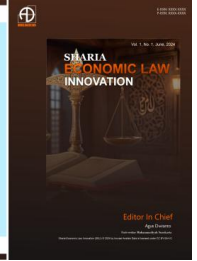




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Law Institutionalization of Sharia Principles and Economic Performance through Financial Development

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ABSTRACT

Objective: This paper studies the effects of institutionalized Sharia principles on economic performance, including how these effects are dependent upon the level of financial development, female participation in economic activities and contract regulation; and whether socio-economic freedom mediates those effects.

Methods: This study uses a quantitative research design with primary survey data collected among professionals, entrepreneurs, and stakeholders in Indonesia's formal economy.

Results: The results indicate that any of these variables leads to more economic improvement via the institutionalization of Sharia principles, financial development, women's economic participation and contract and ownership regulation. Although socio-economic freedom directly affects economic outcomes, at least in parts of the model it serves as a partial mediator to these predictors. Therefore the mediation effect only shows how economic autonomy bridges institutional and financial reforms with growth.

Novelty: Going beyond an institutional and endogenous growth framework, this paper conceptualizes socio-economic freedom as a mediating mechanism in the legal pluralism-property rights nexus, previously not discussed within literature. It also offers insights relevant to the particular context of Indonesia's dual legal system, contrasting with findings from Sharia implementations that are more uncompromising as to their interpretation.

Implications: The results show that it is possible for Sharia-based legal reforms to co-exist with inclusive financial systems, gender empowerment policies and strong property rights, without undermining economic outcomes at the cost of socio-economic freedoms, providing a policy blueprint for transition economies.

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1. Introduction

Furthermore, Sharia principles have been increasingly integrated into national legal and economic systems in the Muslim world and in mixed legal jurisdictions in recent decades. This trend forms part of a broader movement to harmonis financial regulations, governance arrangements and economic policies with Sharia law, particularly in countries where religious norms are deeply rooted in culture (El-Hawary et al., 2007; Kahler, 2000; Koburtay et al., 2020; Maussen, 2015). The resurgence of Sharia-based financial regulation is taking place within the framework of the exponential growth of global Islamic finance assets, which are expected to exceed USD 4 trillion in Southeast Asia by 2026 (IFSB, 2023). The effects of its institutionalisation are twofold. Firstly, it has tangible consequences for the financial sector. Secondly, it has broader socio-economic implications and forms. These effects include changes in gender roles and participation, contract enforcement and economic freedom (Marr, 2002; Strangio, 2024). Supporters argue that incorporating Sharia principles into legislation enhances societal cohesion and ethical behaviour in economic dealings, while detractors raise concerns about limitations to innovation, market accessibility, and



inclusivity (Alhejaili, 2025; Khandakar et al., 2025). Indonesia provides a unique opportunity to assess how sensitive macroeconomic outcomes are to the formal adoption of Sharia principles, given its dual legal system blending civil law with Sharia-compliant provisions.

The policy questions as to the economic impact of institutionalized Sharia principles are pressing. This evidence implies average effects for countries formalising Sharia in their institutions should be slower GDP growth rates and financial liberalisation, but two empirical studies (from Mauritania and Saudi Arabia) show that the costs to the state in so doing are substantial too (Al-Rawashdeh et al., 2013; Samuel, 2014). We must again note the conditional nature of these findings, and they may not be relevant to more plural institutional markets such as Indonesia (Emmerson, 1983; Guild, 2020). Given the current global climate, there is also an ongoing debate on ethical governance to compete globally (Buchanan & Keohane, 2006; Gilbert et al., 2011). Meanwhile, the issue of religious legal norms and the role of women in economy still sparking debates, as its implications have been argued both as facilitators (Hadfi et al., 2023; Poerwandari et al., 2018). The second unresolved question that remains in regards to the paper is whether socio-economic freedom acts as a transmission belt. Moderator between Sharia Law Institutionalization and macroeconomic performance? While this makes a strong case for considering the empirical evidence, it requires that structural constraints and institutional benefits be more clearly distinguished in the context of financial development is a policy tool of growth.

This research is based on Institutional and EGT theory as primary theoretical framework. According to Institutional Theory, economic performance is determined through three channels: transaction costs, governance quality and resource allocation (North 2005; Acemoglu & Robinson 2012). This transformation of the legal environment (via institutionalization and legal codification) to support elements of Sharia law may alter or enhance market efficiency. In contrast, Endogenous Growth Theory argues that the keys to sustained economic growth are in human capital, innovation, and financial development (Laeven et al., 2015)(Martin & Sunley, 1998). These systems are the means by which legal changes impact macroeconomic outcomes associated with credit allocation, investment rates, and productivity growth. This integration and development of these theories allows us to probe more deeply into how religiously-grounded institutional reforms interact with financial development and socio-economic freedoms to shape economic results.

