



EXPLORING AND PROPOSING A FRAMEWORK FOR SHARĪ'AH GOVERNANCE AND MAQĀSID-E-SHARĪ'AH FOR ISLAMIC BANKING INSTITUTIONS (IBIs)

Ammarah Chaudhry¹, Prof. Dr. Ashfaq Ahmad²

DOI: <https://doi.org/10.63544/jbii.v5i6.246>

Affiliations:

¹ PhD Scholar,
Hailey College of Commerce,
University of the Punjab,
Lahore, Pakistan
Email: ammarahch05@gmail.com

² Professor/Principal,
Hailey College of Commerce,
University of the Punjab,
Lahore, Pakistan
Email: ashfaq.hcc@pu.edu.pk

Corresponding Author's Email:

¹ ammarahch05@gmail.com

Copyright:

Author/s

License:



Article History:

Received: 23.05.2026

Accepted: 14.06.2026

Published: 29.06.2026

Abstract

Islamic Finance Industry have expanded over past few decades. Despite expanding rapidly, the industry continues to face strong criticism over deepening identity crisis marked by systematic conventionalization that contradicts its theological foundations. Although existing research has extensively examined Sharī'ah compliance, governance mechanisms and financial performance, it has largely approached Islamic finance as a modified version of conventional finance. This approach emphasizes the elimination of prohibited elements while leaving its underlying conceptual structure largely unchanged. Consequently, the ontological foundations from which Islamic finance should be understood and evaluated remain insufficiently developed. To address this gap, this paper introduces a novel six-stage model which is called Ontological Cascade framework that reconstructs Islamic finance from Qur'anic teleology. It traces Qur'anic teleology from divine creation through tawhid ideology, Muslim life-system manifestations, khalifah economics, Maqāsid al-Sharī'ah evaluation, to Sharī'ah Governance Framework institutionalization. It is grounded in Qur'anic verses such as 51:56 on worship, 2:30 on vicegerency, and 67:2 on moral testing and posits that authentic IFIs must exhibit ontology-derived behaviors like risk-sharing and Maqāsid-optimized governance rather than procedural compliance alone. It proposes seven propositions linking creation purpose to measurable financial practices and offering diagnostic tools for expected-versus-actual gap analysis. It redefines success by prioritizing spiritual alignment over financial profit, filling major gaps in Islamic economic theory and sparking a modern revival in the field.

Keywords: Islamic Finance, Islamic Economics, Ontological Cascade Framework, Tawhid, Khalifah, Maqāsid Al-Sharī'Ah, Sharī'Ah Governance

1. Introduction

The global Islamic finance industry has exhibited remarkable resilience and growth, reaching approximately \$3.88 trillion in total assets by 2024, with 14.9% year-on-year growth, which is higher than recent trends (IFSB, 2025). Forecasts indicate that the industry will maintain doubledigit growth, with the industry expected to expand at an annual rate of approximately 10%, reaching approximately USD 9.7 trillion by 2029 (LSEG & ICD, 2025). This expansion reflects increasing demand in both Muslim-majority and international markets, which positions Islamic finance as one of the fastest-growing segments of the global financial system. Islamic financial institutions (IFIs) distinguish themselves through Sharī'ah compliance principles such as prohibiting Riba (interest), gharar (excessive uncertainty), and maysir (gambling). Furthermore, they also emphasize profit and loss sharing (mudharabah, musharakah) and asset-backed financing (murabahah, ijarah) etc (Usmani, 2002).

Despite this remarkable expansion in the industry, some concerns were reported regarding products of Islamic banking institutions (IBIs) as Islamic banking portfolios are dominated by debt-based instruments, especially murābahah (cost-plus financing), whereas equity-based and risk-sharing modes such as mudārahah and mushārahah are minimal (Chong & Liu, 2009; Khan, 2010). Moreover, the performance of IFIs is still significantly evaluated through traditional financial indicators such as profitability ratios and return on equity (ROE), with limited integration of broader socio-economic objectives related to Maqasid al-Shari'ah (Chapra,



2008; Mohammed & Taib, 2015). Although IFIs are mandated to institutionalize Shari'ah Governance Frameworks (SGFs) to ensure compliance with Shari'ah through mechanisms such as Shari'ah boards, Shari'ah compliance units, Shari'ah audits, and fatwas. These mechanisms place greater emphasis on procedural compliance over the substantive achievement of ethical and socio-economic objectives promulgated by shari'ah (Dusuki & Abozaid, 2007; IFSB, 2009). Consequently, there is growing concern regarding the uniqueness and integrity of Islamic finance. Several academics have noted structural similarities between Islamic and traditional financial systems (Beck et al., 2013; El-Gamal, 2006).

These contradictions between compliance and performance highlight the issue of deeper misalignments within the underlying theoretical framework. Islamic finance claims that it is rooted in comprehensive worldview which is grounded in tawhid (divine unity) and khilafah (human vicegerency). Governance structures and mechanisms should be organized in such a way that they reflect these principles through transparency, accountability, justice, and stewardship. The contemporary governance systems operate at institutional levels and are disconnected from fundamental ontological principles (Choudhury, 2018; Uddin, 2015). This lack of integration weakens Islamic finance's claim of being a complete and comprehensive Islamic system (Asutay, 2012).

Classical and contemporary Islamic finance literature can be broadly categorized into three disconnected streams. The first stream of literature focuses on ontological and philosophical principles that provide basis for Islamic finance. These scholars emphasized the foundational role of tawhid in shaping the purpose and economic behavior of individuals (Chapra, 1992; Choudhury, 2018; Iqbal & Mirakhor, 2011). However, these studies remain conceptual and have not developed practical frameworks for regulatory, governance or institutional implementation. The second stream includes scholars who have focused on the application of maqasid al-Shari'ah in IFIs. These studies have developed evaluative frameworks in order to assess the Islamic financial performance and product design from Maqasid perspective (Auda, 2008a; Laldin & Furqani, 2013a; Mohammed & Taib, 2015) but these studies have not focused on contractual legality. However, the methods introduced by these studies are mostly based on normative objectives and they have not systematically derived them from Islamic ontology. The third stream includes scholars who have studied Shari'ah Governance Framework (SGF) that focus on institutional mechanisms such as Shari'ah boards, compliance processes, and audit (Boudawara et al., 2023; Sueb et al., 2022; Tashkandi, 2023). Although these frameworks improve procedural discipline through Shari'ah boards, audits, and compliance units, the literature has mainly examined them from technical perspective, but these studies have not sufficiently connected them with broader ontological and epistemological foundations.

The evident misalignment between Islamic finance normative foundations and institutional practices gives rise to critical question: what makes Islamic finance genuinely Islamic, and why do Islamic financial institutions increasingly mirror conventional finance? Many research studies argue that IFIs current practices have significantly diverged from initially envisaged theoretical models due to supervisory and competitive pressures in marketplace (Asutay, 2012; El-Gamal, 2006; Seho et al., 2016). However, these explanations focus only on surface-level causes and do not examine deeper conceptual or philosophical issues behind this problem.

The present study argues that Islamic finance is facing identity challenge because of its disconnection from its foundational Islamic philosophy and Islamic economic objectives. Operational practices of IFIs and IBIs are not sufficiently grounded in Islamic worldview, which integrates ethical, social, and economic dimensions of human life. The proposed framework conceptualizes Islamic finance as more than a set of contractual arrangements. It proposes that Islamic finance should be understood as a practical expression of Islamic worldview, which is based on divine guidance and purpose of human life. The framework presents structured sequence of interconnected analytical layers. It links Islamic ontology ('ibadah, khilafah, ibtila'), to tawhid-based ideological integration, to Muslim life-system encompassing spiritual, social, and economic dimensions, to core financial principles such as risk-sharing and asset-backing, to maqasid al-Shari'ah as evaluative criteria and to institutional mechanisms such as Shari'ah Governance Frameworks and performance outcomes. This framework suggests that these elements are conceptually interconnected in such



a way that weaknesses at foundational levels may be reflected in institutional practices and outcomes. In this sense, framework provides structured lens through which divergence between normative expectations and actual practices of IFIs can be systematically examined. By taking into consideration proposed conceptual framework develops a set of theoretically grounded propositions that links Qur'anic ontology to institutional behavior and performance outcomes.

2. Literature Review

2.1 Religion as Master Economic Ideology

Religion is most important form of transcendental ideology that integrates beliefs, ethics, law, and economics into coherent life system, which secular ideologies such as capitalism and socialism have failed to consider (Chapra, 2000; Mawdudi, 1981). Capitalism prioritizes utility maximization through the price mechanism over moral considerations. Socialism prioritizes material equality through central planning over spiritual purpose. Liberalism elevates individual autonomy above communal obligation through contractual freedom. Liberalism prioritizes individual autonomy over social obligations by allowing individuals to engage in economic contracts with minimal restrictions. All these secular economic paradigms fundamentally lack a divine reference point permitting moral relativism, temporal expediency, and systemic ethical incoherence (Chapra, 2000; Naqvi, 1981).

Tawhid establishes ontological unity of purpose. As mentioned in the Quran, "To Allah belongs whatever is in the heavens and whatever is on the earth. Whether you show what is within Islamic economies is still heavily dependent on conventional economic foundations and has not developed into a completely cohesive alternative system. Similarly, Askari et al. (2010) argue that Islamic finance has expanded rapidly. However, its operational processes are still very similar to conventional financial intermediation. They have noted the convergence between Islamic and conventional finance, and that the conventional financial logic persists in Islamic finance practice.

