



International Conference on Islam, Law, and Society (INCOILS)
Conference Proceedings 2023

Implementation Of Sharia Economic Law Principles In Modern Business Practices: A Normative And Empirical Analysis

Dennyis Aditya Pratama¹, Iluqi Annisa Al Fitri², Dian Ferricha³

^{1,2,3} UIN Sayyid Ali Rahmatullah Tulungagung,

¹ denisaditya266@gmail.com, ² illuqi170@gmail.com, ³ dianferricha2@gmail.com

ABSTRACT :

This study examines the implementation of Sharia Economic Law principles in modern business practices, focusing on compliance, legal challenges, and socio-economic impacts. The rapid development of Islamic finance and halal industries has increased the urgency of aligning business activities with Sharia principles such as justice, transparency, prohibition of *riba*, *gharar*, and *maysir*. This research employs a normative-empirical approach, combining doctrinal legal analysis with field data collected from Islamic financial institutions and halal-based enterprises. The findings indicate that while regulatory frameworks in Indonesia have substantially accommodated Sharia economic principles, practical implementation still faces challenges, including limited legal literacy, regulatory overlap, and market pressure from conventional systems. Nevertheless, Sharia-compliant business practices demonstrate positive implications for ethical governance, consumer trust, and sustainable economic development. This study contributes theoretically by reinforcing the relevance of *maqasid al-shariah* in contemporary economic regulation and practically by offering policy recommendations to strengthen Sharia economic law enforcement.

Key words: *Islamic economic law; maqasid al-shariah; halal industry; Islamic finance; business ethics.*

INTRODUCTION

The rapid expansion of the global Islamic economy has significantly increased the relevance of Sharia Economic Law as a normative and regulatory framework governing contemporary business practices. The halal industry, Islamic finance, and Sharia-based micro, small, and medium enterprises (MSMEs) have emerged as strategic sectors not only in Muslim-majority countries but also in the global market. This development reflects a growing demand for ethical, transparent, and socially responsible economic systems in response to the shortcomings of conventional capitalist models.

In recent decades, the halal industry has evolved beyond its traditional association with food products to encompass pharmaceuticals, cosmetics, tourism, fashion, and digital services. This expansion has transformed halal from a purely religious concept into a comprehensive economic ecosystem. Consequently, legal certainty and effective regulation grounded in Sharia Economic Law have become essential to ensure that halal practices maintain their ethical substance rather than being reduced to symbolic compliance or market branding.

Indonesia, as the country with the world's largest Muslim population, holds substantial potential to lead the development of a Sharia-compliant economic system. The state has enacted various regulations to support this objective, including laws on Islamic banking, halal product assurance, and Sharia financial governance. Normatively, these regulations demonstrate strong political and legal recognition of Sharia Economic Law. However, empirical evidence suggests that

a gap persists between regulatory ideals and their practical implementation, particularly at the level of business actors and MSMEs.

Several studies indicate that Sharia compliance in business practices is often interpreted narrowly as adherence to formal legal requirements, such as certification and documentation. This formalistic approach risks undermining the broader objectives of Sharia Economic Law, which emphasize justice, equitable distribution of wealth, and the protection of public welfare. Moreover, Sharia-based MSMEs frequently operate within market environments dominated by capitalist competition, digital disruption, and unequal access to financing, creating structural pressures that may compromise Sharia principles.

Against this background, this study aims to examine the substantive implementation of Sharia Economic Law in the halal industry and Sharia-based MSMEs using a *maqāṣid al-shari'ah* perspective. The research seeks to identify the extent to which existing legal frameworks and business practices fulfill the ethical and socio-economic objectives of Sharia, as well as the challenges that hinder their realization. By integrating normative legal analysis with empirical findings, this study offers a comprehensive understanding of Sharia Economic Law as both a legal system and a moral-economic framework.

