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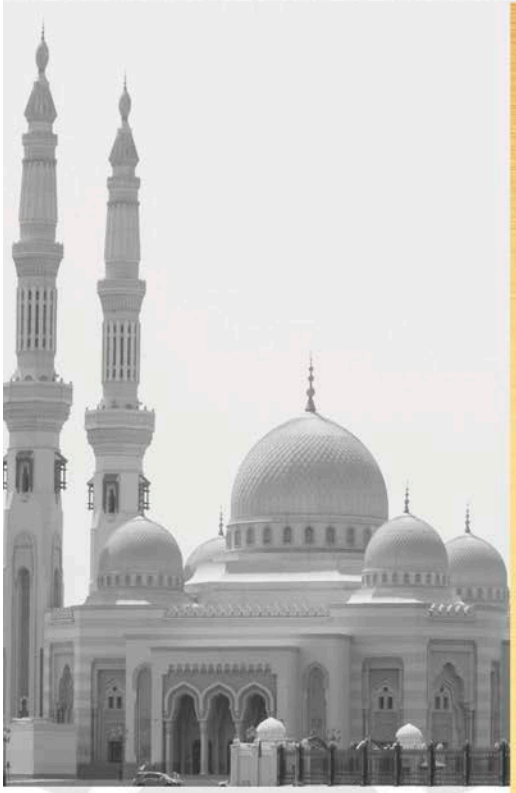

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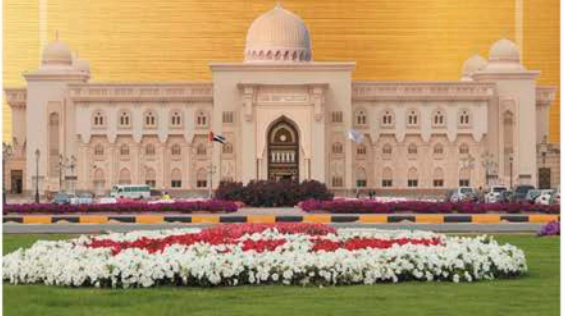

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العلاقة بين مؤشرات الحوكمة البيئية والاجتماعية والمؤسسية والأداء المالي في قطاع المصارف الإسلامية

THE NEXUS BETWEEN ESG SCORES AND FINANCIAL PERFORMANCE IN ISLAMIC BANKING SECTOR[1]

مروة الفارس

جامعة اسطنبول صباح الدين زعيم، تركيا

Marwa Al Fares
Istanbul Sabahattin Zaim University, Türkiye

محمد بولوت

جامعة اسطنبول صباح الدين زعيم، تركيا

Mehmet Bulut
Istanbul Sabahattin Zaim University, Türkiye

عمر كاشكار

بنك دبي الإسلامي، الإمارات العربية المتحدة

Omar Kachkar
Dubai Islamic Bank, U.A.E.

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الملخص

في السنوات الأخيرة، حظيت العلاقة بين مؤشرات الحوكمة البيئية والاجتماعية والمؤسسية (ESG) والأداء المالي باهتمام متزايد من الباحثين. غير أن القطاع المصرفي الإسلامي لا يزال يفتقر إلى الدراسة الكافية في هذا السياق. تسعى هذه الدراسة إلى سد هذه الفجوة من خلال التحقق في تأثير مؤشرات الحوكمة البيئية والاجتماعية والمؤسسية على الأداء المالي للبنوك الإسلامية على المستوى العالمي، إذ يُقاس الأداء المالي باستخدام العائد على الأصول (ROA) والعائد على حقوق الملكية (ROE)، بينما تُحلل مؤشرات ESG بوصفها متغيرات مستقلة متمايزة لتقييم تأثيراتها الفردية. واستناداً إلى قاعدة بيانات Refinitiv Eikon Thomson Reuters، تستخدم الدراسة تحليل بيانات السلاسل الزمنية المقطعية ضمن إطار زمني سنوي. وتكشف النتائج أن مؤشرات ESG تُحدث تأثيراً إيجابياً وذا دلالة إحصائية على العائد على الأصول (ROA)، مما يشير إلى وجود ارتباط قوي بين ممارسات ESG وكفاءة الأصول على المدى الطويل. ومع ذلك، لم تُلاحظ علاقة ذات دلالة إحصائية بين مؤشرات ESGوالعائد على حقوق الملكية (ROE)، مما يوحي بأن مبادرات الاستدامة قد لا تُسهم بصورة مباشرة في تعزيز الربحية على المدى القصير. ويُبين التحليل الإضافي أن الأداء البيئي لا يُحدث تأثيراً ذا دلالة على النتائج المالية، في حين يُسفر الأداء الاجتماعي عن نتائج مُتباينة، إذ يُظهر أحيانًا تأثيرات كبيرة ولكنها غير مُتسقة على الأداء في الأجل الطويل. والجدير بالذكر أن الحوكمة تبرز بوصفها المكون الأكثر تأثيراً في ESG، حيث تلعب دوراً حاسماً في تعزيز الكفاءة طويلة الأجل والحد من المخاطر. وتحمل هذه النتائج دلالاتٍ هامة لصناع القرار والمستثمرين وأصحاب المصلحة في القطاع المصرفي، لا سيما في منطقتي الشرق الأوسط وشمال أفريقيا وجنوب شرق آسيا. وتُؤكد الدراسة على ضرورة إعطاء الأولوية لتحسينات الحوكمة، مثل رفع مستوى الشفافية في صنع القرار وتعزيز أُطر الامتثال، حيث تُساهم هذه التدابير باستمرار في تحسين العائد على الأصول. وبشكلٍ عام، تُسلط النتائج الضوء على الدور

المحوري لهياكل الحوكمة الرشيدة في ضمان الأداء المالي المستدام داخل القطاع المصرفي الإسلامي.

