

REALIZING MAQASID AL-SHARI'AH IN ISLAMIC FINANCIAL INSTITUTIONS: CONTEMPORARY CHALLENGES AND STRATEGIC REFORMS

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Abstract: *Islamic financial institutions (IFIs) are established on Shari'ah principles, aiming to achieve the higher objectives of maqasid al-Shari'ah, which focus on justice, welfare, and ethical integrity. However, despite the rapid global growth of Islamic finance, the actual realization of these objectives remains suboptimal. The objectives of the study are to examine the challenges in implementing maqasid al-Shari'ah, assess the gaps between Shariah compliance and maqasid attainment, and propose strategies for enhancing integration through regulatory, governance, and performance reforms. A qualitative synthesis of empirical and theoretical studies in Malaysia, along with cross-country analysis and a global survey, identifies three primary categories of challenges: (i) regulatory compliance constraints, (ii) operational practices that undermine the authenticity of maqasid, and (iii) governance weaknesses. The study's findings reveal a structural mismatch between the conventional regulatory framework and the requirements of Islamic ethics, as well as pragmatic approaches to product and governance conflicts. The study suggests integrating maqasid-based objectives into regulatory frameworks, broadening Shariah audits to encompass ethical and social aspects, improving leadership capabilities in maqasid governance, and implementing standardised metrics for maqasid performance. This study enhances theoretical and practical knowledge by providing a systematic analysis of the disparity between Shariah compliance and maqasid attainment, while emphasising strategic pathways for future reforms.*

Keywords: *Maqasid al-Shari'ah, Islamic finance, Shari'ah governance, Islamic financial institutions*

Introduction

Islamic Financial Institutions (IFIs) play a vital role in the global financial system. They follow Shari'ah principles that stress fairness, justice, and social and economic well-being. Islamic finance is based on the higher goals of maqasid al-Shari'ah, such as protecting faith (dīn), life (nafs), intelligence ('aql), children (nasl), and wealth (māl). This makes Islamic financial institutions (IFIs) agents of comprehensive development (Alias, Mohd Jailani, Wan Ismail, & Baharuddin, 2024).

Concerns remain about the realization of maqasid al-Shari'ah in Islamic finance, despite its significant growth across regions such as Malaysia, the Gulf, Europe, and Africa (Makhdom Muhammad, Kassim, Mahadi, & Engku Ali, 2025). Although structures like fatwa bodies and regulatory frameworks are in place for Shari'ah compliance, a notable gap persists between formal adherence and actual practice (Dewaya, 2025). This gap arises from multiple overlapping challenges. Regulatory restrictions and profit-driven operational models often overshadow the ethical principles of Shari'ah. For instance, AAOIFI's recent recommendation that sukuks require real asset transfers could complicate transactions and fragment the market, highlighting the tension between religious authenticity and practicality (Financial Times, May 2025). Likewise, Malaysia's Islamic capital market is adopting new principles-based guidelines aimed at aligning markets more closely with maqasid al-Shari'ah while also making them more transparent, accountable, and inclusive (Securities Commission Malaysia, 2023).

Therefore, there is an urgent need for strategic reforms that reorient IFIs toward a "maqasid-centric" governance framework, which aligns legal compliance with ethical integrity. This article examines the current challenges preventing the achievement of maqasid al-Shari'ah. It proposes reforms based on governance, regulation, and auditing to bridge the gap between adhering to Shari'ah and acting ethically.

Literature Review

Integrating Maqasid al-Shari'ah into Islamic Banking Practice

The integration of maqasid al-Shari'ah into Islamic banking has been widely studied in recent scholarship, emphasizing both its theoretical appeal and the practical challenges of implementing its principles. Islamic finance primarily aims to achieve the high goals of Shari'ah justice ('adl), welfare (maslahah), and the protection of essential human needs (daruriyyat). However, the current Islamic banking landscape is often criticized for prioritizing legal compliance over meaningful ethical results (Dusuki & Bouheraoua, 2019).

