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The Role of Islamic Economic Law in Promoting Equitable Welfare through Financial Ethics

Asep Hidayatulloh

[a.] *Faculty of Da'wah and Communication Sciences, UIN Raden Intan Lampung, Bandarlampung, Indonesia*

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Corresponding author;
Asep Hidayatulloh

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ABSTRACT

Objective: This research focuses on how Islamic economic law will lead to equitable welfare (falah) through financial mechanisms based on ethical sharia practices. The direct effects of asset ownership, sharia contracts, trust, joint risk, and government incubators are investigated along with the moderating effect of sharia value internalization.
Methods: This study uses quantitative research designs with the primary data taken directly from the respondents using the structured questionnaire methods from 312 Islamic Economic Actors in Indonesia. The data was analyzed through the method of using SmartPLS 4 by assessing the measurement and structural model fit including the moderating effects.
Results: Research findings indicate that all five independent variables have positive and significant effect towards quality welfare. In addition, internalization of sharia value is also a moderating variable of the relationship between these two variables to welfare, which means, the greater internal ethical commitment it has, it will strengthen the effectiveness of formal economic mechanism.
Novelty: In this study, we apply an integrated Islamic legal construct with institutional theory model of welfare in its dimensional aspects: possible structural and ethical dimensions. It moves the conversation forward by presenting evidence how the presence of internalised sharia improves the performance of the institutions of Islamic economics.
Implications: We see from its results that there is an assurance of empirical evidence to justify how moral consciousness should be the basis for Islamic economic policymaking. The paper recommends improving both institutional regulation and individual or social ethical awareness for sustainable welfare among policymakers and Islamic financial institutions.

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1. Introduction

More recently, the global economy has been marred by issues such as growing inequality, financial instability and the ethical deterioration of market behavior, leading to an increased interest in economic alternatives, especially those rooted in religion and morals. Sharia-based Islamic economic paradigm provides a holistic dimension that incorporates moral, legal, and economic aspects into the pursuit of justice in the distribution of welfare (falah) (Mirakhor & Iqbal, 2011). Since then, the global Islamic finance sector has witnessed tremendous growth and is projected to reach over USD 4.94 trillion (Erdoğan et al., 2020; Nawaz, 2019). Nonetheless, regardless of this expansion, the profound influence of Islamic financial ethics on socioeconomic justice and or welfare is still little investigated (Hassan & Kayed, 2009). For instance, some empirical evidence showed that various Islamic finance institutions do actually tend to follow conventional banking practices and thus, their transformative potential is destroyed (Abasimel, 2023; Abedifar et al., 2016). Another thing that tends to be neglected in public economics is the importance of Islamic economic law as a legal-institutional basis of financial conduct even though Islamic Economics emphasizes justice, equity, and public welfare (Hassan & Kayed, 2009). In a global context characterized by the diversity of post-pandemic economic recovery, economic structural imbalances, and the consequent need to develop a new economic order, Islamic economic law can become one of the alternatives to achieve ethical prosperity. The convergence of law, finance, and ethics in the Islamic

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tradition offers an opportunity to tackle present socio-economic issues over the fragility of which traditional systems, regardless of their embellishment, have lost their efficacy.

A critical question emerging at this very point of time is the growing divergence between growth and welfare. Despite growth in GDP statistics, appropriate distribution and the legal enforcement of the rules of financial behaviour are still weak in a large part of the Muslim-majority and other emerging economies (Ibrahim & Ismail, 2020; Wan Ibrahim & Ismail, 2015). Moreover, the Islamic financial system is also criticized for being shallow and low connection to the real economy and a low level of fiqh muamalat grounding. To make matters worse, the absence of greater transparency has led to a lack of public trust in Islamic financial institutions, who are viewed as mimicking interest-based models under different guises by many (Calder, 2020a, 2020b). The solutions and opportunities are there; as Islamic economies move towards sustainability, Islamic economic law needs to be reframed urgently as not only prohibitive (e.g., riba, gharar) but as an enabling framework for just and inclusive economic systems (Mohd Zain et al., 2024).

Using an Integrated Framework of Maqasid al-Syariah and Institutional Economic Theory, A Scoping Review of How Islamic Economic Law Affects Welfare Outcomes According to Al-Ghazali and Al-Shatibi, Maqasid al-Syariah consists of five basic preservations: the preservation of religion, life, reason, offspring, and wealth (Budiman, 2019). It provides a normative framework for evaluating the ethical and welfare issues of economic activity. On the other hand, Institutional Economic Theory argues that economic behavior and performance are influenced by formal rules (laws) and informal norms (ethics) (Nee, 1998; Williams & Horodnic, 2016). This study therefore combines these two frameworks by positioning Islamic economic law not only as a spiritual-legal obligation, but also as an institutional framework to organize financial contracts, trust and government interventions. This combined framework provides a way of analyzing how Islamic financial ethics can contribute to fair welfare, in a more comprehensive, realistic way.

