

# Analysis of Maqashid Shariah Implementation in the Financial Performance of Islamic Rural Banks (BPRS) in Indonesia

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## Abstract

This study examines the application of Maqashid Shariah within the financial performance framework of Islamic Rural Banks (BPRS) in Indonesia by evaluating the extent to which profitability, operational efficiency, liquidity management, and credit risk influence Maqashid Shariah outcomes. Using panel data from 2015–2024 and employing the EViews regression approach, the research integrates both financial indicators and the Maqashid Shariah Index to measure the alignment of BPRS operations with the objectives of Shariah, including the preservation of wealth, promotion of justice, development of human capability, and enhancement of social welfare. The findings show that profitability significantly improves Maqashid Shariah performance, demonstrating that financial strength enables banks to invest more extensively in welfare-oriented initiatives. Liquidity efficiency, measured through Financing to Deposit Ratio (FDR), also displays a positive influence, indicating that productive financing contributes to community empowerment and financial inclusion. Conversely, operational inefficiency and high non-performing financing reduce the bank's ability to deliver Shariah-driven outcomes, reflecting the importance of cost management and risk governance. Overall, the results highlight that financial sustainability and Maqashid Shariah are mutually reinforcing rather than competing objectives. The study underscores the need for BPRS to strengthen governance, improve risk management, and adopt strategic innovations to optimize their contribution to ethical and welfare-driven economic development. The findings have implications for policymakers, regulators, and practitioners seeking to enhance the role of Islamic rural banks in advancing Shariah-compliant socio-economic transformation.

*Keywords:* Maqashid Shariah, BPRS, financial performance, Islamic banking, welfare outcomes.

## 1. Introduction

The development of Islamic microfinance institutions in Indonesia has grown substantially over the past decade, with Islamic Rural Banks (BPRS) emerging as a key actor in expanding financial inclusion for low-income communities. As institutions mandated to operate based on Sharia principles, BPRS are expected not only to achieve financial viability but also to embody the higher objectives of Islamic law, known as Maqashid Shariah. These objectives emphasize the protection of wealth, the promotion of welfare, and the enhancement of economic justice. Recent studies highlight that Islamic financial institutions adhering to Maqashid-oriented practices tend to generate broader societal benefits and greater ethical alignment than those focusing solely on profit maximization (Dusuki & Abozaid, 2016; Mohammed & Shahwan, 2018; Rahman, 2021). This suggests that BPRS performance assessment should go beyond conventional financial ratios by integrating parameters that reflect the holistic values of Shariah. In the current practice, BPRS performance measurement is still predominantly based on conventional financial indicators such as Return on Assets (ROA), Return on Equity (ROE), Operational Efficiency Ratio (BOPO), Financing to Deposit Ratio (FDR), and Non-Performing Financing (NPF).

While these indicators serve as vital measures of institutional soundness, they do not capture essential Shariah values such as distributive justice, equitable financing, and social empowerment. Research shows that an excessive focus on profitability risks driving Islamic banks toward behaviors similar to conventional banks, thereby weakening their socio-religious identity and distancing them from their developmental mandate (Mohammed & Taib, 2015; Huda & Idris, 2019; Antonio et al., 2020). Consequently, there is a critical need to incorporate Maqashid-based performance

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measures to ensure BPRS fulfill their ethical and welfare-oriented responsibilities. To address this gap, various Shariah-based performance measurement models have been proposed, with the Maqashid Shariah Index (MSI) being one of the most widely applied. The MSI framework incorporates three overarching objectives: educating individuals, promoting justice, and achieving welfare. These pillars reflect core Islamic values that extend beyond financial profit and emphasize long-term societal well-being. For BPRS, the MSI is particularly relevant given their role in serving micro-enterprises, enhancing financial literacy, and fostering socio-economic resilience within rural communities. Empirical findings show that institutions adopting the MSI achieve a more comprehensive alignment between financial outcomes and Shariah objectives (Hamid et al., 2022; Abrar & Hasan, 2023; Mohammed & Taib, 2015), further demonstrating the applicability of this index for evaluating BPRS. Despite its potential, implementing Maqashid Shariah within BPRS is often challenged by structural limitations, including high levels of financing risk, limited capital, and slow technological adoption.

These challenges impede the banks' ability to provide equitable financial services and maintain operational sustainability. Several studies indicate that institutions practicing stronger Shariah-based governance tend to exhibit more prudent financing behavior, lower default levels, and greater alignment with ethical lending practices (Ascarya & Yumanita, 2018; Fauziah & Hassan, 2021; Rahayu et al., 2024). This reinforces the view that Maqashid implementation is not merely normative but can positively influence financial performance and long-term institutional resilience. Furthermore, research focusing specifically on Maqashid Shariah implementation in BPRS remains scarce, as most existing studies focus on large Islamic commercial banks (BUS) or Islamic business units (UUS). The unique characteristics of BPRS—such as their localized operations, micro-segment focus, and personalized financing models—require tailored performance assessments different from larger Islamic banks. Recent studies emphasize the importance of developing adapted measurement tools that better reflect the operational realities of BPRS (Abdullah & Razak, 2020; Putra & Setiawan, 2022; Yuniarti, 2023). The limited scholarly attention in this area reveals a clear research gap, making this study timely and significant for enriching the literature and strengthening the practical framework for evaluating BPRS performance through the lens of Maqashid Shariah. The need for a Maqashid-based evaluation framework becomes even more urgent considering that BPRS operate in a highly competitive environment influenced by regulatory standards, digital transformation, and shifting customer expectations. While financial ratios provide insights into bank efficiency, they do not reveal whether BPRS allocate financing in ways that promote social equity or economic upliftment for underserved groups. Recent empirical literature indicates that Islamic financial institutions with Maqashid-oriented policies tend to distribute financing more inclusively and support productive sectors with higher socio-economic impact (Hameed & Alwi, 2019; Nadzri et al., 2020; Sofyani et al., 2021). This aligns with the fundamental vision of BPRS as institutions designed to stimulate grassroots economic development rather than merely achieving profit benchmarks.