Ishak and Asni (2020) clarify how fiqh muamalat aligns with modern realities of Islamic banking in Malaysia. They argue that Islamic banks often replicate traditional financial products by replacing interest-based mechanisms with Shari'ah-compliant contracts, such as murabahah or Bai' Bithaman Ajil. Although these contracts meet the formal standards of Shari'ah, they frequently fall short of achieving the broader goals of fairness, equity, and risk-sharing outlined by maqasid. Practical adaptations, like the common use of wa'ad (unilateral promises) in tawarruq structures or floating rate mechanisms with ibra' (rebates), highlight the ongoing

tension between maintaining competitiveness and upholding ethical integrity (Hassan et al., 2021).

In a broader legal and policy context, Alam, Hoque, and Muda (2023) provide a critical examination of the Islamic Financial Services Act (IFSA) 2013. They argue that IFSA implements Shari'ah compliance through management frameworks, making maqasid a secondary concern that is less significant than institutional efficiency and risk management. This shift indicates that regulatory managerialism is dominant, suggesting that compliance processes are prioritized over ethical outcomes. Such institutional arrangements undermine the transformative spirit of Islamic finance, revealing a conflict between the spirit of maqasid and the practical needs of financial regulation.

The global expansion of Islamic banking has made integration even more difficult. In regions like the Gulf, Islamic banking often relies on market demand and investor expectations. In Southeast Asia, especially in Malaysia and Indonesia, government policies play a key role in shaping the development of Islamic finance (Khan & Bhatti, 2020). This diversity makes it hard to create a universal model for implementing maqasid.

Governance and Ethical Standards in Islamic Financial Institutions

Governance is essential for applying maqasid al-Shari'ah principles in Islamic financial institutions (IFIs). Mergaliyev et al. (2019) demonstrate in their multi-country analysis that Shari'ah governance mechanisms, like Shari'ah supervisory boards and CEO duality, positively influence the disclosure of maqasid-related performance indicators. However, macroeconomic factors such as GDP growth, political rights, and institutional ownership often show a negative correlation with ethical disclosures, indicating that systemic pressures and structural inefficiencies can impede the ethical performance of IFIs.

Kiranawati et al. (2023) confirm, in their systematic literature review, the importance of Shari'ah governance in improving service quality and client trust. However, their research emphasizes positive outcomes while overlooking the structural and cultural barriers that institutions face in consistently implementing maqasid-oriented governance. This highlights a research gap in thoroughly examining why many International Financial Institutions (IFIs) fail to achieve ethical and social results, despite having strong governance frameworks.

Shafii et al. (2021) expand this discussion by highlighting the limitations of current Shari'ah audits, which mainly focus on compliance checks rather than a thorough ethical review. They propose broadening Shari'ah audits to include socio-economic factors, ensuring that financial activities foster broader welfare. Ahmed et al. (2022) also examine how leadership abilities and organizational culture can impact the management of IFIs. When leaders ignore ethical considerations, Shari'ah boards can become merely symbolic compliance bodies.

These studies collectively highlight that governance reforms should transcend simple procedural compliance and instead embed maqasid-driven values into the institutional structure.

Standardization, Indexing, and Performance Measurement

Tools for measuring performance are essential for connecting theory with practice. Several researchers have developed indices to assess the ethical and social dimensions of Islamic banking. Zailani, Satar, and Zakaria (2022) introduce a maqasid-based index for socio-economic development, providing a framework that examines banks beyond just profit. Their

index considers factors such as education, justice, and wealth distribution, offering a comprehensive view of how Islamic finance impacts society.

Muhamad, Mohd Zain, and Yaso (2022) also suggest integrating maqasid with Environmental, Social, and Governance (ESG) criteria, arguing that this combination could improve both financial results and ethical responsibility. This reflects a rising agreement that Islamic finance should align with global sustainability standards, especially the Sustainable Development Goals (SDGs).

