Journal of International Conference Proceedings (JICP)
Vol. 8 No. 4, pp.1-13, January, 2026
E-ISSN: 2621-993X P-ISSN: 2622-0989
https://ejournal.aibpmjournals.com/index.php/JICP/index

The Investigation of Maqashid Syariah Index Determinants and its Implication Towards Worls Sustainability: A Comparison of Islamic Bank in Indonesia and Malaysia

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ARTICLE INFORMATION

Publication information

Research article

HOW TO CITE
Nadia, N., Muflih, M., & Ruhadi. (2025). The investigation of maqashid syariah index determinants and its implication towards world sustainability: A comparison of Islamic bank in Indonesia and Malaysia. *Journal of International Conference Proceedings (JICP)*, 8(4), 1–13.

DOI:
https://doi.org/10.32535/jicp.v8i4.4180

Received: 14 November 2025
Accepted: 16 December 2025
Published: 17 January 2026

ABSTRACT

This study investigates the impact of financial, social, and Shariah compliance dimensions on the Maqashid Syariah Index (MSI) in Islamic banks, focusing on a comparative case analysis of sixteen banks (eight from Indonesia and eight from Malaysia) during 2019-2024. The financial dimension is measured using ROA, CAR, FDR, and NPF; the social dimension is represented by ZPR and QH; and Shariah compliance is proxied by the frequency of Shariah Supervisory Board meetings. Panel data were analyzed using the Fixed Effect Model (FEM) for Indonesia and the Random Effect Model (REM) for Malaysia. The results indicate that ROA, FDR, and ZPR significantly affect MSI in Indonesia, reflecting both operational efficiency and zakat-based redistribution. In Malaysia, CAR, FDR, QH, and SSB significantly influence MSI, highlighting the importance of capital strength, social finance, and governance. Rather than generalizing to the entire Islamic banking industry, the study is framed as a country-specific comparison that illustrates how institutional and regulatory contexts shape the realization of Maqashid Syariah principles in Indonesia and Malaysia.

Keywords: Financial Dimension, Social, Sharia Compliance, Maqashid Sharia Index, Islamic Banking Indonesia-Malaysia.

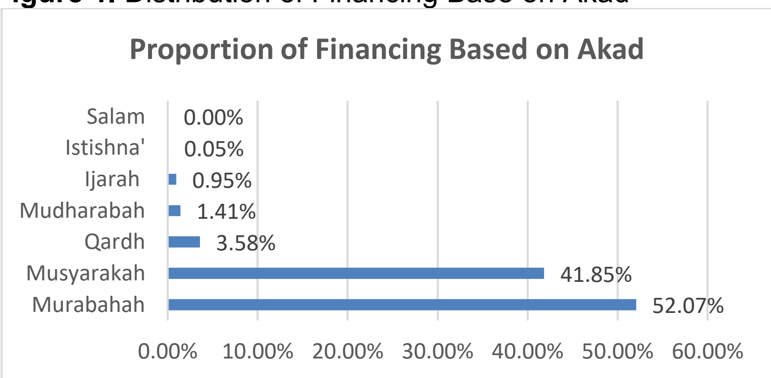
INTRODUCTION

The Islamic banking industry has experienced rapid growth over the past few decades, particularly in countries with predominantly Muslim populations. This growth is not only reflected in the global increase in assets but also in the rising demand for a fair, ethical, and socially oriented financial system. According to data from the Islamic Financial Services Board (IFSB), global Islamic banking assets increased from USD 1.77 trillion in 2016 to USD 3.24 trillion in 2022 and are projected to reach USD 4.62 trillion by 2027 (IFDI, 2023). However, this significant asset growth does not fully reflect contributions to inclusive and sustainable socio-economic development. The persistence of global poverty, with around 9% of the world's population living below the international poverty line, and limited access to education and healthcare services, indicates unresolved disparities. This raises a fundamental question: to what extent has the Islamic banking industry actualized the values of *Maqashid Syariah* in its operational practices?

To assess the degree of implementation of these principles, a measurement tool called the Maqashid Syariah Index (MSI) has been developed. As outlined by Imam Al-Ghazali, the Maqashid Syariah aims to safeguard five essential pillars of human life: religion (*hifz ad-din*), life (*hifz an-nafs*), intellect (*hifz al-'aql*), lineage (*hifz an-nasl*), and wealth (*hifz al-mal*). In the context of Islamic banking, this principle serves as a normative and strategic framework guiding Islamic financial institutions not only toward financial gain but also toward achieving social justice, poverty alleviation, and sustainable development.

