



# Integrating Maqashid Sharia Principles into Good Corporate Governance to Build a Sustainable Economy

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**Abstract.** *This study explores the integration of Maqāṣid al-Sharī'ah principles into the framework of Good Corporate Governance (GCG) as a means to build a sustainable and ethically grounded economy. It employs a qualitative literature review approach, examining contemporary Islamic economic thought, policy frameworks, and governance practices from both theoretical and applied perspectives. The objective is to understand how the philosophical foundations of Maqāṣid al-Sharī'ah the preservation of faith (al-dīn), life (al-naḥs), intellect (al-'aql), lineage (al-naṣl), and wealth (al-māl) can complement and strengthen the five pillars of modern corporate governance: transparency, accountability, responsibility, independence, and fairness. The analysis reveals that integrating maqashid principles transforms governance from a compliance-based mechanism into a holistic ethical system that prioritizes justice, trust, and social welfare. Demonstrate that organizations applying Maqāṣid Sharia-based GCG frameworks show stronger stakeholder confidence, improved corporate reputation, and better alignment with long-term sustainability objectives. However, regulatory implementation remains uneven, with limited standardization in measuring maqashid-based governance performance within Islamic financial institutions. This study concludes that embedding Maqashid Sharia principles in corporate governance systems enhances ethical accountability and drives the creation of a sustainable and inclusive economic model consistent with Islamic values and the United Nations Sustainable Development Goals (SDGs). Future directions include the development of standardized maqashid-based governance indicators, integration into Sharia supervisory board frameworks, and empirical validation across different Islamic financial contexts.*

**Keywords:** Maqāṣid al-Sharī'ah, Good Corporate Governance, Islamic Finance, Sustainable Economy, Islamic Ethics, Literature Review

## 1. Introduction

The global corporate governance agenda has shifted markedly over the last decade from a narrow focus on shareholder protection and financial performance toward a broader remit that includes ethical integrity, environmental stewardship, and social responsibility. Traditional models of Good Corporate Governance (GCG) emphasizing transparency, accountability, fairness, independence, and responsibility provide important institutional mechanisms for monitoring and controlling managerial behavior, yet critics contend that these mechanisms are often procedural and insufficiently grounded in deeper normative values that drive sustainable, inclusive outcomes. This critique has stimulated interest in governance paradigms that explicitly incorporate ethical and social purpose into corporate decision-making. (Okumuş, 2024)

In Muslim-majority contexts, the normative resources of Maqāṣid al-Sharīʿah (the higher objectives of Islamic law) present a compelling ethical framework for reorienting corporate governance. Classical theorists such as al-Shāṭibī conceptualized Shariah as purposive law whose rules aim to secure human welfare (maslahah) and prevent harm (mafsadah). Modern jurists most notably Muḥammad al-Ṭāhir Ibn Ashur have elaborated maqashid as a methodology capable of addressing contemporary socio-economic challenges, arguing that Shariah's objectives should inform policy and institutional design rather than remain limited to legal compliance. This purposive approach underpins the argument that maqashid can supply the moral foundation missing from purely procedural GCG frameworks. (ASHUR, n.d.)

Contemporary scholars have further operationalized maqashid for use in economic and governance contexts. Mohammad Hashim Kamali's work on maqashid highlights the adaptability of maqashid reasoning to modern governance and sustainability concerns, linking the classical five essentials (protection of religion, life, intellect, lineage, and wealth) to values such as justice, human dignity, and environmental care. Kamali and others thus provide the theoretical basis for reading corporate governance through a maqashid lens—one that privileges ethical stewardship, distributive justice, and the protection of public welfare. (Kamali, n.d.)

Empirical and methodological advances have accompanied this theoretical turn. Scholars have proposed Maqashid-based performance measures and composite indices intended to evaluate how well Islamic financial institutions realize maqashid objectives in practice. Recent literature reviews and empirical studies document growing interest in Maqashid Sharia Indices and their relationship to bank performance, risk, and social outcomes, though findings remain heterogeneous and measurement approaches are not yet standardized. For instance, recent reviews summarize multiple indexing efforts and highlight methodological divergences and the need for harmonized indicators to make cross-institutional comparisons meaningful. (Maulida & Ali, 2023)

In the regulatory realm, Indonesia offers an instructive example of state-level efforts to strengthen Sharia governance while promoting industry growth. The Financial Services Authority (OJK) has articulated a multi-year Indonesia Islamic Banking Development Roadmap (2020–2025) and subsequent updates that seek to enhance resilience, governance, and the competitive position of Islamic finance domestically and regionally. These policy instruments create an enabling environment for embedding maqashid principles into governance practice, yet they also reveal practical challenges in operationalizing maqashid-oriented metrics and enforcement within existing regulatory architectures. (Financial Authority Service, 2020).