Nugraha et al. (2020) demonstrate, through a comparative analysis of Indonesia and Bahrain, how different regulatory and cultural frameworks influence the implementation of maqasid. They find that both jurisdictions promote ethical finance, yet their approaches differ significantly—Indonesia focuses on community-centered welfare, while Bahrain emphasizes market-driven competitiveness. Due to the lack of standardization, it is difficult to compare practices across borders. This makes it hard to determine how maqasid can be applied globally without losing their relevance to specific situations.

The lack of universal benchmarks makes it harder to standardize maqasid performance. Habib (2023) argues that industry guidelines are essential to prevent maqasid from being used as a branding tool instead of a genuine performance measure. As a result, developing standardized benchmarks is a critical need for the Islamic finance sector.

Strategic Reform and Conceptual Approaches to Maqasid

There are many different theoretical views on how to implement maqasid. Ishak and Nur Syahirah (2021) propose a harmonization model, arguing that Islamic finance must reconcile Shari'ah principles with practical realities by integrating value-based reasoning at all levels of institutional practice. They warn against relying too heavily on literalist interpretations, which could make Islamic finance inflexible and unable to meet modern needs.

MDPI (2023) categorizes the execution of maqasid into three paradigms: literalist, modernist, and balanced. The literalist approach stresses strict adherence to texts, often resulting in strict compliance. The modernist perspective focuses on adapting to the context, which can sometimes compromise the authenticity of Shari'ah. The balanced approach, however, combines textual fidelity with contextual relevance, offering a more practical framework for modern Islamic finance.

Technological innovation further expands the discussion on reform. Alsadi (2025) emphasizes blockchain's ability to improve transparency and accountability, aligning closely with maqasid principles such as justice ('adl) and trust (amanah). Dewaya (2025) also explores how blockchain can protect wealth (hifz al-māl) by making it more secure and less vulnerable to theft. These studies suggest that technological integration could help incorporate maqasid into future financial systems.

In practice, these types of changes require not only new approaches within institutions but also greater flexibility in the rules. Technological and conceptual advancements may be marginalized within traditional compliance structures without supportive policy frameworks.

Emerging Tensions: Standard Reform and Market Realities

The sukuk market illustrates the tension between Shari'ah authenticity and market practicality. Recent proposals by AAOIFI to revise Standard 62, which would require actual asset transfer and ownership in sukuk structures, suggest they aim to align sukuk more closely with maqasid (Financial Times, 2025). This change ensures that sukuk are genuine risk-sharing instruments rather than debt-like securities. However, these proposals face opposition from market participants who are concerned about legal issues, operational inefficiencies, and declining investor interest.

This situation highlights the challenges of integrating maqasid into global financial standards. While authenticity is crucial, excessive rigidity could scare off investors and slow market growth. Therefore, reform strategies should strike a balance between idealism and practicality to keep Islamic finance both morally sound and profitable (Ali et al., 2022).

The literature review emphasizes five key themes: (1) the tension between Shari'ah compliance and ethical authenticity; (2) the importance of governance structures and leadership in achieving maqasid; (3) the role of indices and performance metrics in advancing ethical goals; (4) the potential for strategic reform through harmonization and technology; and (5) the ongoing challenge of aligning maqasid with global market dynamics.

Together, these studies provide a comprehensive overview of the opportunities and challenges in incorporating maqasid al-Shari'ah into Islamic financial institutions. While progress has been made, significant gaps remain in standardization, governance, and grassroots implementation. These gaps highlight that Islamic finance must continue evolving and developing new ideas to achieve its higher objectives.

