

## MASLAHAH-BASED AGENCY: AN EPISTEMOLOGICAL CRITIQUE OF INDIVIDUALISTIC RATIONALITY IN CONVENTIONAL AGENCY THEORY

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### ABSTRACT

*Conventional agency theory, rooted in the assumptions of individualistic rationality and contractual relations between principals and agents, shows fundamental limitations when applied in Islamic financial systems that emphasize spiritual, ethical, and social values. The opportunistic and conflict of interest assumptions in this theory are seen as incompatible with the principles of trust, tawhid, and maslahah that are at the core of Islamic economic ethics. This study aims to critically examine the epistemological structure of conventional agency theory and reformulate it into an Islamic value framework through a conceptual literature study approach and content analysis of Scopus, DOAJ, and SINTA indexed scientific literature in the period 1998-2025. The results of the study show that the Islamic Ethical Agency Framework (IEAF), which is built on four main pillars of tawhid, amanah, maslahah, and dual governance can be a more suitable theoretical alternative in bridging the principal-agent relationship ethically and transcendental. With IEAF, the Islamic financial system can be directed not only to achieve economic efficiency, but also encourage sustainable moral and social transformation. These findings provide an important conceptual contribution to the development of Islamic agency theory and the strengthening of Islamic value-based financial governance.*

*Keywords: Islamic agency theory; Maslahah; Amanah; Tawhid; Shariah governance; Islamic finance; Islamic Ethical Agency Framework (IEAF)*

### INTRODUCTION

In an increasingly complex and disruptive contemporary social landscape, the *maslahah-based* agency approach emerges as an epistemological offer that is not only relevant, but also urgent to be re-analyzed. The individualistic rationality that dominates conventional agency theory has lost its relevance when faced with the dynamics of postmodern society, which is full of value uncertainty, identity fragmentation, and accelerated information flows. The phenomenon of digitalization of social life, especially through social media, has revolutionized the way individuals build social relations and negotiate values.[1] . Platforms such as Instagram, TikTok, and X (Twitter) not only become spaces for self-expression, but also form new social norms that sometimes contradict the normative values of religion and local culture.

This condition is exacerbated by the increasing moral crisis that stems from the tension between social expectations and individual freedom. The phenomenon of "hijrah", for example, is not just a personal spiritual transformation, but has metamorphosed into a social and even economic movement that reflects resistance to the globalization of values[2] . This movement shows how individuals, especially the young urban generation, are trying to redefine their agency through a more authentic frame of religiosity[3] . On the other hand, there is a value paradox in daily practices on social media, where the escalation of deviant behavior such as *friends with benefits* (FWB) has become a new social practice that is increasingly normal among young users[4] . Both show how social media has become an epistemic battleground between

the values of secular individualism and communitarian religiosity.

The inclusion of the concept of *maslahah* in the framework of agency theory offers a methodological and ethical solution to the limitations of conventional agency theory. If Western agency theory is rooted in the assumption of homo economicus who behaves rationally for personal gain, then in the Islamic context, agency is constructed as a mandate that is spiritually, socially and ethically binding. This approach emphasizes that decision-making by agents should consider not only efficiency or profitability, but also social justice and public good.[5] . The social media-based da'wah communication model has also become a strategic instrument in delivering messages that are collective and transformative, transcending the boundaries of the individualism narrative[1] . Structural challenges such as the crisis of trust in institutions, including conventional banking, are also indicators of the need to redefine agency. Studies in Aceh show that people's shift from conventional banks to Islamic banks is not only driven by religious motivations, but also as a response to dissatisfaction with the capitalistic economic system that is not oriented towards justice[6] . This phenomenon strengthens the position of *maslahah-based* agency theory as an approach that is able to capture the complex reality of modern Muslim societies that seek synergy between spirituality and economic rationality. In the theoretical framework, the *maslahah* approach can be positioned as an elaboration of the concept of *structugency*[7] , namely the simultaneous interaction between structure and agency in shaping social action. This approach allows the analysis of agency in the context of tensions between dominant norms and the actual needs of society. Thus, *maslahah* is not only a normative principle, but also an epistemic tool to read social dynamics more fully and contextually.