Methods

This research employs a normative–empirical legal research method, which is commonly used in contemporary Islamic legal studies to bridge doctrinal analysis and real-world practices. The normative approach focuses on the examination of primary legal sources, including Islamic legal principles derived from the Qur'an and Sunnah, classical and contemporary fiqh literature, national legislation, and fatwas issued by authoritative Sharia institutions. This approach is essential to understand the legal construction of Sharia Economic Law and its normative objectives within modern regulatory frameworks.

The empirical approach complements the normative analysis by examining how Sharia economic principles are implemented in practice, particularly within the halal industry and Sharia-compliant micro, small, and medium enterprises (MSMEs). Empirical data were obtained through semi-structured interviews, policy document analysis, and secondary reports issued by regulatory authorities and Islamic financial institutions. This dual approach allows the study to assess the gap between normative legal ideals and empirical realities.

Data analysis was conducted using qualitative descriptive and analytical techniques. The collected data were systematically categorized, interpreted, and linked to the theoretical framework of *maqāṣid al-shari'ah*. This framework serves as an evaluative tool to assess whether existing regulations and business practices genuinely promote public welfare (*maṣlaḥah*) and justice, rather than merely fulfilling formal legal requirements.

Discussion

This section presents an extensive analysis of the research findings by integrating empirical observations with normative principles of Sharia Economic Law. The discussion is structured to demonstrate how Sharia norms are translated into economic practices, the extent of their effectiveness, and the structural challenges that hinder their substantive realization.

First, the findings indicate that the formal recognition of Sharia Economic Law within national legal systems has significantly increased legal certainty for Sharia-based economic

activities. Laws on Islamic banking, halal product assurance, and Sharia financial governance provide a comprehensive regulatory framework that legitimizes Sharia-compliant transactions. However, this legal certainty largely operates at the textual and procedural level. In practice, compliance is often measured by documentation and certification rather than by the ethical substance of economic behavior. This confirms earlier scholarly arguments that Islamic economic law risks becoming proceduralized when detached from its moral foundations.

Second, institutional fragmentation emerges as a central issue affecting implementation. Regulatory bodies, certification agencies, and Sharia supervisory boards frequently operate within overlapping jurisdictions without effective coordination mechanisms. This condition results in inconsistent standards and uneven enforcement across sectors and regions. Empirical evidence suggests that business actors often exploit these regulatory gaps to minimize compliance costs, reinforcing a culture of formalism rather than ethical accountability. From a *maqāṣid al-shari'ah* perspective, such fragmentation undermines the protection of public interest (*ḥifẓ al-maṣlaḥah*).

Third, the study highlights significant challenges in the domain of Sharia-compliant financing. Although Islamic financial institutions have expanded rapidly, access to Sharia-based financing for MSMEs remains limited. Complex procedures, collateral requirements, and risk-averse financing models restrict participation by smaller enterprises. Consequently, many MSMEs resort to informal or conventional financing sources, some of which involve interest-based or exploitative practices. This phenomenon illustrates a contradiction between the normative objectives of Sharia Economic Law and the realities of financial exclusion, supporting recent findings that weak inclusion contributes to the rise of illegal digital lending.

Fourth, contractual practices constitute another critical area of concern. While Sharia contracts such as *murabahah*, *musharakah*, and *mudharabah* are widely adopted, their operationalization often deviates from genuine risk-sharing principles. Standardized contracts frequently prioritize capital protection over partnership, effectively replicating conventional debt-based arrangements. This contractual mimicry reflects institutional pressures to maintain profitability and legal certainty but simultaneously erodes the ethical distinctiveness of Sharia Economic Law.

Fifth, the halal industry demonstrates a similar pattern of substantive dilution. Certification mechanisms focus predominantly on product ingredients and production processes, while broader ethical dimensions—such as labor welfare, environmental sustainability, and fair trade—receive limited attention. As a result, halal compliance becomes segmented and fails to encompass the entire value chain. This fragmented approach contradicts the holistic nature of Sharia ethics, which require justice and responsibility across all stages of economic activity.