While *Maqashid Syariah* principles are reflected in various Islamic banking products and services, their actual realization faces multiple challenges, particularly in achieving long-term financial profitability (Sudirman et al., 2023; Zainuri et al., 2023). One indicator is the financing portfolio structure, which is still dominated by *Murabahah* contracts typically consumer-oriented and less effective in promoting productive activities or poverty alleviation. This reliance on trade-based financing indicates a gap between the ideals of *Maqashid Syariah* and the practical realities of Islamic financial institutions. Figure 1 illustrates the dominant proportion of *Murabahah* contracts compared to other productive contracts such as *Mudharabah* or *Musyarakah*:

Figure 1. Distribution of Financing Base on Akad



Source: IFSB Report, 2023

This study focuses on two countries that play a significant role in the global Islamic finance ecosystem Indonesia and Malaysia. These two nations not only share similar religious demographics but also consistently rank among the top three countries with the highest Islamic finance development levels, as reported in the Islamic Finance Development Indicator (IFDI). Malaysia excels in governance, sustainability, and public awareness, while Indonesia demonstrates strength in knowledge and public education related to Islamic economics (IFDI, 2023).

Most prior studies on Islamic banking performance have predominantly emphasized the financial perspective. For instance, research measuring MSI often relies on ratios such as ROA, CAR, FDR, and NPF as key indicators of efficiency and stability (Rahma & Arifin, 2022; Jannati et al., 2023; Hidayat et al., 2023). While these indicators are important, such approaches reduce Islamic banks to mere profit-oriented entities, thereby overlooking their broader mission of promoting social justice and ensuring Shariah compliance. Only a limited number of studies attempt to explore the social dimension, such as zakat distribution through the Zakat Performance Ratio (ZPR) or Qardhul Hasan (QH) financing (Nomran & Haron, 2022). However, these are often treated as supplementary variables rather than core determinants of *Maqashid* performance. Similarly, investigations into *Shariah* compliance, particularly the governance role of the Shariah Supervisory Board (SSB), remain fragmented and mostly descriptive. In other words, the literature still treats these dimensions in isolation, rather than recognizing their interdependence in shaping the holistic objectives of *Maqashid Syariah*.

This creates a significant research gap: the lack of an integrated analytical framework that simultaneously incorporates financial, social, and Shariah compliance dimensions when assessing Islamic banking performance. Moreover, comparative research between countries is still scarce, even though Indonesia and Malaysia are two leading Islamic finance ecosystems with distinct regulatory frameworks and institutional practices. Without such comparative evidence, it is difficult to understand how contextual differences influence the realization of *Maqashid Syariah* in practice.

This study fills the gap by offering a comprehensive model of the MSI that integrates financial, social, and Shariah compliance dimensions in a single framework. Using panel data regression from 2019–2024 for eight Islamic banks in each country, the paper provides novel comparative insights into how Indonesia and Malaysia pursue *Maqashid Syariah* differently. The contribution of this research lies in moving beyond the narrow financial focus of previous studies and demonstrating that the sustainability and legitimacy of Islamic banking must be evaluated through a balanced consideration of financial performance, social responsibility, and Shariah governance.

LITERATURE REVIEW

Maqashid Syariah represents the core objectives of Islamic law, aiming to promote human welfare by fulfilling needs at three levels: *dharuriyah* (essential), *hajiyah* (complementary), and *tahsiniyah* (enhancement) (Sudirman et al., 2023). In other words, maqashid syariah reflects efforts to implement Islamic values in order to create a prosperous life in this world and achieve eternal happiness in the hereafter (*falah*). This theory has been applied across various fields, including law, health, education, management, social affairs, and economics (Zainuri et al., 2023). In the realm of economics and banking, *maqashid syariah* serves as a fundamental foundation for developing a financial system that not only prioritizes profit but also upholds social justice and public welfare as key priorities.