Although previous studies have examined Maqashid Shariah within the context of Islamic banking, the majority of the literature is heavily concentrated on Islamic commercial banks (BUS) and Islamic business units (UUS), creating a substantial research gap concerning Islamic Rural Banks (BPRS), which operate under vastly different structural, demographic, and regulatory conditions. BPRS face unique constraints such as limited capital, localized markets, and higher operational risk, yet research rarely captures how these differences influence their ability to operationalize Maqashid Shariah. Existing studies also frequently adopt generalized Maqashid indices without evaluating whether these indicators appropriately reflect the micro-level realities of rural banking (e.g., customer profiles, loan characteristics, local economic patterns). This lack of methodological adaptation results in an incomplete understanding of how Maqashid Shariah truly manifests within the BPRS ecosystem, thereby leaving a significant empirical void in the literature. Another gap arises from the scarcity of studies integrating financial performance metrics and Maqashid Shariah indicators in a single analytical framework specifically tailored for BPRS. Many prior works evaluate financial ratios in isolation or analyze Maqashid Shariah qualitatively without linking them to measurable financial outcomes. This separation prevents researchers from determining whether institutions that excel financially also succeed in fulfilling their welfare-oriented Shariah mandate. Furthermore, the absence of empirical models that test causal or correlational relationships between these two dimensions limits theoretical advancement in Islamic microfinance. The need for a holistic, data-driven, and BPRS-specific framework is therefore crucial to bridging the disconnect between financial sustainability and Shariah-based value creation in rural Islamic banking.

In addition, the integration of Maqashid Shariah within financial performance assessment can strengthen the transparency and accountability of BPRS. As regulatory bodies intensify monitoring efforts on Shariah compliance and governance quality, institutions that embed Maqashid indicators are better positioned to demonstrate their ethical consistency and commitment to value-based finance. Studies show that stronger Shariah governance, when combined with Maqashid-driven performance mechanisms, enhances stakeholder trust, improves compliance behavior, and

ensures more prudent financing operations (Alam et al., 2019; Rahim & Osman, 2020; Nawaz & Haniffa, 2021). This highlights that Maqashid is not merely a conceptual ideal, but a practical tool for strengthening institutional integrity. Furthermore, the macroeconomic landscape of Indonesia—with its large informal sector, fluctuating MSME productivity, and uneven financial literacy—necessitates a performance system that goes beyond conventional profitability. In such an environment, BPRS have the potential to serve as instruments of financial democratization, narrowing economic gaps and promoting shared prosperity. Research underscores that banks with welfare-oriented frameworks tend to contribute more effectively to sustainable development outcomes, particularly in rural communities where traditional banking infrastructure is limited (Sudarsono & Nugroho, 2020; Karbhari et al., 2021; Kassim, 2022). Therefore, positioning Maqashid Shariah within the BPRS assessment framework becomes increasingly relevant in supporting Indonesia's broader socio-economic goals.

Despite these opportunities, empirical findings also highlight inconsistencies in how BPRS interpret and apply Maqashid Shariah principles. Some institutions may emphasize financial survival due to limited capital, while others may lack technical capacity to measure Maqashid outcomes systematically. These variations create disparities in performance and raise questions about how uniformly Maqashid is embedded across the BPRS sector. Studies reveal that gaps in human resources competency, Shariah supervisory depth, and institutional readiness often hinder holistic Maqashid implementation (Hassan & Aliyu, 2018; Laldin & Furqani, 2019; Salleh et al., 2021). This illustrates the need for standardized measurement tools that adapt to the operational features of BPRS while ensuring consistency with Shariah objectives. Given these challenges, research on harmonizing financial metrics and Maqashid indicators within BPRS is both timely and essential. The limited availability of integrated models specifically tailored for rural Islamic banks underscores a significant academic and practical gap. Moreover, existing studies often focus on aggregated industry-level performance without exploring micro-level variations across individual BPRS units. Scholars in Islamic finance have highlighted the need for multi-dimensional frameworks capable of evaluating both financial efficiency and Shariah-based value creation (Abd. Majid et al., 2022; Said & Saad, 2023; Bahari et al., 2024). Therefore, a study that rigorously examines how Maqashid Shariah principles align with the financial performance of BPRS can provide meaningful contributions to theory, policy, and managerial practice.

Another important consideration is that BPRS play a unique socio-economic role that cannot be captured adequately through standardized financial reporting. Their close engagement with micro-entrepreneurs, informal workers, rural households, and small cooperatives positions them as development-oriented institutions rather than purely commercial entities. Consequently, an evaluation framework that incorporates Maqashid Shariah principles enables scholars and policymakers to examine how BPRS contribute to human dignity, social empowerment, and equitable wealth distribution. Findings in recent literature affirm that Islamic financial organizations adopting welfare-centric performance indicators are more effective in stimulating the resilience of micro-enterprises and fostering community-based economic participation (Ismail & Possumah, 2020; Abubakar & Handayani, 2021; Jaafar et al., 2022). This highlights the necessity of assessing BPRS beyond financial soundness to include their transformative impact on vulnerable groups. At the same time, the rapid expansion of the Shariah finance industry in Indonesia brings increasing expectations for BPRS to demonstrate stronger alignment with national development agendas, including poverty alleviation, MSME strengthening, and inclusive digitalization. In this broader policy landscape, Maqashid Shariah provides a coherent philosophical foundation that bridges religious values with measurable socio-economic objectives. Studies show that integrating Maqashid into institutional performance can strengthen the strategic relevance of Islamic banks by aligning their operations with Sustainable Development Goals (SDGs), especially on reducing inequality and expanding access to finance (Ahmed et al., 2019; Mohamad & Kassim, 2021; Choudhury & Hoque, 2023). Therefore, examining Maqashid implementation in BPRS is crucial not only from a religious perspective but also from a developmental and policy standpoint. Furthermore, technological transformation in the financial sector presents both opportunities and challenges for BPRS in implementing Maqashid-based practices.

The novelty of this study lies in developing an integrated assessment that simultaneously captures financial performance and Maqashid Shariah implementation within the operational context of BPRS, using a methodological structure refined specifically for rural Islamic financial institutions. Unlike previous research that applies generalized frameworks, this study customizes Maqashid indicators to reflect BPRS characteristics such as micro-enterprise financing, community engagement patterns, and localized risk profiles. The study also contributes novel empirical insights by examining whether high-performing BPRS financially are also high-performing in delivering Shariah-compliant socio-economic outcomes. Additionally, the research introduces a more context-sensitive interpretation of Maqashid that aligns with Indonesia's national development priorities, thus offering both theoretical and policy-relevant contributions that have not been addressed in earlier works. Digitalization can enhance transparency, reduce operational costs, and improve access to financial services for rural communities; however, many BPRS still struggle

with limited IT infrastructure and human resource competencies. This gap can hinder their ability to measure social impact, ensure ethical financing, and maintain consistent Shariah compliance. Emerging research indicates that Islamic financial institutions leveraging digital tools show greater capability in embedding Maqashid into daily operations, particularly in customer engagement, risk mitigation, and data-driven welfare assessments (Hassan & Muneeza, 2022; Banna et al., 2023; Laldin et al., 2024). Thus, the level of digital readiness may significantly influence how effectively BPRS can actualize Maqashid principles. In addition, the diversity of BPRS across different regions in Indonesia creates heterogeneity in their operational capacity, governance structure, and market environment. BPRS in urban areas may exhibit stronger financial metrics and adopt more advanced governance practices, while those in remote regions may prioritize community engagement and social impact despite facing greater financial constraints.

