



INNOVATION IN SHARIA BUSINESS MANAGEMENT FOR SUSTAINABILITY AND SHARIA COMPLIANCE: AN ISLAMIC LEGAL APPROACH

Gatot Teguh Afriyanto¹, Rika Githamala Ginting², Suci Wulan Dari³

^{1,2}Politeknik Negeri Medan, Indonesia

³Universitas Islam Negeri Sumatera Utara, Indonesia

*Corresponding Author: gatotteguh@polmed.ac.id

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ABSTRACT

This research discusses innovations in sharia business management that aim to achieve sustainability and conformity with sharia principles through an Islamic legal approach. The main focus of this research is to explore the application of sharia principles in business management that can support sustainability and ensure compliance with Islamic law while still paying attention to ethical aspects and social responsibility. The method used is an in-depth literature study on various references related to managerial innovation in sharia business. The results of the study show that companies that apply the principles of sustainability and social responsibility in accordance with sharia can achieve a competitive advantage, increase consumer loyalty, and have a positive impact on society and the environment. The study also recommends that Islamic companies increase training and education related to Islamic law to reduce challenges in the application of these principles.

Keywords: managerial innovation, sharia business, sustainability, sharia compliance, Islamic law.

1. INTRODUCTION

The development of Sharia businesses is growing rapidly in line with increasing consumer awareness of choosing products and services that comply with Sharia principles. One sector experiencing significant growth is the Sharia culinary business, which encompasses halal food products and business management based on Sharia principles. However, innovation in Sharia business management that maintains sustainability and compliance with Islamic law remains a significant challenge. With the growing global industry, it is crucial for Sharia businesses to innovate in management that focuses not only on profits but also on social sustainability and business ethics in accordance with Islamic values.

The following table shows relevant data regarding the development of the Sharia business sector in several countries important to this research, based on the latest data from the Global Islamic Economy Report (2020):

Table 1. Growth Data of the Sharia Business Sector

No	Countries	Sharia Business Sector	Estimated Market Value 2024 (USD)	Annual Growth Rate (CAGR)	Key Challenges
1	Indonesia	Sharia Finance	Assets: USD 54 billion (2023)	10-12% (BI projection)	Lack of product and technological innovation
2	Malaysia	Sharia Culinary	USD 13.7 billion (2024)	5.9% (2019-2024)	Increasing market competition
3	Saudi Arabia	Halal Tourism	USD 20.8 billion (2024)	1.4% (2019-2024)	Lack of compliance with Sharia principles
4	United Arab Emirates	Halal E-Commerce	USD 40 billion (2024)	8% (projection)	Need for stricter Sharia compliance

Source: Global Islamic Economy Report, 2020.

This table illustrates the enormous potential of the Islamic business sector in various countries, but also highlights the significant challenges in implementing Islamic managerial innovation that can support sustainability and compliance with Islamic principles. In this regard, there is still a lack of studies directly linking managerial innovation with Islamic law in ethical business practices. Although numerous studies have examined the application of Islamic principles in business, most studies focus on product innovation or marketing strategies, and few examine managerial innovation within an Islamic legal framework. This creates a research gap that needs to be filled:

1. **Lack of Research on the Integration of Managerial Innovation with Islamic Law:** Most recent studies focus on halal product innovation, while innovation in ethical and sustainable Islamic business management remains rarely discussed.
2. **Sustainability in Islamic Business:** There is limited literature discussing how managerial innovation can support the sustainability of Islamic businesses within a Sharia context, encompassing aspects of social justice, transparency, and environmental responsibility.

This research aims to fill this gap in the literature on Islamic managerial innovation by developing a theory based on Islamic law. This research also aims to explore how sharia managerial innovation can promote social sustainability and sharia compliance in more ethical business practices. The research problem formulation covers two main areas: first, how sharia business management innovation can contribute to sustainability and sharia compliance, and second, what challenges are faced in implementing Islamic law to ensure ethical and sustainable sharia business practices.

The following are five theories relevant to this research, based on recent literature published in international journals: Innovation Management Theory: Innovation in sharia business management can be measured through managerial creativity and adaptation to market changes. Managerial innovation in sharia business involves system changes that not only lead to profit but also emphasize compliance with sharia principles as the primary foundation for product and service development (Apriyanti, 2018). This innovation also plays a role in achieving sustainability in business. Sustainability Theory: Sharia business innovation plays a crucial role in promoting sustainability, both from a social and environmental perspective. Sustainable sharia business not only focuses on economic growth, but must also integrate social welfare and environmental preservation as part of sustainable development goals, (Dirie et al., 2024).