In Islamic banking, *Maqashid Syariah* functions as a holistic evaluation framework that measures not only financial performance but also social contributions and adherence to Shariah principles. Through this approach, Islamic banks aim not only for profitability but also to actively empower communities and promote social justice. Research on measuring Islamic banking performance using the MSI has been growing (Jannati et al., 2023; Hidayat et al., 2023).The MSI assesses the extent to which Islamic banks can fulfill their dual role of maintaining financial sustainability while delivering a positive impact on societal welfare.

Within the financial dimension, several indicators are used. Return on Assets (ROA) is a key measure that not only evaluates the efficiency of asset utilization in generating profit but also reflects the bank's ability to fulfill its social responsibilities in line with maqashid syariah, such as protecting wealth and improving the quality of life (Hidayat et al., 2023). Another important ratio is the Capital Adequacy Ratio (CAR), which assesses a bank's capital sufficiency in covering risks and supporting operational stability, while also ensuring its ability to sustain social functions (Jannati et al., 2023). The Financing to Deposit Ratio (FDR) indicates how effectively banks channel financing from collected funds, closely linked to their capacity to empower the real sector and reduce social inequality (Sutrisno & Widarjono, 2018). Additionally, financing quality is measured by Non Performing Financing (NPF), which evaluates the level of problematic financing. A low NPF indicates effective risk management while supporting the bank's continued social role in achieving *maqashid syariah* (Taufik et al., 2023).

In the social dimension, the Zakat Performance Ratio (ZPR) is used to measure the bank's contribution in distributing zakat as a form of wealth redistribution, ensuring effective and efficient collection and disbursement of zakat funds (Nomran & Haron, 2022; Mayasari, 2020). This reflects the bank's role in promoting social justice and reducing economic disparities. Similarly, Qardhul Hasan (QH) financing provided without any return demonstrates the bank's commitment to supporting socially and economically vulnerable groups, while also fostering empowerment and inclusive sustainable development (Abidin et al., 2011; Assyarofi & Ifada, 2023). The Shariah Supervisory Board's (SSB) characteristics, notably meeting frequency, serve as critical indicators of compliance quality, ensuring operational integrity and reinforcing social responsibility (Fakhruddin et al., 2022; Mukhibad & Setiawan, 2022).

This multidimensional approach makes the MSI a comprehensive tool to evaluate Islamic banks' success in implementing maqashid values, overcoming limitations of conventional financial-focused metrics by integrating social and Shariah compliance aspects.

Hypotheses Development

ROA has a positive effect on MSI.

Return on Assets (ROA) measures how efficiently a bank utilizes its assets to generate profits. In Islamic banking, profitability is not only a sign of financial sustainability but also an enabler for fulfilling social obligations such as zakat distribution and community financing. Hence, higher ROA is expected to enhance the MSI (Sutrisno & Widarjono, 2018; (Hidayat et al., 2023).

$H1_{ab}$: Return On Assets (ROA) has a positive effect on the Maqashid Syariah Index of Islamic Banking in Indonesia and Malaysia.

CAR has a positive effect on the MSI.

The Capital Adequacy Ratio (CAR) reflects a bank's financial strength and ability to absorb risks. Adequate capital enables banks to provide stable and sustainable financing aligned with Shariah principles, which supports social justice and economic resilience. Thus, CAR is expected to positively influence MSI (Alnajjar & Abdullah Othman, 2021).

$H2_{ab}$: Capital Adequacy Ratio (CAR) has a positive effect on the Maqashid Syariah Index of Islamic Banking in Indonesia and Malaysia.

FDR has a positive effect on the MSI.
The Financing to Deposit Ratio (FDR) indicates the efficiency of channeling collected funds into financing. A higher FDR suggests stronger intermediation and contribution to the real sector, which aligns with maqashid goals of protecting wealth and supporting economic welfare. Therefore, FDR is hypothesized to have a positive effect on MSI (Hidayat et al., 2023).

$H3_{ab}$: Financing to Deposit Ratio (FDR) has a positive effect on the Maqashid Syariah Index of Islamic Banking in Indonesia and Malaysia.

NPF has a negative effect on the MSI.
Non-Performing Financing (NPF) reflects the level of credit risk. A higher NPF undermines financial stability and reduces banks' capacity to fulfill social and economic objectives. Consequently, NPF is expected to negatively affect MSI.