The main problem with the conventional agency theory approach lies in the assumption of individualistic rationality that ignores the ethical, social and spiritual dimensions inherent in individual decision-making, especially in Muslim societies that are increasingly affected by digital disruption and value shifts. In the current social context, where social media, the hijra phenomenon, and changing economic orientations demonstrate complex agency dynamics, contractual and control-based agency theories are no longer considered adequate to holistically explain agent behavior.

This research aims to dive deeper into agency practices in a shifting transformative society, focusing on how individuals manage their rationality amidst social, economic and cultural pressures. The *maslahah* approach provides a conceptual foundation to bridge the dichotomy between individual and collective interests, while building a more spiritual, ethical and civilized narrative of agency. With this orientation, the contribution of this research is not only academic but also practical. The author proposes the development of the *Islamic Ethical Agency Index (IEAI)* as a quantitative measurement tool in assessing the implementation of value-based agency principles in Islamic social and economic institutions. This is in line with the direction of state policies that are now integrating religious values in sustainable social and economic development. Thus, this research has the potential to become a theoretical as well as practical reference in formulating public policies and value-based governance designs that are more equitable and inclusive.

## **THEORY REVIEW**

Agency theory is one of the most influential theoretical frameworks in explaining the relationship between principals (capital owners) and agents (capital managers) in

various economic institutions, including banking and finance. In its conventional form, this theory rests on the assumption that agents have a tendency to act opportunistically to maximize their personal interests, which can be at odds with the interests of the principal Jensen & Meckling, 1976, in[8] . Therefore, this relationship is considered to require monitoring mechanisms and incentives to reduce conflicts of interest and the risk of information asymmetry. However, this assumption has been criticized for being too reductive, ignoring the moral and social complexities in human relations, and tends to rely on economic logic alone Kumalasari & Sudarma, 2013.

In the context of Islamic finance, an agency approach rooted in Islamic ethical and spiritual values is becoming increasingly relevant. Contracts such as *mudharabah* and *musharakah* illustrate agency relationships that are not only economic, but also based on *trust* and the principle of *tawhid*[9] . Sarker (1999) even states that the main objective of agency relationships in Islam is to achieve *falah*, the welfare of the world and the hereafter, which reflects a moral and social orientation that is broader than just economic profit. Some studies suggest that the solution to agency conflicts in Islamic finance can be pursued through strengthening *Shariah Governance*, especially by prioritizing the principles of fairness, transparency, and accountability to Allah SWT .[10], [11][12] offers a comprehensive *Shariah Governance Framework*, which explicitly integrates Qur'anic ethical principles into the institutional system. This framework is considered more capable of addressing issues such as information asymmetry and contractual conflicts, compared to conventional agency models that are often limited to legalistic approaches.

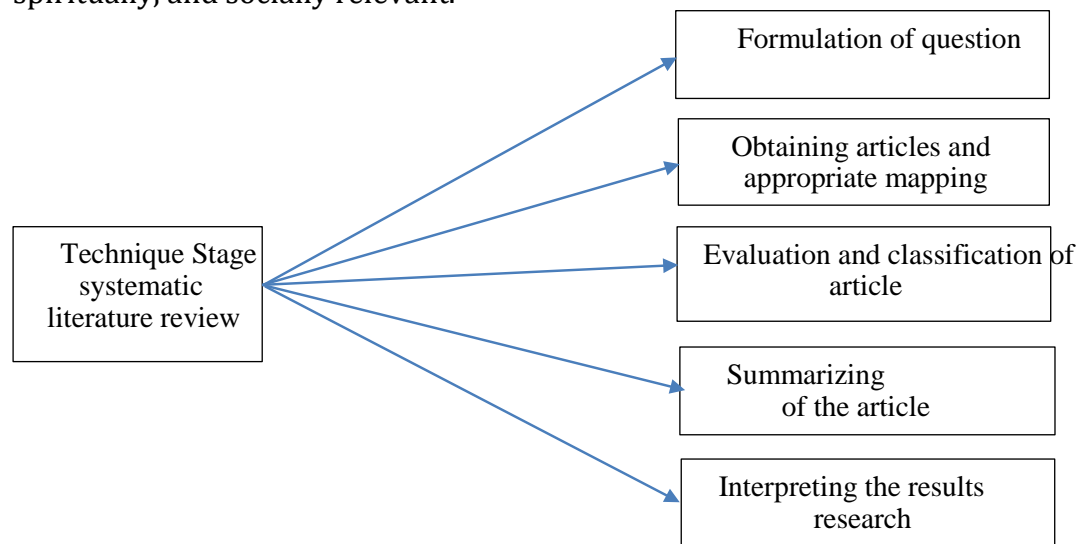
[13] It emphasizes that the principal-agent relationship in Islamic finance should be oriented towards the public good, not just individual profit optimization. In this case, social values and sustainability become the central elements that distinguish the Islamic agency model from the conventional one.[14] adds the importance of integrating the principle of sustainability in the agency relationship, as a form of moral responsibility of the agent towards the community and the environment. Therefore, *maslahah*-based agency theory offers a reconceptualization of agency relationships by emphasizing ethics, trust, and *falah* as normative foundations in Islamic economic practice. .[15]