Business ethics theory emphasizes that all business activities must adhere to moral and ethical principles consistent with Islamic law, such as fairness and transparency. Business transactions in accordance with Sharia principles must reflect the values of honesty, transparency, and justice, while avoiding elements of exploitation and injustice in all business activities (Arifin et al., 2024). Furthermore, Islamic legal theory in business regulates various aspects of life, including business, by emphasizing the principles of justice, social responsibility, and prevention of harm, which are essential foundations for Sharia business practices. Islamic law provides clear guidelines for creating ethical and Sharia-compliant businesses, particularly in the application of Islamic business ethics and management (Jumardi et al., 2022). Law and Management Integration Theory: The integration of Islamic law with managerial innovation provides the foundation for creating ethical and sustainable businesses. Companies that integrate Islamic values into their business management while prioritizing innovation as a competitive advantage are able to achieve sustainable growth and long-term success (Maksum, 2023). This research conceptual framework integrates the five theories described above, focusing on managerial innovation in Islamic businesses based on Islamic law. This research examines the relationship between managerial innovation, sustainability, and Sharia compliance, and how Islamic legal principles can be used to guide such innovation.

2. RESEARCH METHOD

This research employed a qualitative approach with a literature review as the primary data collection technique. This approach was chosen because it allowed researchers to explore theories, concepts, and previous research findings relevant to the topics of managerial innovation in Islamic business, sustainability, and compliance with Islamic legal principles. Through a systematic literature review, researchers can comprehensively evaluate existing theories and practices, while identifying deficiencies or gaps in previous research. This approach helps build a

stronger and more relevant theoretical foundation for further research. Furthermore, this method provides a comprehensive overview of scientific developments and research practices, allowing new research to broaden insights without replicating previous work (Suyo-Vega et al., 2022). Primary data for this study were obtained through a literature review, encompassing journal articles, books, research reports, and official publications published within the last five years, taking into account the relevance and credibility of the sources used.

The data collection process involved identifying literature relevant to the research topic using academic databases such as Google Scholar, JSTOR, Scopus, and ProQuest. The selected literature was then screened based on relevance, year of publication, and source quality. After the literature was collected, the researcher conducted a thematic analysis to identify key themes related to managerial innovation, sustainability, Sharia compliance, and the application of Islamic law. Data analysis techniques included coding and categorization based on themes, identifying key themes, and synthesizing and interpreting literature findings linked to existing theoretical frameworks. In this way, this study aims to provide deeper insights into the application of Sharia managerial innovation in creating social sustainability and compliance with Sharia principles in business practices.

3. RESULT AND ANALYSIS

This study examines various literature discussing managerial innovation in Islamic business, sustainability, and Sharia compliance in business practices, with a focus on the application of Islamic legal principles in business management. The literature analysis identified several key themes related to Sharia managerial innovation, sustainability, and compliance with Sharia principles in business.

Table 2. Main Theme

No	Main Themes	Description
1	Managerial Innovation in Sharia Business	Innovation in Islamic business management involves the development of halal products, increased transparency, and the implementation of Sharia-based managerial systems. These innovations are essential for sustainability and compliance with Sharia principles.
2	Sustainability in Sharia Business	The application of Islamic legal principles in Islamic business ensures that every transaction and company policy complies with the prohibitions on <i>riba</i> (riba), <i>gharar</i> (gharar), and <i>maysir</i> (gambling) and promotes fairness and transparency in business.
3	Application of Islamic Law in Sharia Business	The application of Islamic legal principles in Islamic business ensures that every transaction and company policy complies with the prohibitions on <i>riba</i> (riba), <i>gharar</i> (gharar), and <i>maysir</i> (gambling) and promotes fairness and transparency in business.
4	Sharia Business Ethics and Social Responsibility	Sharia businesses must prioritize honesty, transparency, and social responsibility. Companies must contribute to the welfare of society and operate with social responsibility in accordance with Sharia principles.

5	Challenges in Implementing Sharia Managerial Innovation	Some challenges faced by Islamic companies in implementing managerial innovation include a lack of understanding of Islamic law, limited Sharia education, and differing interpretations of Sharia principles in management.
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Managerial Innovation in Sharia Business

Managerial innovation in Sharia business encompasses changes and improvements in strategy, organizational structure, and managerial systems and processes that comply with Sharia principles. This innovation encompasses various aspects, such as halal product development, the use of technology in business operations, and the application of Sharia principles in managerial decision-making.