$H4_{ab}$: Non Performing Financing (NPF) has a negative effect on the Maqashid Syariah Index of Islamic Banking in Indonesia and Malaysia.

ZPR has a positive effect on the MSI.
The Zakat Performance Ratio (ZPR) measures the effectiveness of zakat collection and distribution. As zakat is a direct mechanism for wealth redistribution and poverty alleviation, a higher ZPR strengthens the social dimension of maqashid, thus positively influencing MSI (Nomran & Haron, 2022).

$H5_{ab}$: Zakat Performance Ratio (ZPR) has a positive effect on the Maqashid Syariah Index of Islamic Banking in Indonesia and Malaysia.

Qardhul Hasan has a positive effect on the MSI.
Qardhul Hasan financing provides interest-free loans to vulnerable groups, representing a strong commitment to social welfare and inclusiveness. By reducing poverty and promoting empowerment, QH is expected to positively contribute to MSI (Fauzi, 2022); Abidin et al., 2011).

$H6_{ab}$: Qardhul Hasan (QH) has a positive effect on the Maqashid Syariah Index of Islamic Banking in Indonesia and Malaysia.

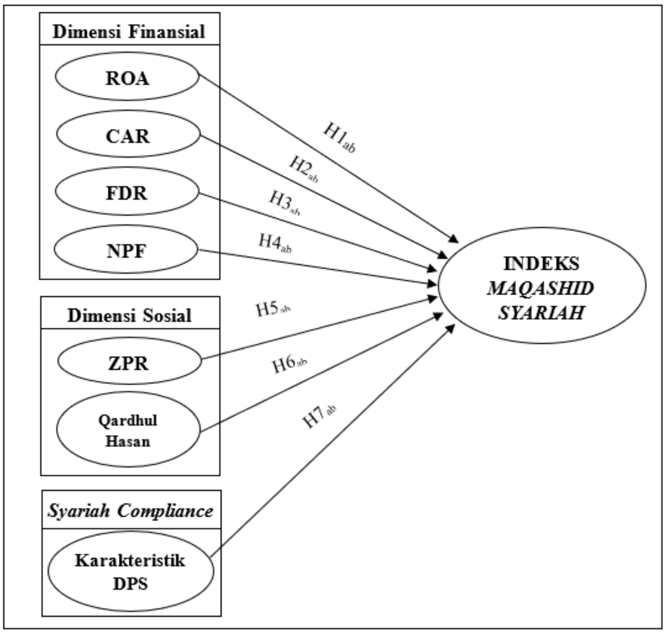
The frequency of SSB meetings has a positive effect on the MSI.
The SSB ensures compliance with Shariah principles and strengthens governance. More frequent meetings indicate stronger oversight, which enhances stakeholder trust and ensures that operations remain aligned with maqashid values. Therefore, SSB frequency is hypothesized to positively affect MSI (Mukhibad & Setiawan, 2022).

$H7_{ab}$: SSB has a positive effect on the Maqashid Syariah Index of Islamic Banking in Indonesia and Malaysia.

Financial, social, and Shariah compliance simultaneously affect the MSI.
While each variable may have a distinct influence, the integration of financial performance, social contribution, and Shariah governance is essential to reflect the holistic objectives of *Maqashid Syariah*. Previous studies suggest that the overall effectiveness of Islamic banks cannot be captured by single dimensions alone but requires a combined assessment of financial, social, and compliance factors. Therefore, it is hypothesized that all independent variables jointly have a significant effect on the Maqashid Syariah Index.

$H8_{ab}$: Financial, social, and Shariah compliance dimensions has a positive effect on the Maqashid Syariah Index of Islamic Banking in Indonesia and Malaysia.

