021) highlight that comprehensive quality management practices encompassing leadership, employee and customer focus, supplier management, process efficiency, and data-driven decision-making collectively elevate financial performance.

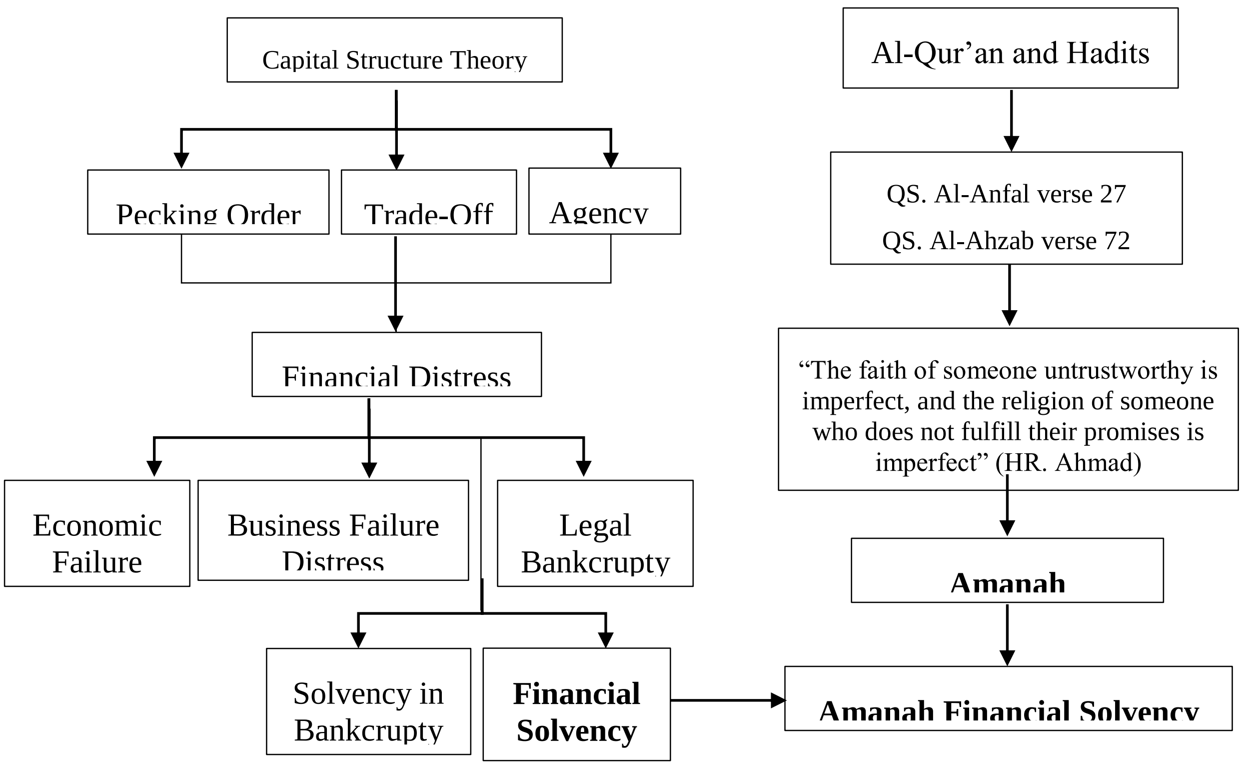

Figure 1: Integration of Capital Structure Theory and Amanah

Research Methodology

The paper is prepared using the literature review method, which is sourced from textbooks and articles containing concepts and empirical results. Articles obtained from Scopus, Web of Science (WoS), ScienceDirect, Emerald, MDPI, and Google Scholar. The organizational performance referred to in this paper includes all performance hierarchies, namely, individuals, groups/teams, and the organization as a whole.

Research Result

Amanah Financial Solvency

The concept of Amanah Financial Solvency (AFS) emerges as an integrative construct that unites conventional financial solvency principles with the moral and spiritual tenets of *amanah* (trustworthiness) in Islamic finance. Financial solvency itself serves as one of the most fundamental indicators for evaluating the financial health and performance of an organization. As defined by Daier et al. (2022), solvency reflects the extent to which an entity can meet all of its financial obligations using the assets currently under its control. A solvent entity is one whose assets exceed its liabilities, allowing it not only to repay debts but also to sustain daily operational needs without financial distress. Similarly, Mathur & Kasper (2019) describe solvency as a manifestation of financial soundness, where the ability to manage debts efficiently signifies stability and independence in financial behavior.