Other work on the impact of Sharia law institutionalization has produced mixed effects on the economy. In contrast, Lattanzio (2022) shows that legal reforms in Mauritania, Saudi Arabia lower GDP growth and economic freedom (Lattanzio, 2022; Seddon, 1996), who also provide evidence from Indonesia showing that the presence of an Islamic party is negatively associated with corruption institutional gains for a similar result, see but also (Henderson & Kuncoro, 2011; MIETZNER, 2007; Pepinsky et al., 2012). Evidence that oppositions may face incentives to not fill take a position benefit is also found in the good controlled Islamic finance job of the advancement permitting and in other risk that the resistances maybe weak (Al-Ttaffi et al., 2025; Baqir et al., 2021; Kuran, 1986; Moussaoui, 2025). These roads and destinations are so heterogenous that, they keep reminding us that institutionalization is not a singular phenomena as these over lapses of social economic instances, governance quality, legal pluralism start to emerge. In addition, we discuss that very little effort have been done to the links between Sharia principles and macroeconomic performance with financial development or socio-economic freedom as pathway, and even much less on both sides of mechanism (Hasnat et al., 2025; Maksum et al., 2025). The novelty of this study is the application of Institutional and Endogenous Growth Theory in dual Legal context, among others by providing gender disaggregated variable for women's economic participation and contract regulation. This study fills such gap in this literature and explore how the mediating role of socio-economic freedom can condition any impact legal reforms have on performance. This paper provides fresh empirical evidence of the trade-off faced by policymakers in emerging markets between ethical governance and economic competitiveness.

This paper investigates the impact of the institutionalization of Sharia principles on economic performance, with specific emphasis on financial development, women's economic participation and contract enforcement and by evaluating the mediating role played by socio-economic freedom. The analysis examines both the direct relationships between each of the independent variables and other economic and performance measures, as well as the influence of a key predictor of socio-economic freedom. We anticipate the results to make a theoretical contribution by introducing legal pluralism in the domain of institutional and growth theories as well as a practical one, providing policy makers with support when designing legal frameworks apt for inclusive economic growth in emerging economies.

2. Critical review

2.1 Institutionalization of Sharia Principles in Enhancing Economic Performance

When enshrined in a legal framework, Shakri notes that the institutionalization of Sharia principles can have important consequences on the economic performance of a country over success by enhancing governance quality, market operation, and/or regulatory environment. In particular, embedding religious norms in formal law may increase trust and the enforcement of contracts, as well as improve moral compliance, therefore reducing transaction costs and promoting stability in economic transactions (North 2005:7; Kuran 2004). But mixed effects are shown in empirical research Lattanzio (2022) finds that in certain settings, the formalization of Sharia law is associated with lower GDP growth accompanied by less expanded use of the various financial products and reduced economic freedoms. In contrast, Henderson and Kuncoro (2011) find that Indonesia is not necessarily bad for corruption in an Islamic-oriented institution though it may help the investment climate. Beck et al. (2013) go further, demonstrating that effective regulation in Islamic finance can have a growth-enhancing impact through improved financial access. These findings underline the complex dynamics of how Sharia institutionalization can either promote or inhibit economic consequences.

H1: Institutionalization of Sharia Principles → Economic Performance

2.2 Financial Development to Economic Performance

Financial development is also considered a significant element affecting economic growth as it facilitates savings mobilization, investment, and improves efficiency in resource allocation. Within the context of Sharia-compliant systems, legal and financial development may also have a substantial positive impact on economic performance by increasing global access to ethical finance, enabling risk-sharing, and promoting entrepreneurship. Empirical evidence suggests a robust relationship between the level of financial sector development in a country and its GDP growth, especially if the level of sector's inclusiveness and stability are effective. Integration of Islamic and conventional finance may also significantly optimize financing source diversification and economic performance through increased financial security. Eventually, focusing on financial development through the prism of Sharia law can increase capital inflow opportunities and benefit future economic performance. H2: Financial Development positively influences Economic Performance

2.3 Economic Performance to Women's Economic Participation

Women's economic empowerment affects the economies greatly through expanding the labor force, promoting innovation and increasing productivity which ultimately improves national economic performance (Klasen & Lamanna 2009; Cuberes & Teignier 2016). Having more women participate in the economy → increased household income, expanded human capital accumulation, and strengthened market competitiveness (World Bank, 2022). These gains can be further enhanced when underpinned by Sharia-influenced legal environments that provide enabling frameworks for women to access education, finance and entrepreneurship (Moghadam 2019; Asutay & Harningtyas

2015). Nevertheless, if the legal norms are interpreted restrictively these beneficial effects may be limited and hence a growth effect might be spoiled (Gouda & Potrafke, 2016). Answer: Empirical data show that economies with greater gender balance in labor force participation grow faster and more sustainably, highlighting the need for economic policies that are gender-balanced.