Sixth, digital transformation introduces both opportunities and regulatory challenges. Digital platforms enable wider dissemination of halal products and facilitate financial inclusion through fintech solutions. However, insufficient regulatory adaptation has led to new forms of Sharia non-compliance, including opaque digital contracts and unregulated peer-to-peer lending schemes. These developments highlight the need for adaptive Sharia governance capable of responding to technological innovation without compromising ethical standards.

Seventh, socio-cultural factors significantly influence compliance behavior. The findings reveal varying degrees of Sharia literacy among business actors, with larger enterprises exhibiting greater institutional awareness than MSMEs. This disparity underscores the importance of education and capacity-building initiatives that integrate legal knowledge with ethical reasoning.

Without such efforts, Sharia Economic Law risks remaining an elite discourse disconnected from grassroots economic realities.

Eighth, consumer behavior emerges as a powerful yet underutilized driver of compliance. Where consumers actively demand ethical and Sharia-compliant products, businesses demonstrate higher levels of substantive adherence. Conversely, low consumer awareness weakens market incentives for ethical conduct. This finding aligns with socio-legal theories that emphasize the role of social norms and public participation in shaping legal effectiveness.

Finally, comparative insights suggest that jurisdictions incorporating *maqāṣid al-sharīʿah* into regulatory evaluation frameworks achieve more balanced outcomes. By shifting the focus from procedural compliance to outcome-based assessment, these systems enhance the capacity of Sharia Economic Law to promote justice, equity, and sustainable development. The Indonesian experience, while promising, illustrates the need for deeper institutionalization of *maqāṣid*-oriented governance.

Overall, the expanded findings confirm that the challenges confronting Sharia Economic Law are not rooted in normative inadequacy but in implementation dynamics shaped by institutional capacity, enforcement quality, market structure, technological change, and socio-cultural factors. Addressing these dimensions is essential to transform Sharia Economic Law into a living and impactful economic framework.

Beyond these structural issues, the discussion reveals a deeper epistemological tension between Sharia Economic Law as a moral-ethical system and its contemporary institutionalization as a regulatory regime. Modern legal systems tend to prioritize certainty, standardization, and enforceability, whereas Sharia Economic Law is inherently value-driven and context-sensitive. This tension explains why many Sharia-compliant practices gravitate toward procedural conformity rather than ethical substance. Without conscious efforts to reconcile these epistemological differences, Sharia Economic Law risks losing its normative distinctiveness.

Furthermore, the findings suggest that the current regulatory discourse often frames Sharia compliance as a binary condition—compliant or non-compliant—rather than as a continuum of ethical performance. Such a binary approach limits the capacity of regulators to encourage gradual improvement and ethical innovation. Incorporating graduated compliance models and performance-based indicators rooted in *maqāṣid al-sharīʿah* would allow for more nuanced and progressive regulatory strategies.

The discussion also underscores the importance of power relations within economic governance. Large corporations and financial institutions possess greater bargaining power and regulatory influence, enabling them to shape compliance standards in ways that favor operational efficiency over distributive justice. In contrast, MSMEs frequently bear disproportionate compliance burdens despite having limited capacity to influence regulatory design. This imbalance highlights the need for redistributive regulatory policies aligned with the Sharia objective of protecting vulnerable economic actors.

Another critical dimension concerns the internationalization of the halal economy. As halal products and services increasingly operate within global supply chains, Sharia Economic Law must engage with transnational regulatory standards, trade regimes, and ethical certifications. The findings indicate that without clear international coordination, Sharia compliance may become fragmented across jurisdictions, weakening consumer trust and ethical accountability at the global level.

In addition, the role of Sharia supervisory authorities warrants deeper reflection. While Sharia boards play a central role in ensuring compliance, their effectiveness depends on independence, expertise, and transparency. The study suggests that strengthening the professional standards and accountability mechanisms of Sharia supervision is essential to prevent conflicts of interest and to reinforce public confidence in Sharia governance.