Similarly, empirical research reveals that equity-based risk-sharing methods like musharakah and mudarabah are still underemphasized in Islamic banking systems (Chong & Liu, 2009). The Islamic banking industry is dominated by debt-based instruments like murabahah (mark-up or cost-plus financing), Ijarah (Islamic leasing), Istisna (contract manufacturing), etc. are used (Beck et al., 2013), which Kader and Yap (2008) see very similar to conventional bank loans. For instance, despite theoretical focus on risk-sharing and equity participation, Asutay (2012); Balooshi (2020); El-Gamal (2006); Kader and Yap (2008); Siddiqi (2006) observed that debt-like instruments predominate in Islamic financial portfolios. This structural resemblance to conventional financial instruments indicates the friction between theoretical foundation and institutional practice.

Islamic economics scholarship is dominated by three core theoretical frameworks that emphasize distinct aspects of institutional design, economic behavior and Shari'ah compliance. Numerous studies emphasize the contractual and legal legitimacy of Islamic financial products focusing primarily on transforming legal structures to prevent Riba (interest) and gharar (uncertainty). However, several scholars contends that this approach may prioritize legal form over substantive Islamic principles resulting in financial structures that closely resemble conventional debt instruments while being presented as Shari'ah-compliant (Asutay, 2007b; Hamour et al., 2019). According to (Laldin & Furqani, 2013a, 2013b), there is a disconnect between Shari'ah permissibility and ethical goals, as maqasid concerns are frequently undeveloped in practical structures of Islamic finance.

Another strand reflects the tendency of Islamic financial institutions to rely on conventional benchmarks such as LIBOR and KIBOR for pricing and performance evaluation. Although this enhances competitiveness, it may undermine the distinctiveness of Islamic finance by weakening its emphasis on risk-sharing and asset-based intermediation. According to Chapra (2008), an over-reliance on traditional standards might jeopardize the fundamental goals of Islamic economics, especially risk-sharing and justice. In a similar vein, Iqbal and Molyneux (2005) note that because of market forces and risk management limitations, the structure of Islamic banking products frequently converges with traditional banking products. Further, recent studies on benchmarking highlight that the use of LIBOR and other IBORs by Islamic financial institutions



may be practical but it risks the alignment of Islamic finance too closely with conventional models and dilution of its distinctive risk-sharing character.

2.2 Maqasid al-Sharī'ah Applications: Methodological Limitations

In Islamic finance literature, Maqasid al-Sharī'ah has been applied as a central framework for evaluating Islamic financial practices. It provided a structured approach based on the preservation of religion, life, intellect, lineage, and wealth (Auda, 2008a). Contemporary research studies have also applied maqasid based analysis to product development, corporate social responsibility, and performance measurement (Dusuki & Abozaid, 2007; Laldin & Furqani, 2013a; Mohammed et al., 2008). However, existing literature regarding Maqasid applications has often adopted a functional rather than the foundational approach. For example, Laldin and Furqani (2013a) make an important contribution by mapping the maqasid to the ends and means of Islamic finance. However, their framework remains largely operational, and it does not systematically derive these ideas from underlying ontological principles such as khilāfah or divine accountability. Similarly, Chapra (2008) highlights justice, welfare and wealth preservation (hifz al-māl) as a key economic objective. However these ideas are not always developed into an explicitly ontological theory of trusteeship and accountability.

A third strand focuses on conventional financial performance indicators such as return on equity (ROE) and net interest margin (NIM). These indicators reflect conventional banking logic and are unable to evaluate maqasid-based performance. Asutay (2007a) criticized this approach and mention it as undermining the “social and economic developmentalist aspirations of the Islamic moral economy,” in which greater emphasis is placed on profitability than on socioeconomic justice and moral goals. Naqvi (2013) argues that Islamic economics should not purely consider utilitarian frameworks rather should fundamentally incorporate ethical values of justice, trusteeship and tawhid (the oneness of God). These strands indicate that contemporary Islamic economics operates within fragmented theoretical landscape with absence of coherent framework linking ontological foundations to economic behavior and institutional structures. These circumstances contribute to inconsistencies between the normative principles of Islamic finance and practical implementation.

2.3 Maqasid al-Sharī'ah Applications: Methodological Limitations

In Islamic finance literature, Maqasid al-Sharī'ah has been applied as a central framework for evaluating Islamic financial practices. It provided a structured approach based on the preservation of religion, life, intellect, lineage, and wealth (Auda, 2008a). Contemporary research studies have also applied maqasid based analysis to product development, corporate social responsibility, and performance measurement (Dusuki & Abozaid, 2007; Laldin & Furqani, 2013a; Mohammed et al., 2008). However, existing literature regarding Maqasid applications has often adopted a functional rather than the foundational approach. For example, Laldin and Furqani (2013a) make an important contribution by mapping the maqasid to the ends and means of Islamic finance. However, their framework remains largely operational, and it does not systematically derive these ideas from underlying ontological principles such as khilāfah or divine accountability. Similarly, Chapra (2008) highlights justice, welfare and wealth preservation (hifz al-māl) as a key economic objective. However these ideas are not always developed into an explicitly ontological theory of trusteeship and accountability.

Dusuki and Abozaid (2007) reported a maqasid based framework for evaluating corporate social responsibility. However, its operational structure relies on conventional multi-criteria evaluation and is not grounded in tawhid-based principles in which spiritual objectives precede material welfare. Auda (2008a) extends the conceptual scope of maqasid theory but its practical implementation is not sufficiently grounded in systematic ontological framework. Current literature applies maqasid selectively across different areas of Islamic finance, these applications are usually fragmented and operational and are not rooted in comprehensive ontological framework.

2.4 Sharī'ah Governance Framework: Operational Disconnect

Sharī'ah Governance Frameworks (SGFs) represents the regulations and manuals issued comprising institutional mechanisms and operational procedures through which IFI's compliance with Sharī'ah principles



is ensured. International organizations such as, AAOIFI, IFSB and national regulatory authorities have developed comprehensive standards that guide the establishment of governing mechanisms such as Shari'ah boards, audit processes, and compliance functions (IFSB, 2009). These governance frameworks have significantly improved procedural rigor. However, several studies have highlighted that there are substantial gaps between formal compliance and substantive outcomes.

Several studies suggest that these structural arrangements are designed primarily to ensure legal Shari'ah compliance. However, they remain unable to integrate maqasid into substantive organizational outcomes (El-Gamal, 2006; Monira et al., 2024). For instance, contemporary Islamic financial products rely heavily on debt-based structures such as murābahah. Moreover, they are also often priced or benchmarked against conventional interest-based rates such as LIBOR and KIBOR, which raises concerns regarding substantive Shari'ah compliance (El-Gamal, 2006; Farooq, 2014; Redzuan & Kassim, 2015; Rosly, 2005). Additionally, there is widespread use of organized tawarruq as a liquidity and financing instrument, which have raised concerns that conventional financial practices are being replicated within Shari'ah-compliant structures (Siddiqi, 2007).

Moreover, socio-economic instruments such as Zakat should be recognized as a formal obligation, financial reporting disclosure item, and a mechanism for social redistribution. However, their integration into institutional practice and reporting frameworks remain inconsistent (Khan et al., 2024). Furthermore, conventional financial metrics such as ROE, NIM, and capital adequacy ratios are still used for the performance evaluation of IBIs, which suggests that existing benchmarking approach does not adequately capture maqasid-based performance dimensions (Asutay, 2012; Ibrahim et al., 2004). These observations suggest that current SGFs are effective in ensuring procedural compliance; however, they are not sufficiently aligned with the broader ontological and ethical objectives of Islamic finance (IFSB, 2009). Moreover, the contemporary literature on SGFs literature have emphasized institutional compliance mechanisms such as Shari'ah supervisory boards, internal Shari'ah reviews, fatwa processes, audit protocols for strengthening Shari'ah compliance. However, this study argues that they remain underdeveloped in relation to the deeper ethical and ontological aims of Islamic finance.

Haridan et al. (2018) discuss concerns regarding the effectiveness of Shari'ah boards in Islamic banks, which includes the issues related to independence of the Shari'ah board and their ability to serve as effective governance mechanisms. Alam et al. (2019) contribute to the discussion of Shari'ah governance by emphasizing the need for effective governance infrastructure. Alnofli and Ali (2019) provide practitioner-informed evidence that Shari'ah governance frameworks face persistent issues related to independence, competency, and disclosure and suggest the existence of gap between regulatory design and institutional practice. Abbasi (2020) critically evaluates the Shari'ah Governance Framework for IBIs and highlights important structural limitations. They highlighted the absence of key performance indicators and measurable benchmarks for Shari'ah board evaluation and Shari'ah compliance suggesting that the framework is more compliance-oriented instead of outcome-driven. Waheedh and Hamid (2023) highlighted that the major issues in effective implementation of Shar'ah governance comprises weaknesses in independence, awareness, transparency, competency, and consistency and reported a substantial gap between the intended framework and its practical execution. The implementation of SGF remains uneven across jurisdictions and institutions. Fatmawati et al. (2022) demonstrate that Shar'ah governance practices vary significantly across jurisdictions and suggest that the implementation of SGF is shaped largely by institutional and regulatory contexts. Siddiqi (2006) explicitly argues that the practice of Islamic finance has significantly departed from its theory, and that the field needs to move from merely meeting legal criteria toward achieving the objectives of Islamic law. Chapra (2008) argues that to better align Islamic finance practice with Islamic objectives, IFI should engage in equity-based financing. Collectively, these studies reveal a persistent gap between theoretical expectations and institutional practice.

2.5 Islamic Finance Identity Crisis: Theoretical Synthesis

A study conducted by Hidayah et al. (2021) describe Islamic finance identity crisis through the concept of "identity drift," in which ethico-faith principles are rationalized to accommodate neoliberal market



imperatives. Related critical work of Alamad et al. (2021) suggest that Islamic finance is shaped by tensions between ethical aspirations and market-based logics. As a result, IFIs give more priority to regulatory compliance and market competitiveness rather than deeper ethical commitments. Together, these studies suggest that the field is still struggling with a persistent gap between its normative ideals and the institutional practical realities. Recent scholarship maintains that the cumulative effect of these limitations has given rise to identity challenge within Islamic finance. Several studies have argued that the IFI have deviated from value-based principles toward form-based replication contributing to increasing convergence between Islamic and conventional financial systems (El-Gamal, 2006; Siddiqi, 2006).