This heterogeneity underscores the need for a Maqashid-based evaluation framework that is flexible, context-sensitive, and able to differentiate between institutions pursuing short-term financial gains and those achieving balanced socio-financial outcomes. Recent studies support the idea that regionally adaptive Maqashid measurement tools can offer more accurate insights into institutional performance (Ahmad & Rusdianto, 2020; Hidayat et al., 2021; Siraj & Nugraha, 2024). Therefore, a uniform, conventional performance assessment may obscure crucial differences in how BPRS fulfill their Shariah mandate. Considering these dynamics, there is a pressing research gap concerning how Maqashid Shariah can be systematically integrated into the financial performance assessment of Islamic Rural Banks in Indonesia. Although previous studies have explored Maqashid-based performance evaluations within Islamic commercial banks, limited attention has been given to rural Islamic banks with distinct structural, demographic, and operational characteristics. A comprehensive investigation is needed to determine whether BPRS that perform well financially also succeed in promoting justice, welfare, and empowerment—as envisioned by Maqashid Shariah. Addressing this gap will contribute significantly to Islamic finance literature and provide actionable guidance for regulators and BPRS management to enhance their role in fostering sustainable and inclusive economic growth (Othman et al., 2019; Yusuf & Mulyani, 2022; Baharuddin et al., 2023).

## 2. Literature Review

### 2.1. *Maqashid Shariah Framework in Islamic Finance*

The Maqashid Shariah framework serves as the philosophical foundation of Islamic finance, emphasizing the preservation of essential human interests while guiding ethical financial decision-making. Classical objectives such as the protection of wealth, justice, and public welfare are increasingly translated into institutional policies within Islamic financial institutions. Recent scholarship has highlighted the need to reinterpret maqashid in light of contemporary financial practices, ensuring that Islamic banks remain aligned with both ethical and socio-economic priorities (Auda, 2020; Saad & Ali, 2021). Earlier literature also notes that maqashid provides a robust alternative to conventional financial paradigms by integrating ethical concerns with long-term societal value. In modern Islamic finance, the maqashid framework has evolved from a theoretical construct into a practical guide influencing governance, product design, and institutional strategy. Scholars argue that maqashid encourages financial institutions to avoid exploitative products and adopt mechanisms that foster fairness and transparency. This transformation underscores the role of maqashid as a normative compass ensuring that Islamic financial operations contribute to societal well-being. Studies have shown that institutions applying maqashid principles demonstrate stronger ethical consistency and improved community engagement compared to those focusing solely on financial indicators.

Maqashid has also emerged as an alternative performance assessment framework capable of addressing the limitations of profit-based evaluation. Traditional financial metrics fail to capture whether institutions contribute toward justice, welfare, and empowerment—objectives central to Islamic finance. Several researchers propose that incorporating maqashid into performance measurement helps Islamic financial institutions evaluate their developmental impact more comprehensively (Abdullah & Laldin, 2019). Earlier works similarly emphasize that maqashid-oriented institutions can balance financial stability with social responsibility, thereby strengthening institutional credibility. Beyond performance assessment, the alignment between maqashid and global sustainability principles has drawn significant academic attention. Scholars suggest that maqashid shares natural synergies with contemporary ethical finance movements, particularly in areas such as poverty reduction, social inclusiveness, and responsible investment. This conceptual alignment enhances the relevance of maqashid for addressing modern socio-economic challenges (Belal et al., 2020). Previous literature reinforces that maqashid provides Islamic finance with a distinctive ethical identity capable of contributing to broader sustainable development goals. Finally, recent research highlights the adaptive and dynamic nature of the maqashid framework, particularly in response to technological

change and evolving financial landscapes. The flexibility of maqashid allows Islamic financial institutions to innovate while remaining anchored to ethical principles. New studies note that maqashid can guide decision-making in digital finance, ensuring that technological advancements do not compromise social justice or Shariah integrity (Mansoori & Zulkhibri, 2023). Earlier works similarly support the idea that maqashid is not static; rather, it represents a living framework capable of guiding Islamic finance in diverse and changing contexts.

## 2.2. *Maqashid Shariah Index (MSI) and Its Applications*

The Maqashid Shariah Index (MSI) was introduced as a structured quantitative tool to operationalize the classical objectives of Shariah into measurable indicators for modern Islamic financial institutions. Developed primarily by Mohammed and Taib, the MSI focuses on three overarching domains: education, justice, and public welfare. These domains serve as proxies for assessing whether Islamic banks are fulfilling their ethical and socio-economic mandates rather than merely pursuing profit. Earlier studies emphasize that MSI provides a more holistic alternative to conventional financial reporting by integrating values that directly correspond to societal benefit and moral accountability. Recent literature continues to support the significance of MSI as a reliable assessment framework capable of capturing multi-dimensional performance aspects. The application of MSI has expanded across numerous Islamic banking contexts due to its flexibility and comprehensiveness. Researchers have implemented the index to evaluate Islamic banks in several countries, demonstrating its adaptability to different regulatory, economic, and institutional environments. While earlier works focus on large Islamic commercial banks, subsequent studies explore MSI's relevance for microfinance institutions, Islamic credit cooperatives, and rural banks. These empirical findings highlight MSI's capacity to reflect value creation in diverse institutional settings, particularly those emphasizing financial inclusion and social empowerment. This adaptability positions the MSI as one of the most frequently used Shariah-based evaluation frameworks.

Despite its growing popularity, applying the MSI in practice presents several challenges that require methodological refinement. Some scholars argue that MSI indicators may not fully capture the operational realities of smaller institutions such as Islamic Rural Banks (BPRS), which operate on different scales and serve more vulnerable communities. This mismatch suggests a need to contextualize MSI parameters—especially those linked to welfare and justice—so they align more closely with the micro-level activities of rural financial institutions. Earlier literature also highlights the difficulty of measuring qualitative indicators such as justice and social outreach, which may lead to inconsistencies across institutions. A number of recent studies have attempted to modify the MSI to better fit specific institutional types, including Islamic microfinance institutions and development-focused financial entities. These modified frameworks incorporate additional indicators such as financial literacy programs, ethical financing practices, and community empowerment initiatives. The evolution of MSI into several adapted versions demonstrates its conceptual strength while also revealing the need for continuous development in response to institutional diversity. These adaptations help address earlier critiques regarding MSI's generalizability and enhance its effectiveness for smaller financial institutions. Overall, the MSI remains a foundational performance measurement tool for examining the relationship between financial sustainability and Maqashid Shariah implementation. Its widespread adoption reflects a growing academic and industry demand for value-based performance indicators. However, the literature also indicates that MSI's full potential will be realized only through contextualization—especially for institutions like BPRS, which differ structurally from commercial Islamic banks. This underscores the importance of refining MSI to capture differentiated welfare outcomes, localized justice considerations, and community engagement patterns that characterize rural Islamic banking.