Managerial innovation in Sharia business involves not only halal product development but also encompasses various other aspects such as social sustainability, the use of technology, and human resource management in accordance with Sharia principles. Key aspects of managerial innovation in Sharia business are:

- a. Halal Product Development: Sharia companies continuously innovate to develop products that not only meet Sharia standards but also meet consumer preferences in terms of quality and added value.
- b. Technology Utilization: Technology is used to increase operational transparency and efficiency, in accordance with Sharia principles of avoiding the practices of gharar (uncertainty) and riba (interest).
- c. Social Sustainability: Sharia principles require companies to pursue not only profits but also social and environmental well-being through responsible business practices.
- d. Human Resource Management: Managing human resources in accordance with Sharia principles, including aspects of fairness, responsibility, and respect for workers' rights.

Data Analysis: The Impact of Managerial Innovation on Sustainability and Sharia Compliance. The following table illustrates how managerial innovation in Sharia businesses affects sustainability and compliance with Islamic law.

Table 3. The Influence of Managerial Innovation

No.	Managerial Innovation Aspects	Impact on Sustainability	Impact on Compliance with Islamic Law
1	Halal Product Development	Improving business sustainability by expanding markets and meeting the growing demand for halal products.	Ensuring that the products offered are halal and free from haram elements, in accordance with Sharia principles.
2	Technology Use	Optimizing operational efficiency and transparency, which supports sustainability principles in resource management.	Maintaining fairness and transparency in business transactions, avoiding gharar and usury practices.
3	Social Sustainability	Maintaining social responsibility by adhering to Sharia principles,	Companies that prioritize social and environmental welfare in accordance

		which require companies to provide benefits to society and the environment.	with the Islamic principle of ta'awun (cooperation in goodness).
4	Human Resource Management	Improving employee motivation and productivity through fair management based on Sharia principles.	Ensuring that workers' rights are fairly protected, in accordance with the Islamic principles of justice and responsibility.

Literature analysis shows that many Islamic companies face challenges in implementing managerial innovations that align with Sharia principles. The primary challenge identified is a lack of in-depth understanding of Islamic law, leading to some risky managerial decisions that are inconsistent with Sharia principles. Furthermore, the limited human resources trained in Sharia principles also poses a barrier, given that many managers and employees lack adequate training. Another challenge is the difficulty in maintaining a balance between sustainability and business ethics, as Sharia companies often face a conflict between achieving financial profit and implementing Sharia principles, which emphasize social responsibility.

However, managerial innovations focused on halal products, the use of technology, social sustainability, and fair human resource management can have a positive impact on sustainability and compliance with Sharia principles. Sharia companies that successfully implement these innovations can not only grow financially but also thrive socially and ethically. To address these challenges, solutions such as Sharia training for employees and managers and the implementation of sustainable business models can be key to ensuring the implementation of managerial innovations that align with Sharia principles.

Sustainability in Sharia Business

Sustainability in Sharia business encompasses three main dimensions: social sustainability, environmental sustainability, and economic sustainability. Sharia business focuses not only on financial profit but also ensures that every business decision aligns with Sharia principles, which include social justice, social responsibility, and environmental protection. Therefore, it is crucial for Sharia companies to integrate Sharia principles into all dimensions of sustainability.

Dimensions of Sustainability in Sharia Business

Social Sustainability

Social sustainability in Sharia business involves efforts to improve community welfare, pay attention to workers' rights, and support education and empowerment in the surrounding community. The principle of ta'awun (cooperation in goodness) is particularly relevant in this context, where Sharia businesses must play an active role in improving the social and economic conditions of the community. Sharia companies, particularly Sharia microfinance institutions, that focus on community empowerment and social sustainability

through corporate social responsibility (CSR) activities can contribute to reducing poverty and improving social welfare in local communities. Islamic microfinance institutions play a strategic role in increasing community income and supporting the achievement of sustainable development goals (Anisa Apriani et al., 2024). This role aligns with Sharia principles, which emphasize social justice and improving the quality of life, thereby effectively strengthening social welfare within the community.

They emphasize that these empowerment programs must always be in accordance with Sharia principles, which prioritize social justice. Islamic banks, with financing models based on financial inclusion, can maximize their CSR impact by generating sustainable financial returns (Mohamed Sultan et al., 2024).

