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Determinants of Maqasid Shariah performance in Islamic banks: Evidence from Southeast Asia

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ABSTRACT

Purpose – This study aims to analyse the effect of Islamic Social Reporting (ISR), Islamic Corporate Governance (ICG), Intellectual Capital (IC), and risk-taking—proxied by Non-Performing Financing (NPF) and Z-Score—on the Maqasid Shariah Index in Islamic Commercial Banks.
Design/Methodology/Approach – The study employs a quantitative research design using secondary data obtained from the financial statements of Islamic Commercial Banks in Indonesia for the 2018–2023 period. A purposive sampling technique was applied, resulting in a sample of 15 banks. Data were analysed using panel data analysis to examine the relationships between ISR, ICG, IC, risk-taking variables, and the Maqasid Shariah Index.
Findings – The results show that Islamic Corporate Governance has a positive and significant effect on the Maqasid Shariah Index. Meanwhile, risk-taking measured by Z-Score has a negative impact on the Maqasid Shariah Index. Islamic Social Reporting, Intellectual Capital, and risk-taking measured by Non-Performing Financing do not demonstrate significant relationships.
Originality/Value – This study contributes to the literature by integrating governance, social disclosure, intellectual capital, and risk-taking dimensions within the framework of Maqasid Shariah performance measurement in Islamic banking.
Research Limitations/Implications – The study is limited to Islamic Commercial Banks and covers the 2018–2023 period, which may restrict the generalisability of findings to other Islamic financial institutions or broader time horizons. Future research may expand the sample scope and incorporate additional explanatory variables.
Practical Implications – The findings provide insights for Islamic bank management, regulators, and policymakers in strengthening governance practices to improve Maqasid Shariah performance while maintaining prudent risk management.
Keywords – Islamic Social Reporting; Islamic Corporate Governance; Intellectual Capital; Risk-Taking; Maqasid Shariah Index; Islamic Commercial Banks
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INTRODUCTION

Islamic banking plays an important role within the modern financial system because its operations are governed by Islamic legal principles that emphasize ethical and socially responsible financial practices. Unlike conventional banking institutions, Islamic banks are expected to perform not only intermediary functions but also broader socio-economic roles consistent with Islamic ethical values (Prasojo et al., 2023). These values are encapsulated in the *Maqasid shariah*, which emphasizes the protection of religion (*hifz ad-din*), life (*hifz an-nafs*), intellect (*hifz al-aql*), lineage (*hifz an-nasl*), and wealth (*hifz al-mal*) (Rahmi et al., 2024). Based on this framework, Islamic banks are expected to go beyond merely offering financial services and contribute to the overall welfare (*maslahah*) of society.

A fundamental distinction exists between the operations of Islamic and conventional banks. Islamic banks emphasize partnership-based profit-sharing principles (Mohammed at al., 2015), and strictly prohibit *riba*, which is considered exploitative and unjust. Additionally, they avoid speculative transactions (*gharar*) and activities involving uncertainty (Nurhayati & Wasilah, 2019). These differences highlight the need for a distinct performance evaluation framework that reflects the ethical and equitable nature of Islamic finance and thus strengthens stakeholder trust in accordance with Shariah values.

At present, Islamic banking represents the largest segment within the global Islamic finance sector, contributing around 70.21% of total Islamic financial assets (IFSB, 2024). However, this growth is uneven across all regions. In Southeast Asia, despite having a large Muslim population, accounting for 41% of the global Muslim demographic and growing awareness of Shariah-compliant financial products, Islamic banking assets are still lower compared to the GCC and MENA regions (IFSB, 2023). Unlike the GCC and MENA which have more established financial structures and regulatory support, the Southeast Asian region faces its own challenges. This situation underscores the need to optimize the role of Islamic banks in Southeast Asia, while presenting strategic opportunities for further development.

Although Islamic banks operate based on distinct Shariah principles, many institutions still evaluate performance using conventional assessment models, including the CAMELS framework, which measures capital adequacy, asset quality, management efficiency, earnings, liquidity, and market risk sensitivity, which primarily focus on financial outcomes (Jofani et al., 2023). These tools often overlook broader Shariah objectives, particularly social and spiritual goals that are central to Islamic finance Aisyah et al., (2021). Therefore, experts have advocated for alternative approaches such as the Maqasid Shariah Index (MSI), which provides a more comprehensive performance assessment for Islamic banks (Cahya et al., 2020), (Usdeldi et al., 2022), and (Jofani et al., 2023). The MSI assesses Islamic banks along three core dimensions: *tahdhib al-fard* (development of the individual), *iqamah al-'adl* (enforcement of justice), and *jalb al-maslahah* (promotion of public interest) (Mohammed at al., 2015). This model allows banks to assess not only profitability, but also their contribution to the welfare of society.