This convergence of an Islamic financial system with conventional financial system can be linked to theoretical fragmentation within the field. The literature reveals four interrelated gaps. The first gap relates to ontological absence; absence of a framework that links Qur'anic foundations to institutional practice (Siddiqi, 2006). The second one concerns theoretical fragmentation referring to a disconnection between ideology, maqasid, and governance (El-Gamal, 2006). The third one pertains to performance misalignment; indicating the evaluation of IFIs on conventional financial metrics (Asutay, 2012; Ibrahim et al., 2004). The fourth gap involves diagnostic limitation pointing to the absence of structured analysis of gaps between normative and actual practices (Asutay, 2012). These gaps highlight the need for a comprehensive conceptual framework that systematically integrates Islamic ontology with institutional mechanisms and performance outcomes. The proposed Ontological Cascade Framework is intended to address this gap by linking foundational principles with observable economic behavior.

3. Proposed Framework

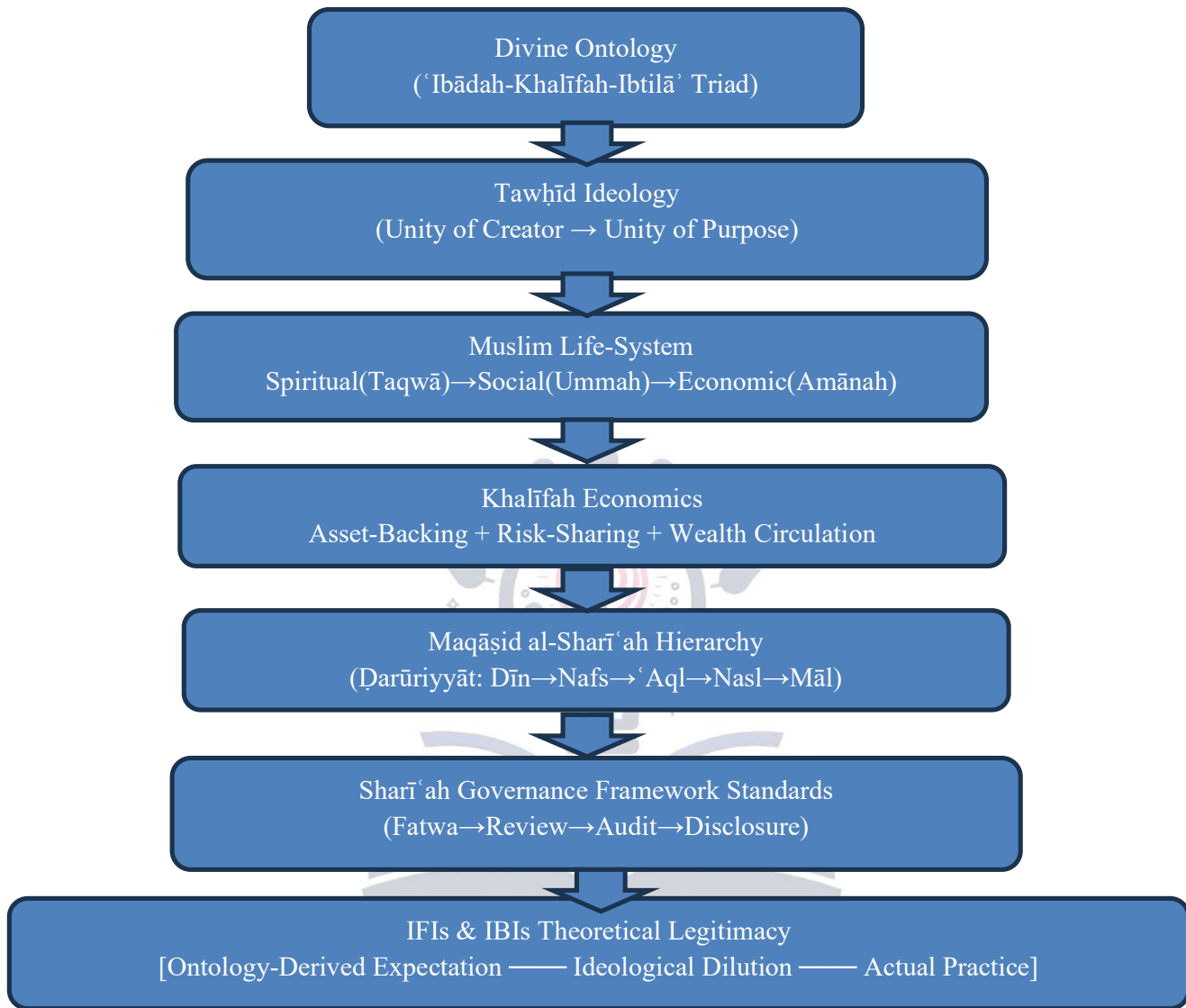
3.1 The Ontological Cascade Framework

In response to gaps identified in literature review, this paper develops an Ontological Cascade Framework that presents a theoretically grounded model tracing Qur'anic creation teleology through structured sequence of six interrelated stages, linking divine ontology to the expected IFIs institutional behavior. This framework offers conceptually integrated explanation of how foundational Islamic principles translate into institutional and economic representations. The present framework is derived from three fundamental Qur'anic constructs, i.e. 'ibadah (worship) (Qur'an 51:56), khalifah (vicegency) (Qur'an 2:30), and ibtilā' (moral testing) (Qur'an 67:2). In Islam, these constructs establish ontological basis of human existence. Every human socioeconomic activity is rooted in these constructs. The present model does not treat economic behavior as autonomous domain. Rather, it places economic behavior within a broader teleological structure that connects belief, ethics, and institutional practice.



Figure 1

Ontological Cascade Framework



The figure presents the six-stage Ontological Cascade Framework. The final stage connects to IFIs & IBIs Theoretical Legitimacy [Ontology-Derived Expectation — Ideological Dilution — Actual Practice].

The Ontological Cascade Framework is manifested through a threefold framework, namely ‘ibādah (worship), khilāfah (vicegerency), and ibtilā’ (testing). ‘Ibādah (worship) is all-encompassing, making every action and aspect of human life a platform for divine service. Khalifah designates humanity as earthly trustees with moral responsibility over creation. Ibtilā’ frames temporal life as probationary testing of free moral agency. These themes reflect the Islamic vision of development articulated by (Chapra, 2008). This ontological foundation demands that all human activity, including economic transactions, should align with the purpose of human creation as emphasized in the Islamic vision articulated by Mawdudi (1982). Second, Tawḥīd Ideology shapes the purpose of life through the belief in the Oneness of the Creator, resulting in a unified life purpose. It therefore removes the division between religious and worldly aspects that are common in secular economics. Sharī’ah comprehensively integrates spiritual objectives (faith and worship) with



worldly regulations (business, law, society), turning all separate human activities into one unified system of worship, reflecting core themes in (Chapra, 2008).

Third, this worldview manifests in what this study conceptualizes as the Muslim life-system. Muslim life-system expresses its underlying ideology through integrated behavior across three dimensions comprising spiritual consciousness (taqwā based regulation), social solidarity (ummah based cooperation), and economic trusteeship (amānah based circulation). By embodying these dimensions in real-life practice, the Muslim life-system demonstrates the effectiveness of Islamic principles. This conceptualization draws on and is aligned with the broader Islamic worldview and moral-economic vision (Auda, 2008b; Siddiqi, 1981). Fourth, these behavioral manifestations inform the principles of what this study conceptualizes as khalifah-based economics. Khalifah economics operationalizes the concept of human vicegerency through asset-backed transactions, risk-sharing partnerships, and the circulation of wealth. It thus transforms individual ethical responsibility into a broader institutional economic system. This conceptualization is aligned with the broader Islamic economic vision discussed by (Siddiqi, 1981; Usmani, 2002). Fifth, these principles are evaluated through the framework of maqāsid al-Sharī'ah. Maqāsid al-Sharī'ah offers a structured framework to evaluate whether actions align with the purpose of human existence by protecting essential values (ḍarūriyyāt). As discussed by (Laldin & Furqani, 2013a), this approach emphasizes the prioritization of moral and spiritual integrity alongside material welfare, rather than the pursuit of wealth at the expense of higher objectives.

Finally, this study proposes that these Islamic principles and expectations are translated into institutional practice through the effective implementation of the Sharī'ah Governance Framework. In practice, Governance Framework comprises such mandatory mechanisms and procedures that can ensure the effective implementation of Islamic Principles such as fatwas issued by independent SB, regular Shari'ah reviews, and the transparent public disclosures. According to the proposed framework, IFIs can achieve institutional legitimacy through the substantive realization of Islamic objectives rather than through compliance with procedural formalities alone. This understanding is consistent with the guiding principles on Shari'ah governance developed by the Islamic Financial Services Board (IFSB, 2009) and with the broader purpose-oriented understanding of Shari'ah as discussed by (Auda, 2008a). Overall, the Ontological Cascade offers a logical theoretical framework that connects fundamental Islamic ontology to institutional legitimacy establishing both the ontological identity and normative objectives of Islamic finance. It provides a conceptual basis through which the confirmation of institutional practices with their underlying Islamic theoretical and ethical foundations can be evaluated.