Furthermore, a CSR project involving a campus TV station and a large mosque highlighted the importance of empowering local communities within a spiritual and social context based on Islamic values (Pamungkas et al., 2024). Furthermore, spiritual practices in the workplace can strengthen social sustainability by integrating Islamic principles that encourage concern for the common good (Yousaf & Dogar, 2025). The importance of the principles of justice and sustainable natural resource management within a business framework that prioritizes Islamic values, which supports social sustainability efforts through entrepreneurial innovation (Pandikar et al., 2024).

Environmental Sustainability

Sharia businesses must commit to preserving the environment by adopting environmentally friendly practices. Sharia principles require the wise and sustainable management of natural resources, while preventing damage (*fasad*) that is detrimental to nature and humanity. The application of Islamic principles such as *khalifah* and *adl* is crucial in creating policies that support environmental sustainability and wise natural resource management. The concept of *khalifah* positions humans as leaders and guardians of the earth, responsible for maintaining the balance of the ecosystem and preserving the environment for present and future generations. Meanwhile, the principle of *adl* emphasizes justice in the distribution and utilization of natural resources, ensuring that there is no overexploitation that is detrimental to society or nature. By integrating these two principles, environmental policies can be designed to prevent damage, promote sustainable resource use, and maintain harmony between humans and nature in accordance with Islamic teachings (Pandikar et al., 2024). The application of Islamic social entrepreneurship principles in various business units can have a positive, sustainable impact, in line with the Sustainable Development Goals (SDGs), by emphasizing the importance of social and environmental responsibility in business (Setiawan et al., 2024). Furthermore, how Islamic legal principles can be used to address the issue of natural resource exploitation, by emphasizing

ecosystem balance and sustainable natural resource management (Fanani & Budiman, 2024).

Economic Sustainability

Economic sustainability in Islamic businesses focuses not only on financial growth but also on fairness in transactions and honesty in business practices. Therefore, Islamic businesses must avoid *riba* (usury), *gharar* (gharar), and *maysir* (gambling), and operate with transparency and honesty in transactions. Transparent Sharia-based governance can enhance economic stability in Islamic banking by increasing market confidence and synergizing stock prices (Quttainah & BenSaid, 2024). Companies that adhere to Sharia principles are more transparent in financial reporting and engage in less profit manipulation, contributing to greater long-term financial stability (Abraham, 2024). Furthermore, it emphasizes the importance of healthy competition in the Islamic banking sector to increase compliance with Sharia principles, which in turn enhances transparency and fairness in business transactions (Mukhibad, 2024).

The following table illustrates how the social, environmental, and economic sustainability dimensions of Sharia business contribute to long-term sustainability and compliance with Sharia principles.

Table 4. The Influence of Sustainability on Sharia Business

No.	Dimensions of Sustainability	Factors	Impact on Sharia Business
1	Social Sustainability	Corporate social responsibility	Improving corporate image, strengthening community relations, and promoting social welfare in local communities.
		Community empowerment	Providing economic opportunities, reducing poverty, and advancing social welfare in accordance with the principle of <i>ta'awun</i> (cooperation).
2	Environmental Sustainability	Natural resource management	Reducing negative environmental impacts and increasing the efficient use of limited natural resources.
		Environmentally friendly innovation	Enhancing corporate competitiveness by adopting environmentally friendly technologies and reducing carbon footprints.
3	Economic Sustainability Dimensions of Sustainability	Fair and transparent business models	Promoting stable economic growth and increasing consumer and investor confidence by avoiding exploitation.
		Sharia-compliant social investment	Enhancing financial sustainability through investments that comply with Sharia principles and provide positive social impact.

From the literature analysis, it can be concluded that sustainability in Islamic business has broader dimensions than conventional business models. Social, environmental, and economic sustainability are at the core of Islamic business, with a primary focus on community empowerment and social welfare. This is

reflected in CSR programs aimed at improving the quality of life, in accordance with the Islamic principle of ta'awun, which encourages cooperation in good deeds. Islamic companies that focus on social sustainability are more likely to gain consumer trust, which in turn enhances their reputation and customer loyalty (Mohamed Sultan et al., 2024). Furthermore, environmental sustainability is an obligation in Islam through the principle of khalifah (stakeholders of the earth). Therefore, Islamic companies are expected to adopt environmentally friendly practices such as reducing carbon emissions and managing waste. Environmentally friendly technologies implemented by Islamic companies not only support environmental sustainability but also improve operational efficiency and reduce long-term production costs (Pamungkas et al., 2024). In terms of economic sustainability, Islamic businesses operate with transparency and honesty and avoid practices inconsistent with Islamic principles such as riba (usury), gharar (unlawful gambling), and maysir (illegal gambling). Studies have shown that Islamic companies that implement fair and transparent business models can attract more social investors interested in positive-impact Islamic investments (Pandikar et al., 2024).