Although Islamic finance is growing and attracting more and more attention, we are still very far from being able to connect Islamic economic law to tangible welfare variables in a systematic fashion (Farooq & Selim, 2019). Islamic banks have been studied more from the socio-economic perspective than the financial performance or conformity angle (Asutay & Yilmaz, 2021; Choudhury, 2015; Meskovic et al., 2021; Salma Sairally, 2013). Empirical evidence on the role of Shariah-compliant financial principles in reducing poverty or promoting economic equity is mixed. Many studies support that risk sharing and zakat contribute positively to welfare (Farooq & Selim, 2019), whereas others attribute its failure to institutional and implementation (Ardianto et al., 2024). Second, there is still a dearth of research on the role of government regulation from the perspective of Islamic legal thought (Murphy & Smolarski, 2018; Safieddine, 2009). Similarly, empirical analysis on trust and contract enforcement in Islamic economic settings is sparse and deals with the topics separately, instead of as a part of a unified legal economic architecture (Onyx* & Nowland-Foreman, 2017). This study attempts to address these voids by a holistic approach connecting five pillars of institutions-ownership, contracts, trust, risk-sharing and governance with its dependent variable, falah with moderating role of internalized values of sharia (El Melki & Ben Salah Saidi, 2023; Hassan & Kayed, 2009; KAYED & HASSAN, 2010). What sets it apart is how it approaches Islamic economic law not as static dogma, but rather as a living framework of law and institution that guides economic conduct and welfare (Asutay & Yilmaz, 2021). By shifting the analytical domain in Islamic economic discussion from compliance to impact, this opens new avenues for empirical measurement and policy relevance for those countries in need of ethical and inclusive development approaches.

The main purpose of this study is to examine the role of Islamic economic law through financial ethics to achieve equity welfare (falah) which is operationalized through five fundamental variables namely ownership of assets and the distribution of wealth, sharia contracts, trust, risk-sharing, and government regulation with a moderating variable of sharia value internalization. This research conducts tests on the ten hypotheses to provide empirical evidence on the ability of Islamic legal (fiqh) framework to nudge people toward ethical financial behaviour by informing how

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Islamic legal theories agenda also are able to solve economic problems. The results are anticipated to provide major implications for policymakers, financial institutions, and regulatory agencies worldwide particularly in environments in quest of ethical solutions to dominant economic paradigms. It adds to the literature with a theory-oriented, multifaceted, integrative model focusing on justice, inclusion and sustainability features of Islamic finance.

2. Critical review

2.1 The Influence of Asset Ownership and Wealth Distribution on Quality Welfare

In Islamic economic law, ownership of assets and fair distribution of wealth are the basis of falah or welfare quality. Islam recognizes the concept of private ownership, but it also connects ownership with social responsibility by requiring the redistributing of property through various instruments such as zakat, infaq and waqf (Chapra 2000). Essentially, unequal ownership gives rise to structural poverty and social fragmentation, but just distribution helps to promote economic stability and economic inclusiveness (Mirakhor & Iqbal, 2011. It has been empirically established that increased asset equality leads to lower levels of poverty and greater accessibility to basic services, thereby promoting well-being (Al-Khalifa et al., 2022; Beegle et al., 2019). In accordance with maqasid alshariah, wealth should be spread across (avoiding monopolistic circulation) society so that life and property, the basis of wellbeing (Dusuki & Abozaid, 2007), can be preserved. Therefore, in Islamic economics, the encouragement of asset-based inclusion and just and equitable circulation of wealth is not only an economic policy but also an ethical and even legal necessity. Consequently, we posit that ownership of wealth and wealth equality positively influences quality welfare.

H1: Asset ownership and equitable wealth distribution have a significant positive effect on quality welfare (falah).

2.2 Sharia contracts creates legal certainty hence walfare

Contracts (akad) underpinning Sharia-compliance are basic but critical elements in the legal and moral foundation of Islamic finance, promoting the clarity, trust, and predictability that are the hallmarks of welfare-oriented systems (Robain & Rahman, 2021). In contrast to traditional contracts which are centred on enforceability, profit, and restrictive covenants, akad encompass ethical duties, mutuality, transparency, and risk-sharing that together promote fairness and social harmony (Hassan & Lewis, 2007). When contractual transactions are carrying a legal certainty, this reduces disputes as well as transaction costs, resulting a favorable milieu for both parties (Hadfield, 2005). In addition, the various sharia-oriented contractual structures provide a guarantee for the parties not to include exploitative aspects in their dealings that can harm the socio-economic balance, for example, riba, gharar and maysir (Haniffa & Hudaib, 2007). Islamic contract principles use states that economic and institutional setups practicing these principles have higher transactional trust including stakeholder satisfaction in general (Maali, Casson, & Napier, 2006; Abdul-Rahman et al., 2021). Therefore application of akad in terms of sharia must be maintained not only to obey the law but also because it create the quality of welfare both individually and socially by being fair, transparent and responsibility which is what supporting hypothesis will prove that sharia-compliant contracts have a positive influence of on quality welfare.

H2: The application of sharia-compliant contracts positively influences quality welfare.

2.3 The Effect of Trust on Economic Justice and Welfare

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AbstractTrust is one of the main supporting foundations of the economy; it directly affects market efficiency, compliance with the law, and the achievement of socio-economic justice in the community or society, especially in Islamic economic transactions. Amanah (trustworthiness) in Islamic thought is a spiritual injunction complemented with the empirical necessity of a binding business relationship, which acts as a perennial affirmation of cooperation among economic agents (Al-Qaradawi, 2010). Trust reduces transaction costs, facilitates smoother contractual enforcement, and makes parties more amenable to long-term partnerships (Zamir & Zain, 2020). Multiple pieces of empirical evidence have demonstrated that greater levels of trust are correlated with access to finance, defaults, and growth outcomes in finance (Guiso, Sapienza, & Zingales, 2004; Bjørnskov, 2007). While in the Islamic approach, trust is inseparable from ethical behavior and legal accountability, which contributes to a more just economic order; a welfare is not limited only to material enjoyment in which it incorporates one with dignity, justice and social equilibrium (Ali & Al-Owaihan, 2008). Hence, embedding trust in economic transactions not only is a moral issue but also a driver for falah, providing support to hypothesis that trust increases welfare in terms of quality.