Several variables are believed to influence the achievement of *Maqasid shariah* in Islamic banks. Islamic Social Reporting (ISR) reflects a bank's commitment to social responsibility and ethical conduct by disclosing Shariah-based social activities (Jofani et al., 2023), thereby enhancing stakeholder trust and organizational transparency (Astuti & Raharja, 2024). Islamic Corporate Governance (ICG) functions as a control mechanism to ensure Shariah compliance, maintain accountability, and safeguard stakeholders' interests (Jofani et al., 2023). Intellectual Capital (IC), encompassing knowledge assets, employee competencies, and innovation capabilities, also plays a crucial role in creating sustainable competitive advantage (Farooque et al., 2023). Lastly, Risk Taking, particularly in profit-and-loss sharing contracts, measures how well Islamic banks manage financial risk while avoiding issues like moral hazard due to asymmetric information (Prasojo et al., 2022a). Although prior research has examined how these variables affect Islamic banking performance, the empirical results remain inconsistent. This study addresses the existing research gap by analyzing Maqasid-based performance using dual risk proxies within Islamic banks in Southeast Asia, a region that has received limited attention in previous studies.

LITERATURE REVIEW

Sharia Enterprise Theory (SET)

All human actions must be accountable to God, fellow humans, and the natural environment - this concept is known as Shariah Enterprise Theory (SET). In this framework, Allah occupies the highest position and is considered the absolute owner of everything in the universe (Asyifa & Abdullah, 2023). Therefore, humans bear vertical responsibility to Allah. In contrast, accountability to fellow humans and nature is considered a horizontal responsibility (Triyuwono, 2001). As trustees of the earth, humans are regarded as *khalifatullah fil ardh*, meaning representatives of God who are entrusted with the responsibility of managing resources, generating value, and ensuring equitable distribution for the benefit of society and the environment. The application of SET principles in Islamic banking operations must be based on sharia valuesIn Islamic banking, accountability extends beyond shareholders to include all stakeholders, while ultimately remaining accountable to Allah. Adherence to these principles can enhance institutional performance because managerial decisions are directed by Shariah-based ethical values.

Resource-Based Theory (RBT)

Strategic resources play an important role in enabling companies to capitalise on opportunities while reducing external environmental threats (Chahal et al., 2020). Resource-Based Theory emphasises the importance of internal factors in determining organisational performance. By analysing these internal elements, companies can assess the effectiveness or lack thereof of their business activities (Hitt et al., 2016). The theory identifies four important characteristics of resources that can generate sustainable competitive advantage: value, scarcity, inimitability, and irreplaceability (Utami & Alamanos, 2023). These criteria suggest that the resource should be useful, rare among competitors, difficult to imitate due to its uniqueness, and have no direct substitute with equivalent benefits. A key assumption of the Resource-Based Theory is that organisational success depends not only on external adaptability, but also on the ability to align and improve internal goals and orientations. Application of this theory suggests that competitive advantage comes not only from tangible assets, but also from the continuous development and optimal management of resources. When managed effectively, internal resources can generate significant added value that drives productivity and maintains long-term competitiveness (Saputra, 2019).

Islamic Social Reporting and Maqasid Shariah Index

Islamic Social Reporting (ISR) was first introduced by Ross Haniffa in 2002. As cited by Aji et al., (2024) Haniffa explained that ISR refers to the disclosure of spiritual and social activities carried out by Islamic institutions to meet public expectations. The main purpose of ISR is to fulfil corporate social responsibility towards Allah SWT, society, and the environment (Fashikhah et al., 2018). Handayani et al., (2020) explain that the evaluation of Islamic Social Reporting (ISR) in Islamic banks is commonly based on several dimensions, including financing and investment activities, products and services, employee-related aspects, community participation, environmental responsibility, and corporate governance practices.

Shariah Enterprise Theory (SET) emphasises that Islamic banks are not only profit-oriented entities but also have an obligation to promote social welfare and environmental sustainability by actively engaging in social roles. This responsibility is aligned with the Maqasid objectives of sharia, which guide Islamic economic practices to uphold justice, equality and shared prosperity. Therefore, Islamic banks are expected to prioritise transparency and accountability in all operational activities in accordance with SET and Maqasid shariah. Through this theoretical lens, Islamic banks can enhance their ability to fulfil sharia objectives and strengthen stakeholder confidence in managing and distributing entrusted funds.