According to Poshtdar et al. (2024), financial solvency is a core indicator that encapsulates an organization's overall fiscal status, representing its capacity to maintain long-term financial commitments and stability. This is reinforced by Verdilou et al. (2022), who regard solvency as a long-term measure of financial endurance, and by Alrikabi (2023), who asserts that solvency is a fundamental determinant of corporate performance. The literature thus converges on the view that financial solvency acts as both a performance metric and a strategic capability reflecting how well an organization balances its assets, liabilities, and operational flows to sustain growth over time. Expanding on these foundations, Poshtdar et al. (2024) identify three principal dimensions of financial solvency: financing, financial position, and operating cash flow. Each dimension captures a unique but interrelated aspect of how firms secure, allocate, and manage financial resources.

The financing dimension pertains to the mechanisms through which organizations obtain funds to support operational and investment activities. As described by Ayoush et al. (2021) and Daier et al. (2022), financing encompasses loans, credits, and installment-based purchases that provide liquidity for business growth. Proper financing management ensures that funding sources remain sustainable and that the cost of capital is aligned with the firm's risk tolerance. Within an *Amanah*-based framework, financing decisions extend beyond financial rationality to incorporate ethical prudence, ensuring that debt is used responsibly, transparently, and in compliance with *shariah* principles.

The second dimension, financial position, refers to the firm's balance sheet status its composition of assets, liabilities, and owner's equity at a specific point in time. According to Daier et al. (2022) and Poshtdar et al. (2024), this snapshot provides a holistic understanding of an organization's stability and solvency risk. A sound financial position reflects prudent asset utilization, controlled debt exposure, and robust equity management. In the context of *Amanah Financial Solvency*, the financial position is not merely a numerical balance but a moral representation of accountability and stewardship (*khalifah*), where each financial transaction is treated as a trust (*amanah*) to be managed with integrity and transparency.

The third dimension, operating cash flow, reflects the firm's ability to generate sufficient internal funds from its core activities to repay debts and sustain operations. As highlighted by Ayoush et al. (2021) and Poshtdar et al. (2024), cash flow solvency captures the efficiency of working capital management and the reliability of operational revenues. Within the *Amanah* paradigm, cash flow is not only a financial indicator but also a reflection of responsible management, demonstrating a company's commitment to fulfilling obligations and ensuring that stakeholders' rights are protected.

By integrating these three dimensions under the moral umbrella of *amanah*, the Amanah Financial Solvency model proposes a paradigm shift from material-based solvency to value-based solvency. This framework recognizes that the true strength of financial solvency lies not only in the numerical balance of assets and liabilities but also in the ethical integrity with which financial resources are managed. A firm that embodies *amanah* demonstrates prudence, transparency, and justice in its financial dealings, principles that align with Islamic teachings on stewardship and trust. Therefore, Amanah Financial Solvency (AFS) transcends the traditional understanding of solvency as a static financial measure. It becomes a holistic construct that intertwines financial capability, moral accountability, and spiritual consciousness. In this sense, solvency is not merely the ability to meet debts but a reflection of a firm's fidelity to divine trust, a synthesis of financial discipline and ethical devotion that fosters long-term sustainability and societal well-being.

Financial Risk

Financial risk has evolved into a multidimensional construct that encapsulates both the internal vulnerabilities and external exposures of firms to potential financial losses. It represents the degree of uncertainty embedded in financial decisions and the probability that an organization may fail to fulfill its financial commitments due to liquidity constraints, leverage mismanagement, or market disruptions. As articulated by Onsongo et al. (2020), financial risk embodies the likelihood of corporate collapse, particularly when a firm relies excessively on debt financing to meet its obligations amid insufficient cash reserves. This view underscores the contingent nature of solvency, one that is often influenced by exogenous factors beyond managerial control, such as macroeconomic volatility, interest rate fluctuations, or systemic shocks. Moving beyond a purely reactive understanding, Liu & Huang (2022) introduce a more integrative perspective by framing financial risk as a composite indicator encompassing operational performance, asset quality, and capital adequacy. Through this lens, financial risk is not merely a symptom of distress but an evaluative outcome that reflects the institutional robustness of an organization. This integrative approach repositions risk as both a diagnostic tool and a managerial variable, thereby enabling the design of proactive risk management mechanisms that reinforce solvency and stability.