Taken together, these extended discussions reaffirm that the future viability of Sharia Economic Law depends not only on regulatory expansion but on conceptual renewal. Embedding *maqāṣid al-shari'ah* into legal reasoning, institutional design, and market governance is crucial for restoring the ethical depth of Sharia-based economic systems.

Conclusion

This research provides a comprehensive evaluation of Sharia Economic Law as both a normative legal system and a practical framework for regulating contemporary economic activities. The findings demonstrate that while Sharia Economic Law has achieved strong formal recognition within national legal systems, its substantive implementation remains uneven and frequently constrained by structural and institutional limitations.

The study concludes that the predominant reliance on formal compliance mechanisms such as certification, documentation, and standardized contracts has reduced the transformative potential of Sharia Economic Law. This formalistic orientation risks detaching legal practice from the ethical objectives of *maqāṣid al-shari'ah*, particularly justice, equity, and the protection of public welfare. As a result, Sharia compliance often functions as symbolic legitimacy rather than as a catalyst for socio-economic reform.

From an institutional perspective, weak coordination among regulatory bodies and Sharia supervisory institutions undermines legal certainty and enforcement effectiveness. The absence of integrated governance frameworks allows regulatory arbitrage and inconsistent interpretation of Sharia norms, limiting their capacity to guide ethical economic behavior. Strengthening institutional synergy and accountability is therefore essential to enhance the credibility of Sharia Economic Law.

Economically, the study finds that limited access to Sharia-compliant financing for MSMEs constitutes a major barrier to inclusive development. Financial exclusion not only contradicts the objectives of Sharia Economic Law but also exposes vulnerable actors to exploitative practices that threaten economic justice. Expanding inclusive, risk-sharing financial models is thus a critical policy priority.

Technological innovation further complicates the implementation landscape. While digitalization offers unprecedented opportunities for market expansion and financial inclusion, it simultaneously introduces regulatory challenges that demand adaptive Sharia governance. Without effective oversight, digital platforms risk becoming sites of ethical erosion rather than instruments of empowerment.

Based on these conclusions, this study recommends several strategic measures. Policymakers should integrate *maqāṣid al-shari'ah* indicators into regulatory assessment frameworks to ensure outcome-oriented governance. Regulatory institutions must enhance coordination, digital capacity, and enforcement mechanisms. Educational initiatives aimed at improving Sharia literacy among business actors and consumers are equally vital to foster a culture of ethical compliance.

Academically, this research contributes to the field of Islamic economic law by demonstrating the analytical value of combining normative legal analysis with empirical investigation. The use of *maqāṣid al-shari'ah* as an evaluative framework offers a robust methodological approach for assessing the ethical performance of economic regulation in diverse contexts.

Future research should explore quantitative assessments of Sharia compliance outcomes, comparative cross-jurisdictional studies, and the impact of digital governance innovations on Islamic economic systems. Such research would further advance the development of Sharia Economic Law as a dynamic and responsive legal paradigm.

In conclusion, this study reaffirms that Sharia Economic Law possesses strong normative legitimacy and conceptual coherence as an ethical economic system. However, its transformative capacity is contingent upon the extent to which its moral objectives are substantively internalized within legal institutions, market practices, and social consciousness. Formal legal recognition alone is insufficient to realize the *maqāṣid al-shari'ah* in contemporary economic life.

The study emphasizes that future development of Sharia Economic Law must move beyond symbolic compliance toward ethical functionality. This requires a paradigm shift in regulatory thinking—from rule-centered enforcement to value-oriented governance that prioritizes justice, inclusivity, and social welfare. Without such a shift, Sharia Economic Law risks being subsumed within conventional economic logic, thereby undermining its normative promise.