Thus, this theoretical review shows the urgent need to reformulate agency theory within the framework of Islamic epistemology. Not only to adjust to the empirical reality of Islamic financial institutions, but also to answer the increasingly complex moral, social and environmental challenges in the modern world.

## RESEARCH METHOD

This research uses an epistemological-critical approach with a conceptual literature study design, which aims to evaluate and reformulate the basic assumptions of conventional agency theory in the context of Islamic finance. The method used is *content analysis* of scientific articles published in journals of international and national repute. The main focus of the analysis is directed at identifying the argument structure, normative framework, and epistemological tensions between neoclassical economics-based agency theory and Islamic values that emphasize the principles of *trust*, *maslahah*, and *ihsan*. In this case, the methodological model used is not merely descriptive, but critical-reflective, to uncover philosophical biases in Western agency theory and open space for alternative constructions derived from the Qur'anic value framework and *maqāṣid al-sharī'ah*. As emphasized by[16] , this approach is

important to bridge the gap between conventional economic theory and the normative reality in the Islamic financial system. This analysis is strengthened by the use of the conceptual synthesis technique, which combines key principles from Islamic finance literature with a critique of the technocratic and ahistorical assumptions in Western theory[17] in order to formulate an alternative agency model that is more ethically, spiritually, and socially relevant.



## RESULTS AND DISCUSSION

### Epistemological Limitations of Conventional Agency Theory

Agency theory in the conventional literature departs from the assumption that agents always act based on narrow rationality oriented towards self-interest and the achievement of maximum utility. This model prioritizes control and contracts as the main instruments in reducing the potential deviation of agents from the interests of the principal. However, this approach shows limitations when faced with social and economic realities that contain moral, spiritual and ethical values.[18], [19] underlines that conventional agency theory ignores the normative substance of economic interactions, which should not only be based on control, but also trust and moral responsibility.

Criticism of agency theory becomes increasingly relevant in an Islamic economic system that places transcendental values as the basis of economic activity. In this perspective, agents are not simply rational actors that need to be controlled, but rather moral subjects who are responsible not only to the principal, but also to God and society at large.[18] emphasizes the importance of integrating *maṣlahah* values in the decision-making framework as a normative orientation that balances personal and collective interests. This view emphasizes that the goal of economic activity in Islam goes beyond mere efficiency, and must reach out to collective welfare.

The reductionistic epistemological aspect of conventional agency theory also creates structural problems in the governance of economic institutions. The focus on control and incentives creates principal-agent relationships that are transactional and antagonistic, rather than cooperative and constructive. Therefore, this approach is considered to fail in accommodating the socio-cultural context of Muslims who prioritize *ukhuwah*, *amanah*, and justice as collective values. In criticism[20], the conventional orientation actually distances economic practices from the noble values that are the normative basis in the Islamic financial system.

In business practice, the absence of a moral dimension in agency theory also causes distortions in decision-making. Business ethics that rely solely on contract law are often unable to encourage socially responsible behavior.[21] in its comparative study shows that the utilitarian approach on which Western agency theory is based is not in line with the principle of *maṣlahah*, as it tends to ignore distributive justice and human values. This explains why economic systems built on the foundation of conventional agency theory often fail to respond to ethical challenges in the contemporary era.