Adding a behavioral dimension to the discourse, Heo et al. (2021) define financial risk as the willingness of individuals or organizations to engage in financial activities with uncertain and potentially adverse outcomes. This interpretation extends the analytical scope of financial risk by acknowledging the role of risk tolerance, cognitive bias, and decision-making behavior in shaping an organization's exposure to financial uncertainty. Consequently, financial risk emerges not only as a structural reality but also as a behavioral construct reflecting the interplay between managerial judgment and market unpredictability. From a broader financial ecosystem standpoint, Syed & Bawazir (2021) expand the applicability of financial risk beyond corporate boundaries, encompassing capital markets and individual financial behavior. They argue that financial risk represents a universal economic hazard affecting shareholders, investors, and other stakeholders. Within this framework, financial risk manifests in multiple interconnected forms: market risk, credit risk, liquidity risk, operational risk, and legal risk, each capable of amplifying the effects of the others. Such interdependence illustrates how financial distress can cascade across markets and institutions, intensifying the need for comprehensive and anticipatory risk governance systems. In a more systemic interpretation, Liu et al. (2022) highlight the destructive and contagious nature of financial risk within the context of financial institutions and macroeconomic structures. They note that financial risk is inherently unavoidable, possessing a high degree of transmissibility that can trigger chain reactions and systemic crises across sectors. This systemic contagion underscores the importance of institutional resilience, regulatory supervision, and inter-organizational coordination to mitigate the scale and speed of financial disruptions.

Finally, Nguyen et al. (2019) assert that financial risk is an inevitable component of every economic activity and transaction, an intrinsic element of financial engagement rather than an exceptional occurrence. Recognizing its endemic nature compels organizations to adopt resilient risk management frameworks that transcend mere compliance and embed risk awareness across all operational processes. This approach reframes risk management from a defensive posture into a strategic capability, where adaptability, foresight, and ethical responsibility converge to safeguard solvency and sustain long-term performance. In essence, financial risk represents the dynamic tension between opportunity and vulnerability within the financial system. Its proper management determines not only the endurance of an individual firm but also the stability of the broader economy. When aligned with principles of *Amanah,* which emphasize prudence, transparency, and moral accountability, financial risk can be transformed from a destabilizing force into a disciplined mechanism that upholds solvency, preserves stakeholder trust, and reinforces sustainable financial performance.

Financial Performance

Financial performance represents a multidimensional construct that captures how effectively an organization utilizes its resources to achieve financial stability, profitability, and sustainable growth. It is a key diagnostic indicator of corporate vitality, reflecting the degree to which strategic and operational goals are successfully translated into measurable financial outcomes. According to Lin & Kuo (2007), business performance serves as an indicator of how well a firm’s activities align with its objectives, encompassing financial, human resource, and marketing dimensions. The financial dimension is typically represented by profitability and asset growth; the human resource dimension relates to employee productivity and workforce size; and the marketing dimension involves sales turnover and the frequency of product innovation (Quantananda & Haryadi, 2015). Collectively, these aspects demonstrate that financial performance extends beyond accounting results to include the overall efficiency and adaptability of the business system.

From a broader theoretical standpoint, financial performance has also been linked to the concept of intellectual capital, which emphasizes the intangible assets driving long-term competitiveness. Ferraz et al. (2020) argue that intellectual capital, comprising knowledge, innovation, and relational assets, serves as a fundamental determinant of a firm’s profitability and value creation capacity. Similarly, Ciğer & Topsakal (2016) conceptualize intellectual capital through three interdependent components: human capital, which reflects the knowledge, skills, and creativity of employees; structural capital, which includes organizational systems, processes, and culture; and relational capital, which captures the firm’s relationships with stakeholders, customers, and suppliers. Together, these dimensions influence financial performance through profitability, productivity, and market value. Firms with stronger intellectual capital tend to demonstrate superior adaptability, strategic agility, and ultimately, stronger financial results.