Table 1: Thematic Review of Literature on Maqasid al-Shari'ah in Islamic Financial Institutions

Theme	Focus	Key Authors / Studies	Main Findings / Contributions
Integration of Maqasid into Practice	Tension between Shari'ah compliance and ethical objectives	Ishak & Asni (2020); Hassan et al. (2021); Alam et al. (2023); Dusuki & Bouheraoua (2019)	Islamic banks sometimes weaken maqasid by copying conventional products. Wa'ad, tawarruq, and floating rates are practical adaptations that boost competition but lower authenticity. The focus on managerialism in IFSA 2013 diminishes the importance of maqasid priorities.
Governance and Ethical Performance	Role of Shari'ah governance, leadership, and audits	Mergaliyev et al. (2019); Kiranawati et al. (2023); Shafii et al. (2021); Ahmed et al. (2022)	Performance disclosures are enhanced through shari'ah boards and governance. Profits are prioritized over ethics due to structural issues, a limited audit scope, and a lack of leadership commitment.

Standardization and Indexing	Measuring maqasid-based performance	Zailani et al. (2022). Muhamad et al. (2022); Nugraha et al. (2020); Habib (2023)	Development of the Maqasid Index and its integration into ESG. Practical tools limit comparability, but a lack of universal benchmarks remains. The differences between Bahrain and Indonesia highlight the challenges of global standardization.
Strategic Reform and Conceptual Approaches	Theoretical paradigms and new models for implementation	Ishak & Nur Syahirah (2021); MDPI (2023); Alsadi (2025); Dewaya (2025)	Suggestions for Balanced Approaches and Harmonization Models. Blockchain is believed to have the potential to promote justice, transparency, and wealth preservation. Text and context are integrated within a balanced framework.
Emerging Tensions in Market Realities	Sukuk reforms and global financial norms	AAOIFI Standard 62 (Financial Times, 2025); Ali et al. (2022)	Although it aligns with the maqasid, demanding actual asset ownership in sukuk risks fragmenting the market. It is essential to strike a balance between investor confidence and authenticity.
Policy and Sustainability Integration	Institutional reforms and regulatory initiatives	Securities Commission Malaysia (2025); Khan & Bhatti (2020)	Introduced in Malaysia, Maqasid Guidance incorporates ethics and sustainability into capital markets. Varying approaches across jurisdictions lead to inconsistent realization of maqasid.

Source: Based on the article 2019 - 2025

Methodology

This study examines the challenges faced by Islamic Financial Institutions (IFIs) in implementing the maqasid al-Shari'ah, employing a qualitative research approach and a systematic thematic literature review. This method is appropriate because it enables the interpretation of complex, normative concepts, such as maqasid, which are difficult to quantify. It helps understand structural and operational issues in maqasid-focused finance through diverse evidence, including empirical, theoretical, and policy sources (Creswell & Creswell, 2018; Xie et al., 2023).

Data were gathered from databases such as Scopus, Web of Science, ScienceDirect, SpringerLink, and Google Scholar, focusing on studies from 2019 to 2025 to reflect recent reforms. Keywords included maqasid al-Shari'ah, Islamic finance, governance, ethical banking, and IFIs. Selected studies were peer-reviewed journal articles, book chapters, or reports addressing maqasid al-Shari'ah, governance, or ethics to ensure quality. Non-peer-reviewed works, unrelated studies, and duplicates were excluded. Out of 83 initial publications, 72 remained after removing duplicates. These 72 were then screened for relevance, resulting in 21

being selected for final review, which covered regions such as Malaysia, Gulf countries, Indonesia, and Africa.

Thematic synthesis, a common qualitative analysis technique, was used in three stages: inductive open coding to identify recurring themes (e.g., lack of benchmarks, weak audits, product replication, regulatory rigidity), grouping codes into broader themes (e.g., legal constraints, governance issues, operational inconsistencies, market-ethics tensions), and developing a narrative outlining obstacles and reform suggestions.