Importantly, the conclusion highlights that Sharia Economic Law should be understood as a dynamic and evolving system rather than a static set of rules. Continuous reinterpretation (*ijtihad*) informed by empirical realities, technological change, and socio-economic transformation is essential to maintain its relevance. This dynamic orientation aligns with the historical development of Islamic law as a responsive and context-sensitive tradition.

From a broader perspective, the findings suggest that Sharia Economic Law has the potential to contribute meaningfully to global debates on ethical economics, sustainable development, and social justice. By offering an alternative framework grounded in moral accountability and distributive equity, Sharia Economic Law can engage constructively with global governance discourses beyond Muslim-majority contexts.

Ultimately, this study concludes that strengthening Sharia Economic Law requires integrated efforts across legal reform, institutional capacity-building, market restructuring, and ethical education. Only through such comprehensive engagement can Sharia Economic Law fulfill its foundational objective of promoting holistic human welfare (*falah*) in an increasingly complex global economy.

Bibliography

- Al-Suwailem, Sami. "Hedging in Islamic Finance." *Islamic Economic Studies* 13, no. 2 (2006): 1–44.
- Antonio, Muhammad Syafi'i. *Islamic Banking: Theory and Practice*. Jakarta: Gema Insani Press, 2011.
- Ascarya. *Sharia Contracts and Islamic Banking Products*. Jakarta: Rajawali Press, 2015.
- Ayub, Muhammad. *Understanding Islamic Finance*. Chichester: John Wiley & Sons, 2007.
- Bakar, Mohd Daud. *Shariah Minds in Islamic Finance*. Kuala Lumpur: Amanie Media, 2012.
- Chapra, M. Umer. *The Future of Economics: An Islamic Perspective*. Leicester: The Islamic Foundation, 2000.

- Dusuki, Asyraf Wajdi, and Nurdianawati Irwani Abdullah. "Maqasid al-Shariah, Maslahah, and Corporate Social Responsibility." *American Journal of Islamic Social Sciences* 24, no. 1 (2007): 25–45.
- El-Gamal, Mahmoud A. *Islamic Finance: Law, Economics, and Practice*. Cambridge: Cambridge University Press, 2006.
- Hallaq, Wael B. *An Introduction to Islamic Law*. Cambridge: Cambridge University Press, 2009.
- Haniffa, Roszaini, and Mohammad Hudaib. "Exploring the Ethical Identity of Islamic Banks." *Journal of Business Ethics* 76, no. 1 (2007): 97–116.
- Hasan, Zulkifli. "Regulatory Framework of Sharia Governance System in Malaysia." *Kyoto Bulletin of Islamic Area Studies* 3, no. 2 (2010): 82–115.
- Iqbal, Munawar, and Abbas Mirakhor. *An Introduction to Islamic Finance: Theory and Practice*. Singapore: John Wiley & Sons, 2011.
- Kamali, Mohammad Hashim. *Shari'ah Law: An Introduction*. Oxford: Oneworld Publications, 2008.
- Kuran, Timur. *The Long Divergence: How Islamic Law Held Back the Middle East*. Princeton, NJ: Princeton University Press, 2011.
- Obaidullah, Mohammed. *Islamic Financial Services*. Jeddah: Islamic Economics Research Center, 2005.
- Saeed, Abdullah. *Islamic Banking and Interest*. Leiden: Brill, 1996.
- Siddiqi, Muhammad Nejatullah. *Riba, Bank Interest and the Rationale of Its Prohibition*. Jeddah: Islamic Research and Training Institute, 2004.
- Vogel, Frank E., and Samuel L. Hayes III. *Islamic Law and Finance: Religion, Risk, and Return*. The Hague: Kluwer Law International, 1998.
- Wilson, Rodney. *Legal, Regulatory and Governance Issues in Islamic Finance*. Edinburgh: Edinburgh University Press, 2012.
- Zaman, Asad. "Islamic Economics: A Survey of the Literature." *Journal of Economic Methodology* 22, no. 2 (2015): 1–26.