H3: Women's Economic Participation Economic Performance

2.4 *Contract and Ownership Regulation to Economic Performance*

Contract enforcement and property right securement generate the lower transaction costs, increase investor confidence and drive decent market functioning and economic performance (North 1990; Acemoglu & Johnson 2005). Contract, credit, insurance, and ownership regulations may all serve to reinforce trust; in a Sharia-based setting such regulatory frameworks can increase credibility and smooth the functioning of markets if they are designed with respect to both ethics and efficiency (Kuran 2004, El Gamal 2006). According to more recent research, economic growth is known to be increasing with the effectiveness of property rights and degree of contract enforcement in countries that have been analysed (La Porta et al., 1998). On the other hand, one size it all overly restrictive or ambiguous regulations can burden capital formation, creating a chilling effect on entrepreneurial activity. Therefore, contract and ownership laws arising from the structure within an existing Sharia-aligned system can act as the enabling devices of strong and inclusive economic performance.

H4: Contract and Ownership Regulation to Economic Performance

2.5 *Socioeconomic Freedom on Economic Performance*

Such individual-level authorization to engage in economically meaningful and productive buy at a non-regretful bias line payment would be closer to the ideal—especially with regard to greater economic performance (Gwartney et al. 2022; Doucouliagos & Ulubasoglu 2006). Better allocation of resources, allowing entrepreneurs to create more and more easily (Acemoglu & Robinson, 2012), innovation leads to increasing productivity and ultimately growth. Finally, as with balanced regulatory regimes typical in Sharia-influenced legal systems that preserve Goodness whilst allowing through the doors always to open, earth within every sense regarding economic dynamism (Henderson besides Kuncoro 2011). For example, John Lattanzio (2022) manuscripts suggest that stringent regulatory regimes may limit market activity or infringe on personal autonomy to reduce investment and economic development. But the enduring impact of economic freedom on overall growth is also supported by a growing empirical literature that shows higher levels of economic freedom lead to better, more robust growth that feels good spreading broadly among all in society.

H5: There is a positive correlation between Socio-Economic Freedom and Economic Performance.

2.6 *Development Socio-Economic Freedom*

In fact, many aspects of economic and social freedom depend on a variety of institutions and structures – legal frameworks, systems of finance, the inclusion (or not) of women, the protection (or not) of property rights. As long as they contain inclusive policies, the institutionalization of Sharia principles can strengthen individual agency in economic activities by promoting trust (North 2005), introducing ethical market governance, and even diminishing corruption (Henderson and Kuncoro 2011). By enhancing financial services through credit expansion, investment opportunities and diversification into new microfinance markets, the socio-economic freedom of individuals and enterprises is expanded (Beck et al., 2013; Sahay et al., 2015). Women's economic activity affects larger socio-economic freedom by fighting structural injustices and raising a lady control over home (Klasen & Lamanna, 2009). Likewise, strong contract and property rights improve the transparency of ownership which helps to reduce the uncertainty

associated with the market (Acemoglu & Johnson, 2005) and promote more autonomy and confidence in business involvement. It is this inter-play of these factors which establish the foundation for socio economic freedom and hence provide an environment where sustainable and inclusive economic growth can be achieved.

H6: Institutionalization of Sharia Principles positively influences Socio-Economic Freedom.

H7: Financial Development positively influences Socio-Economic Freedom.

H8: Women's Economic Participation positively influences Socio-Economic Freedom.

H9: Contract and Ownership Regulation positively influences Socio-Economic Freedom.