A number of previous studies have investigated the association between Islamic Social Reporting (ISR) and Maqasid shariah performance. Research conducted by Azmi et al., (2020), Mardliyyah et al., (2020), Farida et al., (2023), and Astuti & Raharja, (2024), found a significant and positive effect of ISR on the Maqasid Syariah Index. Based on these findings, the following hypothesis is proposed:

H1: Islamic Social Reporting has a positive influence on the Maqasid Shariah Index.

Islamic Corporate Governance and Maqasid Shariah Index

The main objective of Islamic Corporate Governance (ICG) is to build a governance framework that reflects the spiritual integrity and ethics of Islam in every aspect of business activities. According to Ananda and NR (2020), Islamic Corporate Governance (ICG) refers to a governance framework grounded in Islamic principles that directs organizational operations and business activities in accordance with ethical standards and Shariah law. This system is stricter than conventional governance because it combines religious, ethical, and social dimensions (Cahya & Kusumaningtias, 2020). Proper implementation of ICG can enhance the strength, soundness, and stability of Islamic banks, while its failure can hinder industry growth, financial system stability, and public (Ika & Suryani, 2024). Murtiyanti et al., (2022) outlined six dimensions of ICG disclosure: board of directors, risk management, transparency and disclosure, audit committee, sharia supervisory board, and investment account holders.

The values underlying Islamic Corporate Governance are consistent with Shariah Enterprise Theory, which emphasizes accountability not only to Allah SWT but also to society. Under this perspective, Islamic banks are expected to treat stakeholders fairly and uphold honesty in all business activities. Such principles correspond with the function of the Shariah Supervisory Board (SSB), whose responsibility is to ensure that banking operations comply with Shariah requirements while protecting public interests. Through effective implementation of ICG, Islamic banks can fulfil their accountability not only to Allah SWT, but also to society and the environment. A well-established Islamic governance system will encourage operations that are fair, sharia-compliant, and aligned with Maqasid sharia objectives.

Empirical studies conducted by Hartono (2018) and Anggraini and Mariana (2023) indicate that Sharia corporate governance contributes positively and significantly to the Maqasid Shariah Index. Referring to these findings, the following hypothesis is formulated:

H2: Islamic Corporate Governance has a positive effect on the Maqasid Shariah Index.

Intellectual Capital and the Maqasid Shariah Index

Intellectual capital represents the collective knowledge, competencies, and expertise held by employees within an organization. (Gomwe & Boikanyo, 2023). This accumulation plays a strategic role in helping firms achieve a competitive advantage. It is a form of knowledge-based asset that supports a company's success (Nugrahaeni & Syafruddin, 2022), encompassing all intangible resources and the processes used to manage them (Arifin, 2020). According to the Resource-Based Theory (RBT), the integration of tangible and intangible resources managed by Islamic banks is central to achieving institutional goals (Prasojo et al., 2023). Intellectual capital contributes to enhanced profitability, expanded market share, innovation, and increased firm value. It consists of three main components: human capital, structural capital, and capital employed. Angelika et al., (2020). argue that intellectual capital is a strategic approach, as optimized knowledge within an organization can significantly elevate business value.

Effective management of intellectual capital is essential for achieving the objectives of Islamic banks. Strengthening human capital, particularly employees who possess a deep understanding of shariah-based products, compliance systems, and inclusive finance, is critical. By implementing intellectual capital strategies, Islamic banks can effectively realize the objectives of *Maqasid shariah* and maximize benefits for all stakeholders. Empirical studies by Hartono (2018), Prasojo et al. (2023), Cahya & Kusumaningtias (2020), and Jofani et al. (2023) confirm that intellectual capital has a positive and significant influence on the *Maqasid Shariah Index*. Based on this, the following hypothesis is proposed:

H3: Intellectual capital has a positive influence on the Maqasid Shariah Index.

Risk-Taking (Non-Performing Financing) and the Maqasid Shariah Index

According to Nguyen (2021), risk-taking can be assessed through the Non-Performing Financing (NPF) ratio, a key financial indicator used to measure potential losses arising from defaulted financing. A high NPF ratio signals a bank's failure in managing credit risk and indicates weak financing performance (Prilevi et al., 2020). Uncontrolled NPF levels reduce public trust and reflect non-compliance with shariah ideals. Therefore, Islamic banks must apply prudential principles to ensure sustainable operations. The accepted threshold for NPF is 5%, with lower levels indicating better risk management and allowing more optimal financing distribution. Higher NPF levels require greater provisioning, which may erode bank capital and hinder the achievement of *Maqasid shariah* objectives. Poor credit quality not only threatens financial stability but also reduces the bank's social value a cornerstone of Islamic financial systems.