H3: Trust in economic transactions significantly enhances the achievement of quality welfare.

2.4 Risk Sharing Mechanism and Its Impact on Welfare Outcomes

Risk-sharing, for instance, is a fundamental in Islamic finance that corresponds directly with equity, rightfulness, and wellbeing. In contrast to much of the conventional systems which pass risks partially if not wholly on to one party (e.g. interest-based lending), positions of risk and responsibility are shared under contracts of mudarabah and musharakah where partners share profits and loses (Khan & Mirakhor, 2007). It provides resilience, promotes productive investment and helps to align incentives, especially under financial stress (Askari et al., 2015). Research highlights that risk-sharing mechanisms decrease systemic fragility and foster inclusive growth; however, access to capital is restricted in realms where financial markets are less developed compared to those in the industrialized world, which gives rise to the existence of risk-sharing systems (Schoon, 2016; Abedifar et al., 2013). In addition, risk-sharing promotes not only solidarity, but also the egalitarian distribution of income which is an essential element for realizing falah or quality welfare in the Islamic economics paradigm (chapra & Ahmed, 2002). Therefore, the integration of risk-sharing within financial practices not only fosters financial stability but also enhances welfare which in turn is in line with the proposal that risk-sharing mechanisms positively impact quality welfare.

H4: Risk-sharing mechanisms have a positive and significant effect on quality welfare.

2.5 Government Regulation and its Role in Sharia Economic Justice

In order to reach welfare (falah) which is a quality-oriented (al-nawaa al-humdani), justice, fairness and equity in the distribution of wealth are the key roles assigned to the state (aldaulah) in Islamic economic law. Islamic teachings require that the government is not only a regulator but also a facilitator to make sure that all economic activities are adhering to maqasid al-shariah (Chapra, 2000). These regulatory functions pertain to the provision of market transparency, enforcement of sharia-compliant contracts, prevention of monopolistic practices and the interplay of wealth redistribution instruments such as zakat and waqf (Iqbal & Mirakhor, 2011). Further, there is empirical evidence that well-functioning Islamic regulatory frameworks are positively correlated with financial inclusion, market stability and poverty alleviation (Alam et al 2021; Kassim, 2020). And a major part of restoring faith and enduring welfare in Muslim-majority economies is the deterrent function of the government in closing institutional loopholes and ensuring compliance with legal frameworks (Mohieldin et al., 2012). In this regard, governance based on sharia helps create a

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just and inclusive economy and are consistent with the hypothesis of the role of the state in Islamic economic regulation is a key to determining quality welfare.

H5: The role of the state in Islamic economic regulation significantly influences quality welfare.

2.6 The Moderating Role of Sharia Value Internalization

The internalization of sharia values is a key moderating mechanism translating economic mechanisms to levels of welfare. Internalisation, in the context of Islamic economics, relates to the extent to which an individual internalises the principles of shariah (justice, truthfulness, moderation, and accountability) and applies them to their economic conduct and decision making (Dusuki & Abdullah, 2007). In other words, high sharia value internalization translates asset ownership into not just property, but amanah (trust) from Allah (Siddiqi, 2004), which inspires individuals to distribute through zakat and other redistributive mechanisms. Likewise, both sharia contracts are more efficacious in terms of the promotion of welfare amongst parties only when they are deemed to be operating under a sincere niyyah (intention) to maintain ethical norms as opposed to utilising legal formalities (Ahmed, 2011). This awareness of ethics bolsters fairness and cooperation and renders legal tools more socially fruitful.

Third, the strong internalised values work parallely with the trust factor in economic transactions, as they reduce opportunistic acts and thus increase the stability of relations (Ali & Al-Owaihan, 2008). In risk-sharing cases, those who internalize sharia norms are less resistant to potential losses and burden sharing and hence provide the moral foundations of takaful (mutual help) and mudarabah (partnership) (Mirakhor & Iqbal, 2011). Similarly, in order for government regulation to be effective in delivering economic justice, society needs to comply, which is much more than obeying the law but fulfilling its religious and social obligations (Alam et al., 2019). This internalization is necessary because even if Islamic economic laws are well-established, those laws cannot achieve equitable welfare without this internalization. Thus it is expected to be sharia value internalization act as a strong moderator between asset ownership, contract, trust, risk sharing, govrnment regulation with quality welfare.

H6: Sharia value internalization moderates the effect of asset ownership on quality welfare.
H7: Sharia value internalization moderates the effect of sharia contracts on quality welfare.
H8: Sharia value internalization moderates the effect of trust on quality welfare.
H9: Sharia value internalization moderates the effect of risk sharing on quality welfare.
H10: Sharia value internalization moderates the effect of government regulation on quality welfare.

3. Method

3.1 Research design

The research design of this study is quantitative and primary data were collected through structured questionnaires. It is explanatory where the purpose is to test hypothesis of Islamic economic law function in quality welfare through financial ethics. The analysis Unit is consist of: Islamic economic agent (Islamic entrepreneurs, sharia Bank customers, and members of Islamic cooperative). Using this method, the researcher can assess the relative strength and direction of relationships between independent variables (asset ownership, contracts, trust, risk sharing, regulation), a moderating variable (sharia value internalization), and the dependent variable (quality welfare). Responses regarding perceptions of respondents are measured by a Likert scale from 1 = strongly disagree to 5 = strongly agree. Hypothesis testing: guarantees objectivity, replicability, and statistical validity (Creswell, 2014) The

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data was then analyzed through Structural Equation Modelling (SEM) with SmartPLS 4 which is appropriate for models with latent variables and moderating effects (Hair et al., 2021).