3.2 Muslim Life-System: From Tawhid to Human Behavior

The framework proposes that the principle of Tawhid is not only an abstract theological doctrine, but it extends into every dimension of human existence. Tawhid-oriented worldview shapes human life by negating the disintegration of human existence into completely isolated religious and socioeconomic sphere and promote a unified system interconnecting spiritual, social, and economic dimensions of human life. Each dimension (spiritual, social and economic) produces certain expected economic behaviors and can be logically derived from the Qur'an's understanding of life's purpose. This view is consistent with Mawdudi's understanding of Islam as an integrated system of life (Mawdudi, 1981). At the spiritual level, Taqwa (God-consciousness) serves as the primary internal guide for regulating human behavior thus transforming external regulatory compliance into voluntary obedience in all aspects of transactions and interactions. "Indeed, Allah loves those who fear Him" (Qur'an 3:76). This spiritual awareness internalizes divine oversight through self-accountability (muhasabah) thus ensuring subordination of personal interest for higher creation purpose while making economic decisions. Taqwa promotes integrity, equity, and accountability in economic environments (Chapra, 2000).

Islamic ritual practices such as salah and sawm contribute to economic integrity. Five daily salah systematically interrupt worldly pursuits with dhikr (remembrance of Allah) creating a consistent worldly routine guided by the awareness of ultimate accountability before Allah. Ramadan fasting improves self-restraint and trains minds to operate independently of physical needs thereby strengthening the ability to regulate immediate desires and make deliberate choices rather than allowing physical impulses to determine



behavior (Beekun, 2006; Chapra, 1992). This self-mastery is essential for fair and balanced financial negotiations. Theoretically, these spiritual processes foster transaction integrity that goes beyond contractual enforcement, such as truthful disclosure, equitable pricing, and profit-sharing fairness, consistent with the Islamic business ethics literature emphasis on spirituality and ethical integrity (Ali & Al-Owaikan, 2008; Chapra, 1992). Inner purification (tazkiyah al-nafs) systematically produces observable virtues that regulate economic behavior. These virtues include patience (sabr) during market volatility, gratitude (shukr) that prevents greed and humility (tawadu') that rejects exploitation. Al-Ghazali (1993) emphasizes that inner purification of heart is the starting point for ethical conduct that can be extended to behavior in financial dealings. This shows clear link between inner spiritual development and real-world economic behavior.

At the social level, the principle of tawhid extends beyond theology to provide the foundation for social organization through the concept of the ummah. Tawhid (the oneness of God) fosters solidarity and cooperation within the Muslim community (ummah), thus systematically overcoming the self-centered competition commonly associated with conventional secular economics (Chapra, 2000) "And hold firmly to the rope of Allah all together and do not become divided." (Qur'an 3:103). This awareness regarding social responsibility promotes economic behavioral change from selfish, zero-sum competition to cooperative mutual benefit. It reflects the concept of khalifah, emphasizing humans' role as collective stewards of society's resources.

Islam prioritized adal in every human activity. 'Adl (justice) mandates the equitable distribution of resources across society. As mentioned in the Quran, "O you who have believed, be persistently standing firm in justice, witnesses for Allah, even if it be against yourselves or parents and relatives" (Qur'an 4:135). Chapra (2008) emphasizes that such injunctions place justice at the core of Islamic social and economic order. Islamic social laws such as inheritance equity (Qur'an 4:11-12), proportional punishment (qisas), and contractual mutuality systematically prevent extreme economic inequality. These regulations ensure that Islamic principles of justice and unity are reflected in structure of society's economic system." Islamic ontology emphasizes the importance of the family system, as the family unit plays a vital role in preserving Islamic values and sustaining the social order. Therefore, maintaining a strong family structure is essential for the stability of any society. As mentioned in the Quran, "O you who have believed, protect yourselves and your families from a Fire whose fuel is people and stones" (Qur'an 66:6). Islamic ideals are passed down through generations with the help of gender-complementary roles, early taqwa education, and close extended family relationships. By limiting the deterioration of values brought on by shifting secular standards, these systems aid in maintaining moral stability which is consistent with Mawdudi's understanding of Islam as a comprehensive social system (Mawdudi, 2013).

At the economic level, Islamic ontology refutes the notion of absolute private ownership and treat property a divinely mandated trust (amanah). As mentioned in the Quran, "Believe in Allah and His Messenger and spend out of that in which He has made you successors. And whoever of you believes and spends—those will have a great reward" (Qur'an 57:7). This indicates that wealth ultimately belongs to Allah and humans are entrusted to use it responsibly. From this perspective, financial resources must be used in ways that promote the general well-being of society. This trusteeship viewpoint supports the circulation of wealth by utilizing instruments such as Zakat, Waqf, and Sadaqah and consistently forbids hoarding. The Qur'an warns, "And those who hoard gold and silver and spend it not in the way of Allah - give them tidings of a

3.3 Khalifah Economics: From Human Behavior to Economic Principles

Islamic economic thought is built on core concept of Khalifah (vicegency), which provides the fundamental framework for all Islamic financial practices. Modern Islamic financial practices frequently compromise these fundamental standards. According to first principle, all legitimate Islamic financial agreements must be directly tied to real physical assets that hold intrinsic value. Scholars of both classical Islamic jurisprudence and modern Islamic finance broadly agree on this principle (El-Gamal, 2006; Usmani, 2002). The Qur'an command, "O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent" (Qur'an 4:29). This verse emphasizes the earning of wealth



through fair and real economic activity. The financial intermediation must be directly connected to productive real-world economic activities. Because of this requirement the system discourages the use of purely speculative paper-based instruments, which are highly prevalent in conventional derivatives markets.

The second principle providing the basis for Islamic financial activities, is risk sharing. Islamic finance focus on shared risk through structures like *mudarabah* (silent partnerships where profits and losses are shared) and *musharakah* (joint venture equity participation). Risk-sharing contracts replace the one-sided creditor-debtor relationships with mutual accountability promoting societal cooperation and justice. As stated in Quran, “Allah has permitted trade and has forbidden interest” (Qur’an 2:275), encouraging lawful, trade-based dealings instead of interest-based lending. In risk-sharing arrangements each party has a proportional share of profit and loss, which theoretically aligns financiers’ interests with entrepreneurial risk. This promotes fair and balanced economic uncertainty distribution within the *ummah*.

The third principle focuses on wealth circulation as a fundamental goal of Islamic economics by emphasizing the importance of redistributive mechanisms. *Zakat* promotes equitable wealth redistribution through obligatory annual payments. *Waqf* provides sustainable support for social and public welfare services. *Sadaqah* encourages voluntary charitable contributions to strengthen social solidarity. “The example of those who spend their wealth in the way of Allah is like a seed [of grain] which grows seven spikes; in each spike is a hundred grains. And Allah multiplies [His reward] for whom He wills” (Qur’an 2:261). Effective implementation of these instruments can effectively redistribute resources to reduce social welfare and reduce economic inequality. This reflects Islam’s emphasis on equitable circulation of wealth rather than allowing its accumulation among narrow segment of society (Chapra, 2000; Kahf, 1978).

3.4 Maqasid al-Shari’ah: Purely Theoretical Evaluation

The economic principles that are derived from the ontological foundations of Islam require a normative criterion for assessing their legitimacy and effectiveness. Within the proposed Ontological Cascade Framework, this evaluative role is performed by *Maqasid al-Shar’ah*. *Maqasid al Shar’ah* does not represent an independent stage disconnected from ontology. They serve as the normative benchmark to assess the economic principles generated by *Tawhid*, the Muslim life-system, and *khalifah*-based economics. It therefore connects foundational Islamic ontology with institutional practices by evaluating the fulfillment of the higher objectives of *Shar’ah* in the financial practices of IFIs. Classical jurists systematized *maqasid* into five essentials (*al-daruriyyat al-khamsah*): preservation of religion (*hifz al-din*), life (*hifz al-nafs*), intellect (*hifz al-aql*), progeny (*hifz al-nasl*), and wealth (*hifz al-mal*) that constitute the fundamental purposes of the *Shar’ah*. (Al-Ghazali, 1997; Al-Shatibi, 1997). Modern scholarship extends this framework beyond classical framework and includes socio-economic justice, equitable wealth distribution, institutional transparency, and sustainable development as a part of *Maqasid* evaluation (Dusuki & Abdullah, 2007). Contemporary Islamic economists argue that *Maqasid al Shar’ah* serves as a comprehensive framework through which economic systems can be evaluated on Islamic principles. They contend that because financial activities are regarded as instruments for realizing human welfare (*maslahah*) rather than ends in themselves (Chapra, 2008; Dusuki & Bouheraoua, 2011).

The developed framework does not propose that principles of Islamic finance are created from *Maqasid al Shar’ah*. Instead, it articulates that these *Maqasid* evaluate whether these principles remain faithful to the ontological objectives from which they are derived. For example, the principles of risk-sharing, asset-backing, trusteeship, and wealth circulation that are derived in the previous stage cannot be regarded as authentically Islamic merely one the basis that they satisfy Islamic contractual requirements. Legitimacy of these depends upon their contribution to justice, equitable wealth distribution, human dignity, social welfare and the broader realization of *falah*. Consequently, merely complaining with legal rules of Islam is not sufficient for claiming to be Islamic if the higher objectives of the *Shar’ah* remain unrealized.

This conception is particularly crucial to understand because a large portion of contemporary Islamic finance literature has mostly on the contractual *Shar’ah* compliance for evaluating the performance of IFIs. There is no doubt that legal compliance remains an essential part of Islamic financial system. But several scholars have argued that focusing exclusively on the contractual validity of Islamic financial transactions



negatively affects the industry's intended socioeconomic objectives and reduce Islamic finance to only a procedural compliance (Chapra, 2008; Dusuki, 2008; Mohammed et al., 2015). Therefore, this study considers Maqasid as a normative criterion within ontological cascade framework that can be utilized to distinguish substantive realization of Islamic objectives from formal compliance. Accordingly, the role of Maqasid within the Ontological Cascade Framework is evaluative rather than operational. It determines whether the economic principles derived from Islamic ontology genuinely promote the higher objectives of the Shar'ah before these principles are translated into institutional governance mechanisms. In this way, Maqasid serves as normative bridge between Islamic economic theory and institutional structures that operationalize it within IFIs/IBIs.