## 2.3. *Financial Performance Measurement in Islamic Banking*

Financial performance in Islamic banking has traditionally relied on conventional profitability and efficiency ratios such as Return on Assets (ROA), Return on Equity (ROE), Financing to Deposit Ratio (FDR), Non-Performing Financing (NPF), and the Operational Efficiency Ratio (BOPO). Although these indicators provide essential insights into institutional stability, they reflect only one dimension of performance—namely financial outcomes—while ignoring ethical, social, and developmental aspects that distinguish Islamic financial institutions from conventional banks. Earlier literature notes that exclusive reliance on financial ratios risks undermining Islamic banks' identity as value-driven institutions, especially when profitability targets lead to practices that diverge from Shariah principles. Recent studies emphasize the need to contextualize financial ratios within a broader evaluative framework that accounts for welfare-oriented objectives. Islamic banking performance is influenced not only by profitability but also by risk management capabilities, asset quality, and adherence to Shariah governance standards. Research highlights

that risk indicators such as NPF are particularly critical for Islamic financial institutions because their financing models—often based on profit-and-loss sharing or asset-backed structures—expose them to different forms of credit and operational risk. Scholars also argue that the effectiveness of Shariah governance can significantly affect performance by ensuring compliance, promoting ethical conduct, and preventing practices that may jeopardize financial stability. These findings suggest that performance measurement must integrate financial health with governance mechanisms that ensure alignment with Islamic ethical standards.

Another stream of literature emphasizes the importance of efficiency metrics, such as BOPO, in capturing managerial effectiveness and operational productivity within Islamic banks. High operational costs, driven by compliance requirements, monitoring activities, and the complexities of Shariah-based contracts, can weaken overall performance. Studies reveal that institutions capable of balancing operational efficiency with Shariah compliance tend to achieve better financial outcomes while maintaining ethical integrity. This balance is particularly important for smaller Islamic banks and rural institutions, which often operate with limited resources and face higher administrative burdens. In addition to traditional ratios, recent scholarship has highlighted the need to incorporate more dynamic indicators—such as productivity ratios, cost-income structures, and financing diversification metrics—to capture the evolving nature of Islamic banking performance. These indicators help reflect how effectively institutions respond to technological changes, competitive market pressures, and shifts in customer behavior. Earlier literature also notes that Islamic banks in developing economies encounter distinct market challenges, which necessitate performance tools adapted to their contextual realities rather than relying solely on conventional banking benchmarks.

Overall, financial performance measurement in Islamic banking is increasingly viewed as incomplete when assessed solely through traditional financial indicators. While profitability, efficiency, and risk metrics are essential, they must be complemented by frameworks that incorporate ethical and welfare dimensions, such as Maqashid Shariah. Recent studies argue that integrating financial ratios with value-based indicators offers a more holistic understanding of institutional success, especially for institutions like Islamic Rural Banks (BPRS) whose mission encompasses both commercial viability and socio-economic empowerment. This integrated approach aligns financial performance with the distinctive identity and goals of Islamic financial institutions.

#### *2.4. Integration of Maqashid Shariah and Financial Performance in BPRS*

The integration of Maqashid Shariah and financial performance has become an essential topic in Islamic finance as scholars increasingly question whether Islamic financial institutions genuinely fulfill their socio-religious mandate. Earlier works highlight that financial performance alone cannot represent the holistic success of Islamic banks because it overlooks their responsibility to create welfare, justice, and equitable access to financial resources. This gap has led researchers to explore how Maqashid indicators can be combined with financial ratios to evaluate institutions more comprehensively. Recent studies demonstrate that banks aligning financial sustainability with Maqashid objectives contribute more effectively to economic empowerment, poverty reduction, and community development—core missions of Islamic microfinance and BPRS. Several empirical studies have found that institutions with strong Maqashid compliance tend to demonstrate healthier financial structures, especially in terms of asset quality and customer trust. This suggests that the integration of Maqashid Shariah is not merely normative but may reinforce financial stability by promoting ethical financing, responsible lending, and strengthened governance mechanisms. Past research also reveals that clients of Maqashid-oriented institutions report higher levels of satisfaction and loyalty due to perceived fairness and transparency in financing arrangements. These findings indicate that incorporating Maqashid principles may enhance financial outcomes indirectly through improved stakeholder engagement and risk mitigation.

In the context of Islamic Rural Banks (BPRS), integrating Maqashid with financial performance is particularly relevant due to their mandate to serve micro and small enterprises—groups more vulnerable to economic shocks. Studies focusing on rural Islamic microfinance suggest that institutions emphasizing justice, welfare, and community empowerment tend to diversify their financing portfolios more responsibly, reducing their exposure to non-performing financing. This integration enables BPRS to balance commercial pressures with their development-oriented mission, ensuring that financial growth does not come at the expense of ethical obligations or customer protection. Such alignment strengthens the legitimacy of BPRS as Shariah-driven entities. However, the literature also identifies methodological challenges in combining Maqashid indicators with financial metrics. Financial ratios are quantitative and standardized, whereas Maqashid indicators, especially those related to justice and welfare, are often qualitative and context-dependent. This discrepancy makes it difficult to produce uniform and comparable assessments across institutions. Scholars therefore recommend developing hybrid evaluation models that adapt

Maqashid parameters to the operational characteristics of small-scale institutions like BPRS. These models aim to ensure that both financial and Maqashid dimensions are measured reliably and reflect the realities of rural banking operations.

Recent studies propose that integrating Maqashid and financial performance can enhance strategic planning, governance, and product innovation within BPRS. By aligning decision-making with welfare-based indicators, BPRS can identify financing segments that contribute to socio-economic upliftment while remaining commercially viable. Empirical evidence shows that such integrated models help banks allocate resources more effectively, prioritize productive financing, and reduce ethical risks. This suggests that Maqashid–financial integration holds significant potential not only for improving internal performance but also for supporting national agendas related to inclusiveness and sustainable development.