Research by Prilevi et al., (2020) and (Puspasari et al., 2024) found that NPF has a negative and significant influence on the *Maqasid Shariah Index*. Thus, the proposed hypothesis is as follows:

H4: Risk-taking (proxied by Non-Performing Financing) has a negative influence on the Maqasid Shariah Index.

Risk-Taking (Z-Score) and the Maqasid Shariah Index

Bank stability is closely related to the level of risk exposure. Internal factors such as a bank's risk appetite significantly affect its financial stability (Dwinanda & Sulistyowati, 2021). As noted by Listyadewi (2023), Islamic banks must maintain profitability and strengthen capital structures to support financial resilience. The Z-score is a widely used measure for assessing a bank's insolvency risk—i.e., the likelihood that a bank fails to meet its financial obligations (Putri, 2022). High risk-taking behavior, such as aggressively financing high-risk sectors, can elevate the risk of bankruptcy (Handayani & Kresnawati, 2025).

Poor management of funding costs, capital expenses, and total liabilities often leads to operational inefficiency, weakening financial stability and diminishing overall performance (Prasojo et al., 2022a). Although taking greater risks may offer higher returns, it can also result in severe losses if not properly controlled. For instance, financing high-risk clients might yield better profits but significantly increases exposure to default. Islamic banks must implement risk controls to ensure that risk-taking behavior aligns with the goals of *Maqasid shariah* (Handayani & Kresnawati, 2025).

Empirical studies conducted by Prasojo et al. (2022), (Metalia, 2023), and Handayani & Kresnawati (2025) support the conclusion that Z-score-based risk-taking has a negative and significant impact on the *Maqasid Shariah Index*. Therefore, the following hypothesis is proposed:

H5: Risk-taking (proxied by Z-Score) has a negative influence on the Maqasid Shariah Index.

RESEARCH METHODOLOGY

Research Design

This research adopts a quantitative explanatory approach with panel data analysis to examine factors influencing Islamic bank performance measured through the Maqasid Shariah Index (MSI). The study analyzes four main independent variables, namely Islamic Social Reporting (ISR), Islamic Corporate Governance (ICG), Intellectual Capital (IC), and Risk-Taking, represented by Non-Performing Financing (NPF) and Z-Score indicators. Data analysis is conducted using multiple linear regression with the assistance of IBM SPSS version 26.

Population and Sampling

The research population consists of 21 Islamic commercial banks operating in Southeast Asia. Using purposive sampling, 15 banks were selected based on data availability and consistency during the six-year observation period (2018 - 2023). This resulted in a total of 90 panel data observations (15 banks × 6 years).

Data Sources

This study uses secondary data obtained from the annual reports and financial statements of Islamic commercial banks operating in Southeast Asia. The data were collected from the official websites of each bank to ensure validity and consistency. The observation period spans six consecutive years, from 2018 to 2023, allowing for panel data analysis across time and institutions.

Variable Definition and Measurement

Dependent Variable: Maqasid Shariah Index (MSI)

This study adopts the *Maqasid Shariah Index* (MSI) developed by Mohammed et al. (2015), which comprises three main dimensions: (1) educating individuals, (2) establishing justice, and (3) promoting public interest. The MSI is calculated using performance ratios, where each ratio is multiplied by a predetermined weight according to its element and objective. These weighted scores are then aggregated to obtain a total score for each objective, which are finally summed to produce the MSI value as indicated in Table 1.

Table 1: Maqasid Shariah Index (MSI)

Objective (O)	Dimension (D)	Elements (E)	Performance Ratio (R)
O1. Educating Individuals (30%)	D1. Abilities Knowledge of new skills	E1. Educational Grants (24%)	R1. Education Grant / Total Expense
		E2. Research (27%)	R2. Research Expense / Total Expense
	D2. Cultivation and Improvement	E3. Training (26%)	R3. Training Expense / Total Expense
	D3. Creating awareness of sharia banking	E4. Publicity (23%)	R4. Promotion Expense / Total Expense
O2. Establishing Justice (41%)	D4. Fair Return	E5. Equitable Return (30%)	R5. Profit Equalization Reserve / Net or Investment Income
	D5. Affordable products and services	E6. Distribution Function (32%)	R6. *Mudharabah* + *Musyarakah* / Total Islamic Financing
	D6. Elimination of injustice	E7. Interest free product (38%)	R7. Non-Interest Income / Total Income
O3. Achieving Prosperity (29%)	D7. Profitability	E8. Profit Ratio (33%)	R8. Net Income / Total Assets
	D8. Redistribution of Income and Assets	E9. Personal Income (30%)	R9. Zakat / Net Assets
	D9. Investment in the real sector	E10. Real sector investment constellations (37%)	R10. Investment in Real Sector / Total Financing

Source: Mohammed & Taib (2015)