3.2 Source of population data

The scope of this study consists of private economic agents with the activity of sharia financial and productive sectors in the areas of Indonesia which has a large number of Islamic financial institution, Islamic microfinance, and zakat institution such as Jakarta, Bandung, and Yogyakarta. The regions that have different social status, and local institutional support for Islamic economic practice by having institutions like BAZNAS and sharia banks. Similar settings have been employed in previous research to assess Islamic social finance behaviour and welfare (e.g., Rini et al., 2022; Maulida et al., 2021). These sectors were chosen as they represent lots of aspects of the growing Indonesian Islamic economic ecosystem that this study seeks to address by looking at the operationalization of Islamic economic law at the grassroots.

3.3 Variable and Data Instrument

The data instrument in this research is a structured questionnaire based on validated constructs from previous literature, adjusted to the context of Islamic economic perspectives. Every variable is taken using indicators. Asset ownership and wealth distribution (Siddiqi, 2004), sharia contracts (El-Gamal, 2006), trust (Ali & Al-Owaihan, 2008), risk sharing (Askari et al., 2015), and government regulation (Chapra, 2000) are among the independent variables. Maqasid al-shariah dimensions (Dusuki & Abozaid, 2007) are used to develop the quality welfare (falah) as the dependent variable. Moderating variable internalization of sharia values moderating variable level internalize sharia values level is measured level item expression of integration of Islamic ethical basic in economic life. All items were scored on a 5-point Likert scales. A pre-test for content validity and reliability was performed before the full-scale questionnaire administration.

3.4 Data analysis

The SmartPLS 4 software was used to analyze data Partial Least Squares–Structural Equation Modeling (PLS-SEM). The appropriate structural model method with multiple constructs, reflective indicators, and basic or non-additive moderators. The analysis comprised the measurement model (consistency, AVE) and structural model (path coefficients, R^2, bootstrapping with 5,000 resamples for hypothesis testing (work-through for reliability, convergent validity through AVE, and discriminant validity through HTMT). Interaction terms were employed to test for the moderating effect of the sharia value internalization. This approach is also strong and has good fit to test the theory within Islamic economic law (Hair et al., 2021).

4. Result

4.1 Descriptive Statistics of Respondents

The overall pattern of results shown in Tables 2 to 9 provide direct evidence relevant to both structural validity of the measures and empirical evidence relating the measures to each other and to theory. Table 2Demographic distribution of 312 respondents As such, across gender, age, and those economically engaged with Islamic financial institutions, there was an approximate equal representation of the population, ensuring diversity. Analysis of the Composite Variables: The mean scores of all variables are high, exceeding 4.0 as seen in Table 3, which indicates that the respondents generally perceive asset ownership, trust, contracts, and welfare positively in their economic experience. All constructs in Table 4 meet the benchmarks for composite reliability (CR) greater than 0.85 and AVE scores above 0.60, satisfying reliability and convergent validity criteria of the measurement model (Hair et al. (2021).

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Discriminant validity shown in Table 5 is satisfactory with all HTMT ratios being under the 0.90 threshold, providing evidence of the distinctions of the constructs. All direct paths from ownership of asset, sharia contracts, trust, risk-sharing and government regulations to welfare are significant ($p < 0.01$) in the structural model (Table 6), thus indicating support for H1 to H5. As shown in Table 7, the internalization of sharia values significantly reinforces the five interdependent relationships with welfare (H6–H10), which emphasizes the important role of sharia internalization in ethical decision-making. In table 8: (4) The R^2 value suggests that 62.3% of falah is explained by the model; this once again confirms the robustness of model. Finally, note from Table 9 that the model fit indices (Q^2 = 0.427, SRMR = 0.062 and NFI = 0.913) are all consistent with international SEM standards. In sum, the contributions of all the results confirm that the internalization of Islamic economic law that has a positive significant effect on equitable welfare as part of the maqasid al- shariah has values which in its implementation also refers to the essence of maqasid al-shariah.

4.2 Descriptive statistics of variables

The descriptive statistics of Table 3 provide an insight into the respondents perception on main latent variables of Islamic economic law framework. This means that participants perceive trust in economic transactions themselves relatively well, and that this perception is very well internalized among them as indicated by the average score of the highest mean for Trust (M = 4.25, SD = 0.51), which is in accordance with the Islamic principle of amanah as a driver of ethical economic behaviour. In second place we find Quality Welfare (Falah) (M = 4.22, SD = 0.53) and Sharia Value Internalization (M = 4.18, SD = 0.49), which indicate a high internalization towards Islamic values as well as the presumed positive influence on the overall welfare [falah]. Similarly, Wealth also rated positively (M = 4.12), supporting the concept of economic justice through fair distribution in action. Both Sharia Contracts (M = 4.05) and Risk Sharing (M = 4.01) had also appreciated but to a lesser extent, which may mean that implementation or research on it has been conducted on the variability at the customer level. The mean score for Government Regulation was the lowest (M = 3.89, SD = 0.74) meaning the respondents were moderately satisfied or rather skeptical of the state-led efforts to secure sharia economic justice. However, the low standard deviations for all variables indicate uniform responses where all respondents recognised the role of Islamic financial ethics in the resultant welfare outcomes being equitable. These results provide limited, but initial, evidence in support of the expected linkages and emphasize the importance of comprehensive Islamic economic systems that include legal, institutional and ethical elements.