Thus, criticism of conventional agency theory is not only theoretical, but also an expression of the need for a reformulation of economic epistemology that is more ethically and spiritually inclusive. Agency theory reconstructed with an Islamic approach views economic relations as a field of social participation that prioritizes responsibility, trust and collective welfare. This opens up space for reorganizing agency theory in the corridor of Qur'anic values that not only build morality, but also encourage the formation of fair and sustainable economic governance.[18], [20], [21] .

### Formulation of *Maslahah*-Based Islamic Agency Theory

The formulation of *maṣlahah*-based agency theory in Islam stems from the assumption that the relationship between principals and agents should not be understood antagonistically, but rather as a mandate based on moral values and collective responsibility. In the Islamic view, agents are not just managers of resources, but also bearers of social and spiritual burdens that will be held accountable by Allah. The concept of *tawhid* in this case becomes an ontological framework that binds both parties in a value system that leads to mutual benefit[20], [22] . Agency relationships in Islam thus demand spiritual and ethical commitments, not just contractual agreements.

The main pillar in Islamic agency construction is *amanah*, which is the trust entrusted by the principal to the agent on the basis of integrity and responsibility. In this context, values such as honesty (*sidq*), awareness of divine supervision (*muraqabah*), and sincere intentions (*ikhlas*) become normative instruments that shape responsible agency behavior. *Tawhid* as a transcendental basis reinforces the awareness that every agent's action is a form of worship that has both worldly and afterlife awareness. Therefore, Islamic agency theory not only emphasizes efficiency and profit, but also justice, balance, and desirability in decision making. In the *maṣlahah* framework, agents are expected not only to maximize financial gains for the principal, but also to think about the long-term impact on society. The value of *falah* which is the ultimate goal in Islamic economics includes economic welfare, social stability, and environmental sustainability.[19], [23] . This means that the success of the principal-agent relationship is measured not only through economic output, but also through contributions to social justice and the welfare of the people. This approach is in line with the *maqāṣid al-sharī'ah* which makes the preservation of wealth (*ḥifẓ al-māl*), soul (*ḥifẓ al-nafs*), and mind (*ḥifẓ al-'aql*) as important elements in all economic activities.

As a response to the technocratic nature of conventional theory, the *maṣlahah* approach emphasizes the importance of alignment between spiritual values and business practices.[24] states that strengthening the moral dimension in agency relationships can increase public trust in Islamic financial institutions. In this context, the contract is no longer the only binding one, but rather part of a broader ethical system. This encourages a shift from a control-based management paradigm to a

partnership paradigm that values goodwill, active participation, and social commitment. Thus, *maslahah-based* Islamic institutional theory does not merely revise the structure of the principal-agent relationship, but also offers an ethical framework capable of bridging individual and community interests. It emphasizes the importance of spiritual values in economic transactions and paves the way for more humanistic business governance that focuses on collective welfare. This is not simply a critique of the old model, but rather an alternative paradigm that is more in line with the ethical needs of the people and the challenges of modern times. [19], [22], [23]

### **Dual Board Governance and Ethical Governance**

The governance of Islamic financial institutions cannot be separated from the important role of the Sharia Supervisory Board (DPS), which is tasked with keeping all activities of the institution in accordance with sharia principles. In the *dual board governance* model, the DPS stands side by side with the conventional board of commissioners in the organizational structure, but has a normatively higher function because it acts as the guardian of sharia integrity. [23] emphasizes that the DPS not only has the technical task of providing fatwas, but also plays a strategic role in encouraging ethical compliance and shaping a Qur'anic organizational culture. The integration of sharia values into the governance system is not enough if it is only placed on the formal institutional aspect. It requires a deep understanding of Islamic ethics and strong interpretative skills from DPS members. [25] suggests that the effectiveness of DPS is strongly influenced by the independence, intellectual capacity, and moral authority of its members. In other words, DPS is not just a formal institution, but a manifestation of an ethical supervisory mechanism rooted in the *hisbah* principle of social supervision in classical Islamic tradition.