3.5 Shari'ah Governance Framework: Theoretical Institutionalization

The final stage of the proposed framework concerns institutionalization of normative expectations established in the previous stages. Once Islamic ontology has shaped human behavior, generated the principles of Khalifah Economics and been evaluated through Maqasid al-Shari'ah, the next step is to translate these principles into institutional structures for govern the day-to-day IFIs's activities. The proposed framework suggests that SGF functions as the institutional architecture ensuring operationalization of foundational Islamic principles within institutional practice. The contemporary Islamic finance literature considers Shari'ah governance to be the primary determinant of Islamicity of IFIs. The proposed framework conceptualizes that the SGF serves as the final stage for realizing the deeper ontological process. Shari'ah governance does not generate Islamic principles. Rather, it operationalizes and safeguards the Quranic worldview driven principles that are articulated by means of Muslim life-system, Khalifah Economics, and Maqasid al-Shari'ah. Consequently, governance legitimacy depends on its alignment with foundational ontological principles instead of merely formal procedural compliance.

SGF theoretically institutionalizes ontological cascade expectations through the implementation of systematic verification mechanisms. The most crucial SG mechanism is Independent Shari'ah board which is responsible for issuing product development fatwas and supervising effective implementation of Islamic principles (Minaryanti & Mihajat, 2023). The Shari'ah board should prioritize risk sharing products over debt-based instruments by constructively promoting research and development. Apart from SB, there are other SG structures supporting SB in discharging its responsibilities including SCD, ISA and ESA by continuously performing ex-anti and ex-post Shari'ah compliance procedures. They ensure asset-backing integrity and zakat deployment. These mechanisms sample check the transactions and procedures and perform independent verification beyond contractual form and should ensure the alignment with Islamic foundational principles. Disclosure regulation emphasizes transparent reporting and communication of the extent of institutions operational alignment with the ontological foundations and higher objectives of Islamic finance. These mechanisms collectively define the institutional legitimacy criteria in Islamic finance. These SG mechanisms should not only focus on procedural compliance. Rather, they are expected to demonstrate their operations alignment with the ethical and ontological principles outlined in the Ontological Cascade Framework.

4. Theoretical Integration & Propositions

4.1 Systematic Proposition Development

Building upon the Ontological Cascade Framework developed in the previous section, this study derives seven interconnected theoretical propositions explaining the translation of Qur'anic teleology into the institutional behavior of IFIs. Collectively, these propositions establish the theoretical pathway through which divine ontology shapes Islamic economic behavior, institutional governance and organizational legitimacy. They also provide a conceptual explanation for the contemporary conventionalization of Islamic finance by identifying the points at which institutional practice may diverge from its ontological foundations.

Proposition 1. Ontological Foundation

The first proposition establishes that Qur'anic teleology provides the foundational basis for Islamic economic behavior. The Qur'an defines the purpose of human existence through the concepts of worship ('ibadah, Qur'an 51:56), vicegerency (khalifah, Qur'an 2:30) and moral trial (ibtilla', Qur'an 67:2) fundamental to determining appropriate human behavior regarding all aspects of life including economic transactions. This perspective transforms economic conduct into act of worship according to which



maximization of autonomous self-interest is replaced with moral responsibility guided by divine purpose. Consequently, eternal spiritual objectives become the primary reference point for economic decision-making consistent with the works of Chapra (2000); Mawdudi (2013).

Proposition 2. Tawhid Integration

The second proposition posits that Tawhid removes separation between religion and economics by integrating all human activity within a unified God-centered worldview. Principle of Tawhid (the oneness of God) provides comprehensive understanding of human purpose that systematically eliminates the sacred-secular dualism commonly assumed in Western economic paradigms by integrating spiritual consciousness (taqwa) with material economic activity. This integration is operationalized through comprehensive guidance of Shari'ah which includes 'aqidah (belief), 'ibadat (worship) and mu'amalat (transactions) (Chapra, 2008; Khan, 1984). Accordingly, Tawhid provides single ideological reference point that governs all dimensions of human behavior.

Proposition 3. Muslim Life-System Manifestation

The third proposition argues that Islamic life-system translates Tawhid-based ontology into observable economic behaviour. The Muslim life-system integrates spiritual regulation through taqwa, social cohesion through ummah consciousness and economic responsibility through amanah (trusteeship) as emphasized in Islamic economic ethics. This integrated framework operationalizes Tawhid ideology through observable behavioral patterns across all dimensions of life. It naturally generates khalifah-based economic principles without reliance on external regulatory enforcement. These characteristics reflect themes in ontological perspectives of Chapra (2008); Khan (1984) together with the Shari'ah-based discussions on Islamic economic behavior presented by al-Qaradawi and Chapra (2008). Consequently, the Islamic life-system functions as behavioral mechanism through which ontology is translated into economic practice.

Proposition 4. Khalifah Economics Operationalization

The fourth proposition proposes that Islamic financial instruments constitute the institutional manifestation of the khalifah mandate. Islamic financial instruments including murabah, musharakah and redistributive mechanisms such as zakah and waqf constitute operational expression of khalifah vicegerency mandate. This understanding draws on ontological accounts of khalifah and amanah in (Chapra, 2008). These mechanisms embody core principles of Islamic finance including asset-backing (mal mutaqqawwam), risk-sharing solidarity and the trusteeship-based circulation of wealth as discussed by Laldin and Furqani (2013a); Usmani (2002). This structure contrasts fundamentally with conventional finance, which is characterized by debt-based risk transfer and wealth accumulation dynamics.

Proposition 5. Maqasid-Based Evaluation

The fifth proposition establishes Maqasid al-Shari'ah as normative framework for evaluating ontological alignment of economic behavior. Daruriyyat hierarchy of Maqasid al-Shari'ah provides theoretical evaluative framework for assessing ontological alignment in human and economic behavior. This framework systematically ensures preservation of five essential values: faith (hifz al-din), life (hifz al-nafs), intellect (hifz al-aql), progeny (hifz al-nasl) and wealth (hifz al-mal). It thereby prioritizes spiritual integrity and collective welfare over material accumulation and individual profit maximization. In doing so, it addresses limitations of contemporary maqasid applications identified in Section 2.3 by reconnecting institutional evaluation to higher ontological objectives of Islamic economics. This understanding is consistent with Maqasid-based accounts of Dusuki (2008); Laldin and Furqani (2013a).

Proposition 6. Shari'ah Governance Institutionalization

The sixth proposition argues that Shari'ah Governance Framework (SGF) translates ontology-derived expectations into institutional governance mechanisms. Independent fatwa processes, internal Shari'ah review, Shari'ah audit and transparent disclosure collectively operationalize behavioral expectations derived from Islamic ontology. These governance mechanisms seek to preserve asset-backing integrity, encourage risk-sharing structures, ensure effective zakah administration and enhance institutional accountability. Consequently, SGF provides institutional bridge through which ontological principles are translated into observable organizational practices.



Proposition 7. Normative Performance Criterion

The seventh proposition redefines legitimacy and success of IFIs in terms of their alignment with divine objectives rather than conventional measures of financial performance. Within this framework, true economic success is reflected in clear preference for risk-sharing structures rather than risk-transfer mechanisms. It further prioritizes wealth circulation over accumulation and Maqāsid al-Sharī'ah preservation over shareholder value maximization. This perspective broadens the evaluation of institutional performance by positioning alignment with divine

4.2 Theoretical Gap Analysis: Expected vs. Actual

The presented Ontological Cascade Framework offers coherent way of thinking about how Islamic finance should operate in practice. While contemporary IFIs frequently fall short of these ideal principles, this does not mean that theory and practice are in complete conflict. Rather, it points to ongoing tensions between normative principles and practical institutional constraints. The framework presented by this study can be utilized for systematic comparison between theoretical expectations and actual practice. It may facilitate identifying areas where alignment may be partial or evolving.

Table 1

Ontological Expectations vs. Institutional Reality

Cascade Stage	Ontology-Derived Expectation	Observed IFI Practice	Nature of Divergence
Khalifah Economics	Emphasis on risk-sharing modes	Predominance of debt-based instruments (e.g., murābahah)	Shift toward risk-transfer structures
Wealth Circulation	Integration of zakat & social finance	Limited operational integration	Weak redistribution mechanisms
Asset-Backing	Strong linkage to real economic activity	Use of structured or synthetic products	Reduced connections to real sector
Taqwā Regulation	Ethical self-regulation	Procedural compliance emphasis	Formalization of ethics
Ummah Orientation	Social welfare prioritization	Profitability-driven models	Market-oriented behavior
Sharī'ah Governance	Independent oversight	Institutional and managerial influence	Governance constraints
Maqāsid Prioritization	Holistic socio-economic objectives	Focus on financial performance	Narrow interpretation of objectives

Table 1 presents comparison highlighting several patterns First, widespread utilization of debtlike instruments, particularly murābahah, suggesting that IFIs have diverged from the ideal risksharing instruments emphasized in Islamic economic theory. It is well established that these instruments are Sharī'ah-compliant in form, but their dominance has raised questions about the extent to which they reflect the spirit of Islamic finance (Chapra, 2008; El-Gamal, 2006; Khan, 2010; Siddiqi, 2006). Organized tawarruq and similar synthetic financial products are structured in a way that, in theory, avoids the Islamic requirement of real risk-sharing. Although they are presented as Sharī'ah-compliant contracts, they effectively allow financial institutions to transfer risk in the same manner as conventional interest-based finance (Siddiqi, 2007).