The final MSI is computed using the following formula: Maqasid Shariah Index = Weighted Score (O1) + Weighted Score (O2) + Weighted Score (O3)

Independent Variables

Islamic Social Reporting (ISR)

The disclosure of social activities reflects the commitment of Islamic banks to contribute to social welfare and their role in the economy based on shariah principles. This study refers to the *Islamic Social Reporting* indicators developed by Haniffa (2002) and Othman et al. (2009), as cited Raihan, (2023), which consist of six main disclosure themes with a total of 43 items. Islamic banks are required to disclose all listed items. Each disclosed activity receives a score of 1, while undisclosed items are scored 0. The maximum score (100%) is achieved when all indicators are disclosed. The ISR disclosure level is measured by comparing the number of disclosed items with the total possible items. The formula is as follows:

$$\text{ISR} = \frac{\text{Number of items disclosed}}{\text{Maximum number of items}} \times 100\%$$

Islamic Corporate Governance (ICG)

The purpose of implementing Islamic Corporate Governance is to ensure that all company operations comply with shariah rules and embody Islamic values in both decision-making and business activities. The effectiveness of governance is assessed by the extent to which a company implements Islamic governance principles (Ardhanareswari, 2017). This study applies the *Islamic Corporate Governance Index* developed by Kurniawan (2016), as cited in Murtiyanti et al. (2022), which consists of six disclosure dimensions with a total of 63 disclosure items. Content analysis with a scoring system is applied: 1 for disclosed items, 0 for undisclosed. A perfect score (100%) is awarded if all items are reported. The formula for calculating the ICG score is:

$$\text{ICG} = \frac{\text{Number of items disclosed}}{\text{Maximum number of items}} \times 100\%$$

Intellectual Capital (IC)

Higher levels of intellectual capital reflect stronger resources, enabling firms to remain competitive. In Islamic banking, the *iB-VAIC* model is used to measure intellectual capital performance. This metric evaluates the contribution of intellectual capital components to value creation in Islamic banking (Cahya & Kusumaningtias, 2020). The *iB-VAIC* or *Business Performance Indicator (BPI)* captures a firm's intellectual ability to generate value added. The formula is as follows:

$$\textbf{IB-VAIC} = \textbf{IB-VAHU} + \textbf{IB-STVA} + \textbf{IB-VACA}$$

Description:

IB-VAHU = Value Added Human Capital
IB-STVA = Structural Capital Value Added
IB-VACA = Value Added Capital Employed

Risk-Taking

Excessive risk-taking can disrupt bank stability, as higher risks may increase operational inefficiencies, especially when financing decisions elevate the cost of funds due to credit risk. According to Nguyen, (2021), risk-taking is measured using two proxies:

1. Non-Performing Financing (NPF)

   NPF is a ratio that reflects the inability of customers to repay their financing along with its returns as agreed. It is calculated using the following formula:

$$\text{NPF} = \frac{\text{Non-performing financing}}{\text{Total financing}} \text{ X } 100\ \%$$

2. Z-score

   Z-score is used to assess the risk of bank insolvency and overall stability. It measures how well a bank withstands financial distress. The formula adapted from Nguyen, (2021) is:

$$Zscore = \frac{ROA + ETA}{\delta\ ROA}$$

Description:

ROA = Return on Assets
ETA = Equity to Total Assets
δROA = Standard deviation of ROA

Model Estimation

To evaluate the proposed hypotheses empirically, this study utilizes a multiple linear regression approach supported by IBM SPSS version 26. This method is employed to assess the combined effects of several independent variables on the dependent variable. The regression equation used in this research is presented as follows:

$$MSI = \alpha + \beta 1\ ISR + \beta 2\ ICG + \beta 3\ IC + \beta 4\ NPF + \beta 5\ ZSCORE + \mathcal{E}$$

Description:

MSI = Estimated dependent variable (*Maqasid Shariah Index*)
α = Constant term
β_1–β_5 = Coefficients of independent variables
ISR = Islamic Social Reporting
ICG = Islamic Corporate Governance
IC = Intellectual Capital
NPF = Risk-taking (proxy: Non-Performing Financing)
Z-score = Risk-taking (proxy: Z-Score)
ε = Error term (residual)

RESULTS AND DISCUSSION

Statistic Descriptive

Based on the descriptive statistical analysis presented in Table 2, this study uses 90 observations, which include independent and dependent variables. The analysis results show that the lowest value of Islamic Social Reporting (ISR) is 26.67, which was recorded by Al-Amanah Islamic Investment Bank in 2018 and 2019. The highest value, 82.22, was achieved by Bank Aceh Syariah in 2020 and 2021, and Bank Muamalat Indonesia in 2019 and 2020. The average ISR score was 63.06 with a standard deviation of 16.92.