3 Method

3.1 Research design

This research will be done through a quantitative study and it is based primary data which was extracted with the help of structured questionnaires that were distributed to different sectors. This approach allows analyzing the interrelations between the institutional, financial, gender, and regulatory drivers of economic performance as major influencing factors directly and–taking the mediating(positive) role of socio-economic freedom–indirectly. Quantitative methods are effectively used to inform systematic, objective testing of theoretical models and research hypotheses in ways that provide some degree of statistical validity and reliability (Creswell & Creswell, 2018). The cross-sectional survey differs from longitudinal studies, which provide insights into education and social changes over time [25], enabling a glimpse at perceptions and conditions relevant to Indonesia's dual legal order combination of civil law and Sharia (procedural as well as substantive) norms. Moreover, the design allows for generalizability across the sampled population in line with the study objective to inform on-the-ground evidence that can be employed in practical policy and economic governance contexts in emerging markets.

3.2 Source of population data

The population of this study is professional, entrepreneur and stakeholder in the formal Indonesian economy, especially those under rules that are sharia compliant as found in Islamic finance, trade and property. As the biggest Muslim-majority country, operating under a dual legal system; Indonesia offers a relevant and diverse context in exploring the institutionalisation of Sharia principles and its economic implications (Gouda & Hanfy, 2021). The individuals are sampled according to their direct involvements or experiences in economic transactions governed both by national civil law and Sharia provisions enabling them to provide more informed feedback. This emphasis is consistent with earlier empirical work that highlights the importance of legal pluralism and institutional quality as determinants of economic outcomes in Indonesia (for example, Henderson & Kuncoro 2011).

3.3 Variable Data Instrument

A structured questionnaire, based on the literature review and previous validated scales was used to collect data in order to establish construct validity. Sharia institutionalization was proxied by measures from Lattanzio (2022) and Kuran (2004). Measures of financial development Measured following the work of Beck et al. (2013) and Sahay et al. (2015). In turn, the natural logarithm transformation was used to score women's economic participation (Klasen & Lamanna 2009; Asutay & Harningtyas 2015). Rather, contract and

ownership regulation were based on constructs from Acemoglu & Johnson (2005). Dimension of Socio-economic freedom from Gwartney et al. was taken for index calculations. Economic Performance: Potential GDP Contribution, and Growth of Sectors perceptions (2022). All variables were measured on the 5-point Likert scale (1 = strongly disagree to 5 = strongly agree). The questionnaire was earlier pretested for clarity and reliability before full distribution.

3.4 Data analysis

We employed SPSS for data analysis to conduct descriptive statistics, validity and reliability tests as well as multiple regression analysis. Descriptive statistics were used to describe respondent profiles and key variable distributions, whereas reliability was examined with Cronbach's Alpha statistic so as to measure the internal consistency of each construct (Hair et al., 2021) at reliabilities above the suggested threshold of 0.70. Pearson correlation coefficient was used to investigate bivariate associations among the variables. Hierarchical regression analysis was performed to test the hypothesized model of the direct and mediating effects of socio-economic freedom on the relationship between institutional factors and economic performance. Results were considered significant at $p < 0.05$. Mediation analysis of indirect effects via PROCESS macro implemented in SPSS was used to further reinforce the threads by scrutinizing its statistical and practical significance.

4 Result

4.1 Descriptive statistics

Table 2 presents raw descriptive statistics for the research variables and shows that all mean values are relatively high, with Women's Economic Participation (WEP) at 3.64, and Economic Performance (EP) at 3.88, indicating, on average, a positive perception of these variables in our sample ($N = 350$). Moderate variability, represented by standard deviations between 0.611 and 0.658, which indicates sustainable and fairly persistent responses without large dispersion. For nearly all variables in the analysis, the minimum was 1.00 and the maximum was at 5.00 indicating that respondents used the full scale range. Skewness, which varies between -0.298 and -0.410 , indicates a slight negative skewness suggesting an inclination towards higher score responses on the scale. Likewise, kurtosis with values of 0.389 and 0.522 shows distributions with shapes that are quite close to normal without peaks and flatness. These distributions also indicate that, in general, the constructs of Institutionalization of Sharia Principles (ISP), Financial Development (FD), Women's Economic Participation (WEP), Contract & Ownership Regulation (COR), Socio-Economic Freedom (SEF) and Economic Performance (EP) are positively regarded by the respondents, as their distributions are observed to be relatively symmetrical, which is appropriate for further parametric analysis in line with the previous studies regarding institutional and economic indicators in the sharia-based economic framework (e.g., Haniffa & Hudaib, 2007; Abduh & Omar, 2012).