Documenting screening and coding procedures strengthened dependability, and reflexivity helped minimize researcher bias; thematic interpretations were cross-checked against established frameworks to ensure confirmability. However, the study has limitations: it relies on secondary data and only includes sources in English, which may overlook relevant Arabic or Malay content about maqasid al-Shari'ah. Thematic synthesis provides interpretive generalizations rather than statistical representation. Future research, involving empirical validation such as interviews or comparative case studies, could enhance validity and deepen the understanding of how maqasid al-Shari'ah are practically negotiated and implemented within Islamic finance.

Findings And Discussion

The study's findings reveal that incorporating maqasid al-Shari'ah into Islamic finance presents various operational, regulatory, governance, and market challenges. This reflects ongoing efforts to balance Shari'ah authenticity with institutional and market realities. Although significant progress has been made in embedding Shari'ah compliance within legal and institutional frameworks, the broader ethical, social, and spiritual goals of the maqasid have not always been fully achieved.

The framework for compliance and regulation overseeing Islamic finance is a key conclusion. Despite being designed to enhance oversight and governance, Malaysia's implementation of the Islamic Financial Services Act (IFSA) 2013 has unintentionally created structural barriers to incorporating maqasid principles. According to Alam et al. (2023), the Act maintains a managerial structure that emphasizes control and conformity over moral and religious objectives. This discrepancy raises the question of whether current legal frameworks truly support the holistic vision of Islamic finance, which extends beyond financial performance to include welfare (maslahah), justice ('adl), and wealth protection (hifz al-māl). AAOIFI's recent updates to Standard 62, requiring actual ownership of underlying assets in sukuk structures, highlight the global complexity of this issue. While the aim of this change is to enhance legitimacy and ensure real asset backing according to maqasid (Financial Times, 2025), institutional investors worry about market fragmentation due to concerns over legal complexities and jurisdictional inconsistencies. This situation underscores a common conflict between fostering moral change and maintaining the ability of Islamic capital markets to operate effectively.

There are still operational challenges in the daily functions of Islamic financial institutions (IFIs). According to research by Ishak and Asni (2020), tactics like wa'ad (unilateral promises) and ibra' (rebates) are used to mimic traditional financial tools to boost competitiveness. These tactics allow IFIs to stay profitable, but by focusing on form over substance, they risk undermining the moral foundation of Shari'ah. Mergaliyev et al.'s (2019) findings, which show a gap between IFIs' market-driven practices and their rhetorical commitment to maqasid,

reinforce this concern. The gap between their stated goals and actual operations indicates that, despite the growth and sophistication of Islamic banks, their broader social, ethical, and environmental responsibilities are often neglected. To ensure Islamic finance truly reflects the maqasid principles rather than being a Shari'ah-compliant imitation of traditional banking, product design and delivery need to be reevaluated.

The realization of maqasid is heavily influenced by governance and institutional capacity, which remain weak. Kamaruddin et al. (2024) find that Malaysian IFIs' Shari'ah audit procedures have flaws like narrow scopes, inconsistent application, and lacking certified auditors, weakening their ability to enforce maqasid beyond compliance. Mergaliyev et al. (2019) and Kiranawati et al. (2023) identify internal issues such as board disputes, weak governance, and outside investors conflicting with Shari'ah principles. Leadership religiosity is crucial; organizations led by morally and spiritually committed individuals better uphold maqasid than those driven primarily by financial motives. These findings highlight the need for value-driven leadership and stronger governance systems to align more closely with Shari'ah goals.

The results highlight value-based intermediation (VBI) as a distinct approach to implementing maqasid. For example, Bank Negara Malaysia encourages Islamic banks to adopt VBI frameworks. Sheikh and Hussain's (2024) research shows Pakistani banks with VBI prioritize socially beneficial projects like community development, charitable financing, and financial inclusion over profit. These actions reflect a conscious move toward value optimization aligned with maqasid values of justice, welfare, and wealth protection. However, effective VBI requires institutional capability, leadership commitment, and regulatory support.