Conceptual Framework
The study framework model is depicted in Figure 2.
Figure 2. Research Framework



RESEARCH METHOD

This study employs a comparative quantitative approach to analyze the influence of financial (ROA, CAR, FDR, NPF), social (ZPR, QH), and Sharia compliance (frequency of SSB meetings) dimensions on the MSI of Islamic banks in Indonesia and Malaysia. The sample comprises 16 Islamic banks (eight from each country) over the 2019–2024 period, selected using purposive sampling. Secondary data were sourced from each bank's official annual reports. The MSI is calculated using Abu Zahrah's model, focusing on three main objectives: educating individuals, promoting justice, and ensuring public welfare. Data analysis is conducted using panel data regression in EViews 12, with model selection based on Chow, Hausman, and Lagrange Multiplier tests, and classical assumption tests if necessary. Hypotheses are tested using the F-test, t-test, and coefficient of determination (R^2).
The estimated panel data regression models applied in this study are as follows:

IMSIND = €0 + €1 ROAIND + €2 CARIND + €3 FDRID - €4 NPFIND + €5 ZPRIND + €6 QHIND + €7 DPSIND+ ε1IND ....(1)

IMSMY = ¥0 + ¥1 ROAMY + ¥2 CARMY + ¥3 FDRMY - ¥4 NPFMY + ¥5 ZPRMY + ¥6 QHMY + ¥7 DPSMY + ε1MY ....(2)

Formula Description:
€0 dan ¥0 = intercepts.
€1 dan ¥1- €7 dan ¥7 = coefficients of independent variables.
IND = selected Islamic banks in Indonesia.
MY = selected Islamic banks in Malaysia.
ε1 = *error term*

RESULTS

Descriptive statistics

Descriptive statistical analysis indicates that Islamic banking in Indonesia during 2019–2024 achieved a relatively low MSI score, averaging 0.367. Financially, profitability remains suboptimal, with an average ROA of 1.026%, although CAR is relatively strong at 27.96%. The FDR is slightly below the ideal threshold, while the NPF level remains within a healthy range. On the social dimension, contributions through zakat (ZPR) and QH financing are still minimal. The SSB holds an average of 22 meetings, but the effectiveness of these meetings warrants further attention.

Table 1. Descriptive statistics Islamic Bank in Indonesia

Variabel	IMS	ROA	CAR	FDR	NPF	ZPR	QH	DPS
Mean	0.367	1.026	27.961	78.513	1.380	0.098	0.249	21.708
Median	0.342	1.120	23.495	79.685	1.125	0.067	0.157	15.500
Maximum	0.637	4.080	140.00	111.710	4.300	0.600	0.987	68.000
Minimum	0.176	-6.72	12.420	38.330	0.030	0.011	0.025	10.000
Std. Dev.	0.108	1.442	18.872	16.521	1.086	0.108	0.243	13.189

Source: Processing results

Meanwhile, Islamic banking in Malaysia recorded an average MSI of 0.375, slightly higher than Indonesia but still relatively low. Profitability was lower as well, with an average ROA of 0.701%, while the CAR remained above the minimum threshold at 17.29%. The financing strategy tended to be aggressive, with an average FDR of 101.49%, and financing quality was considered good, with a NPF ratio of 1.34%.

However, social contributions through ZPR and Qardhul Hasan financing remained low. The SSB meetings averaged 12 times per year, meeting the ideal standard. Overall, financial stability has been achieved, but strengthening the social dimension and the implementation of *maqashid syariah* principles remain necessary.

Table 2. Descriptive statistics Islamic Bank in Malaysia

Variabel	IMS	ROA	CAR	FDR	NPF	ZPR	QH	DPS
Mean	0.375	0.701	17.287	101.49	1.340	0.098	0.120	11.791
Median	0.350	0.706	16.745	97.867	0.870	0.069	0.109	12.000
Maximum	0.614	1.698	28.400	148.24	5.600	0.810	0.493	20.000
Minimum	0.268	-0.620	12.580	83.657	0.110	0.009	0.019	6.000
Std. Dev.	0.080	0.396	2.754	16.441	1.281	0.122	0.089	3.836

Source: Processing results

Thus, the descriptive analysis results indicate that Islamic banking in Indonesia and Malaysia demonstrates relatively stable and healthy financial performance; however, the achievement of the MSI and the social roles of these banks remain relatively low. These findings underscore the importance of enhancing the comprehensive implementation of *maqashid syariah*, not only from the financial perspective but also in terms of social dimensions and Shariah compliance, to realize the ideal holistic function of Islamic banking.

Results of data processing

The selection of the panel data regression model indicates that the Fixed Effect Model (FEM) was used for Islamic banking in Indonesia, while the Random Effect Model (REM) was applied for Islamic banking in Malaysia. This model choice was based on statistical tests showing that FEM better captures differences among banks in Indonesia, whereas

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https://ejournal.aibpmjournals.com/index.php/JICP/index

REM is more appropriate for Malaysia due to the acceptance of the random effects assumption. The model selection aligns with the characteristics of each country to ensure more accurate estimation results. Detailed test results are presented in Table 3 below.