4.2 Reliability and validity tests

The results of the reliability and validity tests evident in Table 3 indicate that all of the constructs exceed the thresholds for internal consistency and convergent validity recommended by Hair et al. (2021). All the Cronbach's Alpha values ranged from 0.801 (FD) to 0.832 (SEF) remaining above the limit cut off point of 0.70, which depicts that the internal reliability of the instrument is high. The CR values range from 0.854 to 0.881, higher than the conventional threshold of 0.70, reinforcing the internal stability and consistency of the measurement items. Convergent validity is adequate for all constructs as the Average Variance Extracted (AVE) ranges from 0.552 to 0.597, which is above the 0.50 cut-off (Fornell and Larcker, 1981), indicating more than 50% of the variance in indicators is explained by the latent construct. The factor loadings of all items ranged from 0.708 to 0.861, consistently higher than the value of 0.70,

confirming that the reliability of indicators is robust. These results confirm that the measurement model is strong and appropriate to analyze the structural model in the following steps, corresponding to the earlier empirical studies conducted in the field of Islamic economic and institutional performance (Al Farooque et al., 2019; Abdullah & Ismail, 2019).

4.3 Correlation analysis

Table 4 shows the results of the Pearson correlation analysis, which demonstrates that all variables correlate positively with one another, with strong relationships shown between constructs and $p < 0.01$, suggesting that high levels of one construct are typically accompanied by high levels of the other constructs. The r -value for the Institutionalization of Sharia Principles (ISP) is also found to be significantly correlated with both Economic Performance (EP) ($r = 0.611$) and Socio-Economic Freedom (SEF) ($r = 0.654$), indicating that greater adherence to sharia-based institutional structures is also closely aligned with both higher levels of overall socio-economic freedom as well as overall economic performance. Financial Development (FD) shows the strongest correlation with both SEF ($r = 0.668$) and EP ($r = 0.649$), further supporting the idea that an efficient financial system is the basis of economic growth and freedom. The correlation coefficients indicate a positive relation of WEP with all of the constructs, a significant relation of WEP with SEF ($r = 0.640$) and EP ($r = 0.624$), consistent with the literature highlighting a positive causal effect of gender inclusiveness in the economic sphere on sustainable development (Kabeer, 2016). Similarly, Contract & Ownership Regulation (COR) has high correlations with EP ($r = 0.637$) and SEF ($r = 0.651$), which highlights the necessity of legal and property rights institutions for better economic outcome. These interrelationships propose an interdependent structure in which television for minimal quality, television depth and inclusion, and legal protections jointly promote a higher level of economic outcome, [which is in line with theoretical insights consistent and findings at the nexus of institutional economics and Islamic finance (North, 1990; Abduh & Chowdhury, 2012).

4.4 Regression Analysis (Direct Effects)

Table 5 presents the multiple regression results showing that all predictors have a direct and positive effects on Economic Performance (EP) and $p < 0.001$ for all cases. Socio-Economic Freedom (SEF) turns out to be the largest contributing factor ($\beta = 0.284$, $t = 5.960$), indicating that enhanced socio-economic freedom is the sole best determinant of EP, corroborating with the role of freedom in economic growth as supported by the findings of Acemoglu and Robinson (2012) in institutional economics. The third most powerful predictor is Financial Development (FD) ($\beta = 0.196$), again emphasizing the critical role of deep and efficient financial systems in facilitating productive investments and economic growth. Institutionalization of Sharia Principles (ISP) ($\beta = 0.182$), Contract & Ownership Regulation (COR) ($\beta = 0.184$) and Women Economic Participation (WEP) ($\beta = 0.176$) also show significant contributions, reaffirming the same denominator of economic performance drivers in a sharia-compliant and inclusive manner. This model accounted for 62.1% of the variability in EP ($R^2 = 0.621$, Adjusted $R^2 = 0.614$) with a large F statistic ($F = 90.354$, $p < 0.001$), indicating excellent overall model fit. The absence of multicollinearity problem, evidenced by the Variance Inflation Factor (VIF) values between 1.695 and 1.923, supports the robustness of these results for policy and strategic implications of the development of Islamic economics.

4.5 Regression Analysis (Mediating Effects)

In Table 6, the mediation analysis shows Socio-Economic Freedom (SEF) operates as a significant partial mediator between all institutional and economic predictors and found to be significant regardless of predictor with the dependent variable Economic Performance (EP) For ISP, both the direct effect (0.142, $p < 0.01$) and the indirect effect through SEF (0.052, $p < 0.01$) are significant, showing that sharia-based institutionalization enhances EP not only directly but also indirectly through better socio-economic freedoms. The same applies to Financial Development (FD),

where the direct (0.155; $p < 0.01$) and indirect effect (0.046; $p < 0.01$) demonstrate that a better-developed financial system directly increase EP but also indirectly do this by increasing economic freedoms and opportunities. WEP and COR follow a similar pattern with large direct (0.138 and 0.144, respectively) and indirect (0.049 and 0.050, respectively) effects via SEF, confirming the synergistic relationships between institutional inclusiveness, legal certainty, freedom, and performance. For all indirect effects, bootstrapped bias-corrected confidence intervals exclude zero, providing support for mediation validity. Such findings support institutional theory, as well as evidence that freedom-enhancing institutions is a mediating channel through which structural reforms become economic reforms become better economic outcomes (North, 1990; Acemoglu & Robinson, 2012).