2nd, there is limited integration of redistributive mechanisms such as zakat and waqf within core banking operations, which indicates a partial realization of the wealth circulation principle. This gap is consistent with the Maqasid-based framework of (Laldin & Furqani, 2013a). It has also been further documented in recent studies related to Islamic social finance integration (Ikhsan et al., 2026; Maulina et al., 2023; Shifah et al., 2026). Third, the dependence of Islamic Financial Institutions (IFIs) on the same measurement tools as conventional banks, combined with market pressures, leads them to become more like conventional finance in terms of structure and behavior. This trend potentially constrains the distinctiveness of Islamic finance (Askari et al., 2014; 2007). Collectively these pattern reflects a clear divergence between



the ideal vision of Islamic finance, and what Islamic financial institutions do in practice. This divergence should not be seen as simply “Islamic finance is either true or fake.” Instead, it is better understood as a range meaning that some institutions are more aligned with theoretical vision, some are less, and many are in between. This range is shaped by their regulatory environment, market pressure and competition, and how they design and manage their products and operations.

4.3 Theoretical Contributions

Ontological Cascade Framework developed by this study contributes to literature in several; significant ways. It establishes that Islam provides cohesive and comprehensive economic model rather than a set of disconnected rules. This unified framework directly connects divine Qur’anic revelations to the everyday operations of practical real-world institutions. This framework addresses key gap in literature where these domains are often treated separately. The proposed framework establishes normative performance standards derived from Islamic worldview encompassing principles such as risk sharing, equitable wealth circulation and spiritual integrity enabling IFIs evaluation through broader set of criteria than conventional financial performance metrics currently dominating the field. This redefines success for IFI by promulgating measurement of IFI success on the extent of follow up of Islamic principles rather than market competitiveness, thereby resolving identity crises issue. Additionally, the framework provides systematic approach through which divergence between theory and practice can be identified and analyzed. It helps explain reason for increasing convergence of Islamic finance with conventional finance. This theoretical framework facilitate identification of stages at which translation of Islamic ideological principles into institutional practice becomes weakened across ontological cascade.

Furthermore, this study advances conceptualization of khalifah-based economic system by presenting it as a coherent and integrated framework founded on principles of risk sharing, social responsibility and ethical accountability. It translates these foundational principles into structured conceptual models that can serve as a practical guide for genuinely IFIs and practices development. Thus, it distinguishes authentic Islamic economic system from conventional financial models merely achieving formal Shari’ah compliance. By offering comprehensive theoretical foundation for product development, governance reform and regulatory standardization, it contributes to ongoing scholarly debates on conceptual foundations and practical realization of Islamic economics.

4.4 Theoretical Cascade Validation Logic

Two-way evaluation process is utilized to establish the internal consistency of the framework. From the forward-looking perspective, each stage of the cascade follows logically from the one that precedes it creating a logical flow from ontology to institutional practice. The divine purpose requires the actualization of an Islamic ideology, which is then translated into a complete life-system. This life-system necessitates economic operationalization through specific rules and practices, which should be assessed in the light of maqāṣid Shari’ah. Finally, this evaluation requires institutionalized governance structures to ensure that economic practices remain aligned with these higher objectives (Chapra, 2008; Khan, 1984; Laldin & Furqani, 2013a). Viewed in reverse, when deviations are observed in institutional practice, they indicate a misalignment with preceding stages of the framework. This dual perspective enhances the explanatory power of the framework through the linkage of theoretical foundations and empirical evidence. The framework suggests that contemporary challenges facing Islamic finance may be better understood as issues of alignment and implementation than as deficiencies in its underlying theoretical foundations.

5. Discussion & Implications

5.1 Theoretical Paradigm Shift

This paper has highlighted that Islamic finance issues and challenges about its existence in deeper sense. Does Islamic finance represent the conventional finance with the removal of few rules, (no interest, no gambling, etc.)? or does it have conceptual differences which are rooted in Islamic ontology (the nature of being, reality, knowledge, and values under Tawhīd)? This conception is not discussed in literature. To remove this ambiguity, this paper proposed a theoretical framework named Ontological cascade framework. This framework builds Islamic finance from its ontological foundations upward, rather than starting from



conventional finance and adjusting in it. The current mainstream Islamic finance research often compares Islamic products with conventional products and identifies the similarities, differences, and Shari'ah-compliant status. This research paper replaces it with the framework that start from Islamic ontology (what exists, what is real, what is knowledge, what is value under Tawhīd). From that, reconstruct what finance should look like in an Islamic world, then see how actual products fit (or fail to fit) that reconstruction. Many research scholars and practitioners implicitly treat Islamic finance as conventional finance with the addition of some negative rules (no ribā, no gharar, no haram industries, etc.). As a result, the structure, logic, and goals of Islamic finance remain similar to conventional finance which leads to only certain transactions that gets filtered for compliance.

The present study's framework claims that Islamic Finance is not just imitation of conventional Finance, rather it is diverse and unique, for instance in ontological context real economic value, legitimacy, risk assessment, property evaluation and trustability have unique distinction. Likewise, its epistemological context is also different, referring to how to consider what is valid in nature. In addition, axiology distinguishes it based on good vs bad economic terms. Therefore, this framework suggests reconstructing this from the foundational principles instead of superficial adjustments for legal Shari'ah compliance. It also opposes the conventional banking parameters of profitability like ROE and NIM. Consequently, Islamic finance must be reflection of Qur'anic principles like 'ibadah, khalifah, and ibtila emphasizing legitimacy as divine phenomenon rather market determined competitiveness. This perspective is aligned with Weberian paradigm which argues that religion is not only source of belief system, but it also plays pivotal role in shaping economic behavior. Additionally, contrarily to profit-maximizing, Tawhid perspective of Islamic Finance focuses risk-sharing orientation, wealthy circulation and ethical conduct. (Chapra, 2008). Therefore, success of IFIs is dependent on reshaping and aligning conventional financial metrics to Islamic ontological principles as manifested in organizational practices, governance mechanisms, and socio-economic impact.

5.2 Practical Implications for Stakeholders (Regulatory, Governance, Institutional)

The study offers several practical implications from regulatory, governance and institutional perspective. The Central banks and financial authorities should consider reorienting supervisory frameworks toward ontology-informed performance standards. This includes Maqasid al Shari'ah aligned reporting, which involves disclosures on the composition of risk-sharing, utilization of zakat, and asset-backed authenticity in addition to conventional financial information. Enhancement of SFG by strengthening the independence requirement of SSB and governance mechanisms that are aligned with khalifah principles. Reconsideration of excessive reliance on structured products such as tawarruq and benchmark-linked murābahah.

Shari'ah advisory board should move beyond a narrow focus on procedural compliance and instead adopt a broader, ontology-based evaluation of Islamic financial products. This involves prioritizing the fatwas that promote risk-sharing structures such as mudārabah and mushārahah over debt-based instruments. It should develop new evaluation methods that consider khilāfah-based economic ethics (stewardship, justice, welfare) alongside technical compliance. Invest in training its members in the higher objectives of Shari'ah (maqāsid) and the purposive reading of Qur'anic economic guidance, which will enable them to issue guidance that aligns financial practice with the deeper ontological aims of Islamic economics. IFIs/IBIs may gradually internalize cascade ontology into their operations. This includes rebuilding their portfolios to favor genuine risk-sharing contracts. IFIs should explore integrating Zakat and waqf into their core business models through structured social finance. They should reduce their reliance on conventional interest-based benchmarks for pricing and performance. IFIs should develop valuation methods that are tied to real assets and their economic roles, rather than to interestbased models.

5.3 Contributions to Islamic Economics Scholarship

The framework presented in this study contributes to Islamic economics literature in four keyways. First, this study proposes a structured derivation of Islamic economics from Qur'anic teleology and does not compare Islamic finance with conventional finance or attempts to include general ethical rules. Second, it conceptualizes religion and Islamic ideology as a possible causal mechanism that influence economic behaviors and suggests that they can be empirically examined through institutional behavior indicators. Third,



the study provides a tool for identifying divergence in IFI practices by comparing the expected-actual practice gap. Fourth, it reframes legitimacy by shifting performance evaluation from profitability metrics to maqāsid-aligned outcomes.

5.4 Future Research Agenda (Empirical and Extension Pathways)

Future research may extend this framework in several directions. First empirical studies may involve cascade-based regression models examining the relationships among ontological perceptions, governance frameworks, and Maqāsid performance across jurisdictions. Secondly, cross-country comparisons of SGF strength and maqāsid outcomes may be conducted. Thirdly, future research may engage in longitudinal analysis for evaluating the levels of dependence of IFIs on murābahah and other debt-like instruments or have they move towards more genuine risk-sharing contracts. This evaluation would provide insight regarding whether the Islamic finance sector is evolving closer to or further from its ideal, ontology-based model. Future studies may also extend the application of this framework to broader domains such as Islamic social finance mechanisms such as zakat, waqf, and micro-takaful. The framework may be applied to emerging areas such as fintech-based Shari'ah compliance through blockchain and smart contract models. Additionally, comparative religion-economics research for exploring the relevance of the underlying logic of this framework across other ethical and faith-based economic systems may be conducted.

5.5 Methodological Limitations & Boundary Conditions

The development of the framework is purely theoretical and requires empirical validation. The empirical validation can be attained through qualitative and quantitative methods including interviews of Islamic finance practitioners, survey's for assessing stakeholder's perception, and portfolio analysis for evaluating the extent to which risk-sharing and asset-backing principles are implemented in practice. The proposed model is based on Islamic world view, which limits its direct generalizability. However, the cascade logic provided in this framework may be adaptable to other religious-economic systems with appropriate modifications. The proposed framework primarily focuses on the Islamic banking institutions, with limited direct applicability to capital markets or sovereign instruments.