Table 3. Results of Regression Model Selection

Country	Type of Test	Purpose of Test	Test Result	Model Decision	Adjusted R^2
Indonesia	Chow Test	CEM vs FEM	0.0000 < 0.05	Use FEM	
	Hausman Test	FEM vs REM	0.0000 < 0.05	Use FEM	0.663126
Malaysia	Chow Test	CEM vs FEM	0.0000 < 0.05	Use FEM	
	Hausman Test	FEM vs REM	0.4010 > 0.05	Use REM	0.414661

Source: Processing results

After estimation using the selected models, the Adjusted R^2 value obtained was 0.6631 for Indonesia, indicating that 66.31% of the variation in the MSI can be explained by the independent variables in the model. Meanwhile, for the Malaysia model, the Adjusted R^2 was 0.4146, meaning that 41.46% of the variation in the *Maqashid Syariah* Index can also be significantly explained by the model. The relatively high coefficient of determination values for both models indicate that the regression models have good explanatory power regarding the phenomenon studied (Mayasari, 2020).

Furthermore, to test the simultaneous significance of all independent variables on the dependent variable, a simultaneous test (F-Test) was conducted. This test aims to determine whether all independent variables in the model jointly influence the *Maqashid Syariah* Index (Junaidi et.al., 2017). Based on the estimation results, the F-statistic probability values were 0.0001 for the Indonesian model and 0.0118 for the Malaysian model. Since both values are below the 5% significance level (α = 0.05), it can be concluded that all independent variables consisting of the financial dimension (ROA, CAR, FDR, and NPF), social dimension (ZPR and QH), and Shariah compliance dimension (SSB) jointly have a significant effect on the *Maqashid Syariah* Index in each country. Therefore, hypotheses H8a and H8b are accepted, stating that the financial, social, and Shariah compliance dimensions simultaneously and significantly influence the achievement of the MSI in Islamic banking in Indonesia and Malaysia.

DISCUSSION

Comparative Analysis of Factors the Improvement of the MSI in Islamic Banking in Indonesia and Malaysia

To identify the factors influencing the estimated improvement of the MSI, a panel data regression analysis was conducted on the independent variables in Islamic banking in Indonesia and Malaysia. The regression results are presented in Table 4 below:

Table 4. Panel Data Regression Results

	Islamic Bank in Indonesia			Islamic Bank in Malaysia		
	Coefficients	**t-Statistic**	**Sig**	***Coefficients***	**t-Statistic**	**Sig**
C	0.075696	0.813087	0.4220	-0.055731	-1.013012	0.3171
X_1 ROA	0.035205	4.030218	0.0003**	0.012637	0.756232	0.4539
X_2 CAR	0.000167	0.236284	0.8147	0.005560	2.398352	0.0212**

X_3 FDR	0.003397	2.962727	0.0056**	0.002335	6.632537	0.0000**
X_4 NPF	-0.003326	-0.255226	0.8001	-0.002802	-0.466464	0.6434
X_5 ZPR	0.437315	3.116670	0.0038**	0.098516	2.000155	0.0523
X_6 QH	0.015070	0.248220	0.8055	0.207093	2.839089	0.0071**
X_7 DPS	-0.002673	-1.525537	0.1367	0.004956	2.466959	0.0180**

Source: Processing results

The panel data regression estimation results, as presented in Table 4, reveal differences in the determinant structures influencing the improvement of the *Maqashid Syariah* Index (MSI) between Islamic banking in Indonesia and Malaysia.