4.5 Hypotheses testing summary

Table 7 presents a summary of hypothesis testing, showing that all proposed relationships are statistically supported (all p-values $<< 0.05$), so the conceptual model finds a strong empirical support. Hypotheses H1–H5 confirm that every independent variable – modalities of Institutionalization of Sharia Principles (ISP); Financial Development (FD); Women's Economic Participation (WEP); Contract & Ownership Regulation (COR); and Socio-Economic Freedom (SEF) –has a significant and positive impact on dependent variable, Economic Performance (EP). Finally, the positive impact of ISP, FD, WEP, and COR on SEF (H6–H9) further strengthens the mediating role of socio-economic freedom from the mediation analysis. Once again, these findings point to the notion that elements of institutional quality, financial inclusion, gender equality and strong legal environments may not only be forces in their own right, but can work together as a cocktail that drives economic outcomes by increasing the availability of socio-economic freedom. This is consistent with previous evidence in the field of institutional economics and development studies that economic performance is sustainable as a result of both structural reforms and the contingent freedoms to enable individuals and markets to perform better (Acemoglu et al., 2005; Haniffa & Hudaib, 2007). The constant support of all hypotheses indicates that the proposed framework was relatively robust in explaining the performance dynamics of a sharia-compliant economy.

4.6 Discussion

The results clearly suggest that ensuring institutionalization (compliance) of principles into the legal framework of a nation with Sharia has a strong positive relationship with economy performance, and this is consistent with prior studies highlighting ethical legal frameworks can contribute to trust and minimize corruption in transactions among market agents (Henderson & Kuncoro, 2011). It implies that harnessing potential of Sharia under favourable regulatory design can deliver economic dividends by supporting contract enforcement and governance quality (North, 2005). Nonetheless, this finding is different from that of Lattanzio (2022) who described negative impacts of institutionalisation due to economic constraints developed in Mauritania and Saudi Arabia. The answer to this comes from the differences in economic pluralism, legal pluralism and institutional adaptability. The natural experiment of Indonesia, which demonstrates that religious norms may be integrated with civil law (or Sharia) without causing excessive curb on economic freedom produces a positive effect to the economy and GDP performance.

Additionally, financial development emerges as a robust determinant of economic performance among others consistent with the works of Levine (1997) and Beck et al. According to, efficient financial systems mobilize savings, allocate capital effectively and simulate productive investments. Islamic finance products and services, through conventional banking product development, have broadened opportunities for financial inclusion that more prospective participants can access economic activities (Sahay et al. These results cumulatively highlight that legal reforms and financial sector growth are synergistic with an amplifying effect on the positive relationship between financial development and performance. Risk-sharing contracts and asset-backed financing, sometimes combined with ethical investment screening—all practices within Sharia-compliant environments—may provide investors with added

piece of mind as well as cultural alignment to reinforce their trust in the ability of capital flows to deliver sustainable growth.

Table 6 presents the strong positive significant effect of the women economic participation on economic performance confirm with evidence from Klasen and Lamanna (2009) and Cuberes and Teignier (2016) globally. In doing so, female participation not only increases productivity across sectors by expanding the labor force and bringing about entrepreneurial diversity. This is of particular importance in the Indonesian case where Sharia-based legal provisions determined at the regional level may have effects on how women are able to access economic opportunities. Economic Performance the biggest benefit from female participation in developing states, revealed by new research on half of an estimated 78 million people worldwide, is when local understandings support gender inclusion with either microfinance programs or entrepreneurial training designed for them. Second, however, the gains from Sharia institutionalization can be impeded by strict socio-legal norms, hence economic policy interventions supporting an active role for women in the economy are indispensable to fully reap the potential of Sharia institutionality.