It also serves as a bridge between the pragmatic modern business world and normative Islamic values. It is important to build a structure that allows DPS to be not only symbolic, but also substantive in its function. When the DPS performs an educative function to management and the public, as well as an evaluative function to the institution's operations, then sharia governance will be more than just the fulfillment of regulations; it will become a living value system that guides corporate behavior towards *maslahah* [25]. Furthermore, ethical governance through dual boards contributes significantly to public accountability. [26] states that companies that implement sharia governance principles conscientiously tend to be more trusted by the public and investors. The integration of Islamic ethical principles with modern governance frameworks creates institutional credibility that not only enhances reputation, but also promotes financial desirability in the long run. This shows that value-based governance does not conflict with modern managerial principles, but rather enriches and balances them.

Thus, the *dual board governance* system is an ideal governance model in the context of Islamic finance. It allows for both vertical (to Allah) and horizontal (to humans) oversight to occur simultaneously. This governance not only serves as an internal control, but also as a manifestation of the values of *amanah*, *tazkiyah*, and *'adl* that must be the foundation of every economic activity. This approach is relevant not only for Islamic financial institutions, but also as an inspiration for ethical governance in the era of global corporations.

## The Concept of Humanistic Agency in Islamic Finance

One of the greatest contributions of the Islamic approach to agency theory is the introduction of a humanistic agency concept. In this view, agents are not only rational actors subject to the logic of incentives, but also moral beings who bear social and spiritual responsibilities. The concept of *khalifah* in Islam places humans as God's representatives on earth, who are given the mandate to manage resources fairly and wisely.[27] states that this paradigm breaks the narrow boundaries of conventional agency by bringing transcendental values into the realm of economic relations. Humanistic agency changes the way we view principal-agent relationships from antagonism to partnership. The agent in Islam does not just work to fulfill the contract, but carries it out with the full awareness that he is socially and spiritually responsible. In this context, the principle of transparency is not just a legal imperative, but also an expression of the value of *trust* inherent in every action.[18], [28] shows that the application of these principles can strengthen the trust relationship between principals and agents, while substantially reducing moral hazard.

The humanistic agency concept also reinforces the importance of *public accountability* in business practices. Agents are not only held accountable by principals in terms of targets and results, but also by society and God in terms of ethics and justice. Therefore, every economic decision needs to be evaluated in terms of its benefits to society, the environment and social structures. The principles of *'adl* (justice) and *ihsan* (moral excellence) become the ethical standards that should assist the actions of economic agents in the face of interest dilemmas.[27], [29]. Moreover, the humanistic agency approach targets social transformation. It not only regulates individual relationships between principals and agents, but also aims to create an inclusive and just economic system. In the midst of a crisis of trust in institutions, an agency model that emphasizes spiritual values and collective responsibility can serve as a foundation for reforming the overly restrictive modern corporate system for the sake of profit. This concept opens up space for the integration of Islamic values in global business practices that are currently increasingly interested in the ESG (*Environmental, Social, Governance*) concept.

Thus, humanistic agency in Islam is not just a variant of agency theory, but a paradigmatic approach that changes the direction of economic thought. It places humans as ethical subjects who not only have contractual rights and obligations, but also inherent moral responsibilities. This concept is not only relevant for Islamic financial institutions, but also has great potential to enrich the world's economic thinking that is now looking for a more ethical and sustainable development model.[28], [29].

## Conceptual Model: The Islamic Ethics Agency Framework (IEAF)

*The Islamic Ethical Agency Framework* (IEAF) comes as an epistemological response to the limitations of conventional agency theory that overemphasizes egoistic rationality and control-contract relationships. The IEAF is formulated as a normative synthesis that integrates the fundamental principles in Islamic ethics: *tawhid*, *amanah*, *maslahah*, and *dual governance*. These four pillars are not merely spiritual jargon, but form the operational basis for value-based economic decision-making and multidimensional accountability. The *tawhid* pillar functions as an ontological foundation that places the principal-agent relationship in the orbit of servitude to Allah

SWT, so that the orientation of the relationship is no longer merely transactional, but reflects the awareness of worship. [28], [30] With this approach, the agent's actions are not merely seen as an execution contract, but as a form of social and spiritual piety....

