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From Legal Formalism to Value-Based Impact: Developing an Integrative *Maqāṣid al-Sharīʿah* Framework for Contemporary Islamic Finance

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Abstract
This study examines the concept of *maqāṣid al-sharīʿah* (the higher objectives of Islamic law) and its application in contemporary Islamic finance. Employing a systematic qualitative literature review, this study synthesises classical Islamic legal sources and recent empirical scholarship across five thematic dimensions: (1) the theoretical foundations and evolution of *maqāṣid al-sharīʿah*; (2) the operationalisation of its objectives within Islamic financial institutions; (3) *maqāṣid*-based performance measurement frameworks; (4) the integration of *maqāṣid al-sharīʿah* with sustainability, corporate social responsibility, and environmental, social, and governance (ESG) principles; and (5) persistent challenges and future research directions. The findings reveal a persistent gap between formal *Sharīʿah* compliance and the substantive realisation of *maqāṣid al-sharīʿah*, particularly in relation to social justice, public welfare, and equitable wealth distribution. Emerging approaches, including *Maqāṣid Performance Measures* and the *Maqāṣid al-Sharīʿah Index*, provide alternative mechanisms for assessing the broader social and ethical performance of Islamic financial institutions. The literature further indicates that stronger alignment with *maqāṣid al-sharīʿah* can support long-term institutional efficiency, stakeholder trust, and sustainable value creation. Accordingly, the study argues for a transition from predominantly compliance-oriented models towards an integrative framework that incorporates social-impact indicators, risk-sharing mechanisms, Islamic social-finance instruments, and broader *Sharīʿah* governance. This framework repositions Islamic finance as a value-based system in which legal compliance is complemented by measurable contributions to social welfare and equitable economic development.
Keywords: ***Maqasid al-Shariah*; Islamic Finance; Social Justice; Corporate Social Responsibility; Maqasid Performance Measurement.**

Abstrak
Penelitian ini mengkaji konsep *maqāṣid al-sharīʿah* (tujuan-tujuan utama syariat Islam) serta penerapannya dalam praktik keuangan Islam kontemporer. Dengan menggunakan metode tinjauan literatur kualitatif sistematis, penelitian ini menyintesiskan sumber-sumber hukum Islam klasik dan kajian empiris mutakhir ke dalam lima dimensi tematik, yaitu: (1) landasan teoretis dan perkembangan konsep *maqāṣid al-sharīʿah*; (2) operasionalisasi tujuan-tujuan tersebut dalam lembaga keuangan Islam; (3) kerangka pengukuran kinerja berbasis *maqāṣid*; (4) integrasi *maqāṣid al-sharīʿah* dengan prinsip keberlanjutan, tanggung jawab sosial perusahaan, serta prinsip lingkungan, sosial, dan tata kelola (*environmental, social, and governance*/ESG); dan (5) tantangan yang masih dihadapi serta arah penelitian di masa mendatang. Temuan penelitian menunjukkan adanya kesenjangan yang terus berlangsung antara kepatuhan formal terhadap syariah (*Sharīʿah compliance*) dan realisasi substantif *maqāṣid al-sharīʿah*, khususnya dalam kaitannya dengan keadilan sosial, kemaslahatan publik, dan distribusi kekayaan yang berkeadilan. Berbagai pendekatan yang berkembang, termasuk *Maqāṣid Performance Measures* dan *Maqāṣid al-Sharīʿah Index*, menawarkan mekanisme alternatif untuk menilai kinerja sosial dan etis lembaga keuangan Islam secara lebih luas. Literatur juga menunjukkan bahwa penguatan keselarasan dengan *maqāṣid al-sharīʿah* dapat mendukung efisiensi kelembagaan jangka panjang, meningkatkan kepercayaan para pemangku kepentingan, serta menciptakan nilai yang berkelanjutan. Berdasarkan temuan tersebut, penelitian ini mendorong pergeseran dari model yang berorientasi terutama pada kepatuhan menuju kerangka integratif yang mencakup indikator dampak sosial, mekanisme berbagi risiko, instrumen keuangan sosial Islam, dan tata kelola syariah yang lebih komprehensif. Kerangka ini menempatkan kembali keuangan Islam sebagai sistem berbasis nilai, di mana kepatuhan hukum tidak hanya menjadi tujuan akhir, tetapi dilengkapi dengan kontribusi yang terukur terhadap kesejahteraan sosial dan pembangunan ekonomi yang berkeadilan.
Keywords: ***Maqasid al-Shariah*; Keuangan Islam; Keadilan Sosial; Tanggung Jawab Sosial Perusahaan; Indeks Kinerja Maqasid.**