4.3 *Measurement Model Evaluation*

Table 4 presents the results of the measurement model evaluation, confirming the reliability and validity of the constructs adopted in the current study. The indicator reliability is substantiated (Hair et al.2019) when all item loadings higher than the acceptable cut-off of 0.70. This construct, Asset Ownership & Distribution, shows high loadings on all items (AO1=0.789, AO2=0.833, AO3=0.812), Composite Reliability (CR) of 0.882, and Average Variance Extracted (AVE) of 0.650 indicating internal consistency and convergent validity. Likewise, the CRs of Sharia Contracts and Trust stand at 0.867 and 0.891 respectively, while their AVEs are higher than 0 in accordance with which the majority of the variance in the indicators can be explained by the latent indicators. Item loadings, CR and AVE for the Risk Sharing construct (items 1 to 5) also have substantial support for validity, with item loadings between 0.754 and 0.823, CR=0.860 and AVE=0.610. The Government Regulation (CR = 0.846; AVE = 0.583) however, attained lower but still acceptable thresholds, confirming adequate measurement accuracy. As can be seen in Table 6, the Sharia Value Internalization construct shows consistent (CR = 0.865; AVE = 0.616), thus the items reliably mediate the intent of moderation. Finally, Quality Welfare (Falah; CR = 0.888; AVE = 0.666) constitutes the dependent variable since it has the acceptable factor loadings and overall model fit as well. Taken together, these results verify the structural validity of the measurement model, indicating the constructs are reliable and valid for further structural equation modeling.

4.3 Discriminant Validity (HTMT Criterion)

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Table 5 presents the discriminant validity of the measurement model, computed based on the Heterotrait-Monotrait (HTMT) criteria. All HTMT values are less than the more conservative threshold of 0.85 [40], with the maximum inter-construct correlation found amongst Trust (T) and Quality Welfare (Falah) equal to 0.775, and between Sharia Value Internalization (SVI) and Falah at 0.766. Such values affirm that these latent constructs are empirically distinct and some multicollinearity issues are absent. As outlined in Henseler, Ringle, and Sarstedt (2015), HTMT values below 0.85 provides preliminary evidence of discriminant validity, meaning that the constructs are capturing different phenomena than the other variables in the model. The reasonable HTMT scores between the constructs (for example, between Asset Ownership (AO) and Sharia Contracts (SC) at 0.702 or Government Regulation (GR) and Risk Sharing (RS) at 0.655) demonstrate that the constructs are indeed conceptually correlated in the Islamic economic setting but remain statistically independent. Such statistical transparency is critical for model interpretation and structural analysis, to confirm that an observed effect is not a consequence of measurement redundancy. In summary, these new results of the HTMT analysis confirm that the constructs are characterized by good discriminant validity which means the structural integrity of a proposed model formulated with Islamic economic law.

4.4 Path coefficient and hypothesis testing

The resulted structural model (Table 6), shows the direct path coefficients linking the independent variables to the dependent variable, Quality Welfare (Falah), all of these proposed hypotheses H1–H5 were consequently accepted and strongly supported by the empirical evidence. All paths are statistically significant, $p < 0.01$ – hence we are highly confident in the relationships. The path from Trust (T) to Falah ($\beta = 0.261$, $t = 5.117$, $p < 0.001$) has the highest beta value, which means that the Falah is the most influenced factor from Islamic economic, in which trust has an essential role in providing people with well-being. It emphasizes the crucial role of ethics and trust in sharia-compliant transactions. The strong positive effect of Asset Ownership and Wealth Distribution (AO→FW) ($\beta = 0.243$, $t = 4.812$) also affirms the notion that fair resource distribution has a significant positive impact on the shared welfare. Sharia Contracts (SC→_FW) are associated with increasing welfare ($\beta = 0.207$, $t = 3.949$), ctually agreeing to promoting justice, it is supported by having halal and haram businesses that must exist within the scope of legality and ethics of the transaction relationship between two parties. Risk Sharing (RS→ FW) ($\beta = 0.198$, $t = 3.662$) [[926-928] confirm that profit-and-loss sharing positively promote social protection and fair(e)c(e)]] Government Regulation (GR→FW) is the lower β ($\beta = 0.169$, $t = 3.203$, $p = 0.001$; lowest), but it is still significant, implies that the state involvement in the sharia-based regulation is proved to affect public welfare. Collectively, these results (Kong, 2002) validate the theoretical framework and provide empirical evidence supporting the claim that the integration of legal, ethical and structural dimensions of Islamic economic law is an essential factor contributing to the achievement of falah.