The second pillar, *amanah*, is an ethical principle that reorganizes the foundation of agential relationships from control-based relationships to trust-based relationships. In the Islamic tradition, *trust* is not the result of a contractual compromise, but rather a divine mandate inherent in the agent's existence as a khalifah. Therefore, the Islamic approach replaces external monitoring mechanisms such as incentives and penalties, with internal mechanisms such as *muraqabah* (awareness that Allah is watching) and *tazkiyah* (purification of intentions). This shifts the logic of supervision from a mechanical instrument to a spiritual device, as reflected in the concept of *ihsan* which demands ethical excellence in every action. Thus, *amanah* in the IEAF framework not only shapes the behavior of agents, but also becomes the foundation of organizational governance that encourages dual accountability: to humans and to God . [28]

Meanwhile, the *maslahah* pillar plays a central role in setting the goal direction of all agency activities. In the IEAF, *maslahah* is not just a policy outcome measured by economic benefits, but an ethical framework for assessing the suitability of every business decision with the principles of social justice, environmental desirability, and the welfare of the people. By making *maslahah* an institutional mission, Islamic financial institutions are encouraged to adopt strategies that are aligned with maqāṣid al-sharī'ah, such as the preservation of wealth, soul, and offspring.[31] asserts that without an integral positioning of *maslahah* in the institutional system, Islamic values will be reduced to formalistic symbols without substantive influence. Therefore, IEAF offers an alternative that is able to resolve conflicts of interest with a value-based collaborative approach, not just legalistic control.

The fourth pillar, *dual governance*, is an institutional approach that combines the strengths of modern corporate governance with the holistic principles of sharia . This model integrates the roles of the direct board as the business manager and the Sharia Supervisory Board (DPS) as the guardian of Islamic values and law. The synergy between these two institutions creates a decision-making system that is not only efficient, but also based on social values and missions.[31], [32] emphasizes that this *dual governance* structure is able to ensure that sharia principles are not only present in the form of fatwas, but truly become the spirit in the strategy and culture of the organization. In other words, IEAF through this pillar ensures the internalization of sharia values into every layer of the corporation's operations and supervisory structure.

Finally, by bringing together these four main pillars, the IEAF forms a robust theoretical and applicative framework to address the multidimensional challenges in contemporary Islamic finance. This model is not only relevant for strengthening the internal integrity of institutions, but is also in line with the global trend of mainstreaming *Corporate Social Responsibility* (CSR), *Environmental, Social, and Governance* (ESG), and sustainable finance as indicators of modern corporate performance.[33], [34] emphasizes that the IEAF is an ethical framework that is adaptive to changing times, and at the same time able to maintain the originality of Islamic values. With the IEAF, business is not only measured by profits, but by its contribution to humanity, environmental desirability, and social justice, making it a transformational model for 21st century Islamic business.

## CONCLUSION

This research study has epistemologically affirmed that conventional agency theory based on the paradigm of individualistic rationality and contractual relations has proven inadequate in explaining the complexity of the dynamics of principal-agent relationships in contemporary Islamic financial systems. The basic assumptions of this theory, such as agent opportunism and information asymmetry that are resolved through control and incentive instruments, tend to ignore the transcendental dimension and social ethics that are the foundation of the Islamic economic system. Through a conceptual literature study approach and critical analysis of relevant recent literature, this research successfully reformulates the epistemological basis of agency theory by offering an Islamic Ethical Agency Framework (IEAF). IEAF is built on four value pillars: *tawhid* as the ontological basis of agency relationships; *amanah* as the moral and spiritual foundation; *maslahah* as the normative orientation for fair and equitable decision-making; and *dual governance* as a structural approach that integrates modern governance with sharia principles.

Thus, IEAF is not only a paradigmatic critique of conventional agency approaches that tend to be utilitarian and mechanistic, but also offers an alternative model that is more compatible with *maqāsid al-sharī'ah*. This model provides a conceptual contribution to the development of Islamic agency theory that is oriented towards a balance between economic efficiency and moral responsibility, and supports efforts to build a sustainable, inclusive and civilized Islamic financial system. Moreover, the proposed development of the *Islamic Ethical Agency Index (IEAI)* as a quantitative instrument also expands the practical significance of this framework in assessing the ethical quality of agency relationships in Islamic financial institutions. This research, therefore, is not only theoretical-reflective, but also applicative-transformative, and opens space for further elaboration in the development of value-based governance in the 21st century Islamic economy.

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