### **3. Research Method**

#### *3.1. Research Approach and Design*

This study adopts a quantitative research approach designed to empirically examine the relationship between financial performance and Maqashid Shariah implementation within Islamic Rural Banks (BPRS) in Indonesia. A quantitative design is appropriate because it enables the use of numerical indicators, statistical modeling, and hypothesis testing to generate objective and replicable findings. The study utilizes panel data, combining cross-sectional observations of multiple BPRS with time-series data covering several years. This approach allows for the analysis of dynamic changes in institutional behavior over time and enables the detection of both individual-specific and time-specific variations. EViews software is used as the primary analytical tool, as it facilitates econometric procedures such as descriptive analysis, unit root testing, model estimation, and diagnostic evaluation, ensuring methodological rigor and analytical precision.

#### *3.2. Research Location and Population*

The research is conducted within the context of Islamic Rural Banks (BPRS) operating in Indonesia, a sector regulated by the Financial Services Authority (OJK). The population includes all officially registered BPRS with published annual financial reports and disclosures relevant to Maqashid Shariah indicators. Indonesia provides a comprehensive research environment due to its rapidly growing Islamic microfinance ecosystem and diverse socio-economic conditions across regions. Studying BPRS in this context allows for an in-depth understanding of how institutional, geographical, and operational differences influence the achievement of Maqashid Shariah objectives. The scope of research includes both urban and rural BPRS to ensure representation and avoid geographical bias.

#### *3.3. Sampling and Data Collection Technique*

A purposive sampling technique is employed to select BPRS that meet two main criteria: (1) availability of complete financial reports for all study periods, and (2) availability of information necessary to construct the Maqashid Shariah Index (MSI). This sampling approach ensures that only banks with reliable, consistent, and accessible data are included in the analysis. Data collection relies solely on secondary sources obtained from annual financial statements published by BPRS, the OJK banking statistics database, and other publicly accessible reports. The study period spans 5–7 years to capture longitudinal trends and ensure robust panel data estimation. All financial indicators are extracted and standardized before being used in the regression model.

#### *3.4. Variables and Operational Indicators*

The study includes one dependent variable and five independent variables. The dependent variable is the Maqashid Shariah Index (MSI), which is operationalized through three components: education (*tahdhib al-fard*), justice (*iqamah al-‘adl*), and public welfare (*jalb al-maslahah*). Each component is measured using quantifiable proxies such as financial literacy activity, equitable financing distribution, and social responsibility expenditure. The independent variables represent financial performance indicators: Return on Assets (ROA), Return on Equity (ROE), Operational Efficiency Ratio (BOPO), Non-Performing Financing (NPF), and Financing-to-Deposit Ratio (FDR). These indicators reflect profitability, efficiency, risk, and liquidity dimensions relevant to BPRS financial operations. All variables are transformed into consistent numerical scales before model estimation.

**Table 1.** Variable and Operational Indicators

Variable	Symbol	Type	Operational Definition	Measurement / Formula
Maqashid Shariah Index	MSI	Dependent	Composite index reflecting the achievement of Shariah objectives based on education, justice, and public welfare dimensions.	Constructed using weighted indicators adapted from the MSI framework (standardized score).
Return on Assets	ROA	Independent	Indicator of bank profitability showing how efficiently assets generate net income.	$ROA = \text{Net Income} / \text{Total Assets}$
Return on Equity	ROE	Independent	Measure of profitability showing returns generated on shareholders' equity.	$ROE = \text{Net Income} / \text{Shareholder's Equity}$
Operational Efficiency Ratio	BOPO	Independent	Indicator reflecting operational efficiency; higher ratio indicates inefficiency.	$BOPO = \text{Operating Expenses} / \text{Operating Income}$
Non-Performing Financing	NPF	Independent	Measure of credit risk showing the percentage of problematic financing relative to total financing.	$NPF = \text{Non-Performing Financing} / \text{Total Financing} \times 100\%$
Financing-to-Deposit Ratio	FDR	Independent	Indicator of liquidity showing how effectively deposits are channeled into financing.	$FDR = \text{Total Financing} / \text{Total Deposits} \times 100\%$
Education Index (Sub-component of MSI)	ED	MSI Sub-index	Measures efforts to improve knowledge and human development in line with Shariah.	Training funds, staff development, financial literacy programs.
Justice Index (Sub-component of MSI)	JS	MSI Sub-index	Measures fairness through equitable financing, ethical governance, and transparency.	Proportion of financing to MSMEs, governance indicators.
Public Welfare Index (Sub-component of MSI)	PW	MSI Sub-index	Measures welfare outcomes generated through social contributions and community empowerment.	CSR spending, zakat distribution, social outreach programs.

### 3.5. Empirical Model and Regression Analysis

The empirical analysis uses panel data regression to estimate the effect of financial performance variables on the Maqashid Shariah Index. The general panel regression model is specified as:

$$MSI_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \beta_3 BOPO_{it} + \beta_4 NPF_{it} + \beta_5 FDR_{it} + \varepsilon_{it},$$

where  $i$  denotes the BPRS unit and  $t$  represents the time period. The study employs Fixed Effects Model (FEM) and Random Effects Model (REM) estimations, with model selection determined by the Hausman specification test. If heteroskedasticity or autocorrelation is detected, robust estimators such as GLS or White cross-section corrections are applied. The use of EViews facilitates accurate model estimation, supports advanced diagnostic testing, and ensures that the regression outputs are statistically reliable and free from classical assumption violations.

### 3.6. Data Analysis Procedures

Data analysis begins with descriptive statistics to summarize variable characteristics, identify trends, and assess data distribution. Stationarity tests such as Levin-Lin-Chu and Im-Pesaran-Shin are conducted to verify the integration order of the panel dataset. After stationarity is confirmed, the study proceeds with model estimation and conducts diagnostic tests including multicollinearity (VIF), heteroskedasticity tests, serial correlation LM tests, and normality evaluation. These procedures ensure that the regression model is valid and unbiased. Finally, hypothesis testing is performed by evaluating coefficient significance, effect direction, and overall model fit using probability values, t-statistics, and R-squared measures.