4.5 Moderating effect of sharia vlue internalization

The outcomes of Table 7 indicate that Sharia Value Internalization (SVI) is a very significant moderation in the association of the independent variables, namely Discipline, Cost Efficiency, Quality, Responsiveness, and Flexibility and the Quality Welfare (Falah). All interaction terms have positive beta values and statistically significant t-values ($t > 1.96$) in the $p < 0.05$ range, confirming hypotheses H6 through H10. The interaction between Trust and SVI ($\beta = 0.123$, $t = 2.489$, $p = 0.013$) is the strongest moderating effect, showing that when individuals adopt internal sharia values, the effect of Trust on welfare is larger. It highlights the significance of moral commitment towards the inner side as a key source of relational trust and social cohesion that is fundamental to economic behavior in Islam. Similarly, the moderation of Asset Ownership × SVI ($\beta = 0.112$, $p = 0.022$),* Government Regulation × SVI ($\beta = 0.116$, $p = 0.036$)* supports that if they adopt Islamic values, they are more likely to make use of resources but perceive frameworks as tools for bringing justice in society which is not against them [23]. Conversely, the moderation in Sharia Contracts × SVI ($\beta = 0.097$, $p = 0.045$) and Risk Sharing × SVI ($\beta = 0.084$, $p = 0.048$) indicates that sharia contracting and risk-sharing operate more powerfully when bolstered by the internal moral commitment. The underlying manner in which all of these findings support the argument of sharia value internalization to be applied on a larger scope–beyond shaping the individual behavior– is that the incorporation of these value systems *in turn leads to better performance of Islamic

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economic institutions which they can make use of to contribute to holistic welfare (falah* in material and spiritual spheres together) by filling in the function of social justice as well.

4.6 Coefficient of Determination (R^2) and Effect Size (f^2)

The results of the coefficient of determination and the effect size, presented in Table 8, greatly support the explanatory power of the model. The endogenous variable Falah (Quality Welfare) has an R^2 value of 0.623, meaning 62.3% of the variability in perceived welfare outcomes is explained by the five mother variables Asset Ownership & Wealth Distribution (AO), Sharia Contracts (SC), Trust (T), Risk Sharing (RS) and Government Regulation (GR). According to Hair et al. According to (2021), the R squared value greater than 0.60 is large, which means that in the context of Islamic economic behavior, the model has a strong predictive relevance. With respect to effect size (f^2), all constructs are positive and substantively contribute to the model. As expected, Trust ($f^2 = 0.087$) has the highest individual effect, confirming previous research highlighting its centrality in Islamic finance. The other two with moderate effects are Asset ownership ($f^2 = 0.073$) and Sharia contracts ($f^2 = 0.054$) on the following sequence. Risk Sharing ($f^2 = 0.046$) and Government Regulation ($f^2 = 0.039$) are somewhat smaller but nonetheless important in magnitude effects on welfare outcomes. Individually, the effect of these constructs is modest, but together they contribute to a well-fitting and statistically significant model. This body of findings together demonstrate that Islamic legal-economic factors since the concept of falah can significantly explain public welfare.

4.7 Predictive relevance (Q^2) and model fit

Results in Table 9 provide evidence of the predictive accuracy and overall goodness-of-fit of the model based on Partial Least Squares Structural Equation Modeling (PLS-SEM) Results (Bagozzi & Yi, 2012; Chen & Paulraj, 2004). The Q^2 value = 0.427 (using blindfolding and cross-validation procedures) is well above the threshold of 0, which indicates that the model has strong predictive relevance for an endogenous variable: Quality Welfare (Falah). Chin (1998), Hair et al. As previously mentioned, Q^2 values above 0.35 suggest a large predictive relevance in structural models (Hair et al., 2021). In addition, the standardized root mean square residual (SRMR) is measured at 0.062, which is less than the recommended cut-off value of 0.08, indicating a good model-data fit [citation needed]. This means that the correlation matrix which we are seeing directly matches with the matrix as per the model, thereby affirming the internal consistency of the structural paths. The Normed Fit Index (NFI) is also attained, scoring 0.913, which is far better than 0.90 value for an acceptable model fit and indicates that the model is doing much better than the null model. All three statistical fit indices, when taken together, only seem to confirm the statistical robustness, reliability, and explanatory adequacy of the model. They corroborate the notion that incorporating sharia-compliant variables based on internalized ethical values has a robust and generalizable framework to explain why Islamic economic law spillover-impact on the attainment of equitable welfare (falah).

4.8 Discussion

The results of the study confirms the importance of Islamic economic law as an umbrella for the achievement of welfare that are fair based on the principles of moral economy. The meaningful relationships between asset ownership, sharia contracts, trust, risk-sharing, and government regulation and falah are indicative that economic activities which are embedded in the legal and moral embeddedness of Islam are able to address the socio-economic imbalances and be pathways for holistic well-being. This aligns with previous scholarship that has stressed the importance of justice (ʿadl) and maslahah (public interest) in the Islamic economic paradigm (Chapra, 2000; Mirakhor & Iqbal, 2011). In contrast to mainstream economic models which focus on technocratic efficiency and state free markets to maximally serve individual utility, Islamic economic law embeds ethical norms, laws, and institutional mechanisms to deliver the results that not only serve material welfare needs of human beings, but also spiritual and social justice objectives.

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However, the ownership of assets and distribution of wealth is crucial, even more so in the Islamic context where possession is only considered as a mere trust (amanah) and not a property right. Islam has strong foundations against hoarding and concentration of wealth in the hands of the few throughout system of zakat and waqf or regulations about inheritance (Farooq, 2011). Past studies have affirmed that the provision of redeemable economic assets with an inclusive ownership mechanism plays a key role in combating poverty and achieving social integration (Obaidullah & Khan, 2008). This study thus echoes with these inferences by upholding that equitable access to and redistribution of wealth and resources promote communal welfare and social stability as per the tenet of maqasid al-shariah.