Introduction

Islamic finance has emerged over the past few decades as a viable component of the global financial system, with assets now reaching trillions of dollars worldwide by the 2020s. From its inception, Islamic finance was presented as a morally grounded alternative to conventional finance, aiming not only to avoid *riba* (usury) but also to uphold socio-economic justice (Faisal, 2026; Jaafar & Brightman, 2022; Puspitaningrum & Hermina, 2023; Uluyol, 2026). Modern Islamic banking traces its roots to the 1960s and 1970s, with pioneering institutions such as Mit Ghamr Savings Bank in Egypt (1963) and the establishment of transnational bodies like the Islamic Development Bank in 1975 (Kamarudin & al., 2023; O'Sullivan, 2020). By eliminating interest through sales, lease, and partnership-based contracts, these early Islamic banks sought to demonstrate that financial intermediation could be done in a Shariah-compliant way (Fatkhurrozi & Mugiyati, 2024). Over subsequent decades, the sector expanded globally into capital markets and insurance (takaful), and its asset base grew significantly (Alshammari et al., 2018; Hassan, 2019; Ossofo & Aziz, 2026). Throughout this growth, a recurring question has been how different the Islamic financial model is in terms of delivering broader socio-economic impact, beyond its formal avoidance of interest (Yildirim et al., 2020).

Beyond the legal forms, however, lies a deeper aspiration of Islamic finance: to fulfill the higher objectives of Shariah, known as *maqāṣid al-sharīʿah*. These objectives refer to the overarching goals and intents that Islamic law seeks to promote, such as justice, welfare, and moral guidance (Elmahjub, 2021; Karimullah, 2023; Ledhem, 2020; Ledhem & Mekidiche, 2021; Yasmeen et al., 2024). There is a growing discourse on whether Islamic financial institutions have truly lived up to these noble objectives or if they have simply replicated conventional banking practices in a Shariah-compliant guise (Alam & Seifzadeh, 2020; Calder, 2020; U. Riaz et al., 2025). Numerous scholars argue that achieving the *maqāṣid al-sharīʿah* is essential for Islamic finance to deliver social and economic benefits in line with Islamic teachings (Jaafar & Brightman, 2022; Nouman et al., 2021; Sakinah et al., 2022). The concept of *maqāṣid* emphasizes outcomes like social justice, equitable distribution of wealth, and enhancement of human well-being (*falāh*) rather than mere compliance with legalistic forms (Hasan et al., 2024; G. I. Musa et al., 2020; Wijaya et al., 2023; Yilmaz, 2024). However, critics note a gap between the theoretical ideals and the reality of Islamic banking operations. For instance, the predominance of debt-like instruments and the avoidance of profit-and-loss sharing modes in Islamic banks have raised concerns about whether the sector is truly furthering socioeconomic justice (Arifin & Rizaldy, 2022; Yildirim et al., 2020).

In light of these discussions, this article provides a comprehensive literature review on *maqāṣid al-sharīʿah* in Islamic finance. It examines the conceptual foundations of *maqāṣid al-sharīʿah*, the extent to which Islamic finance has aligned with these objectives, and the efforts by researchers to integrate, measure, and enhance the achievement of *maqāṣid* in financial practices (Arifin & Rizaldy, 2022; Sheikh & Hussain, 2024). The review covers both classical theoretical perspectives and contemporary empirical studies, highlighting major contributions, identified challenges, and proposed solutions. Key themes in the literature from the fundamental objectives of Shariah to performance indices for Islamic banks are organized into structured sections (Alhammadi et al., 2022; Judijanto et al., 2024; Mergaliyev et al., 2021; Tarique et al., 2020). By synthesizing findings from a wide range of sources, this review aims to clarify the current state of knowledge and offer insights into how Islamic finance can better harmonize its operations with the higher purposes of Shariah (Terfiadi et al., 2023).

The term *maqāṣid al-sharīʿah* refers to the "higher objectives" or purposes of Islamic law. Classical jurists, most notably Abu Hamid al-Ghazali and later Al-Shatibi, articulated that Shariah is fundamentally aimed at protecting and promoting certain essential values or interests of mankind (Alias et al., 2023).

Al-Ghazali's well-known classification of the universal necessities includes the preservation of:

1. Religion (*al-dīn*) – protecting faith and the freedom to practice religion.
2. Life (*al-nafs*) – safeguarding human life and well-being.
3. Intellect (*al-'aql*) – nurturing the mind and intellect, including education.
4. Lineage (*al-nasl*) – protecting family, progeny, and societal cohesion.
5. Property (*al-māl*) – protecting wealth and resources from harm or injustice (Alias et al., 2023; Antonio et al., 2020).