5.6 Implications for Islamic Finance Trajectory

Contemporary Islamic finance is at a critical point where it faces a strategic choice between procedural compliance or restructuring itself according to true Islamic principles and purpose. The proposed framework suggests two theoretical paths. The first path involves relying heavily on procedural compliance that results in continuous reliance on debt-based structures such as murābahah, benchmark dependency, convergence with conventional finance, and a loss of distinctiveness. The second path involves greater alignment with Islamic foundations that will result in increased risk-sharing, real-asset linkage, prioritization of Maqāsid, and stewardship-based economic identity. Scholars have long emphasized that Islamic economics must be grounded in a distinct worldview and methodological foundation rather than treated as an ad hoc ethical modification of conventional economics (Siddiqi, 1981). Contemporary researchers argue that the performance evaluation of IFI should not be performed solely from the perspective of conventional measures. They promote that it should be evaluated from the perspective of Shari'ah compliance and Maqāsid achievements (Ammar, 2023; Okumus, 2024). Based on these arguments, the present study posits that IFIs should orient towards Islamic foundations and Maqāsid, which would help them preserve a clear distinction between Islamic finance and conventional financial practice. It will also prevent Islamic finance from becoming merely a Shari'ah-labelled variant of conventional practice. This implies that the extent to which IFIs incorporate Islamic worldview-based concepts into governance and operational frameworks will determine the future course of Islamic finance.

6. Conclusion

Islamic finance has achieved remarkable institutional growth over the past few decades. However, there remain persistent question as to whether its contemporary practice is adequately aligned with its foundational principles. The Islamic finance industry is continuously predominated by the debt-based instruments, limited involvement in risk sharing arrangements, and widespread reliance in conventional performance measures. These issues have raised a reasonable concern among Islamic finance scholarship that



whether IFIs truly reflect the distinct economic paradigm promulgated by the Islamic worldview or are merely Sharī'ah-compliant adaptations of conventional finance (El-Gamal, 2006). This study argues that Islamic finance should not be view as the modification in conventional finance by correcting negative elements prohibition of ribā, gharar, and other prohibited elements. The study proposed Ontological Cascade Framework that reconstructs Islamic finance from its own ontological foundations. It begins with discussing the Qur'anic purposes of creation, demonstrating how these foundational principles progressively shape a Tawhīdī worldview, an integrated Muslim life-system, Khalīfah-based economic principles, the evaluative criteria of Maqāsid al-Sharī'ah, and ultimately the institutional architecture of Sharī'ah governance. The framework further provides an alternative explanation for the conventionalization of Islamic finance. It does not explain contemporary financial practices only it terms of regulatory constraints, competitive pressures, or product innovation. Throughout the framework, it is discussed that institutional divergence occurs when alignment with underlying Islamic ontological foundations gradually weakens. The framework suggests that despite maintaining formal Sharī'ah compliance, objectives and structures of Islamic finance are becoming increasingly similar to conventional financial system due to weakening of connection between the foundational Islamic principles and institutional practice (El-Gamal, 2006).

Author's Contributions

All authors participated in ideation, development, and writing the manuscript. All authors read and approved the final manuscript.

Conflict of Interest Statement

The authors declare that there is no conflict of interest regarding the publication of this article.

Funding Statement

The authors did not receive financial support from any funding agency or external organization for the research, authorship, or publication of this article.

Informed Consent

Informed consent was obtained from all participants prior to data collection. Participants were informed about the purpose of the study, the voluntary nature of their participation, and their right to withdraw at any time without any consequences. The confidentiality and anonymity of respondents were guaranteed throughout the research process.

Data Availability

The datasets generated and analysed during the current study are available from the corresponding author upon reasonable request. The authors are committed to transparency and will provide detailed methodological information and analysis protocols upon request.

References

- Abbasi, A. S. (2020). Shariah governance framework for Islamic banking institutions (IBIS): A critical analysis. *Islamic Banking and Finance Review*, 7, 01–18. <https://doi.org/10.32350/ibfr.2020.07.01>
- Al-Ghazālī, A. H. M. (1993). *Revival of Religious Learnings: Imam Ghazzali's Ihya Ulum-id-Din* (Vol. 3). Darul-Ishaat.
- al-Qaraḍāwī, Y. (2024). *The role of values and ethics in Islamic economy*. Cairo: Maktabi Wahba. (I. R. M. Centre, Trans.). International Sharī'ah Research Academy for Islamic Finance (ISRA) Research Management Centre: An imprint of INCEIF University.
- al-Ṣadr, M. B. (1982). *Iqtisaduna (Our economics)*.
- Alam, M. K., Rahman, S. A., Mustafa, H., Shah, S. M., & Hossain, M. S. (2019). Shariah governance framework of Islamic banks in Bangladesh: Practices, problems and recommendations. *Asian Economic and Financial Review*, 9(1), 118–132. <https://doi.org/10.18488/journal.aefr.2019.91.118.132>
- Alamad, S., Hidayah, N. N., & Lowe, A. (2021). A shared boundary object: Financial innovation and engineering in Islamic financial institutions. *The British Accounting Review*, 53(3). <https://doi.org/10.1016/j.bar.2020.100958>



- Ali, A. J., & Al-Owaidan, A. (2008). Islamic work ethic: A critical review. *Cross Cultural Management: An International Journal*, 15(1), 5–19.
- Alnofli, A., & Ali, E. R. A. E. (2019). Perceptions on Shariah Governance Framework of Islamic Banking In Oman: Issues and Challenges: قضايا وتحديات: التصورات حول إطار الحوكمة الشرعية للصيرفة الإسلامية في عمان. *International Journal of Fiqh and Usul al-Fiqh Studies*, 3(2), 106–121.
- Ammar, A. (2023). Performance assessment of Islamic banks in the light of maqasid al-shariah: A global evidence. *International Journal of Islamic Banking and Finance Research*, 11(2), 20–31. <https://doi.org/10.46281/ijibfr.v11i2.2124>
- Askari, H., Iqbal, Z., & Mirakhor, A. (2010). *Globalization and Islamic finance: Convergence, prospects and challenges*. John Wiley & Sons Asia.
- Askari, H., Iqbal, Z., & Mirakhor, A. (2014). Benchmarking Islamic Finance-Enabling Policies. In *Challenges in Economic and Financial Policy Formulation: An Islamic Perspective* (pp. 199–231). Palgrave Macmillan US.
- Asutay, M. (2007a). Conceptualisation of the second best solution in overcoming the social failure of Islamic banking and finance: Examining the overpowering of homoislamicus by homoeconomicus. *International Journal of Economics, Management and Accounting*, 15(2).
- Asutay, M. (2007b). A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System. *Kyoto Bulletin of Islamic Area Studies*, 1(2), 3–18.
- Asutay, M. (2012). Conceptualising and locating the social failure of Islamic finance: Aspirations of Islamic moral economy vs the realities of Islamic finance. *Asian and African Area Studies*, 11(2), 93–113.
- Auda, J. (2008a). *Maqasid al-Shariah as philosophy of Islamic law: A systems approach*. International Institute of Islamic Thought (IIIT). <https://doi.org/10.2307/j.ctvk67tg>
- Auda, J. (2008b). *Maqasid al-shariah: A beginner's guide* (Vol. 14). International Institute of Islamic Thought (IIIT).
- Balooshi, S. A. (2020). *Islamic Banks Product Mix*.
- Beck, T., Demirgüç-Kunt, A., & Merrouche, O. (2013). Islamic vs. conventional banking: Business model, efficiency and stability. *Journal of Banking & Finance*, 37(2), 433–447. <https://doi.org/10.1016/j.jbankfin.2012.09.016>
- Beekun, R. I. (2006). *Islamic business ethics*. International Institute of Islamic Thought (IIIT).
- Boudawara, Y., Toumi, K., Wannes, A., & Hussainey, K. (2023). Sharī'ah governance quality and environmental, social and governance performance in Islamic banks: A cross-country evidence. *Journal of Applied Accounting Research*.
- Chapra, M. U. (1992). *Islam and the economic challenge*. International Institute of Islamic Thought (IIIT).
- Chapra, M. U. (2000). *The future of economics: An Islamic perspective*. The Islamic Foundation.
- Chapra, M. U. (2008). *The Islamic vision of development in the light of Maqāsid al-sharī'ah occasional papers series 15*.
- Chong, B. S., & Liu, M.-H. (2009). Islamic banking: interest-free or interest-based? *Pacific-Basin Finance Journal*, 17(1), 125–144.
- Choudhury, M. A. (2018). The ontological law of Tawhid contra 'Sharī'ah-compliance' in Islamic portfolio finance. *International Journal of Law and Management*, 60(2), 413–434. <https://doi.org/10.1108/IJLMA-01-2017-0001>
- Dusuki, A. W. (2008). Understanding the objectives of Islamic banking: A survey of stakeholders' perspectives. *International Journal of Islamic and Middle Eastern Finance and Management*, 1(2), 132–148. <https://doi.org/10.1108/17538390810880982>
- Dusuki, A. W., & Abdullah, N. I. (2007). Maqasid al-shari'ah, maslahah, and corporate social responsibility. *American Journal of Islamic Social Sciences*, 24(1), 25–45. <https://doi.org/10.35632/ajiss.v24i1.415>
- Dusuki, A. W., & Abozaid, A. (2007). A critical appraisal on the challenges of realizing maqasid al-shariah in Islamic banking and finance. *IIUM Journal of Economics and Management*, 15(2), 143–165.