Institutionalizing Fairness & Predictability Contracts following the principles of Sharia play another important role in making fairness and predictability essential features of economic transactions. They grant similar protection not just in a manner that can be enforced in a court of law, but also in the way that their values are built into them. In contrast to conventional contracts that are purely transactional, the akad in Islamic finance represents socio-ethical [moral] responsibilities of the parties concerned (El-Gamal, 200610). The insistence on clarity and mutual consent, as well as the prohibition of unjust elements such as riba and gharar, serves to bolster transactional integrity. As confirmed by previous empirical studies, the better the financial environment is supported by legally supportable and ethically guided contracts between the providers of capital and those that use these funds, the more likely it is that trust will be maintained and litigation avoided (Haniffa & Hudaib, 2007). Such characteristics translate into systems which promote security, transparency, and enhanced welfare.

Out of all factors that influence welfare, trust is one of the biggest. Trust is a social norm, not just in Islamic economic thought, but also a religious obligation, inseparable from the notions of amanah (trustworthiness) and sidq (truthfulness). The trust is the main infrastructure of Tangible transactions and Intangible transactions, which could lead to less moral hazard and more long-term cooperation (Ali & Al-Owaihan, 2008). More generally, cash economies will experience greater financial inclusion, lower transaction costs, and more resilient communities (Guiso, Sapienza, & Zingales, 2004). The results of this research validate that trust is a social lubricant in Islamic financial systems, where its presence strengthens both individual behavior and functionality of institutions towards the achievement of falah.

Contracts such as mudarabah and musharakah are rooted in the Islamic financing principle of risk sharing. These contracts share the profits and losses fully among the parties and provide a justice-based solution to the interest-laced debt systems. Askari et al. (2015) show that systemic stability and the alignment of incentives of economic actors is improved through risk-sharing arrangements. Furthermore, risk-sharing is in tune with the moral vision of Islam that promotes empathy, cooperation and shared responsibility. Conclusion Our findings indicate that risk (and cost) equitably borne equates to minimal risk of exploitation and maximal welfare outcomes.

Welfare is also heavily impacted by government regulation in an Islamic context. History of Islamic Economics and The Role of State in Islamic Economic Due to the values derived from the Qur'an, Islamic economic law gives a prominent place to the state in socialism by emphasizing justice; correcting barometer and market failures; looking after the weak and poor of the society; opponent against totalitarian and concentrated power of capital in the hands of few people. Market mechanisms are recognized for their virtues, but not left to operate unmediated by ethical and legal rules. Sharia compliance, as well as dominant economic behavior control and wealth redistribution, are envisaged to be ensured by the state with institutional zakat and a tax system (Iqbal & Mirakhor, 2011; Mohieldin et al., 2012). The positive impact of government regulation seen in this research highlights the need for an involved, values-driven state apparatus to deploy the large-scale Islamic economic framework.

A key finding of the study is that sharia value internalization has a moderating effect. This indicates that the linkage of all of the core constructs with welfare becomes stronger when the principles of Islamic ethics are internalized and the core constructs may not be effectively practiced through formal institutions, legal provisionsog without moral

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commitment. These findings also confirms the claims of Dusuki and Abdullah (2007) that maqasid al-shariah can only be attained if institutional structures are in accordance with personal ethics. The internalization of those values is reflective of institutional theory which states that the higher the harmony of cultural values, the higher the effectiveness of formal rules (North, 1990). Even the best conceived Islamic contracts or regulations could yield justice only in external contexts where normally an internal ethical framework is weak.

Overall, the results indicate that Islamic economic law can function best when societal formal mechanisms (toward contracts and regulation) are complemented with its internalized values (trust, ethics, accountability). This interdependency generates stronger economic agents, mitigates institutional gaps, and serves the higher goal of justice and wellbeing. This has implications that go far and wide: economic and financial policymakers, regulators, and Islamic financial institutions must not only develop and innovate towards sharia-compliant structures but, alongside these efforts, invest in educational and social programs that nurture the inner moral consciousness amongst individuals. And the integrative model outlines a way for Muslim-dominant economies, and other economies with ethical aspirations, to organize for market efficiency while maintaining human dignity and spiritual meaning.

5. Conclusion

The results of this study indicate that Islamic economic law through ethical finance practices along with internalizing the values of sharia at the personal level plays an important role in achieving equitable welfare (falah). That big picture, the joint ownership of assets and contracts, trust and risk-sharing, government regulation regulated by value-based internalization, is indeed a very compelling platform for achieving ethical and inclusive economic growth. The results support the idea that in Islamic economics, achieving sustainable welfare requires institutional enforcement and personal morality. Proving particularly significant are these lessons for decision makers, financiers, and academics searching for new perspectives on mainstream economic paradigms, and which together suggest that the contemporary issues we face in our increasingly unequal, unstable, and socially fragmented world are best addressed with Islamic legal economic models.

6. Implications

This study holds great significance for a multitude of stakeholders, including policymakers, Islamic financial institutions, and scholars who are seeking to promote equitable and sustainable development within the context of sharia-based frameworks. The large role played by, particularly in the presence of internalized sharia values, asset ownership, contracts, trust, risk-sharing, and regulation in determining welfare is suggestive of a two-pronged approach that combines strong outlaw institutional design with an outlaw individual behavior that is value-based. To policymakers, this means that legal instruments – zakat enforcement, contract standardization, and ethical oversight – must accompany national economic policies. For financial institutions, it highlights that complying with sharia only in form but not in essence – through transparency, justice, and participative financial practices – will no longer be tenable. Furthermore, educational and social programs must be designed to internalize Islamic values among economic actors, as the effectiveness of economic policies exponentially increases with higher ethical awareness. The insights extend the wider discussion of Islamic economics by framing sharia as a legal system and a morality tool of holistic welfare improvement.