These five foundational *maqāṣid* ensure human welfare in both worldly and spiritual dimensions (Abdullah et al., 2025; Alhammadi, 2024; Antonio et al., 2020). Classical jurists further categorized the Shariah objectives into hierarchical levels of necessity. The five essentials above are considered the absolute necessities (*darūriyyāt*) that form the foundation of human well-being. Below them are the complementary needs (*hājiyyāt*) and the embellishments (*tahsīniyyāt*), which, while not strictly fundamental, serve to ease hardships and beautify life in line with Shariah's spirit (Alhammadi, 2024; Sharifuddin et al., 2025). This hierarchy indicates that preserving faith, life, intellect, lineage, and wealth is the foremost priority, but Islamic law also encourages fulfilling secondary needs and improvements once the essentials are secured (Al-Mansoori, 2026; Alias et al., 2023; Jan et al., 2026). Such a holistic view ensures that Shariah addresses not only survival, but also the quality and moral context of life.

Building on this framework, later scholars expanded the scope of *maqāṣid*. For instance, 20th-century jurist Muhammad Ibn Ashur proposed a more general aim of "preserving the social order and ensuring the well-being of all members of society," moving beyond individual legal rulings to the holistic outcomes of Shariah (Alias et al., 2023). Modern Islamic economists and thinkers have further interpreted *maqāṣid al-sharīʿah* to align with contemporary socio-economic contexts. A notable contribution is by the Egyptian scholar Muhammad Abu Zahrah, who categorized the objectives of Shariah into three broad overarching goals: educating the individual (*Tahdhīb al-Fard*), establishing justice (*Iqāmah al-'Adl*), and promoting public interest (*Jalb al-Maslahah*) (Antonio et al., 2020). These categories encapsulate the spirit of Shariah – focusing on individual moral growth, justice, and public welfare – which are directly relevant to economic and financial activities (Alias et al., 2023; Jufri et al., 2026).

The underlying philosophy is that Islamic law is not merely a set of prohibitions or contracts, but a value-driven framework aiming to achieve beneficence and justice in human life. In essence, *maqāṣid al-sharīʿah* emphasizes outcomes like socio-economic justice, equitable distribution of wealth, and communal well-being as key indicators of Shariah compliance (Ahmad et al., 2025). Importantly, the ultimate objective of the Shariah is often described as the realization of human well-being (*al-falāh*) in this world and the hereafter. Islamic scholars assert that material prosperity and spiritual fulfillment must go hand in hand (Antonio et al., 2020). This holistic notion of well-being includes not only economic growth but also social justice, education, and moral values. For example, recent studies highlight that from an Islamic perspective, "well-being" entails human development achieved through fair wealth distribution, social justice, and the incorporation of ethical values into economic activities (Maryam & Ahmad, 2023; Tuzzahroh & Laela, 2022).

In a similar vein, contemporary research relates the concept of individual development (*Tahdhīb al-Fard*) to *falāh*, noting that personal betterment contributes to societal success and harmony (Alias et al., 2023). In recent years, scholars have also sought to translate the *maqāṣid* into concrete development priorities. For instance, specific goals such as knowledge, work, and social welfare have emerged as Islamic socio-economic development objectives derived from the *maqāṣid* framework (Atiq-ur-Rehman & Bhatti, 2021; Maryam & Ahmad, 2023). This implies that an Islamic financial system should facilitate education, productive employment, and public welfare as part of its mandate – further underlining how financial practices are expected to contribute directly to the *maqāṣid al-sharīʿah*.

The concept of *maqāṣid al-sharīʿah* thus provides broad evaluative criteria for all endeavors, including finance and business. Any financial system or product, to be truly Islamic, should ideally contribute towards these higher objectives – nurturing individuals ethically, upholding justice in transactions, and benefiting society at large (Muhamat et al., 2021). This foundational understanding sets the stage for analyzing how Islamic finance aligns (or falls short) with respect to the goals of Shariah.