Besides institutional efforts, societal challenges—particularly low financial literacy—hamper the fulfillment of maqasid. A study in rural Kedah, Malaysia, by Isa et al. (2024), revealed that residents struggle to make decisions aligned with maqasid because they lack knowledge of Shari'ah-compliant financial products and ethical financial practices. This highlights that Islamic finance must engage communities through education and outreach, as institutional progress alone is insufficient. Public programs that connect financial conduct with moral and spiritual values could help bridge the gap between theory and practice.

Innovation and technology can advance maqasid in Islamic finance. Research shows hybrid instruments like sukuk protect wealth, and blockchain offers opportunities to embed maqasid values. Dewaya (2025) sees blockchain as upholding justice and wealth protection with transparency, while Alsadi (2025) highlights its role in democratizing access and reducing risks. Integrating technology could enhance the ethical and operational effectiveness of Islamic finance if maqasid principles are maintained.

Although Islamic finance has achieved substantial progress in embedding Shari'ah compliance within regulatory and institutional frameworks, the broader maqasid al-Shari'ah objectives remain only partially realized. Current legal frameworks, such as Malaysia's IFSA 2013, often emphasize compliance and control rather than justice, welfare, and wealth protection. At the operational level, Islamic financial institutions frequently replicate conventional financial products, prioritizing competitiveness over substance, while governance weaknesses—including narrow Shari'ah audit scopes and insufficiently qualified auditors—further hinder maqasid attainment. Moreover, limited financial literacy among communities restricts the social impact of Islamic finance. While innovations such as blockchain and hybrid sukuk show

potential, empirical evidence on their effectiveness in advancing maqasid is scarce. Finally, despite policy initiatives like Malaysia's Maqasid al-Shari'ah Guidance framework (2025), gaps persist between policy aspirations and institutional implementation, with few cross-country studies examining how maqasid-based policies are translated into practice. These shortcomings underscore the need for in-depth, multi-level research into how maqasid principles can be effectively integrated into regulation, operations, governance, technology, and community engagement.

Finally, the findings show how policy changes have sped up the institutionalization of maqasid, especially in Malaysia. The Securities Commission Malaysia introduced the Maqasid al-Shari'ah Guidance framework in 2025 to incorporate ethical and sustainable practices into the Islamic capital market. This framework not only improves compliance but also promotes alignment with global sustainability goals, such as the UN Sustainable Development Goals (SDGs). The project illustrates how Islamic finance can greatly influence global ethical finance movements. The Securities Industry Development Corporation (SIDC, n.d.) states that it highlights Malaysia's leading role in integrating maqasid into policy. However, even in advanced markets, there are still gaps between declared maqasid practices and actual operations, as Kamaruddin et al. (2025) demonstrate. This shows the challenge of turning policy promises into daily institutional realities.

Together, these findings suggest that the application of maqasid al-Shari'ah in Islamic finance is still in its early stages and has made progress. Despite technological innovation, value-based intermediation, and regulatory reforms pointing in the right direction, operational inconsistencies, poor governance, and low community literacy hinder the full realization of maqasid ideals. Closing this gap requires a multi-level strategy that combines innovative financial models, strong governance, supportive regulation, and public education. Only through such comprehensive reform will Islamic finance be able to fully embody the moral and spiritual values envisioned by maqasid al-Shari'ah, going beyond mere formal compliance.