In the context of MSMEs, financial performance is particularly vital, as it directly determines the firm’s ability to sustain operations and compete within dynamic markets. However, the determinants of financial performance in MSMEs often differ from those of larger corporations. Ahinful et al. (2021) found a significant relationship between ownership structure and financial performance, implying that governance dynamics and managerial control play crucial roles in shaping financial outcomes. In contrast, Ismanto et al. (2022) highlight that the financial performance of MSMEs is predominantly influenced by business orientation, including managerial capabilities, strategic planning, and market responsiveness. Their findings reveal that managerial competence, business strategy, and market orientation exert a positive impact on key performance indicators such as income, profit, and business growth, demonstrating that strategic alignment and leadership effectiveness are key levers of financial success in small enterprises. Financial performance, therefore, cannot be understood as a static measure confined to financial ratios or accounting outputs. Rather, it constitutes a dynamic reflection of organizational capability, shaped by both tangible and intangible resources. Firms that effectively integrate knowledge, innovation, and ethical governance tend to achieve superior financial outcomes and resilience in the face of uncertainty. Within the framework of this study, financial performance serves as the ultimate dependent construct linking the theoretical relationships between Amanah Financial Solvency, financial risk, and capital structure. When organizations manage financial resources with prudence (*hikmah*), transparency (*ṣidq*), and responsibility (*amanah*), their financial performance transcends short-term profitability, evolving into a sustainable measure of value creation and ethical excellence.