Methods

This study adopts a qualitative research method designed to synthesize existing knowledge on the concept of *maqāṣid al-sharīʿah* within Islamic finance. The research process follows several technical steps, beginning with the identification of relevant studies published in academic journals, books, and institutional reports. This review covers classical writings on *maqāṣid al-sharīʿah* as well as recent empirical research. The key data sources for this review include peer-reviewed journal articles, books, conference papers, and reports from reputable institutions in the field of Islamic finance. These sources are selected based on their relevance to the research topics, such as the theoretical foundations of *maqāṣid al-sharīʿah*, the operationalization of *maqāṣid* in Islamic financial institutions, and performance measurement frameworks grounded in *maqāṣid* principles. Data collection was conducted using comprehensive databases using keywords like "*maqāṣid al-sharīʿah*," "Islamic finance," "Shariah compliance," "corporate social responsibility," and "social impact." The inclusion criteria focused on studies that provided a comprehensive analysis of the integration of *maqāṣid* in financial practices, as well as those that discussed challenges, frameworks, and future research directions. To ensure data validity, the review method incorporated multiple steps of cross-checking sources and evidence synthesis. The reliability of the studies was assessed through their methodological rigor and citation frequency, as well as the relevance of their findings to the main themes of the research. The research also draws on theoretical frameworks and performance indices developed in the literature, such as the *maqāṣid* Performance Measures and the *maqāṣid al-sharīʿah* Index, to measure the extent of *maqāṣid* integration in Islamic financial practices. The analysis of empirical data was conducted with a focus on identifying gaps between theoretical objectives and practical applications, providing recommendations for future improvements in the industry. The research method employed a systematic review to assess and synthesize existing literature, providing a comprehensive overview of the state of *maqāṣid al-sharīʿah* in Islamic finance, its current application, and the challenges faced in its full realization.

Result and Discussion

Maqāṣid al-Sharīʿah and Islamic Finance: Aligning Theory with Practice

Islamic economics posits that the financial system should serve as a tool to achieve the broader socio-economic goals defined by Shariah, rather than solely generating private profits (Muhamat et al., 2021). Islamic finance is theoretically expected to contribute to socio-economic development, alleviate poverty, ensure justice in exchanges, and promote the sharing of wealth and risk (Eliza et al., 2025; Notolegowo et al., 2023). This vision includes financing ventures that have a positive social impact, embracing risk-sharing arrangements such as profit-and-loss sharing (PLS) partnerships, and avoiding harmful practices such as usury and excessive uncertainty (*gharar*). Ideally, Islamic banks and financial institutions should distinguish themselves from conventional ones by prioritizing ethical and developmental outcomes, consistent with the *maqāṣid al-sharīʿah* (Badeeu & Muneeza, 2023). Islamic banks have the potential to mobilize wealth effectively within Muslim societies (Judijanto et al., 2024), showcasing that faith-based institutions can garner substantial capital. The challenge lies in redirecting this capital towards ventures that fulfill Shariah's higher objectives.

In practice, however, the evolution of Islamic finance has faced challenges in realizing these objectives. The industry's rapid growth – influenced by commercial pressures and competition with conventional finance – has sometimes led to an emphasis on Shariah-compliant form over substance. For instance, many Islamic banks primarily utilize debt-like instruments such as *murābahah* (cost-plus financing), which resemble conventional loans, while fewer engage in true risk-sharing modes like *mushārakah* or *mudhārabah* (equity-like partnerships) (Judijanto et al., 2024). This trend has been criticized as a deviation from the spirit of *maqāṣid*, as the core Islamic economic principle of risk-sharing remains underrepresented (Judijanto et al., 2024). Empirical observations indicate that profit-and-loss sharing financing constitutes a small fraction of Islamic bank portfolios in many countries, attributed to factors like higher risk, regulatory constraints, and limited demand for PLS products (Danlami et al., 2022; Judijanto et al., 2024). Consequently, *murābahah* and leasing (*ijārah*) transactions dominate financing options, fitting more easily within existing regulatory frameworks while sidelining equity-based modes.

Several scholars have described a "social failure" of Islamic finance – the idea that, while legally Shariah-compliant, Islamic financial institutions have not fully delivered on social justice and equity (Danlami et al., 2022; Laldin & Djafri, 2021). Asutay (2012) argues that Islamic finance has shifted towards prioritizing commercial efficiency at the expense of its original ethos centered on community welfare and poverty alleviation (Danlami et al., 2022). Khan (2010) asks, "How 'Islamic' is Islamic Banking?" concluding that many practices of Islamic banks closely resemble those of conventional banking, with only superficial Islamic labels (Danlami et al., 2022). Over-reliance on fixed-return instruments and replicating interest-based benchmarks (such as LIBOR for pricing Islamic financing) further illustrate the gap between Shariah's intended objectives and actual industry practices. Empirical analyses have suggested that Islamic banks perform similarly to their conventional counterparts on financial metrics (Danlami et al., 2022; H. Musa et al., 2020), indicating that, in practice, their operations and outcomes often mirror those of conventional banks without deliberate efforts to differentiate. Even in Malaysia's pioneering Islamic banking sector, the model has largely operated within a conventional framework (Danlami et al., 2022).