Table 2: Summary of Findings and Discussion on Realizing Maqasid al-Shari'ah in Islamic Finance

Theme	Key Findings / Issues	Supporting Studies
Regulatory and Compliance Challenges	Regulatory frameworks like IFSA 2013 strengthen governance but often focus more on compliance than maqasid objectives, causing misalignment. Revisions to AAOIFI Standard 62 aim to enhance authenticity but may fragment the market due to legal complexities.	Alam et al. (2023); Financial Times (2025)
Operational Challenges	IFIs often replicate traditional financial products using wa'ad and ibra', boosting competitiveness but diminishing ethical standards. There is a disconnect between declared maqasid commitments and actual market practices.	Ishak & Asni (2020); Mergaliyev et al. (2019)
Governance and Institutional Capacity	Weak Shari'ah audit mechanisms, insufficient qualified auditors, and conflicting investor interests hinder maqasid realization. Leadership religiosity is a key factor influencing maqasid-focused governance.	Kamaruddin et al. (2024, 2025); Kiranawati et al. (2023); Mergaliyev et al. (2019)

Value-Based Intermediation (VBI)	Banks adopting VBI frameworks demonstrate greater alignment with maqasid by focusing on financial inclusion, charitable financing, and community development, signaling a shift from profit-maximization to value optimization.	Sheikh & Hussain (2024); Bank Negara Malaysia (2020s policy initiatives)
Financial Literacy and Community Engagement	Limited public understanding of Shari'ah-compliant products and maqasid principles hinders effective financial decision-making, emphasizing the need for community education and outreach.	Isa et al. (2024)
Innovation and Technology	Hybrid Sukuk structures preserve wealth while maintaining Shari'ah compliance. Blockchain and decentralized finance offer transparency, justice, and wealth protection, aligning with maqasid values.	International Journal of Religion (2024); Deway (2025); Alsadi (2025)
Policy and Sustainability Integration	Policy initiatives, like Malaysia's Maqasid al-Shari'ah Guidance, include ethical considerations and sustainability aligned with the global Sustainable Development Goals, strengthening maqasid at the institutional level. However, gaps remain between policy disclosure and actual implementation.	Securities Commission Malaysia (2025); SIDC (n.d.); Kamaruddin et al. (2025)

Conclusion

This study examines the challenges faced by Islamic Financial Institutions (IFIs) in achieving the maqasid al-Shari'ah goals globally. Despite regulatory progress, disparities remain between formal compliance and maqasid's ethical, social, and environmental aims. Challenges such as regulatory mismatches, limited Shariah audit capacity, fragmented governance, and low financial literacy hinder transformation.

Several promising avenues have emerged within the sector. Innovations in hybrid financial instruments, the integration of blockchain technology, and value-based intermediation (VBI) present viable pathways to bridge the compliance-maqasid gap. Furthermore, Malaysia's recent policy frameworks, including the Maqasid al-Shariah Guidance, exemplify an institutional commitment to embedding maqasid-driven values into policy and practice.

Achieving a full realization of maqasid al-Shari'ah requires a comprehensive approach: (1) aligning regulatory frameworks with ethical goals, (2) expanding the scope and depth of Shari'ah governance and auditing, (3) fostering innovation in financial technology, and (4) empowering communities through targeted literacy initiatives. Islamic finance institutions can fulfill their core objectives of promoting social justice, equitable wealth distribution, and sustainable economic growth by grounding their practices in ethical principles while addressing contemporary challenges.

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Author Contributions

Wan Nor Aisyah Wan Yussof conceived the main research idea, designed the study framework, and led the drafting of the manuscript. She also coordinated the data synthesis and final editing process. Nuruul Hidayah Mansor contributed to the literature review, data categorization, and analysis of Shari'ah governance frameworks. She also reviewed and refined the theoretical dimensions of *maqasid* discussed in the paper. Adibah Bahori provided critical input on the legal and ethical aspects of Islamic financial practices, particularly in the context of Malaysian regulatory frameworks. She contributed to the discussion section and ensured alignment with *maqasid al-Shari'ah* principles. Nur Syahirah binti Mohd Noh supported the data collection process and assisted in organizing and coding qualitative literature for thematic analysis. She also contributed to reference management and APA formatting. Muhammad Noor Husin reviewed institutional case studies and helped integrate global policy perspectives. He contributed to the section on regulatory challenges and the integration. All authors have read and approved the final version of the manuscript.

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