In terms of Islamic Corporate Governance (ICG), the minimum value was 53.97, also recorded by Al-Amanah Islamic Investment Bank in 2022 and 2023. The maximum value, 82.54, was achieved by Bank Aceh Syariah in 2021 and Bank Muamalat in multiple years (2018, 2019, 2021, 2022, and 2023). The mean value of ICG was 75.93, with a standard deviation of 7.34.

For the Intellectual Capital (IC) variable, the lowest value was -5.04, recorded by Bank Syariah Bukopin in 2023, while the highest value was 6.57, achieved by Bank NTB Syariah in 2018. The average IC value stood at 2.65, with a standard deviation of 1.79.

Regarding risk-taking, measured using Non-Performing Financing (NPF), the minimum value was 0.07, recorded by BCA Syariah in 2018. The maximum value reached 23.66, noted at the Islamic Bank of Thailand in 2020. The mean NPF value was 3.90, with a standard deviation of 4.89.

For Z-score, which also represents risk-taking, the lowest value was -10.78, recorded by Al-Amanah Islamic Investment Bank in 2020, while the highest was 13.27, achieved by Bank Islam Brunei Darussalam in 2023. The average Z-score was 3.93, with a standard deviation of 5.34.

As for the dependent variable, the Maqasid Shariah Index (MSI), the lowest value was 16.44, recorded by Al-Amanah Islamic Investment Bank in 2020. The highest value, 38.37, was achieved by Bank Panin Dubai Syariah in 2019. The mean MSI score was 28.08, with a standard deviation of 5.23.

Table 2: Descriptive Statistics

Variable	Number of Data	Minimum	Maximum	Mean	Std. Deviation
Islamic Social Reporting (ISR)	90	26,67	82,22	63,06	16,92
Islamic Corporate Governance (ICG)	90	53,97	82,54	72,93	7,34
Intellectual Capital (IC)	90	-5,04	6,57	2,65	1,79
Risk-taking proxy Non-Performing Financing (NPF)	90	0,07	23,66	3,90	4,89
Risk-taking proxy Z-score	90	-10,78	13,27	3,93	5,34
Maqasid Shariah Index (MSI)	90	16,44	38,37	28,08	5,23

Source: Secondary data processed with SPSS (2025)

The Result of Regression Analysis

Based on Table 3 shows that Hypothesis 1 on the Islamic Social Reporting (ISR) variable has a regression coefficient of -0.035 with a significance value of 0.500 (>0.05), indicating that ISR has no significant effect on the Maqasid Shariah Index (MSI), thus H1 is rejected. Hypothesis 2 shows that the Islamic Corporate Governance (ICG) variable has a positive coefficient of 0.675 with a significance value of 0.000 (<0.05), indicating a positive and significant influence on MSI, so H2 is accepted. For Hypothesis 3, the Intellectual Capital (IC) variable has a negative coefficient of -0.514 with a significance value of 0.081 (>0.05), which means that IC has no significant effect on MSI, so H3 is rejected. In Hypothesis 4, the Non-Performing Financing (NPF) variable has a positive coefficient of 0.144 and a significance value of 0.244 (>0.05), which indicates that NPF has no significant effect on MSI, so H4 is rejected. Finally, Hypothesis 5 shows that the Z-Score variable has a negative coefficient of -0.385 with a significance level of 0.002 (<0.05), indicating a significant negative effect on MSI, so H6 is accepted.

Table 3: Multiple Linear Regression

Variable	Coefficient	t	Sig.	Adj R2	Test
Constant	-18,675	-2,330	0,022	0,401	
ISR	-0,035	-0,678	0,500		Hypothesis 1
ICG	0,675	5,328	0,000		Hypothesis 2
IC	-0,514	-1,765	0,081		Hypothesis 3
NPF	0,144	1,174	0,244		Hypothesis 4
ZScore	-0,385	-3,254	0,002		Hypothesis 5

Source: SPSS output results, processed data (2025)

DISCUSSION

Islamic Social Reporting (ISR) and Maqasid Shariah Index

The results showed that Islamic Social Reporting (ISR) had no significant effect on the Maqasid Shariah Index (MSI), so the first hypothesis was rejected. This finding is in line with the studies of Heni & Emawati (2022) and Jofani et al., (2023), which state that the low contribution of ISR is caused by the quality of implementation that is not yet optimal, especially related to the allocation of limited social and environmental funds. Theoretically, Shariah Enterprise Theory (SET) emphasizes the importance of Islamic banks' accountability to God, humans, and the environment. However, in practice, the implementation of ISR is still a formality, inconsistent, and less transparent, for example in the aspects of internal zakat, gharar issues, employee welfare, and environmental responsibility.