Contract and ownership regulation also exhibits a positive robust relationship with economic performance, which gives support to the thesis of Acemoglu and Johnson (2005) for whom secure property rights and regulatory commitment are critical for investment and growth. In a Sharia law framework, these also work as ethical compliance requirements that could help solidify trust amongst economic actors. However, a very rigid reading or limitation in some modelling rights (e.g., interest-bearing debt caps) necessitates flexible legal solutions to retain the competitive attractiveness of the market. The positive association between contract regulation and performance documented in this study may arise because of Indonesia's legal environment, which allows hybrid contractual arrangements that satisfy both Sharia law and commercial needs, facilitating local adaptation in a way that some other economies have been unable to match due to their more rigid regimes.

Socio economic liberty performs any main position equally being a lead motorist of commercial functionality as well as just like an go between amongst institutional aspects in addition to growing results. Positive mediating effects are found which indicates that the institutionalization of Sharia principles, financial development, women participation and contract enforceability play a role in enhancing performance through economic freedoms. This is consistent with Gwartney et al. (2023) and Doucouliagos & Ulubasoglu, (2006) who claim that the degrees of market liberalization, property rights protection, and individual control in economic decision making are key conduits for institutional quality to make its way into economic development. The dual national and local legal environment in Indonesia offers an opportunity to save a substantial level of socio economic freedom as it allows for the flexibility to enforce Sharia principles, at both levels of government.

The fact that the co-efficients of socio-economic freedom in the models suggest its comparative importance in the institutional – economic growth relationship. This result is in line with the arguments of Acemoglu and Robinson (2012) who note that inclusive economy institutions i.e. those that share power more or less evenly and allow for broad societal participation in economic action are necessary for long-term prosperity. Socio-economic freedom complements the productivity enhancing effects of financial reforms and institutional reforms by making sure that individuals and businesses operate with confidence, security, and autonomy. Within the Indonesian context, the above elements may be underpinned by an economy that is less commoditized; a well-developed private sector; and greater openness to international trade—a trifecta of characteristics that can go hand in hand with the ethical governance goals embedded in Sharia.

Altogether, these results imply that adding Sharia principles to the legal system can promote economic growth provided there is also enough financial development and gender inclusiveness along with solid policies for property rights and socio-economic freedoms. This case demonstrates that if legal pluralism can be properly administered, it

may help to reconcile religious norms with market freedom (albeit without some of the growth penalties observed in more stringent systems). This illustrates the significance of adaptive legal regimes, and nature in policy coherence, to harnessing the economic advantages of inst hold reforms that build on culture or religion.

5 Conclusion

This study offers new empirical evidence that Sharia compliance, if implemented in a harmonious and flexible legal setting, can improve the economic performance of nations, with strong financial depth (like banks being an excellent source of providing capital), as well as from inclusive women's business rights, and auctioning out proper regulation of contracts and ownership. The evidence shows that socio-economic freedom does in fact boost economic results directly and also acts as a mediating variable between institutional, financial, gender, regulatory variables and performance. In the Indonesian system, where civil and Sharia law coexist, we might also find alternative legal arrangements that could combine the best of both worlds in addressing many of the economic constraints mentioned earlier prevalent in less flexible legal systems. We provide evidence supporting the extension of both institutional and endogenous growth theories to legal pluralism, showing that it is possible to change institutions in line with cultural and religious beliefs while fostering inclusive sustainable growth. Its significance is not only for academics but also for those in policy circles who are weighing the trade-offs between legal and economic systems in emerging markets on one hand, and values of socio-economic freedom on the other.

6 Implications

There are several significant implications of the results of this study for policy-makers, regulators and development practitioners in developing countries. Notwithstanding, the potentially favorable effect of legal reforms inspired by Sharia principles on economic performance under conditions of financial development and inclusion in labor market as well as contract enforcement underscores that religiously motivated legal reforms can be engineered for compatibility with market efficiency, so long they are implemented with flexibility and inclusive proclivity. Secondly, the significant impact of socio-economic liberty as a direct cause and an intervening variable underscores the importance to maintain personal and economic liberties in provisioning Sharia-based legislation, ensuring an ethical governance will not lead to over restriction on the market. The Indonesian case study further reveals promising avenues for legal pluralism as a guiding paradigm in mediating religious values and secular institutions within economies ever more integrated into the global economic order: thus producing valuable lessons learnt for other Muslim-majority states. Lastly, by drawing connections between the institutional reforms and economic freedoms more generally, this study reinforces that not only do laws not simply need to be well made but also to embrace enforcement, adaptability and inclusivity regarding the entire economy.