Additionally, concerns have been raised regarding the limited impact of Islamic finance on financial inclusion and social development. Islamic banks have been criticized for prioritizing commercial banking for affluent clients and corporate financing, doing little to advance more inclusive goals such as microfinance for impoverished populations or charitable social investments (Danlami et al., 2022). Islamic banks generally cater to the same bankable segments as conventional banks, with limited engagement in microfinance or rural finance, resulting in modest contributions to financial inclusion (Mukhid, 2024). Although Islamic financial principles advocate for charitable practices (e.g., zakat, waqf) and altruistic loans (*qard al-hasan*), these instruments remain peripheral within the formal Islamic banking sector. Recent studies indicate substantial variation in corporate social responsibility disclosures by Islamic banks, driven by factors such as governance and stakeholder pressure, highlighting a lack of uniform prioritization for social and ethical transparency across institutions (Trimulato et al., 2022).

The disconnect between theoretical ideals and real-world practices has prompted extensive dialogue in the literature. Researchers are actively investigating ways to redirect Islamic finance toward its intended *maqāṣid* (Nuswantoro, 2024). There is a consensus that for Islamic finance to achieve long-term legitimacy and sustainability, it must show tangible contributions to socio-economic welfare—such as financing small and medium-sized enterprises (SMEs) and social enterprises, enhancing charitable activities, ensuring just contracts, and avoiding exploitative outcomes (Adinugraha et al., 2023). In response to these critiques, various frameworks and strategies have been proposed to better align the industry with the *maqāṣid al-sharīʿah*, which is discussed in forthcoming sections.

Integrating *Maqāṣid al-Sharīʿah* in Islamic Finance

Recognizing the gap between ideals and reality, researchers and industry experts have proposed various frameworks to better integrate *maqāṣid al-sharīʿah* into Islamic finance. These efforts include developing Shariah-compliant products that explicitly aim at socio-economic benefits and embedding social responsibility into the core objectives of Islamic financial institutions. In this section, we review key conceptual contributions and strategic initiatives that seek to align Islamic banking and finance practices with the higher objectives of Shariah.

One important line of inquiry focuses on ensuring that Islamic financial products and services are designed and evaluated for their substantive contributions to *maqāṣid* objectives, in addition to Shariah compliance in form. Islamic finance scholars emphasize that investments by Islamic banks should be both halal (permissible) and socially productive – meaning they should generate real economic value and benefit society, not just private profit. In practice, this translates into favoring financing that supports genuine enterprise, job creation, and community development. Ahmed (2011) proposes a framework for assessing Islamic financial products based on *maqāṣid al-sharīʿah* criteria (Ahmed, 2011), suggesting evaluations should consider questions such as: Does the product avoid harm and promote benefits for society? Does it uphold justice and fairness for all parties? Such a systematic assessment aims to filter out products that may be formally permissible but carry negative social or ethical consequences.

Another approach is to apply classical principles like *maslahah* (public interest) and *istihsān* (juristic preference for equity) in financial innovation. Al-Mubarak and Osmani (2019) examine how the concepts of *maqāṣid al-sharīʿah* and *maslahah* are applied in current Islamic banking practices (Omar & Sari, 2019). They argue that practitioners should go beyond mechanical contract replication and instead use ijtihad (independent reasoning) to develop financial solutions that address community needs such as microfinance instruments for poverty alleviation or affordable home financing models reflecting the spirit of Shariah. Likewise et al., (2024) discuss the application of *maqāṣid* in the context of Islamic financial planning, illustrating that financial advisory and wealth management services should help clients achieve Shariah-consistent life goals (like ensuring family welfare and charitable giving) in addition to personal wealth accumulation (Rapi & Fathurohman, 2024).

In the sphere of capital markets, scholars have designed products that align with explicit *maqāṣid* aims. For example, sukuk structures can be proposed to fund private-sector projects in ways that connect investors' returns with project success, thereby embedding fairness and risk-sharing. The significance of justice and equity in financial dealings has been identified as a *maqāṣid* imperative. Dusuki and Abozaid (2007) stress that realizing *maqāṣid al-sharīʿah* in Islamic banking requires addressing challenges such as information asymmetry, unfair contract terms, and exploitation (Dusuki & Abdullah, 2007). They critically appraise contemporary practices and advocate for integrating fairness and transparency into contracts such as equitable profit-sharing arrangements and responsible risk-taking by banks to ensure that outcomes align with the spirit of justice in Shariah. These insights underline the necessity for continuous revision of product design and policies within Islamic finance, ensuring that the methods of financing serve the overarching Shariah objectives of justice, welfare, and ethical well-being.