Despite these advances, several conceptual and empirical gaps remain. First, there is no universally accepted set of operational indicators for maqashid-based governance; proposed indices vary in scope, weighting, and sectoral applicability, limiting comparability across studies and jurisdictions. Second, governance mechanisms (e.g., Sharia Supervisory Boards, audit committees, independent commissioners) are sometimes implemented in a formalistic manner without producing commensurate maqashid outcomes, suggesting a gap between institutional form and substantive ethical performance. Third, empirical research yields mixed results on the effect of maqashid integration on firm performance and stakeholder outcomes, signaling the need for more longitudinal and cross-contextual studies. Recent research exploring the moderating role of Sharia governance on intellectual capital and maqashid-based performance illustrates both the potential and complexity of these relationships.

The divergence between procedural governance and maqashid outcomes also raises an important comparative question: how can maqashid-based governance align with global sustainability frameworks such as ESG (Environmental, Social, Governance) and the UN Sustainable Development Goals (SDGs) without diluting its distinctively Islamic ethical content? Several scholars argue that maqashid and ESG share convergent aims—social justice, environmental protection, and responsible resource stewardship—yet maqashid adds a transcendent ethical accountability (to God and community) that can deepen commitments to justice and long-term stewardship if operationalized appropriately. Integrative models therefore need to reconcile universal sustainability objectives with the particular normative claims of maqashid.(Okumus, 2024)

Given these theoretical and empirical considerations, this paper aims to synthesize current scholarship and policy developments to propose a conceptual framework for integrating Maqāṣid al-Sharī'ah into Good Corporate Governance as a pathway toward a sustainable economy. Specifically, the study will: (1) review seminal maqashid theory from classical and modern sources to establish the normative foundation; (2) map contemporary academic and applied literature on maqashid-based indices, governance practice, and firm outcomes; (3) assess regulatory frameworks and recent policy initiatives focusing particularly on Indonesia's OJK roadmap that facilitate or hinder maqashid integration; and (4) propose practical recommendations for translating maqashid objectives into measurable governance indicators and institutional practices.(ASHUR, n.d.)

This integrative agenda is both academically significant and policy relevant. Academically, it contributes to the emerging literature that seeks to bridge Islamic legal theory and modern corporate governance scholarship by showing how maqashid can function as an ethical design principle for governance structures. Policywise, embedding maqashid values into governance frameworks promises to enhance corporate accountability, stakeholder trust, and socio-economic resilience outcomes that are critical for nations seeking to scale Islamic financial markets while meeting global sustainability commitments. The remainder of this paper develops these themes through a focused literature review, critical synthesis of empirical findings, and a proposed conceptual model for maqashid-based governance implementation.

## 2. Methods

This study employs a qualitative literature review approach to explore how *Maqashid Sharia* principles can be integrated into Good Corporate Governance (GCG) to support sustainable economic development. The analysis is grounded in theory-based review, drawing from Chapra's (2008) theory of Islamic moral economy which emphasizes justice (*'adl*), public welfare (*maslahah*), and balance (*mizan*) as well as Al-Ghazali's Maqashid Sharia framework (protection of faith, life, intellect, lineage, and wealth). Data sources include peer-reviewed journals, scholarly books, and institutional reports published between 2019 and 2025, focusing on Islamic governance, sustainability, and ethics in corporate management.

## 3. Results and Discussion

### 3.1. Maqashid Indices, GCG, and Performance

Recent empirical studies provide evidence that integrating *Maqāṣid al-Sharī'ah* with Good Corporate Governance yields both ethical and financial benefits, though the results are nuanced and sometimes conflicting. A notable study by Ghifari et al. (2023) finds that

both the Maqashid Shariah Index (MSI) and GCG significantly reduce incidences of fraud in Indonesian Islamic Commercial Banks, suggesting a direct governance value in embedding maqashid-based principles in oversight. (Jihad Al Ghifari, Edman Syarief, & Adi Noeridha, 2023)