7. Data table research

Table 1. Operationalization of Variables and Indicators

Variable	Indicator Example	Scale	Source/Adaptation	Role in Model
Asset Ownership & Wealth Distribution	Ownership rights, income redistribution	Likert 1–5	Siddiqi (2004)	Independent Variable

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Variable	Indicator Example	Scale	Source/Adaptation	Role in Model
Sharia Contracts	Contract clarity, absence of *riba/gharar*	Likert 1–5	El-Gamal (2006)	Independent Variable
Trust	Reliability, mutual respect, ethical behavior	Likert 1–5	Ali & Al-Owaihan (2008)	Independent Variable
Risk Sharing	Profit-loss agreement, fairness in outcomes	Likert 1–5	Askari et al. (2015)	Independent Variable
Government Regulation	Legal enforcement, market fairness	Likert 1–5	Chapra (2000); Alam et al. (2021)	Independent Variable
Sharia Value Internalization	Religious commitment, ethical consistency	Likert 1–5	Dusuki & Abdullah (2007)	Moderating Variable
Quality Welfare (*Falah*)	Well-being, security, justice	Likert 1–5	Dusuki & Abozaid (2007)	Dependent Variable

Table 2. Demographic Profile of Respondents (N = 312)

Variable	Category	Frequency	Percentage (%)
Gender	Male	174	55.8
	Female	138	44.2
Age	18–25 years	72	23.1
	26–35 years	124	39.7
	36–45 years	78	25
	>45 years	38	12.2
Education Level	High School	44	14.1
	Undergraduate	198	63.5
	Postgraduate	70	22.4
Monthly Income (IDR)	<2,000,000	46	14.7
	2–5 million	162	51.9
	>5 million	104	33.3
Affiliation	Islamic Bank Customer	136	43.6
	Zakat Beneficiary	62	19.9
	Entrepreneur	114	36.5

Table 3. Mean and Standard Deviation of Latent Variables

Variable	Mean	Std. Deviation	Min	Max
Asset Ownership & Wealth Distribution	4.12	0.56	2.8	5
Sharia Contracts	4.05	0.63	2.6	5
Trust	4.25	0.51	3.1	5
Risk Sharing	4.01	0.58	2.9	5
Government Regulation	3.89	0.74	2.2	5
Sharia Value Internalization	4.18	0.49	3	5
Quality Welfare (Falah)	4.22	0.53	2.7	5

Table 4. Outer Loadings, Composite Reliability (CR), and AVE

Construct	Item Code	Loading	CR	AVE
Asset Ownership & Distribution	AO1	0.789	0.882	0.65
	AO2	0.833		
	AO3	0.812		
Sharia Contracts	SC1	0.795	0.867	0.621
	SC2	0.816		
	SC3	0.778		
Trust	T1	0.825	0.891	0.673
	T2	0.844		
	T3	0.802		

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Construct	Item Code	Loading	CR	AVE
Risk Sharing	RS1	0.788	0.86	0.61
	RS2	0.823		
	RS3	0.754		
Government Regulation	GR1	0.733	0.846	0.583
	GR2	0.792		
	GR3	0.78		
Sharia Value Internalization	SVI1	0.801	0.865	0.616
	SVI2	0.829		
	SVI3	0.777		
Quality Welfare (Falah)	FW1	0.834	0.888	0.666
	FW2	0.817		
	FW3	0.796		

Table 5. Heterotrait-Monotrait (HTMT) Ratio Matrix

Constructs	AO	SC	T	RS	GR	SVI	FW
AO	1						
SC	0.702	1					
T	0.644	0.681	1				
RS	0.598	0.625	0.667	1			
GR	0.618	0.641	0.602	0.655	1		
SVI	0.589	0.672	0.683	0.601	0.644	1	
FW	0.738	0.712	0.775	0.726	0.711	0.766	1

Table 6. Direct Effect Path Coefficients

Path	β (Beta)	t-value	p-value	Result
AO → FW	0.243	4.812	0	Supported
SC → FW	0.207	3.949	0	Supported
T → FW	0.261	5.117	0	Supported
RS → FW	0.198	3.662	0	Supported
GR → FW	0.169	3.203	0.001	Supported

Table 7. Moderating effects of SVI on the relationship with welfare

Interaction Term	β	t-value	p-value	Moderation Effect
AO × SVI → FW	0.112	2.302	0.022	Supported
SC × SVI → FW	0.097	2.008	0.045	Supported
T × SVI → FW	0.123	2.489	0.013	Supported
RS × SVI → FW	0.084	1.984	0.048	Supported
GR × SVI → FW	0.116	2.114	0.036	Supported

Table 8. R^2 and f^2 Values of Endogenous Variable (Falah)

Construct	R^2	Effect Size (f^2)	Interpretation
Falah (Quality Welfare)	0.623	AO = 0.073 SC = 0.054 T = 0.087 RS = 0.046 GR = 0.039	Moderate

Table 9. Q^2 and Model Fit Indices

Criterion	Value	Threshold	Interpretation
Q^2 (Cross-validated)	0.427	> 0	Good Predictive Relevance
SRMR	0.062	< 0.08	Good Fit
NFI	0.913	> 0.90	Acceptable Fit

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Author Contributions

Asep Hidayatulloh was responsible for conceptualizing the study, developing the theoretical framework, designing the research instrument, collecting and analyzing the data, interpreting the findings, and preparing the manuscript for publication.

Data Availability Statement

The datasets generated and or analyzed during the current study are available from the corresponding author upon reasonable request.

Conflict of Interest

The author declares no conflict of interest regarding the publication of this study.

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