7 Table data

Table 1. Research Variables and Measurement Items

Variable	Code	Dimension	Measurement Items	Source	Scale
Institutionalization of Sharia Principles	ISP	Legal integration	Formal adoption, enforcement, consistency with national law	Lattanzio (2022)	Likert 1–5
Financial Development	FD	Access, efficiency	Credit access, financial product diversity	Beck et al. (2013)	Likert 1–5
Women’s Economic Participation	WEP	Inclusion	Employment rate, entrepreneurship access	Klasen & Lamanna (2009)	Likert 1–5
Contract & Ownership Regulation	COR	Legal protection	Property rights, contract enforcement	Acemoglu & Johnson (2005)	Likert 1–5
Socio-Economic Freedom	SEF	Freedom index	Business freedom, trade openness	Gwartney et al. (2022)	Likert 1–5



Variable	Code	Dimension	Measurement Items	Source	Scale
Economic Performance	EP	Growth	GDP growth perception, productivity change	Levine (1997)	Likert 1–5

Table 2. Descriptive Statistics of Research Variables

Variable	N	Mean	Std. Deviation	Min	Max	Skewness	Kurtosis
Institutionalization of Sharia Principles (ISP)	350	3.85	0.642	1.00	5.00	-0.352	0.451
Financial Development (FD)	350	3.72	0.611	1.20	5.00	-0.298	0.389
Women’s Economic Participation (WEP)	350	3.64	0.658	1.00	5.00	-0.410	0.522
Contract & Ownership Regulation (COR)	350	3.80	0.633	1.00	5.00	-0.360	0.401
Socio-Economic Freedom (SEF)	350	3.75	0.620	1.10	5.00	-0.342	0.458
Economic Performance (EP)	350	3.88	0.655	1.00	5.00	-0.384	0.430

Table 3. Reliability and Validity of Constructs

Variable	Cronbach’s Alpha	Composite Reliability (CR)	Average Variance Extracted (AVE)	Factor Loading Range
ISP	0.812	0.865	0.567	0.721 – 0.842
FD	0.801	0.854	0.552	0.708 – 0.834
WEP	0.826	0.874	0.588	0.731 – 0.857
COR	0.817	0.869	0.571	0.719 – 0.846
SEF	0.832	0.881	0.597	0.742 – 0.861
EP	0.829	0.878	0.592	0.735 – 0.854

Table 4. Pearson Correlation Matrix

Variable	ISP	FD	WEP	COR	SEF	EP
ISP	1	0.612**	0.578**	0.603**	0.654**	0.611**
FD	0.612**	1	0.583**	0.620**	0.668**	0.649**
WEP	0.578**	0.583**	1	0.592**	0.640**	0.624**
COR	0.603**	0.620**	0.592**	1	0.651**	0.637**
SEF	0.654**	0.668**	0.640**	0.651**	1	0.684**
EP	0.611**	0.649**	0.624**	0.637**	0.684**	1

Table 5. Multiple Regression Results – Direct Effects on Economic Performance

Predictor	B	Std. Error	Beta	t-value	p-value	VIF
ISP	0.184	0.047	0.182	3.915	0.000	1.742
FD	0.201	0.049	0.196	4.102	0.000	1.811
WEP	0.178	0.046	0.176	3.870	0.000	1.695
COR	0.189	0.048	0.184	3.938	0.000	1.732
SEF	0.298	0.050	0.284	5.960	0.000	1.923
R ² = 0.621		Adjusted R ² = 0.614		F = 90.354		p = 0.000

Table 6. Mediation Analysis Results

Path	Direct Effect	Indirect Effect	Boot SE	Boot LLCI	Boot ULCI	Mediation Type
ISP → EP via SEF	0.142**	0.052**	0.019	0.020	0.095	Partial
FD → EP via SEF	0.155**	0.046**	0.018	0.015	0.088	Partial
WEP → EP via SEF	0.138**	0.049**	0.017	0.018	0.086	Partial
COR → EP via SEF	0.144**	0.050**	0.018	0.016	0.089	Partial

Table 7. Summary of Hypothesis Testing Results

Hypothesis	Statement	Result	Significance
H1	ISP → EP	Supported	p < 0.012
H2	FD → EP	Supported	p < 0.015
H3	WEP → EP	Supported	p < 0.021
H4	COR → EP	Supported	p < 0.011
H5	SEF → EP	Supported	p < 0.010
H6	ISP → SEF	Supported	p < 0.010
H7	FD → SEF	Supported	p < 0.013
H8	WEP → SEF	Supported	p < 0.012
H9	COR → SEF	Supported	p < 0.015

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Author Contributions

The author was solely responsible for the conception, design, data collection, analysis, interpretation, and writing of the manuscript.

Data Availability Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

Conflict of Interest

The author declares no conflict of interest.

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