In the Indonesia context, three significant variables influence the MSI : ROA, FDR, ZPR. The mutually reinforcing relationship between ROA and ZPR indicates a close relationship between profitability and zakat distribution, higher profitability provides greater zakat resources, while consistent zakat reporting enhances the reputation and public trust in banks, which in turn supports profitability (Mayasari, 2020). This pattern reflects Indonesia's decentralized and flexible zakat governance system, which allows Islamic banks to directly engage in zakat collection and distribution to the community (Setiyobono et al., 2019). This condition makes zakat a tangible indicator of a bank's social responsibility and strengthens its contribution to the MSI (Nugroho, 2022). Conversely, in Malaysia, zakat has no significant impact due to the centralized nature of zakat governance under state authority, limiting the direct involvement of Islamic banks in zakat collection and distribution. As a result, ZPR's contribution to MSI has become less prominent even though institutional zakat governance in Malaysia is more established (Zakiy et al., 2023). In addition, the FDR variable also contributes positively to MSI, indicating that the higher the bank's ability to distribute financing from third party funds, the greater the bank's contribution to the real sector in supporting the welfare of the people, which conceptually reflects *Maqashid Iqtishad* (economic balance), especially considering Indonesia's dependence on MSME financing (Ramdhoni & Fauzi, 2020; Fauzi, 2022).

Meanwhile, the regression results for Malaysia show that four variables significantly influence the MSI: CAR, FDR, QH, and the frequency of Shariah Supervisory Board (SSB) meetings. Interestingly, these variables represent all the main dimensions in estimating the MSI. This indicates that Islamic banking in Malaysia is not only strong in terms of capital adequacy and financial intermediation (CAR, FDR) but also excels in social commitment and effective Shariah governance. The significant and positive CAR variable suggests that capital adequacy is not merely a risk mitigation factor but also reflects the bank's readiness to conduct sustainable, value-based, safe financing compliant with Shariah principles (Mayasari, 2020). Meanwhile, *Qardhul Hasan*, representing non-profit financing, confirms that non-commercial social programs play a crucial role in supporting *maqashid syariah*, particularly in social justice and empowerment of vulnerable groups. The role of QH in Malaysia is directed at direct assistance to the lower classes, providing immediate social welfare, but sometimes reinforcing consumerist patterns (Abidin et al., 2011). Conversely, in Indonesia, QH is often designed as a productive instrument to support small businesses among marginalized communities, fostering a culture of entrepreneurship and long-term empowerment (Suhartatik & Kusumaningtias, 2013). The explains why QH plays a stroger statistical role in Malaysia than in Indonesia, where its scale is still limited and less integrated into banking strategies.

Notably, the significance of the SSB characteristics in Malaysia demonstrates that strong and structured Shariah governance contributes to achieving maqashid objectives. This shows that Malaysia prioritizes institutional structure and Shariah control as fundamental foundations to ensure all banking activities operate within a comprehensive Islamic value framework, beyond mere administrative compliance (Junaidi et.al., 2017). This

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reinforces the understanding that achieving *maqashid* requires not only appropriate financial instruments but also robust and responsive Shariah supervisory institutions.

Comparatively, Indonesia places greater emphasis on performance and profit redistribution (through ROA and zakat) in in promoting the achievement of the maqashid (Islamic principles). This is influenced by the structure of the Indonesian Islamic banking industry, which still relies on financing the real sector of micro, small, and medium enterprises (MSMEs) and a relatively decentralized zakat system. This condition makes bank profitability the primary source for increasing social contributions through zakat, thus ROA and ZPR appear significant in driving MSI. In contrast, Malaysia emphasizes an institutional and social approach (through QH and SSB), which is inseparable from more established regulations and the active role of BNM in strengtheningsharia governance. Qardhul Hasan in Malaysia has been integrated into the national financial inclusion program and is a prioritized social instrument, while the Sharia Supervisory Board (SSB) is given broad authority to engage in strategic decisions. These differences indicate that the implementation of the *Maqashid Syariah* depends not only on financial instruments but is also largely determined by the regulatory framework, institutional capacity, and socio-economic culture of each country. Thus, strengthening the Maqashid Syariah (Islamic principles) in banking practices cannot be achieved through a uniform approach but must be tailored to the context. A dynamic balance is required between profitability, socio-economic sustainability, and sharia-based governance to enable Islamic banks to function not only as financial institutions but also as agents of inclusive and equitable social transformation in the long term.

CONCLUSION

Based on the empirical analysis of the estimation models used to measure the influence of financial, social, and Shariah compliance dimensions on the MSI, several important findings reveal variations in the effects of variables between the two countries studied, Indonesia and Malaysia. The first finding indicates that the ROA variable has a significant positive effect on the MSI in Indonesian Islamic banking but is not significant in Malaysia. This reflects differences in financing structures and business models between the two countries.