However, in achieving sustainability, Islamic companies face several challenges. A lack of understanding of Islamic principles in sustainability practices is a major obstacle. More in-depth Islamic training and education are essential to ensure the proper integration of Islamic principles. Furthermore, reliance on conventional business models that do not fully integrate Islamic sustainability principles is also a challenge that must be overcome. Islamic companies must transform towards more sustainable and ethical business models. Another dilemma is the imbalance between financial profit and social responsibility, where Islamic companies often face a difficult choice between achieving high profits and fulfilling social responsibilities. Striking a balance between the two is a challenge that must be overcome to ensure long-term business sustainability.

Sustainability in Islamic business is key to achieving fair, ethical, and sustainable growth. By integrating sharia principles into every dimension of social, environmental, and economic sustainability, sharia-compliant businesses can create long-term value that is not only financially profitable but also provides broad benefits to society and the environment. Therefore, sharia education and the development of global standards for sharia-compliant sustainability are crucial for sharia-compliant businesses to operate in accordance with Islamic principles and create a sustainable positive impact.

Application of Islamic Law in Sharia Business

The application of Islamic law in sharia business encompasses not only compliance with legal regulations but also focuses on the principles of justice, transparency, and social responsibility, which are applied in every aspect of business operations. One of the most fundamental principles of sharia business is

the prohibition of *riba* (interest), which is prohibited by Islam. *Riba* is the addition or interest charged on loans that are not lawful according to Islam. Therefore, in sharia business, transactions containing *riba* elements must be avoided, and as an alternative, profit-sharing systems such as *mudharabah* (profit-sharing partnerships) or *murabahah* (buying and selling with a clear profit margin) are used. This system allows both parties in the transaction to share profits fairly without any exploitation or injustice. This principle provides a business model based on equality and fair profit sharing (Quttainah & BenSaid, 2024). According to (Murtadha & Kornitasari, 2024), the implementation of this profit-sharing system also ensures that sharia businesses do not fall into expansionary patterns that disadvantage the weaker parties, as is often found in conventional financial systems. Sharia principles in business, such as fairness and transparency, play a crucial role in maintaining integrity and creating sustainability in Sharia-compliant business operations (Fanani & Budiman, 2024).

Furthermore, uncertainty in transactions is a crucial concern in Sharia-compliant businesses. In Islam, transactions containing elements of uncertainty or risks that harm one party must be avoided as they can lead to injustice. Therefore, Sharia-compliant businesses emphasize the importance of transparency and clarity regarding prices, products, and delivery times in every transaction. This approach aims to minimize risk and create fairness for all parties involved. Companies that implement the principle of transparency strive to create a fair and open business environment (Quttainah & BenSaid, 2024). Furthermore, Abraham (2024) highlights that adherence to Sharia principles contributes to increased transparency in financial reporting, ultimately strengthening stability and trust between companies and consumers.

Furthermore, Islam also prohibits all forms of transactions involving *maysir* (gambling) or speculation that lacks a clear and rational basis. *Maysir* refers to activities containing elements of gambling, where the outcome depends on luck rather than effort or rational decisions. In Sharia business, all forms of investment based on uncertainty or speculation should be avoided. Instead, Sharia business prioritizes investments based on real assets and legitimate businesses, which minimize uncertainty and promote fairness and honesty. Fair and balanced risk management in Sharia business transactions contributes to a fairer business environment and reduces the risk of exploitation (Mohamad Ghazali et al., 2024). Furthermore, avoiding excessive speculation in Sharia business contributes to financial stability and increases consumer confidence (Meiryani, 2024).