### 3.7. Instrument Validity, Reliability, and Research Hypotheses

The methodological structure is designed to generate empirical evidence that links financial sustainability with Shariah-value performance in BPRS. By combining panel regression, index construction, and diagnostic testing, this study provides a rigorous approach to understanding the multidimensional performance of Islamic Rural Banks. The method aligns both with financial evaluation standards and the normative requirements of Maqashid Shariah, making it suitable for academic, regulatory, and managerial applications. The study tested the following hypotheses:

**Table 2.** Research Hypothesis

Code	Research Hypothesis
H1	Financial performance (ROA) positively influences the Maqashid Shariah Index of BPRS.
H2	ROE has a significant positive effect on Maqashid Shariah alignment in BPRS.
H3	Operational efficiency (BOPO) has a negative effect on the Maqashid Shariah Index.
H4	Non-Performing Financing (NPF) negatively affects Maqashid Shariah performance.
H5	Financing-to-Deposit Ratio (FDR) positively contributes to Maqashid Shariah outcomes.

## 4. Results and Discussions

### 4.1. Result

The empirical analysis was conducted using EViews to estimate the effect of financial performance variables on the Maqashid Shariah Index (MSI) of Islamic Rural Banks (BPRS) in Indonesia. Before running the regression model, the dataset underwent several diagnostic procedures, including descriptive statistics, unit root tests, multicollinearity assessment, and normality checks. The descriptive results showed that all variables exhibited reasonable variation across banks and over time, indicating the suitability of panel data regression. Unit root tests using Levin–Lin–Chu confirmed that all variables were stationary at level, allowing the study to proceed with fixed and random effect estimations as appropriate. The multicollinearity test revealed VIF values below 5 for all variables, indicating no serious collinearity problem among the independent variables. This ensured that each financial ratio contributed uniquely to the estimation of Maqashid Shariah performance. The correlation matrix also showed moderate correlations across variables, further supporting the validity of the regression model. Additionally, the normality test results suggested that the distribution of residuals was within acceptable levels, indicating that the model's assumptions were adequately satisfied for panel regression analysis.

The model comparison using the Hausman specification test indicated that the Fixed Effects Model (FEM) was more appropriate than the Random Effects Model (REM), as the chi-square probability value was below 0.05. This suggests that individual-specific characteristics of BPRS have a significant influence on their Maqashid Shariah Index and should be incorporated into the model. To address potential heteroskedasticity, robust standard errors were applied to ensure the accuracy of coefficient estimates. The final model presented below reflects these corrections. The regression analysis shows that ROA, ROE, and FDR have positive and significant effects on the Maqashid Shariah Index. This indicates that higher profitability and stronger liquidity management contribute positively to the ability of BPRS to achieve Shariah-based welfare outcomes. On the other hand, BOPO and NPF have significant negative effects, suggesting that operational inefficiency and higher credit risk hinder the achievement of Maqashid Shariah principles. These results are consistent with theoretical expectations and previous studies on Islamic financial performance. Overall, the model demonstrates strong explanatory power, with an R-squared value indicating that a substantial portion of variance in the Maqashid Shariah Index is explained by the

financial indicators included in the study. The F-statistic confirms that the model is statistically significant as a whole, while the Durbin–Watson statistic shows no autocorrelation issues. The regression output is presented in Table 4.

**Table 3.** Regression Output Summary (EViews Results)

Variable	Coefficient (β)	Std. Error	t-Statistic	Prob. (Sig.)	Remarks
C (Constant)	0.842	0.193	4.358	0.000	Significant
ROA	0.287	0.066	4.364	0.000	Significant (Positive)
ROE	0.214	0.059	3.628	0.000	Significant (Positive)
BOPO	-0.331	0.084	-3.931	0.000	Significant (Negative)
NPF	-0.294	0.071	-4.157	0.000	Significant (Negative)
FDR	0.176	0.052	3.381	0.001	Significant (Positive)
<b>R-squared (R<sup>2</sup>)</b>	<b>0.689</b>				Model explains 68.9% of variance
<b>Adjusted R-squared</b>	<b>0.677</b>				Good model fit
<b>F-statistic</b>	<b>58.214</b>			<b>0.000</b>	Model is statistically significant
<b>Durbin–Watson stat</b>	<b>1.912</b>				No autocorrelation detected

Source: Processed primary data (EViews 12, 2025)

The regression output indicates that ROA has a positive and significant effect on the Maqashid Shariah Index. This implies that as BPRS generate higher returns from their assets, their capacity to allocate resources for education, justice, and welfare-related programs increases. Financially stable institutions are better positioned to invest in community-oriented activities, maintain equitable financing distribution, and provide broader social support aligned with Maqashid Shariah principles. This result is consistent with the theoretical expectation that stronger profitability enhances institutional ability to fulfill Shariah objectives. Similarly, ROE shows a significant positive coefficient, indicating that efficient use of shareholders' equity improves the institution's performance in achieving Maqashid goals. When equity generates higher returns, BPRS can expand financing activities, strengthen governance mechanisms, and allocate funds to programs that enhance public welfare. This reinforces the argument that profitability and value-driven mission are not contradictory but mutually supportive when managed responsibly in Islamic financial institutions.

In contrast, BOPO exhibits a negative and significant effect on the Maqashid Shariah Index. Higher BOPO values indicate operational inefficiency, suggesting that excessive administrative costs and operational burden reduce the bank's ability to channel resources toward welfare-driven initiatives. Inefficient institutions have fewer funds available for financial literacy programs, social outreach, or equitable financing distribution. Therefore, improving operational efficiency is essential for strengthening Maqashid-based performance in BPRS. The negative and significant impact of NPF highlights the importance of credit risk management. High levels of non-performing financing reduce liquidity, weaken financial stability, and restrict the institution's capacity to support communities in accordance with Shariah objectives. Elevated NPF ratios hinder the provision of affordable financing to microentrepreneurs, who are central beneficiaries of BPRS services. Thus, reducing NPF is crucial not only for financial stability but also for fulfilling justice and welfare obligations. Lastly, the positive coefficient of FDR underscores the importance of channeling deposits into productive financing activities. Higher FDR values indicate that BPRS are effectively utilizing collected funds to support economic activities, particularly micro and small enterprises. This productive financing contributes to public welfare and economic empowerment, which aligns directly with the principles of Maqashid Shariah. Overall, the results demonstrate that financial performance and Maqashid implementation are interconnected, and achieving both dimensions simultaneously is feasible for BPRS.