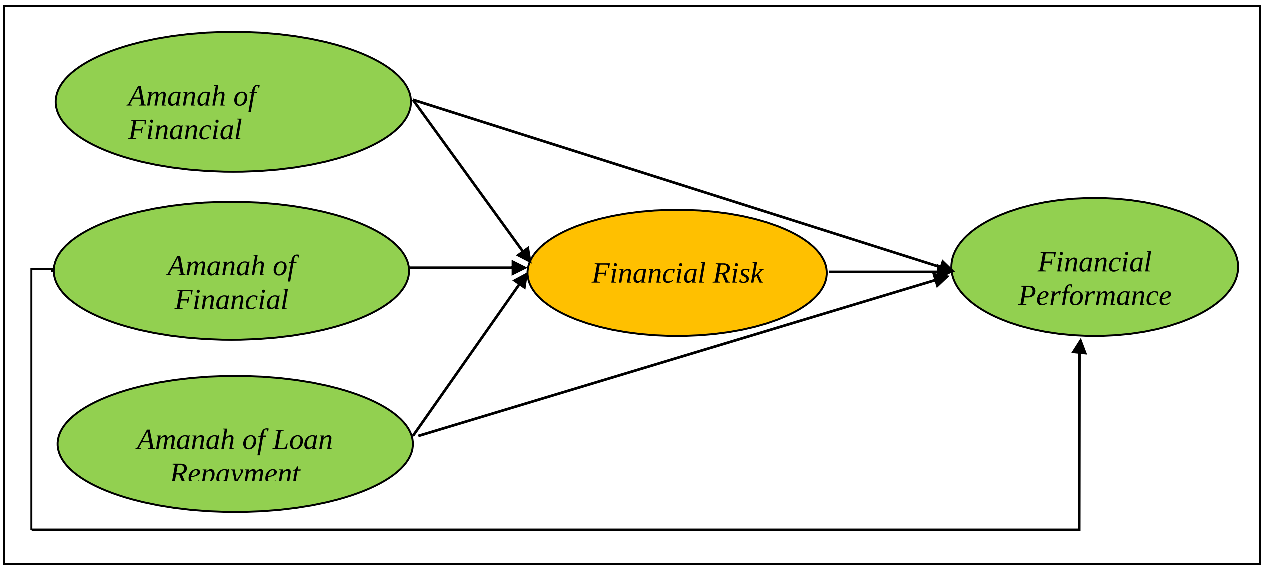

Figure 2: Empirical Model

Conclusion

This literature review concludes that Amanah Financial Solvency (AFS) provides a transformative lens for reinterpreting financial solvency beyond conventional quantitative frameworks. By integrating the Islamic moral value of *amanah* (trustworthiness) into financial management, the AFS concept unites the economic, ethical, and spiritual dimensions of solvency. It redefines solvency not merely as an entity's ability to meet long-term obligations, but as an ethical manifestation of integrity, transparency, and stewardship in resource management. Consequently, financial performance becomes not only a reflection of profitability but also an embodiment of moral accountability and divine trust. Empirical evidence demonstrates that financial solvency remains a dominant determinant of corporate performance across industries (Horobet et al., 2021; Mathur & Kasper, 2019; Verdilou et al., 2022). However, inconsistencies in findings (Alrikabi, 2023; Daier et al., 2022) suggest that contextual and behavioral factors such as managerial prudence, ethical orientation, and spiritual accountability mediate this relationship. Therefore, integrating *amanah* into solvency decisions bridges the gap between financial rationality and moral consciousness, offering a more sustainable foundation for corporate growth, especially within Islamic and emerging economies.

Theoretical Implications

From a theoretical standpoint, this study enriches Capital Structure Theory and Trade-Off Theory by embedding ethical and spiritual variables within their financial logic. It extends the traditional understanding of solvency as a numerical ratio into a *value-based construct* grounded in the Islamic worldview (*tauhidic paradigm*). The proposed Amanah Financial Solvency (AFS) model theoretically contributes by i**ntegrating moral accountability** into solvency assessment, replacing the mechanistic interpretation of leverage and liquidity with a spiritually conscious one. **Bridging modern finance and Islamic ethics**, offering an alternative paradigm where faith-based stewardship informs financial prudence. **Extending organizational finance theory** through a multidimensional lens where solvency embodies financial resilience, ethical consistency, and social trust. This theoretical synthesis positions *amanah* as a moderator that harmonizes risk-taking, capital structure, and solvency management, thereby advancing financial theory toward a moral-economics discourse.

Empirical Implications

Empirically, the literature highlights a fragmented understanding of the solvency–performance nexus. Previous studies have produced inconclusive results due to methodological constraints, contextual variation, and the absence of spiritual dimensions in measurement models. The AFS framework offers empirical researchers a new variable configuration that captures both tangible and intangible drivers of financial stability. Future empirical validation may test the mediating role of *amanah* between solvency and financial performance. The moderating role of *financial risk* in influencing the AFS performance relationship. Comparative differences between *faith-based* and *secular financial systems* in solvency outcomes. Such empirical exploration will refine measurement models and validate the AFS construct as a robust predictor of sustainable financial performance.

Research Limitations

This literature-based study faces inherent limitations. First, the analysis relies primarily on secondary data from prior conceptual and empirical works, which may not capture nuanced cultural or behavioral variations in Islamic financial practice. Second, most reviewed studies originate from diverse economic environments, developed, emerging, and Islamic, posing challenges to contextual comparability. Third, the integration of spiritual and financial constructs remains largely conceptual; empirical validation is still scarce, making causal inference tentative.

Overcoming Limitations

To address these limitations, future studies should employ mixed-method approaches combining quantitative modeling with qualitative inquiry rooted in Islamic ethical contexts. Structural Equation Modeling (SEM) can test the causal relationship between Amanah, financial solvency, and performance, while phenomenological or grounded theory approaches may explore how *amanah* values are internalized in managerial decision-making. Cross-country comparative designs involving Islamic and conventional firms can also strengthen the external validity of the AFS model. Furthermore, the development of standardized Amanah Indexes or Ethical Solvency Scales could operationalize this moral dimension for empirical testing.

Future Research Trends

Emerging research in financial ethics and sustainability increasingly converges toward integrating spirituality, social governance, and responsible finance. Building on this trend, future research directions may include **Islamic Behavioral Finance**, exploring how moral cognition and *iman-based* accountability influence financial decisions. **Faith-Based ESG Frameworks**, where *amanah* serves as a moral anchor for environmental, social, and governance (ESG) integration. **Digital Islamic Finance**, investigating how fintech can embed *amanah-driven solvency* through transparent digital platforms. **Comparative Solvency Analytics**, contrasting AFS applications across MSMEs, Islamic banks, and waqf-based enterprises to examine their universal adaptability. In sum, the trajectory of financial research is shifting toward *ethical-embedded models* that transcend profit maximization. The Amanah Financial Solvency paradigm stands as a pioneering contribution that bridges material and spiritual domains, offering a balanced pathway toward enduring financial resilience and moral sustainability.

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