In Indonesia, the profitability of Islamic banks heavily depends on financing activities in the real sector targeting micro, small, and medium enterprises (MSMEs), so an increase in ROA supports the achievement of *maslahah* values. Conversely, in Malaysia, Islamic bank profitability is more supported by large-scale institutional projects, resulting in a nonsignificant direct relationship between ROA and MSI. Next, the CAR variable shows a significant positive effect on the MSI in Malaysian Islamic banking but does not have a significant impact in Indonesia. This indicates that capital adequacy in Malaysia plays a crucial role as the foundation for stability and strategic expansion of Islamic banking, supporting maslahah values (Fakhruddin et al., 2022). Strict regulations and well-established risk management in Malaysia enable the effective use of capital buffers to support socially oriented and sustainable financing. Meanwhile, in Indonesia, although the CAR ratio is at a healthy level, it has not been fully optimized to strengthen the social function of banks and systematically support the achievement of *Maqashid Syariah.*

In terms of fund distribution efficiency, the FDR variable has been proven to have a significant positive effect on the MSI in both countries. This consistent influence indicates that the greater the proportion of third-party funds channeled into productive financing, the larger the contribution of Islamic banks to the economic and social welfare of the community. A high FDR reflects the active role of banks in distributing financing according to Shariah principles and supporting real economic activities, which in turn contributes to achieving the objectives of *maqashid*, particularly in the protection of wealth and fulfillment of basic community needs. Meanwhile, the NPF variable does not show a significant effect on the MSI in either Indonesia or Malaysia. Although NPF reflects financing risk, this insignificance indicates that Islamic banks in both countries are able to manage credit risk effectively through value-based approaches, such as restructuring and strengthening social relationships with customers. This finding aligns with research (Husain Muhammad, 2022), which shows that Islamic banks tend to be more stable in terms of credit risk compared to conventional banks, thanks to prudential principles and asset-backed financing.

In the social dimension, differences in influence are also evident. The ZPR variable has a significant effect on the MSI in Indonesia but not in Malaysia. This indicates that in Indonesia, zakat managed by Islamic banks plays a strategic role in promoting the achievement of maslahah values. Similarly, the QH variable shows a significant effect on the MSI in Malaysia but is not significant in Indonesia. This finding suggests that Islamic banking in Malaysia has integrated QH as part of its social finance strategy, which not only supports the real sector but also promotes value-based financial inclusion. Meanwhile, in Indonesia, the implementation of QH remains limited and has not become a major financing portfolio for banks, thus its contribution to MSI is not yet significant. Regarding the variable representing Shariah compliance, the SSB significantly influences the MSI in Malaysia but not in Indonesia. This reflects that the SSB function in Malaysia is not merely administrative but also plays a strategic role in overseeing policies and operational decisions of Islamic banking.

Therefore, this study confirms that the determinants of the MSI differ between Indonesia and Malaysia, depending on the regulatory, institutional, and socio-economic context of each country. In Indonesia, ROA, FDR, and ZPR proved significant, indicating that profitability, financial intermediation, and zakat are the primary drivers of achieving maqashid. This situation demands improvements in transparency and accountability in zakat management to not only fulfill normative obligations but also build public trust and social legitimacy for Islamic banks. Furthermore, strengthening the QH portfolio is crucial, not merely as a philanthropic instrument, but also as a means of economic empowerment for the community, capable of expanding financial inclusion, reducing dependence on digital consumer loans, and strengthening the role of Islamic banks as agents of social transformation.

Meanwhile, in Malaysia, CAR, FDR, QH, and DPS are dominant factors, reflecting the importance of solid capital, integrated social instruments, and strong sharia governance. From a policy perspective, strengthening the active role of the Sharia Supervisory Board is key, not only to oversee compliance but also to ensure that banking product innovation remains aligned with the *maqasid* (obligatory obligations). Furthermore, integrating social finance, particularly QH, into core business strategies will broaden the competitiveness of Islamic banks, align with the global ESG agenda, and strengthen their contribution to inclusive and sustainable development. Therefore, this research not only provides academic insight into the determinants of Islamic Sharia Supervisory Boards but also offers policy direction that can strengthen Islamic banking as a competitive and socially just institution.

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