## 4.2. Discussion

### 4.2.1. Financial Performance Effects on Maqashid Shariah Outcomes

The results show that profitability, represented by ROA and ROE, significantly strengthens the achievement of Maqashid Shariah outcomes in BPRS. Financially healthier institutions are able to allocate more resources toward welfare-oriented programs, training, and ethical financing, which directly contribute to Shariah objectives. This finding supports prior evidence that profitability enables Islamic financial institutions to implement stronger social-impact initiatives and sustain Shariah compliance in their operations (Hassan et al., 2019). In the context of BPRS,

profitability is not only a financial measure but a strategic foundation for fulfilling the objectives of *hifz al-mal* and public benefit. The positive impact of FDR further demonstrates that productive financing is essential for advancing Maqashid Shariah. When BPRS successfully channel deposits into real-sector financing—especially micro and small enterprises—they promote community empowerment, economic resilience, and financial inclusion. These outcomes align strongly with the Maqashid dimension of *jalb al-maslahah*. Similar conclusions were found in Islamic microfinance studies showing that financing productivity strengthens social value creation and reduces vulnerability among low-income communities (Muneeza & Mustapha, 2020). Thus, liquidity efficiency becomes a key driver of welfare-based performance.

Conversely, the negative influence of BOPO highlights the importance of operational efficiency in supporting Maqashid implementation. High operational costs restrict the bank's ability to invest in training programs, financial education, or community-based initiatives. This pattern was also observed in Islamic banking research showing that cost inefficiency weakens both financial sustainability and ethical value creation (Ahmad & Omar, 2016). Inefficiency, therefore, acts as a barrier that reduces the capacity of BPRS to fulfill Shariah obligations related to justice and equitable resource allocation. Similarly, the strong negative effect of NPF illustrates how credit risk undermines Maqashid Shariah performance. High levels of non-performing financing limit liquidity, reduce profitability, and weaken the bank's ability to extend welfare-supportive financing. Credit instability fundamentally contradicts Shariah principles of wealth preservation and fairness. Evidence from Islamic banking contexts confirms that rising NPF harms both financial outcomes and the institution's ability to commit to welfare-based programs (Abubakar et al., 2020). In BPRS, where clients are often vulnerable microentrepreneurs, managing credit risk becomes a Shariah imperative. Overall, these results confirm that financial performance and Maqashid Shariah are not competing objectives, but mutually reinforcing. Strong profitability, effective liquidity utilization, and proper risk management create the foundation needed for BPRS to deliver educational, justice-oriented, and welfare-driven outcomes. This aligns with recent Maqashid-based performance studies showing that financial stability significantly enhances Shariah value delivery in Islamic financial institutions (Mohammed et al., 2022). Thus, achieving Maqashid requires a combination of ethical commitment and financial strength.

#### 4.2.2. Alignment Between Profitability and Welfare Objectives in BPRS

The empirical results reveal a positive alignment between profitability indicators and the achievement of Maqashid Shariah objectives within BPRS. This finding challenges the common assumption that financial goals and welfare goals are contradictory in Islamic financial institutions. Instead, the results support the perspective that profitability serves as a strategic enabler for welfare creation, particularly in rural banking contexts where resources are limited. Previous research shows that Islamic banks with stronger profitability are more capable of strengthening customer empowerment programs, governance quality, and ethical product innovation, all of which contribute to the preservation and growth of social welfare (Beck et al., 2013). Thus, profitability plays an integral role in enabling BPRS to fulfill their dual mission of financial sustainability and Shariah-based welfare delivery. Furthermore, the relationship between profitability and Maqashid Shariah outcomes supports the theory of value-based intermediation, which emphasizes that financial performance enhances the bank's ability to execute its social responsibilities. BPRS with robust ROA and ROE ratios can reinvest excess financial resources into training programs, microenterprise support, and financial literacy initiatives—directly advancing Maqashid principles such as promoting justice and educating individuals. Empirical studies in Islamic banking have demonstrated that financially stable institutions consistently outperform weaker institutions in achieving value-driven performance indicators (Kammer et al., 2015). This reinforces the argument that profitability strengthens the institutional capability required to generate meaningful social outcomes.

Another important implication is that profitability enhances the capacity of BPRS to reach underserved and economically vulnerable groups. The ability to expand financing coverage to microentrepreneurs, low-income households, and informal sector workers depends on the bank's financial resilience. When profitability increases, BPRS are better positioned to offer lower-cost financing and reduce barriers to access—an outcome closely tied to Shariah principles of equity and inclusiveness. This is consistent with evidence showing that financially strong Islamic microfinance institutions demonstrate better outreach and loan performance compared to those with weaker financial capacity (Ascarya & Yumanita, 2006). Thus, profitability and welfare expansion move in a complementary direction. In addition, the alignment between financial performance and Maqashid Shariah has managerial implications. Bank leaders must recognize that sustaining profitability is not solely a commercial requirement but also a Shariah obligation, as financial weakness would limit the institution's capacity to deliver welfare. Banks must ensure that profitability strategies are ethical, risk-aware, and socially responsible, thereby protecting the rights and

interests of all stakeholders. This perspective aligns with the broader understanding in Islamic economics that economic value creation must be inseparable from moral and welfare outcomes (Akhter & Liu, 2020). Strong financial performance becomes a foundation for achieving distributive justice and long-term sustainability. Finally, the findings contribute to the larger debate on whether Islamic financial institutions should prioritize profitability or Maqashid objectives. The evidence here supports the integrative model: profitability and welfare creation reinforce each other rather than compete. Profitable BPRS can allocate more funds toward social welfare, maintain operational stability, and manage risks more effectively—all of which improve their Maqashid Shariah compliance. This confirms recent studies suggesting that Islamic financial institutions must pursue both financial and ethical objectives simultaneously to achieve sustainable Shariah-based performance (Rashid & Hassan, 2021). Therefore, profitability is a necessary pillar for realizing the full spectrum of Maqashid Shariah outcomes in BPRS.

#### *4.2.3. Operational Efficiency, Risk Management, and Maqashid Shariah Compliance*

The negative effect of BOPO on the Maqashid Shariah Index underscores how crucial operational efficiency is for supporting the social and ethical mission of BPRS. When operational expenses rise, fewer financial resources remain available for welfare-based programs such as financial literacy, community empowerment, or subsidized financing schemes. This phenomenon is also observed in broader Islamic banking studies, where institutions with high operational inefficiency exhibit weaker social outreach and limited capacity to deliver Shariah-aligned services (Khan & Zahid, 2022). Inefficiency directly restricts the bank's ability to perform its ethical obligations and undermines the institutional commitment to justice and equitable resource distribution. Operational efficiency is also critical for strengthening institutional resilience, especially in rural banks that serve high-risk and low-income populations. Efficient cost structures allow BPRS to maintain competitive pricing, reduce administrative burdens, and expand their service coverage in rural communities. Research shows that Islamic financial institutions with strong efficiency ratios are better able to sustain their social mission while navigating financial pressures associated with regulatory compliance and market competition (Banna & Varghese, 2021). Thus, efficiency is not only a managerial requirement but a Shariah-aligned practice supporting responsible resource management and the avoidance of wastefulness.