Ahmad & Yandri (2024) analyze the performance of Bank Muamalat in Indonesia and show that internal ownership, commissioner tenure, and other governance variables influence the bank's maqashid-based performance. They underscore that certain GCG elements are critical for aligning bank operations with maqashid objectives (Abdulloh Ahmad & Yandri, 2024). Board characteristics have also been examined. Pranata & Laela (2020) study Indonesian Islamic banks and find mixed effects: while commissioner expertise positively impacts the Maqashid Shariah Index, board tenure and commissioner independence may negatively affect it, under certain conditions. (Pranata & Laela, 2020)

Studies across Southeast Asia similarly show that some GCG mechanisms (e.g., audit committees, board of commissioners) may unexpectedly have negative associations with performance under a maqashid framework, challenging assumptions about "more governance = better Islamic performance." For example, Yulianto et al. (2023) report that increasing board size or audit committee participation sometimes correlates with lower maqashid-based performance. (Yulianto, Darwanto, & Syifaaussakinah, 2023). Regarding firm value, Muna, Hafizh & Nur (2024) find that GCG, maqashid Sharia, and profitability jointly influence the value of Sharia commercial banks in Indonesia. However, the partial effect of maqashid Sharia on firm value is positive but small, and the effect of profitability is unexpectedly negative in some tests, suggesting complexity in how traditional financial metrics interact with maqashid ideals. (Muna, Hafizh, & Nur, 2024)

On disclosure differences, Maspupah & Hasanah (2020) compare Indonesian vs. Malaysian Islamic banks and find that although GCG disclosure levels are similar in both countries, the achievement of maqashid objectives differs noticeably, likely reflecting institutional, regulatory, and historical divergences in how Sharia governance is operationalized. Adiwijaya, Suprianto & Rusdi (2023) show that Islamic Corporate Governance and Maqashid Sharia Index positively (but insignificantly) affect firm value, yet Islamic Social Reporting (ISR) can moderate this relationship, highlighting the importance of transparency and stakeholder engagement in realizing value from maqashid-based governance. (Alim Adiwijaya, Suprianto, & Rusdi, 2023)

Finally, Sulistiawati & Fithria (2021) report that in Indonesia, board of directors has a positive effect on maqashid-based performance, but the board of commissioners has a negative effect, and audit committees and Sharia Supervisory Boards show no significant effect. This suggests that actual management (directors) may contribute more directly to maqashid realization than oversight bodies, depending on structure and incentives (Sulistiawati & Fithria, 2021). Theoretical Interpretation: Why Some Governance Elements Fail or Succeed under Maqashid. These empirical results provide important insights: integrating maqashid into governance is not only beneficial, but also non-trivial, because traditional governance mechanisms may not align straightforwardly with maqashid objectives. Several theoretical explanations and tensions emerge:

a. Mismatch Between Procedural Governance and Ethical Outcomes

Traditional GCG frameworks emphasize procedural correctness independent commissioners, audit committees, frequent meetings, disclosures but do not guarantee that decisions are aligned with maqashid outcomes (e.g., justice, social welfare, avoidance of harm). As many studies show, formal governance may exist

without ethical internalization. This supports the critique that governance mechanisms must be supplemented by value orientation, not just structure.

b. Agency Theory vs. Maqashid Ethics

Conventional GCG is rooted in agency theory: aligning managers' incentives with shareholders. But maqashid ethics demand stewardship, justice, and public welfare beyond shareholder interests. As Malik, Ullah & Ullah (2020) argue, Islamic banking governance must integrate both jurisprudential and banking principles, diffusing knowledge between religious scholars and managers to achieve true maqashid-compliance.

c. Complexity of Measuring Maqashid Outcomes

The variability in empirical results reflects challenges in developing standardized, reliable indicators for maqashid performance. Different studies use different indices, weights, and sectoral definitions, which reduce comparability and may explain why some governance elements appear ineffective or even harmful in certain models.

d. Governance vs. Culture and Implementation

Even well-designed governance structures may fail to produce maqashid outcomes if organizational culture, regulatory enforcement, or stakeholder expectations are weak. For instance, the negative effect of large boards or certain commissioners may reflect inefficiencies, slow decision-making, or misaligned incentives that inhibit socially responsible action.

e. Need for Ethical Grounding: Maqashid as Normative Anchor

The above challenges underscore the theoretical importance of grounding governance in maqashid as normative anchors not only as legal compliance but as part of the Islamic moral economy (see Chapra's work on justice, balance, and welfare). Without such grounding, governance remains mechanical and may miss deeper justice and sustainability goals.