Corporate Social Responsibility and Stakeholder Welfare Another significant area of integration is the orientation of Islamic financial institutions toward corporate social responsibility (CSR) and the welfare of all stakeholders – not just shareholders. Islamic banks operate in a framework where moral and ethical dimensions are paramount, suggesting that they have an inherent duty to consider the impact of their activities on customers, employees, the community, and the environment. This stakeholder-oriented outlook parallels modern corporate social responsibility theory, which posits that businesses should consider the welfare of all stakeholders rather than just shareholders. For Islamic banks, such an approach is not merely an optional ethical stance but a duty arising from Shariah values. Dusuki and Abdullah (2007) articulate that the ultimate objective of Shariah – rooted in guidance (*huda*) and compassion (*rahmah*) – naturally extends into a vision of business that is compassionate and socially responsible, supporting the necessity for CSR in Islamic finance. In fact, the notion of an "Islamic social bank" – a bank dedicated primarily to social welfare objectives – has been proposed as a means to institutionalize this ethos of compassion in finance. They argue that the principle of *maslahah* obliges Islamic banks to balance profit motives with the needs of society, for instance, by offering fair pricing, engaging in charitable programs, and avoiding practices that could harm the public. As they put it, the "utmost objective of Shari'ah rests within the concepts of guidance and compassion, which seek to alleviate hardship, eliminate prejudice, and establish justice by promoting mutual support and cooperation within society".

In line with this, many have called for Islamic banks to more actively embrace social and charitable tools integral to Islamic finance. For example, integrating *zakat* (obligatory alms) and *awqaf* (endowments) into the financial system is seen as a way to directly channel resources toward social welfare, consistent with *maqāṣid* objectives. Propose a framework that places stakeholders' well-being at the center of Islamic banking operations. They emphasize that Islamic banks should not only avoid harm (through Shariah compliance) but also proactively do good such as setting aside a portion of profits for poverty alleviation, providing *qard al-hasan* (benevolent loans) to the needy, and ensuring transparent and fair treatment of customers. Their model suggests that fulfilling these responsibilities is not merely charity, but a Shariah mandate that aligns business practices with the ethical vision of Islam. Empirical evidence also supports the relevance of CSR in fulfilling *Maqasid*. Farook et al. (2011) found that Islamic banks with stronger governance (e.g., active Shariah boards and stakeholder influence) tend to have greater disclosure of CSR activities, implying a closer alignment with Islamic ethical values. This indicates that when accountability mechanisms are in place, Islamic banks are more likely to act in ways that further social objectives – such as transparency, fairness, and philanthropy – thereby operationalizing *maqāṣid* principles. Moreover, Shinkafi and Ali (2017) in their systematic review observe that a growing segment of Islamic finance research focuses on social and environmental dimensions (e.g., green sukuk, socially responsible investing), reflecting an increasing awareness that *maqāṣid al-sharīʿah* encompasses sustainability and human welfare (Shinkafi & Ali, 2017).

Overall, integrating *maqāṣid al-sharīʿah* into Islamic finance requires a multi-faceted approach. It involves reorienting product design and innovation towards socio-economic benefits, instilling a culture of ethical responsibility in institutions, and implementing governance structures that hold Islamic financial players accountable to their stated values. These conceptual frameworks and initiatives provide blueprints for how Islamic finance can move closer to its intended paradigm – one in which financial services are a means to achieve justice, prosperity, and God-consciousness in society.

Measuring Performance Against *maqāṣid*: Indices and Empirical Studies To gauge how well Islamic financial institutions are fulfilling the objectives of Shariah, a body of empirical literature has emerged that develops *maqāṣid*-based performance metrics. These studies attempt to go beyond conventional financial ratios and incorporate indicators reflecting educational, ethical, and social outcomes aligned with Islamic values. Table 1 summarizes some key conceptual contributions in the literature, while Table 2 highlights selected empirical studies that have proposed or applied *maqāṣid al-sharīʿah* indices to evaluate Islamic banking performance.

Challenges in Achieving *Maqāṣid al-Sharīʿah* in Finance

Despite the development of various frameworks and performance measures, significant challenges persist in realigning the Islamic finance industry with its *maqāṣid al-sharīʿah*. The literature highlights several key impediments:

Outcome monitoring. There is often no formal mandate for Shariah advisors to evaluate whether the bank's overall activities achieve socio-economic *maqāṣid* (Shirazi et al., 2021). Without industry standards requiring Shariah boards to oversee social or environmental performance, their focus typically remains restricted to legal compliance on a contract-by-contract basis, which can leave broader *maqāṣid* goals unattended. This narrow scope can result in institutions technically following Shariah rules yet missing the spirit, for example, by financing luxury projects heavily while neglecting small enterprise or social financing (Widarjono & Rudatin, 2021).