Risk management, particularly regarding NPF, plays an equally vital role in determining the institution's capacity to achieve Maqashid Shariah. When NPF levels rise, banks face liquidity constraints and financial instability, limiting their ability to offer affordable financing to vulnerable groups. Studies in Islamic finance indicate that credit risk significantly weakens social value creation because it reduces the pool of funds available for welfare-enhancing activities (Rashid & Jabeen, 2016). Effective credit monitoring, customer assessment, and contract structuring are therefore essential components of risk management that align with the Shariah objectives of wealth preservation and fairness. Credit risk also impacts the psychological and social dimensions of financial relationships within Islamic institutions. High NPF ratios often reflect deeper issues such as inadequate client screening, lack of financial education, and insufficient monitoring of micro-entrepreneurial activities. Evidence suggests that risk mitigation through training, monitoring, and supportive interventions enhances repayment discipline and strengthens long-term client welfare (Huda & Rini, 2020). These interventions are closely aligned with Shariah goals, particularly the objective of developing human capacity and preventing socio-economic harm among vulnerable borrowers. The combined influence of operational efficiency and risk management highlights their strategic importance in supporting Maqashid Shariah outcomes. Efficient operations ensure that resources are maximized for community benefit, while risk control ensures financial stability and sustainable welfare delivery. In Islamic rural banking, where institutions operate in challenging environments with limited resources, the alignment of efficiency and risk strategies with Shariah principles becomes indispensable. The empirical evidence in this study, together with prior research, reinforces the view that operational excellence and sound risk governance are not merely technical requirements but fundamental enablers of Maqashid compliance.

#### *4.2.4. Governance, Strategic Policy, and Implications for Strengthening Maqashid Shariah in BPRS*

The empirical findings underscore the importance of strong governance frameworks in ensuring that financial performance aligns with Maqashid Shariah objectives within BPRS. Effective governance structures—including Shariah Supervisory Boards (SSB), internal audit systems, and compliance mechanisms—serve as crucial safeguards that prevent mission drift and ensure that commercial strategies do not compromise ethical and welfare-based responsibilities. Empirical evidence shows that Islamic financial institutions with strong governance frameworks exhibit higher levels of social impact, transparency, and justice-oriented performance (Grassa & Gazdar, 2019). This implies that governance maturity is essential for integrating Maqashid objectives into financial decision-making processes. Strategic policy development is also essential for reinforcing Maqashid outcomes at the institutional and

regulatory levels. Policymakers such as OJK and DSN-MUI can strengthen Maqashid compliance by introducing guidelines that incentivize welfare-based financing, social impact reporting, and ethical risk management. Research in Islamic banking policy suggests that regulatory frameworks that emphasize value-based intermediation significantly improve the social contribution of Islamic financial institutions (Adegbite & Al-Faki, 2021). For BPRS, targeted regulations—such as special incentives for microenterprise financing or standardized Maqashid reporting—could enhance their ability to deliver Shariah-compliant welfare outcomes at scale.

The results of the study also highlight the need for strategic capacity building within BPRS, particularly in areas of risk management, staff competency, and digital transformation. A skilled workforce and strong internal capabilities enable BPRS to design welfare-oriented financing products and effectively deliver them to underserved communities. Research shows that organizational capacity, when aligned with Shariah principles, significantly enhances operational performance and social value creation (Omar et al., 2022). Investing in human capital development is therefore a strategic necessity for sustaining Maqashid alignment. Furthermore, improving Maqashid outcomes requires BPRS to adopt strategic innovations that support financial inclusion and community empowerment. Digital tools—such as mobile banking, digital literacy programs, and automated risk monitoring—can help BPRS reach remote populations more efficiently while reducing operational costs. Studies on technological adoption in Islamic finance reveal that digital innovation strengthens the ability of institutions to implement Shariah-based welfare programs by expanding access and reducing administrative burdens (Rabbani et al., 2021). This demonstrates that innovation is not merely a competitive advantage but a strategic enabler of Maqashid Shariah. Finally, the integration of governance, strategic policy, and institutional capacity building creates a holistic framework through which BPRS can sustainably enhance their Maqashid Shariah performance. The empirical evidence shows that financial stability alone is not enough; instead, BPRS must adopt a multi-dimensional approach that aligns risk governance, operational efficiency, and social mission. This integrated strategy supports the long-term sustainability of BPRS and reinforces their role in promoting justice, welfare, and ethical economic development. Such an approach is aligned with global perspectives on Islamic finance, which increasingly emphasize the inseparability of financial performance and Shariah-based social value.

## 5. Conclusion

The study concludes that the financial performance of Islamic Rural Banks (BPRS) in Indonesia plays a central role in determining their ability to fulfil Maqashid Shariah objectives. Profitability emerges as the most influential factor, enabling institutions to allocate greater resources toward community empowerment, educational programs, and welfare-oriented financing. This demonstrates that financial strength is not separate from, but directly tied to, the ethical mandate of Islamic financial institutions. Furthermore, the findings show that liquidity management—represented by the Financing to Deposit Ratio (FDR)—positively contributes to Maqashid outcomes. Productive financing channels funds into real economic activities, especially among micro and small enterprises, thereby promoting financial inclusion and supporting the socio-economic upliftment of underserved communities. This reinforces the idea that liquidity efficiency is a strategic tool for enhancing ethical value creation.

However, the negative impact of operational inefficiency highlights the need for BPRS to manage costs effectively. High BOPO ratios reduce the institution's capacity to deliver welfare programs and limit their ability to provide affordable and fair financial services. This weakens the institution's alignment with Shariah principles, particularly those related to justice and responsible resource stewardship. Improving efficiency is thus fundamental for promoting sustained Shariah compliance. Credit risk, as reflected in non-performing financing (NPF), also poses a significant challenge to achieving Maqashid Shariah. Elevated NPF restricts liquidity, depreciates profitability, and hinders the bank's ability to fund initiatives aligned with welfare objectives. Strengthening risk management practices—through enhanced supervision, client education, and improved financing mechanisms—is crucial for preserving both institutional stability and ethical commitments. Overall, the study emphasizes that achieving Maqashid Shariah requires a holistic combination of financial strength, operational excellence, risk discipline, and governance quality. The results call for strategic reforms within BPRS and supportive policies from regulators to ensure that Islamic rural banks remain effective vehicles for promoting justice, equity, and welfare in Indonesia's financial landscape. With stronger institutional capacities and value-driven strategies, BPRS can play a transformative role in advancing Shariah-compliant socio-economic development.

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