### 3.2. Implications, Challenges, and Strategic Integration

Based on empirical and theoretical insights, several key implications and recommendations emerge for integrating maqashid principles into GCG toward building a sustainable economy:

1. Governance Structures Must Be Paired with Maqashid-oriented Metrics

Governance bodies (boards, audit, supervisory) must adopt performance indicators explicitly linked to maqashid objectives not just financial or procedural KPIs. For example, measures of fair financing, equitable community investment, environmental impact, and ethical risk should be standard.

2. Strengthen Sharia Supervisory Board (SSB) Role with Accountability

Many studies show that SSBs are under-utilized. To realize maqashid, SSBs must be empowered not only to validate compliance but to monitor social justice, welfare distribution, and avoidance of harm. Training, authority, and integration with board decisions are essential.

3. Promote Transparency and Stakeholder Engagement

The moderating role of Islamic Social Reporting (ISR) suggests that disclosure and stakeholder communication enhance the positive effects of maqashid and GCG on firm value (Adiwijaya et al., 2023). Encouraging public reporting, community input, and meaningful oversight can anchor maqashid values in practice. (Alim Adiwijaya et al., 2023)

4. Align Governance with ESG/SDG Without Diluting Islamic Identity

As global sustainability standards (ESG, SDG) gain prominence, maqashid-based governance can provide a distinct moral foundation that aligns with global aims while preserving Islamic identity. Governance frameworks must bridge between global norms and Islamic ethical imperatives.

#### 5. Address Institutional and Cultural Barriers

Negative empirical effects of certain board structures emphasize the need to avoid merely transplanting Western governance formats. Cultural adaptation, proper role definitions, balanced size, and stakeholder orientation are crucial for maqashid alignment.

#### 6. Regulatory and Policy Design Needs to Encourage Maqashid Implementation

Regulators (like OJK in Indonesia) should integrate maqashid-based criteria into licensing, reporting, and audit standards, incentivizing banks to embed social justice, ethical finance, and sustainable stewardship in their operations.

### 3.3. *Maqashid and Islamic Moral Economy*

These results and discussions also reinforce theoretical arguments from Islamic economic literature. The works of al-Shāṭibī, Ibn Ashur, and modern scholars (e.g., M. U. Chapra) emphasize that Sharia is purposive law, meant to achieve welfare (maslahah) and prevent harm. Their logic supports the idea that governance must transcend legal form and embed values of justice, welfare distribution, environmental care, and ethical intent into institutional designs. Without integrating maqashid, corporate governance risks becoming a mechanism of control rather than a system of moral stewardship. Thus, the empirical findings showing lackluster results in some cases for traditional governance structures are consistent with the theoretical claim that governance effectiveness depends not only on rules but on ethical purpose, institutional culture, accountability to God and society, and alignment of incentives with welfare goals.

#### Limitations and Areas for Further Research

While the results are promising, they also highlight constraints and open questions:

- a. Many studies cover limited geographic or temporal scope (e.g., Indonesian banks over certain years), making generalization difficult.
- b. Lack of unified maqashid measurement standards limits comparability across studies and countries.
- c. Most research uses quantitative panel methods; qualitative and mixed-methods studies could provide deeper insight into how governance and maqashid values are internalized culturally.
- d. The impact of maqashid-based governance on non-financial dimensions (e.g., environmental sustainability, social inclusion, stakeholder welfare) is still under-explored.
- e. Interaction with digital banking, fintech, and novel financial instruments requires adaptation of maqashid governance frameworks to emerging contexts.

## 4. Conclusions

This study concludes that integrating *Maqashid Sharia* principles into Good Corporate Governance (GCG) offers a holistic pathway toward achieving sustainable economic development within Islamic financial institutions. The review of recent empirical and theoretical literature (2019–2025) demonstrates that governance practices aligned with

maqashid objectives justice (*'adl*), welfare (*maslahah*), and balance (*mizan*) enhance ethical conduct, transparency, and long-term value creation. However, conventional GCG mechanisms such as board independence, audit committees, and ownership structures do not automatically translate into maqashid-based outcomes without strong ethical internalization and stakeholder engagement. Effective integration requires reorienting governance from procedural compliance to moral stewardship, guided by Sharia objectives that protect faith, life, intellect, lineage, and wealth. Strengthening the role of Sharia Supervisory Boards, embedding maqashid-based performance indicators, and aligning governance with ESG and SDG principles can bridge ethical and sustainability goals. Ultimately, this integration transforms corporate governance into a tool for social justice and economic resilience, positioning Islamic institutions as models of value-based sustainability in the global financial system.

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