1. Measurement and transparency issues: Many Islamic banks do not report on their performance in areas like charitable contributions, community investment, or staff development in a standardized way (Widityani et al., 2020). The lack of transparent metrics and disclosures related to *maqāṣid* fulfillment means stakeholders (including regulators and customers) have limited information to hold institutions accountable. For instance, few Islamic banks publish detailed data on how much they disburse in zakat or benevolent loans, or how many community projects they finance, making it difficult to gauge their societal impact. The absence of such transparency means that market forces do not reward or pressure banks based on their *maqāṣid* performance. Without industry-wide benchmarks for social performance, progress on *maqāṣid* can be hard to track or incentivize (Widityani et al., 2020).
2. Human capital and awareness: Achieving *maqāṣid* requires bank management and employees who are not only technically skilled but also deeply aware of Islamic economic ethics. Some studies note a gap in human capital—bank staff may lack understanding or training on how to operationalize concepts like justice or public welfare in daily operations (M. Riaz et al., 2022). Many personnel view their role narrowly as providing Shariah-compliant versions of conventional products rather than as agents of social change through finance. Overcoming this mindset requires

that *maqāṣid*-oriented thinking be embedded in staff training, leadership priorities, and performance metrics within institutions (Abusharbeh, 2020).

3. Broader economic environment: Islamic banks operate within broader economies that may not share the same values. In a financial system dominated by interest-based instruments, genuine Islamic modes (like equity-based partnerships) face systemic challenges, such as the absence of Islamic interbank markets or lender-of-last-resort facilities for PLS instruments (Achsani & Kassim, 2021). For instance, double taxation on equity financing in some jurisdictions or the lack of Islamic interbank liquidity markets make it onerous for banks to pursue PLS financing even if they desire to (M. Riaz et al., 2022). Such external barriers can dampen the motivation of Islamic financial institutions to innovate in line with *maqāṣid*. Additionally, in some jurisdictions, tax and legal systems favor debt financing, making ethical Islamic alternatives comparatively less attractive or more costly, which undermines the pursuit of *maqāṣid* objectives.

These challenges illustrate that aligning finance with *maqāṣid al-sharīʿah* is not a simple task of issuing fatwas or designing a few products. It is a systemic issue that requires changes in mindset, regulatory adjustments, capacity building, and market education. As Dusuki and Abozaid pointed out, without addressing structural and institutional obstacles, efforts to implement the higher objectives of Shariah may yield only superficial results (M. Riaz et al., 2022). The next section discusses how the industry and regulators can move forward to overcome these hurdles and more fully realize the vision of *maqāṣid al-sharīʿah*.

In order to move closer to the ideals of *maqāṣid al-sharīʿah*, scholars and policymakers have suggested multiple strategies for reform within Islamic finance. These recommendations aim to create an ecosystem where pursuing social and ethical goals is not at odds with financial viability.

1. Embedding *maqāṣid* in regulatory frameworks: Regulators of Islamic finance can play a pivotal role by incorporating *maqāṣid*-oriented requirements into guidelines and evaluation. For example, central banks and standard-setting bodies could introduce social performance metrics as part of supervisory assessments. Islamic banks might be required to report indicators such as zakat disbursed, the number of SME loans given, or community development projects financed. By formally monitoring these aspects, regulators would encourage banks to align with *maqāṣid* and reward those that do so effectively. Some regulators have begun moving in this direction; for instance, Bank Negara Malaysia's recent Value-Based Intermediation (VBI) initiative urges Islamic banks to embed sustainability and

socio-economic impact criteria into their business models, echoing *maqāṣid* principles (Kadir et al., 2024; Nugraha & al., 2022).