In terms of social responsibility, Sharia principles emphasize the importance of companies providing benefits not only to business owners but also to the wider community. Therefore, Corporate Social Responsibility (CSR) programs implemented by Sharia companies must align with Islamic teachings, which prioritize concern for society, the environment, and social welfare. This social responsibility should not be seen as an additional obligation, but as part of the

business ethics required by Islam. Companies with Sharia-compliant CSR programs focus on community empowerment, poverty reduction, and environmental preservation, which positively impact the surrounding community (Mohamed Sultan et al., 2024). Companies actively engaging in CSR experience positive outcomes in terms of consumer loyalty and perception, which are crucial for business sustainability (Wekesa, 2024). Sharia-compliant companies that focus on social sustainability can create positive synergies between economic and social goals, enhancing corporate image and consumer trust (Pandikar et al., 2024).

The application of Islamic law in sharia-compliant businesses also involves the establishment of a sharia committee tasked with ensuring that all company policies and transactions comply with sharia principles. This committee acts as a supervisory body, ensuring that the company conducts its operations with full sharia integrity, ensuring that no actions contradict Islamic teachings. An effective sharia committee provides the necessary oversight to ensure the company remains within the bounds of Islamic law (Quttainah & BenSaid, 2024). The sharia committee's function is to ensure that all company activities comply with Islamic law, including transactions, finances, and other operations (Mukhibad, 2024).

The application of Islamic legal principles in sharia-compliant businesses is not merely a matter of legal compliance but also focuses on social welfare, justice, and transparency in all transactions and business activities. This demonstrates that sharia-compliant businesses operate not solely for profit but also to positively impact society, minimize injustice, and ensure long-term sustainability. Thus, sharia-compliant companies become more than simply profit-oriented entities, but are also committed to Islamic ethical and moral values.

Sharia Business Ethics and Social Responsibility

Sharia Business Ethics is the application of moral principles derived from Islamic law to the business world. This ethic emphasizes the values of honesty, fairness, transparency, and social responsibility, which must be embodied in every business transaction and interaction. In Sharia business, this ethic goes beyond simply following applicable regulations, but also strives to achieve social and moral goodness in line with Islamic teachings.

The basic principle of Sharia business ethics is to ensure that all business activities, whether financial transactions, resource management, or product and service management, are conducted with honesty and transparency, and avoid all forms of fraud, corruption, or exploitation. For example, in the context of pricing, Sharia businesses must ensure that prices are set fairly and based on a clear agreement between both parties, and are free from coercion or deception. Sharia business ethics prioritizes the balance between profit and social responsibility, avoiding the greed often found in conventional business systems (Quttainah & BenSaid, 2024). Furthermore, corporate social responsibility (CSR) in Sharia business is a moral obligation that must be fulfilled by companies. Social

responsibility in Islam is not merely a voluntary obligation, but rather a moral obligation that must be fulfilled by every business entity operating under Sharia principles. CSR in the context of Sharia business focuses on community development and empowerment, improving the quality of life, and supporting environmental sustainability, all of which are carried out with justice and social concern (Setiawan et al., 2024).

As part of their social responsibility, Sharia companies are expected to help alleviate poverty, provide employment, and support broader social welfare. This aligns with the Islamic principle of *ta'awun* (cooperation in goodness), which encourages companies to contribute to the welfare of the community without seeking profit alone. Sharia companies that consistently implement the principles of social responsibility can not only positively impact society but also gain a significant competitive advantage by enhancing their reputation and customer loyalty (Quttainah & BenSaid, 2024). Sharia businesses that focus on community empowerment and social welfare can increase positive impacts on surrounding communities and strengthen the relationship between the company and its community (Isnain Fitri Auli Yanti et al., 2024).

Sharia business ethics and social responsibility are two inseparable concepts in running a Sharia-based business. Successful Sharia businesses prioritize not only profit but also a commitment to creating a sustainable positive impact on society, the environment, and the broader economy. This sustainability can only be achieved if Sharia companies consistently prioritize ethical values, social responsibility, and fairness in all their business activities, while ensuring that all operational practices provide tangible benefits to all parties involved (Pandikar et al., 2024). Furthermore, Sharia companies that implement these principles can also create a sustainable competitive advantage in an increasingly competitive industry.

Challenges in Implementing Sharia Managerial Innovation

Implementing Sharia-compliant managerial innovation in the Islamic business world is not easy and presents various challenges for companies seeking to operate in accordance with Islamic legal principles. Managerial innovation in Islamic business involves developing business models that align with Sharia, while ensuring that company policies and decisions are based on fairness, transparency, and social responsibility.