- Dusuki, A. W., & Bouheraoua, S. (2011). The framework of Maqasid al-Shari'ah and its implication for Islamic finance. *ICR Journal*, 2(2), 316–336.
- El-Gamal, M. A. (2006). *Islamic Finance: Law, Economics, and Practice*. Cambridge University Press.
- Farooq, M. O. (2014). Islamic Interbank Benchmark Rate (IIBR). *Journal of Islamic Business & Management*, 4(2), 155–158.
- Faruqi, I. i. R. a. (1982). *Al-Tawhid: Its implications for thought and life*.
- Fatmawati, D., Ariffin, N. M., Abidin, N. H. Z., & Osman, A. Z. (2022). Shariah governance in Islamic banks: Practices, practitioners and praxis. *Global Finance Journal*, 51. <https://doi.org/10.1016/j.gfj.2020.100555>
- Furqani, H., & Haneef, M. A. (2015). Methodology of Islamic economics: Typology of current practices, evaluation and way forward. In *Islamic economics: theory, policy and social justice*. Bloomsbury Qatar Foundation.
- Hamour, M., Shakil, M. H., Akinlaso, I. M., & Tasnia, M. (2019). Contemporary issues of form and substance: an Islamic law perspective. *ISRA International Journal of Islamic Finance*, 11(1), 124–136. <https://doi.org/10.1108/IJIF-01-2018-0006>
- Haneef, M. A., & Furqani, a. H. (2011). Methodology of Islamic economics: Overview of present state and future direction. *International Journal of Economics, Management & Accounting*, 19(1), 1–26. <https://doi.org/10.31436/ijema.v19i1.175>
- Haridan, N. M., Hassan, A. F. S., & Karbhari, Y. (2018). Governance, religious assurance and Islamic banks: Do Shariah boards effectively serve? *Journal of Management and Governance*, 22(4), 1015–1043. <https://doi.org/10.1007/s10997-018-9418-8>
- Hassan, M. K., & Lewis, M. K. (2007). *Handbook of Islamic banking*. Edward Elgar Publishing Limited.
- Hidayah, N. N., Lowe, A., & Loo, I. D. (2021). Identity drift: the multivocality of ethical identity in Islamic financial institution. *Journal of Business Ethics*, 171(3), 475–494. <https://doi.org/10.1007/s10551-020-04448-x>
- Ibrahim, S. H. B. M., Wirman, A., Alrazi, B., Nor, M. N. B. M., & Pramono, S. (2004). Alternative disclosure and performance measures for Islamic banks. In *Second Conference on Administrative Sciences: Meeting the Challenges of the Globalization Age*, Dhahran, Saudi Arabia.
- IFSB. (2009). *Guiding principles on shari'ah governance system for institutions offering islamic financial services* (Vol. 10). Islamic Financial Service Board.
- IFSB. (2025). *IFSI Stability Report 2025*. <https://www.ifsb.org/wp-content/uploads/2025/05/IFSI-Stability-Report-2025.pdf>
- Ikhsan, A., Sartono, M. L., & Husain, M. K. (2026). Zakat and Waqf in the Era of Capitalism: Reconstructing the Paradigm of Economic Justice within the Modern Financial System. *Asian Journal of Muslim Philanthropy and Citizen Engagement*, 2(1), 25–48.
- Iqbal, M., & Molyneux, P. (2005). *Thirty years of Islamic banking: History, performance and prospects*. Palgrave Macmillan.
- Iqbal, Z., & Mirakhor, A. (2011). *An Introduction to Islamic Finance: Theory and practice*. John Wiley & Sons (Asia) Pte. Ltd.
- Kader, R. A., & Yap, K. L. (2008). *The impact of interest rate changes on Islamic bank financing*.
- Kahf, M. (1978). *The Islamic Economy: Analytical Study of the functioning of the Islamic Economic System*. Muslim Students Association of US and Canada.
- Khan, F. (2010). How 'Islamic' is Islamic Banking? *Journal of Economic Behavior & Organization*, 76, 805–820. <https://doi.org/10.1016/j.jebo.2010.09.015>
- Khan, M. A. (1984). Islamic economics: Nature and need. *Journal of King Abdulaziz University: Islamic Economics*, 1(2), 51–55.
- Khan, M. M. A., Ismail, M., & Madni, A. (2024). The challenges of zakat distribution in modern Islamic finance: Policy recommendations for efficiency. *Al-Aasar*, 1(4), 1–13.



- Kuran, T. (1995). Islamic economics and the Islamic subeconomy. *Journal of Economic Perspectives*, 9(4), 155–173.
- Laldin, M. A., & Furqani, H. (2013a). Developing Islamic finance in the framework of maqasid al-Shari'ah: Understanding the ends (maqasid) and the means (wasa'il). *International Journal of Islamic and Middle Eastern Finance and Management*, 6(4), 278–289. <https://doi.org/10.1108/IMEFM-05-2013-0057>
- Laldin, M. A., & Furqani, H. (2013b). The Foundations of Islamic Finance and The Maqasid al-Shari'ah Requirements. *Journal of Islamic Finance*, 2(1), 031–037.
- LSEG, & ICD. (2025). 2025 Islamic Finance Development Indicator (IFDI) report. <https://icd-ps.org/en/news/lseg-and-icd-announce-findings-of-the-2025-islamic-finance-development-indicator-report-global-islami>
- Maulina, R., Dhewanto, W., & Fatuorhman, T. (2023). The integration of Islamic social and commercial finance (IISCF): Systematic literature review, bibliometric analysis, conceptual framework, and future research opportunities. *Heliyon*, 9(11). <https://doi.org/10.1016/j.heliyon.2023.e21612>
- Mawdūdī, S. A. (1981). *Towards understanding Islam* (K. Ahmad, Trans.). The Islamic Foundation.
- Mawdudi, S. A. A. I. (1982). *Towards Understanding Islam*. The Islamic Foundation.
- Mawdudi, S. A. A. I. (2013). *First principles of Islamic economics*. Kube Publishing Ltd.
- Minaryanti, A. A., & Mihajat, M. I. S. (2023). A systematic literature review on the role of sharia governance in improving financial performance in sharia banking. *Journal of Islamic Accounting and Business Research*.
- Mohammed, M. O., Razak, D. A., & Taib, F. M. (2008, 25 June 2008). *The performance measurement of Islamic banking based on the maqasid framework*. IIUM International Accounting Conference, Putra Jaya Marroitt.
- Mohammed, M. O., & Taib, F. M. (2015). Developing Islamic banking performance measures based on Maqasid al-shari'ah framework: cases of 24 selected banks. *Journal of Islamic Monetary Economics and Finance (JIMF)*, 1(1), 55–77.
- Mohammed, M. O., Tarique, K. M., & Islam, R. (2015). Measuring the performance of Islamic banks using maqāsid-based model. *Intellectual Discourse*, 23.
- Monira, N. A., Arup, A. D., & Rainak, M. (2024). Maqasid al-shari'ah and corporate governance in Islamic finance: Integrating ESG principles for sustainable development. *International Journal of Shari'ah and Corporate Governance Research*, 7(1). <https://doi.org/10.46281/ijscgr.v7i1.2773>
- Naqvi, S. N. H. (1981). *Ethics and economics: An Islamic synthesis*. Islamic Foundation.
- Naqvi, S. N. H. (2013). *Islam, economics, and society (RLE politics of Islam)*. Routledge.
- Okumus, H. S. a. (2024). Performance assessment of participation banks based on Maqasid al-Shari'ah framework: Evidence from Türkiye. *Borsa Istanbul Review*, 24, 806–817. <https://doi.org/10.1016/j.bir.2024.04.011>
- Redzuan, N. H., & Kassim, S. (2015). *Empirical analysis of alternative pricing benchmarks for Islamic home financing product*. 9th International Conference Journal of Monetary Economics and Banking, Jakarta Indonesia.
- Rosly, S. A. (2005). *Critical issues on Islamic banking and financial markets: Islamic economics, banking and finance, investments, Takaful and financial planning*. Dinamas Publishing.
- Seho, M., Alaabed, A., & Masih, A. M. M. (2016). Risk-sharing financing of Islamic banks: better shielded against interest rate risk? *The Journal of Muamalat and Islamic Finance Research*, 13(2), 53–70.
- Shifah, L., Sugianto, Mutmainah, S., Akbar, I., & Saputra, D. R. (2026). Islamic Economics and Social Justice: Zakat, Waqf, and Poverty Alleviation. *Indonesian Journal of Sharia and Islamic Sciences*, 1(1), 10–18.
- Siddiqi, M. N. (1981). *Muslim economic thinking: A survey of contemporary literature*. International Centre for Research in Islamic Economics, King Abdul Aziz University Islamic Foundation.



- Siddiqi, M. N. (2006). Islamic banking and finance in theory and practice: A survey of state of the art. *Islamic Economic Studies*, 13(2).
- Siddiqi, M. N. (2007). Economics of tawarruq: How its mafasid overwhelm the masalih. In *Tawarruq Seminar organised by the Harvard Islamic Finance Programme*, at London School of Economics, London, UK (Vol. 1).
- Sueb, M., Prasojo, Muhfiatun, Syarifah, L., & Putra, R. N. A. (2022). The effect of shariah board characteristics, risk-taking, and maqasid shariah on an Islamic bank's performance. *Banks and Bank Systems*, 17(3), 89–101. [https://doi.org/10.21511/bbs.17\(3\).2022.08](https://doi.org/10.21511/bbs.17(3).2022.08)
- Tashkandi, A. A. (2023). Shariah supervision and corporate governance effects on Islamic banks' performance: Evidence from the GCC countries. *Journal of Business and Socioeconomic Development*, 3(3), 253–264. <https://doi.org/10.1108/JBSED-02-2022-0024>
- Uddin, M. A. (2015). *Governance from Islamic Economic Perspective: A Shari'ah Governance Framework*.
- Usmani, M. T. (2002). *An introduction to Islamic finance*.
- Waheedh, F. R., & Hamid, B. A. (2023). Overcoming implementation challenges for shariah governance in the Maldives. *International Journal of Islamic Economics and Finance Research*, 1, 63–77. <https://doi.org/10.53840/ijiefer113>