2. Innovating risk-sharing financial products: To address the dominance of debt-like structures, the industry must innovate products that embody risk-sharing and promote shared prosperity. This includes reviving instruments like *mushārakah* and *mudhārabah* in modern forms. For instance, developing venture capital-style investment pools or cooperative financing schemes can provide Islamic banks with more avenues to engage in profit-and-loss sharing. Governments and Islamic development institutions could support such innovation by providing incentives or guarantees that mitigate the initial risk for banks venturing into PLS financing (Alhammadi, 2024; Harahap et al., 2023). The emergence of financial technology (fintech) and crowdfunding platforms also presents opportunities to implement PLS financing on a wider scale by directly connecting investors with entrepreneurs in a Shariah-compliant manner (Maryam & Ahmad, 2023).
3. Leveraging Islamic social finance: Islamic social finance tools – including charity, waqf endowments, and *qard al-hasan* – should be integrated with commercial Islamic banking to achieve *maqāṣid* targets. One proposal is for banks to establish formal social banking windows or funds that channel a portion of profits into microfinance, education scholarships, or affordable housing. This could involve setting up dedicated community investment funds or partnering with zakat and waqf institutions to manage and disburse social funds more effectively. Such initiatives would directly contribute to poverty alleviation and community well-being. Some jurisdictions are already encouraging waqf-linked investment products and microfinance partnerships, which could be replicated elsewhere (Zain et al., 2024).
4. Strengthening Shariah governance and accountability: Broadening the scope of Shariah boards from mere contract approval to oversight of social outcomes can significantly shift institutional focus. Shariah scholars and internal auditors in Islamic banks should be empowered and required to review how well a bank's activities align with the broader objectives of Shariah. Annual Shariah reports could include sections on *maqāṣid* achievements. Some experts suggest expanding the annual Shariah audit to include an assessment of the bank's fulfillment of *maqāṣid*. Additionally, involving external stakeholders – perhaps through regulatory mandates on consumer protection and transparency – could help ensure that decisions align with the public interest. Stakeholder boards or ethics committees can be introduced to represent community interests in governance, holding

management accountable for social impact alongside financial results (Maryam & Ahmad, 2023).

5. Education and culture change: Finally, a long-term but critical recommendation is to cultivate a culture within Islamic finance through education and awareness. Training programs for Islamic bankers and Shariah scholars should emphasize the economic and social rationale of Islamic laws, not just legal mechanics. Business schools and certification courses can incorporate modules on ethics and *maqāṣid al-sharīʿah*. Institutions like the International Shari'ah Research Academy (ISRA) and other professional bodies are increasingly incorporating *maqāṣid al-sharīʿah* in their training modules for Islamic finance professionals, reflecting the growing recognition that knowledge of Shariah objectives must complement technical banking skills. With a workforce and leadership that genuinely internalizes the vision of Islamic economics, the industry is more likely to make decisions that serve broader societal interests (Madani et al., 2020; Saied et al., 2024).

The future of Islamic finance may depend on a conscious recalibration towards its founding purposes. By implementing the above measures – from regulatory changes and product innovation to governance reforms and education – Islamic finance can gradually shift from a primarily form-driven compliance model to a performance-driven model where success is measured in terms of realizing the benefits of Shariah for society. Such a transformation would not only answer the critics but also enhance the industry's stability and relevance, as financial institutions that invest in social well-being tend to enjoy stronger trust and sustainability in the long run.

Conclusion

The overarching message emerging from this comprehensive review is that Islamic finance must continually strive to transcend form and embody the substance of Shariah's teachings. *maqāṣid al-sharīʿah* offers a clear compass, pointing Islamic finance toward principles of justice, welfare, and holistic well-being. Over the past decades, scholars have articulated the gap between the ideal and the actual – noting that while Islamic banking has achieved considerable growth and adherence to legal rulings, it has yet to fully realize its potential as a catalyst for socio-economic transformation. Encouragingly, the literature provides both diagnoses and cures. From conceptual frameworks that redefine Islamic banks' objectives, to empirical tools that measure their social performance, to policy prescriptions for aligning incentives, the groundwork for a *maqāṣid*-driven Islamic finance paradigm has been laid. If the industry and regulators earnestly implement these insights such as adopting *maqāṣid* performance metrics, expanding risk-sharing, integrating social funds, and enhancing Shariah governance the impact could be profound. Islamic finance would not only differentiate itself more clearly from conventional finance, but also contribute more meaningfully to objectives like poverty reduction, equitable growth, and community. Ultimately, the pursuit of *maqāṣid al-sharīʿah* in Islamic finance is a journey rather than a destination. It requires a collective will from all stakeholders: regulators crafting enabling environments, Shariah scholars exercising holistic vision, bank executives balancing profit with purpose, and customers patronizing institutions that uphold Islamic values. The findings of this review underscore that such a paradigm shift is challenging but achievable. As Islamic finance moves forward, its success will not be judged solely by assets under management or quarterly profits, but by how well it fulfills its mandate to secure benefit (*maslahah*) and prevent harm (*mafsadah*) in the lives of people it serves. Embracing this *maqāṣid al-sharīʿah* paradigm is essential for Islamic finance to truly deliver on its promise of a just, equitable, and compassionate financial system.

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