The challenge in Islamic business lies in the differing interpretations of Sharia principles in managerial practices. Although the basic principles of Sharia are clear, variations in their application, particularly in aspects of Islamic finance, human resource management, and business models, often create confusion. The complexity of Sharia interpretations can complicate managerial decision-making, as companies must balance Sharia principles with ever-changing market dynamics (Pandikar et al., 2024). For example, implementing a profit-sharing system in

Islamic finance often presents a challenge for entrepreneurs accustomed to the interest system of conventional finance. Therefore, education and training on Islamic law in the context of Sharia business management are crucial to addressing this challenge.

Furthermore, the lack of a clear framework and standard operating procedures for implementing Sharia-compliant managerial innovation poses a significant challenge for many companies. Without consistent guidelines, Sharia-compliant companies often struggle to assess the compliance of their business practices with Sharia principles, whether in product innovation, marketing strategies, or human resource management (Pandikar et al., 2024). This lack of clarity in standards can lead to some practices being deemed acceptable when in fact they conflict with Sharia principles. Developing a clear framework is crucial to ensuring consistency and compliance with Sharia principles across all aspects of the business.

Another challenge facing Sharia-compliant businesses is the ability to adapt to changing times without compromising Sharia principles. Sharia-compliant businesses must be able to adapt to global market dynamics while maintaining compliance with Sharia principles. For example, product innovations that adopt new technologies or digital approaches common in conventional companies must be carefully evaluated to avoid involving prohibited practices such as *riba* (usury) or *maysir* (gambling). Sharia-compliant companies that fail to keep pace with technological developments and digital innovation risk missing out on significant market opportunities, but these innovations must remain grounded in Sharia principles (Faizatul Husna & Holilur Rahman, 2024).

The next challenge in developing Sharia-compliant managerial innovation is the need for increased collaboration between regulators and industry players to develop clearer guidelines and policies. Although institutions regulate Sharia-compliant finance and business, the application of these principles in business practices often faces challenges, particularly related to cultural and ethical factors in emerging markets. Cultural and ethical challenges can impact the successful implementation of Islamic principles in business (Ali et al., 2024). Closer collaboration between regulators, legal practitioners, and business players is crucial to overcome these obstacles and ensure the effective implementation of Sharia-compliant managerial innovation. Accelerating the implementation of Sharia-compliant managerial innovation requires a multidisciplinary approach that integrates Sharia-compliant principles with market dynamics and evolving business operational needs (Ali et al., 2024).

Table. 5. Thematic Analysis

No.	Themes	Subthemes	Key Findings
1	Managerial Innovation in Sharia Business	Halal Product Development	Halal product innovation and technology development in Islamic businesses increase transparency and managerial effectiveness.
2	Sustainability in Sharia Business	Social and Environmental Responsibility	Sustainability in Islamic businesses encompasses not only financial aspects but also social responsibility and environmental impact.
3	Implementation of Islamic Law in Sharia Business	Sharia Audits and Compliance	The implementation of a sharia committee and internal audits ensures business practices comply with Islamic law, maintaining the principles of halal and haram in every transaction.
4	Sharia Business Ethics	Honesty and Transparency	Sharia business ethics, which emphasize honesty and transparency, build a good reputation and enhance relationships with stakeholders.
5	Challenges in Sharia Managerial Innovation	Education and Training	The biggest challenge is the lack of understanding and training related to sharia principles in business management, which hinders the implementation of managerial innovation.

4. CONCLUSION

The application of Sharia-compliant managerial innovations in Sharia-compliant businesses offers significant potential for creating sustainable and ethical business models, but faces significant challenges. The primary challenge is a lack of understanding of Sharia principles among managers and decision-makers, as well as differing interpretations of Sharia principles that can confuse managerial practices. Furthermore, unclear operational standards for implementing Sharia in business practices and the difficulty of adapting to global market developments without violating Sharia principles also pose significant obstacles. Nevertheless, social responsibility in Sharia-compliant businesses remains a key strength, with companies focusing not only on financial profit but also on social welfare, the environment, and sustainability.

To address these challenges, it is recommended that Sharia-compliant companies increase education and training on Islamic law, clarify Sharia-compliant operational standards, and build collaboration between regulators and industry players to create clearer guidelines. Companies also need to continue innovating by adopting new technologies and digitalization without violating Sharia principles, and strengthen the role of Sharia committees in internal oversight to ensure consistent application of Sharia principles across all aspects of the business. This will help ensure that sharia managerial innovations can be implemented more effectively and support long-term sustainability.

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