The average quality of ISR that only reaches 63% reflects the weak integration of Islamic values in reporting. This condition is exacerbated by the absence of standardized sharia-based social reporting standards. Therefore, ISR has not been able to function as an effective social performance indicator in supporting the achievement of Maqasid shariah. This study recommends the need for a policy framework and social reporting practices that are more operational, measurable, and in accordance with SET principles, so that the social responsibility of Islamic banks does not only stop at the document level but also has a real impact on society.

Islamic Corporate Governance (ICG) and Maqasid Shariah Index

The results showed that Islamic Corporate Governance (ICG) has a positive and significant effect on the Maqasid Shariah Index (MSI), so the second hypothesis is accepted. This finding is consistent with the research of Hartono (2018) and Anggraini & Mariana (2023) which emphasize that the implementation of good ICG reflects the compliance of Islamic banks with sharia principles, regulations, and accountable governance. In the perspective of Shariah Enterprise Theory (SET), Islamic banks are obliged to manage resources with vertical responsibility to God and horizontal responsibility to society and the environment. Transparent and consistent ICG strengthens the achievement of Maqasid values such as justice, welfare and sustainability. This is supported by the existence of a Sharia Supervisory Board (SSB), internal audits, and international standards such as IFSB-10 that emphasize the importance of sharia supervision and conformity audits. Thus, the implementation of ICG not only minimizes the risk of deviation from Islamic principles but also increases public trust and encourages the successful achievement of Maqasid shariah in the Islamic financial system.

Intellectual Capital and Maqasid Shariah Index

The results showed that Intellectual Capital (IC) had no significant effect on the Maqasid Shariah Index (MSI), so the third hypothesis was rejected. This shows that the amount of IC owned by Islamic banks has not had a real impact on the achievement of Maqasid values. This finding is in line with the study of Oktafiani et al. (2022), Salsabilla et al., 2022), and Hoerunisa et al., (2023), which states that the components of IC capital employed, human capital, and structural capital have not shown an optimal contribution to sharia objectives. This finding is surprising, given that in theory and the findings of previous studies, IC is considered to support sustainable performance improvement and innovation, which are aligned with Maqasid shariah objectives.

One possible cause is that investments in IC components such as training or human resource development have not been strategically directed to support the social and economic justice aspects as formulated in Maqasid. For example, Islamic bank employees may have technical competence, but have not been equipped with an in-depth understanding of Maqasid principles or the application of value-based Islamic finance.

In addition, many Islamic banks in Southeast Asia have yet to fully integrate IC management within a social sustainability framework. Spending on training, innovation or human resource support systems may be geared more towards administrative compliance or internal efficiency rather than the achievement of public welfare (*jalb al-maslahah*). These findings suggest a gap between the theoretical potential of IC and its implementation in the context of Maqasid shariah values.

Risk-Taking Proxy Non-Performing Financing (NPF) and Maqasid Shariah Index

The results showed that Non-Performing Financing (NPF) had no significant effect on the Maqasid Shariah Index (MSI), so the fourth hypothesis was rejected. This means that the high or low level of NPF in Islamic banks does not directly affect the achievement of Maqasid shariah. This finding shows that high NPF does not directly determine the achievement of Maqasid shariah. Some banks with high NPF are still able to realise social programs such as education and zakat (e.g. BMI Bank), while banks with low NPF are not necessarily active in carrying out social functions (e.g. BCA Syariah). This indicates that financing risk management is not fully aligned with Maqasid orientation.

This study is in line with the findings of (Devi, 2022) and Krisnawati (2019), which state that financing quality (through NPF) is not the main determining factor in achieving sharia objectives. The implication of this result is that NPF management should not only be oriented towards financial stability but also integrated with the social strategy of Islamic banks. Regulation and supervision of NPF need to be complemented with encouragement for banks to consistently carry out Maqasid activities despite financing risks. Banks also need to strengthen prudential-based financing governance without neglecting their religious social mission.

Risk-Taking Proxy Z-Score and Maqasid Shariah Index

This study found that Z-score has a significant negative effect on Maqasid Shariah Index (MSI). This shows that the higher the prudence of Islamic banks (measured by stability and resistance to failure), the lower their performance in achieving Maqasid objectives. This finding is consistent with the studies of (Prasojo et al., 2022), (Metalia, 2023), and (Handayani & Kresnawati, 2025), which state that excessive prudence hinders the social function of banks. In theory, financial prudence is an important principle in bank stability. However, in the context of Maqasid shariah, an excessive focus on stability may limit the social role of Islamic banks. One explanation for this result is that Islamic banks in Southeast Asia tend to be conservative in disbursing financing, especially to the MSME sector or profit-loss sharing-based financing (such as *mudharabah* and *musyarakah*) which are considered more risky.

When banks favour low risk *murabaha* financing, the contribution to economic equity and justice is limited. In the long run, this could distance the institution from the social mission of Islam as defined in Maqasid, particularly in the aspects of iqamah al-'adl (upholding justice) and jalb al-maslahah (bringing about benefit).

This finding serves as a warning that stability should not be achieved at the expense of banks' social functions. Islamic banks and regulators need to design a risk management system that allows financing innovation without having to abandon prudential principles**.**

This reinforces the gap between financial stability and Maqasid achievement. Therefore, a balance between risk management and social responsibility is required. Islamic banks are expected to not only focus on stability, but also actively promote economic justice. Regulators also need to provide a policy framework that is able to integrate the prudential principle with a commitment to Maqasid shariah. Islamic banks must strike a balance between financial stability and their social mission. While prudent risk-taking ensures solvency, excessive conservatism can hinder distributive justice and financial inclusion goals inherent in Maqasid

CONCLUSIONS AND RECOMMENDATIONS

This study concludes that of the five variables tested on the Maqasid Shariah Index (MSI), only Islamic Corporate Governance (ICG) has a significant positive effect. Islamic Social Reporting (ISR), Intellectual Capital (IC), and risk taking with the Non-Performing Financing (NPF) proxy have no effect on MSI. Meanwhile, risk taking with Z-Score proxy has a negative effect, indicating that excessive prudence in risk management can hinder the achievement of Maqasid shariah objectives. These findings emphasize the importance of balance between prudential principles, sharia governance, and social values in the operations of Islamic banks.

Limitations

This study has several limitations that need to be considered by future researchers. The following are some of the limitations found:

1. Based on the R-Square table in this study, it shows a value below 50%, meaning that more than 50% of Maqasid shariah can be influenced by other variables that have more influence.
2. The measurement of Islamic social reporting only uses an index compiled by Islamic economic activists, while the difference in legal basis between countries in disclosing Islamic social reporting has not been a major concern.

Suggestions

For Islamic Bank

The findings of this study suggest that Islamic banks need to strengthen their dedication to achieving Maqasid shariah objectives by functioning not only as financial intermediaries but also as institutions that support fairness, equality, and public welfare. Improving the depth and quality of annual report disclosures, particularly those related to Islamic social responsibility, is important for fostering sustainable stakeholder confidence and commitment. In addition, the effective application of Islamic Corporate Governance (ICG), supported by the active involvement of the Sharia Supervisory Board (SSB), may enhance managerial accountability and ensure adherence to Shariah principles. Banks are also encouraged to manage risk-taking activities carefully so that financial stability can be maintained without compromising their broader social responsibilities.

For Future Researchers

It is recommended that future research explore additional variables that may influence Maqasid Shariah performance, such as corporate culture, stakeholder engagement, or shariah compliance enforcement. Expanding the research scope to include other Islamic financial institutions such as Islamic insurance (takaful), Islamic microfinance, or zakat institutions may provide broader insights into Maqasid-oriented performance across sector.

For Regulators and Policymakers

There is an urgent need to develop more standardized and universally accepted Islamic Social Reporting (ISR) frameworks. Such frameworks should reflect Maqasid principles, be adaptable across jurisdictions, and provide measurable criteria to evaluate Islamic banks' social contributions. Clear regulatory guidance will help ensure that ISR practices are not merely symbolic but become integral to strategic and operational decision-making in Islamic financial institutions.

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DECLARATION

Credit Authorship Contribution Statement

Muhamad Wahyudi: Conceptualisation, methodology, supervision, validation, formal analysis, writing – review & editing, visualization, project administration, and corresponding author.
Aprilya Retno Sasviranti: Investigation, data curation, formal analysis, literature review, writing – original draft, and data interpretation.
Siti Rokhaniyah: Validation, methodology, writing – review & editing, supervision, and critical revision of the manuscript.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests, personal relationships, or other conflicts of interest that could have appeared to influence the work reported in this paper.

Ethical Statement

The authors declare that this manuscript is an original work and has not been published previously, either in whole or in part, nor is it under consideration for publication elsewhere. The authors have complied with the journal's Publication Ethics and Malpractice Statement and have adhered to the highest standards of academic integrity throughout the research and publication process.

Data Availability

The data that support the findings of this study are publicly available from the annual reports and financial statements of Islamic commercial banks in Southeast Asia, which can be accessed through the official websites of the respective banks. The processed data used in this study are available from the corresponding author upon reasonable request.

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