Abstract

In recent years, the relationship between Environmental, Social, and Governance (ESG) scores and financial performance has garnered increasing scholarly attention. However, the Islamic banking sector remains underexplored in this context. This study addresses this gap by investigating the impact of ESG scores on the financial performance of Islamic banks globally, financial performance is measured using return on assets (ROA) and return on equity (ROE), while ESG scores are analysed as distinct independent variables to assess their individual effects. Utilizing data from the Refinitiv Eikon Thomson Reuters database, the study employs panel data analysis over an annual timeframe. The findings reveal that ESG scores have a positive and statistically significant impact on ROA, indicating a strong correlation between ESG practices and long-term asset efficiency. However, no significant relationship is found between ESG scores and ROE, suggesting that sustainability initiatives may not directly enhance short-term profitability. Further analysis shows that environmental performance has no significant effect on financial outcomes, while social performance yields mixed results, occasionally exhibiting significant but inconsistent effects on long-term performance. Notably, governance emerges as the most influential ESG component, playing a critical role in driving long-term efficiency and risk mitigation. These findings carry important implications for decision-makers, investors, and stakeholders in the banking industry, particularly in the MENA and Southeast Asian regions. The study underscores the need to prioritize governance enhancements—such as increasing transparency in decision-making and strengthening compliance frameworks—as these measures consistently contribute to improved ROA. Overall, the results highlight the pivotal role of strong governance structures in ensuring sustainable financial performance within the Islamic banking sector.

الكلمات الدالة: الحوكمة البيئية والاجتماعية والمؤسسية، الدرجات، المالية، الأداء، المصارف الإسلامية.

Keywords: ESG, Scores, Financial, Performance, Islamic banks.

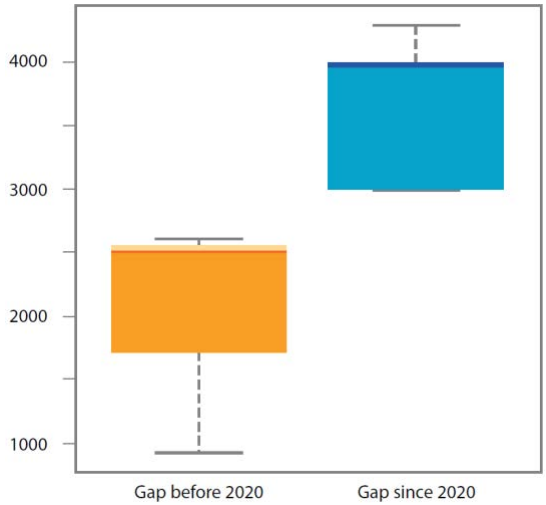
1.0 Introduction

One of the most popular topics in social science these days is sustainability. The 17 Sustainable Development Goals of the UN 2030 Agenda serve as a graphic representation of this interest. The implications of climate change are not a topic for the future. Every day, the profound effects of climate change are being felt in our lives. These effects are manifesting as an increase in droughts, floods, and extreme weather events. Furthermore, poverty, overconsumption, exploitative production, and the biodiversity issue have had disastrous effects on the environment, the economy, and society. This year, 2024, the World Meteorological Organisation released a study on the health of the global climate that paints a grim picture of our planet's future. Globally, rising climate and weather hazards also had a major influence on food security, displacement, and the well-being of vulnerable populations in 2023 (WMO, 2023). A new paradigm for managing the world is desperately needed in order to address global environmental challenges and to discourse the sustainability issues and talk about a possible solution for this urgent situation, a number of projects have been put into place in the last few decades.

An immediate response to the global problem was the focus of the November 2021 United Nations global Change Conference (COP26). Fair labour practices and reasonable remuneration were established by the Millennium Development Goals (MDGs) in 2000. The Sustainable Development Goals (SDGs), which were introduced by the United Nations (UN) in 2015, have since addressed the careless actions of people, businesses, and organisations that have had disastrous effects on the environment. These objectives have been embraced and incorporated into national public policy in numerous nations (Guide, 2022).

An unprecedented mobilisation of billions of dollars in financial resources will be needed to finance the UN SDGs and assist their implementation. In 2024, a report on funding the 2030 Sustainable Development Goals was released by the United Nations. Considering the report Investments on a never-before-seen scale will be required to make the massive changes required to avert catastrophic climate change. Assessing the funding and investment gaps for the Sustainable Development Goals (SDGs) has been the subject of numerous attempts. The annual finance gaps, which range from $2.5 trillion to $4 trillion, are constantly enormous, especially for poor countries, despite estimates that differ. Prior to 2020, these disparities were already significant, but they have since significantly expanded. The financial deficit for developing nations has grown by 56%, according to the OECD Global Outlook.

Figure 1: Estimates of SDGs Financing Gaps in Developing Countries (USD Billions)



Source: U.N. Report (2026)

According to a 2016 McKinsey Global Institute (MGI) report, the world will require approximately $3.7 trillion annually through 2035 to invest in the infrastructure that economies depend on,

including ports, airports, roads, railroads, power, water, and telecommunications, in order to keep up with the anticipated GDP growth. According to Woetzel et al. (2017), these needs might rise by an additional $1 trillion a year in order to fulfil the UN's sustainable development targets. However, several countries are facing severe budgetary constraints and increased debt distress risks in contrast to the growing financial demands. In the least developed countries (LDCs), the median debt service load increased from 3.1% of income in 2010 to 12% in 2023, the largest amount since 2000. Additionally, 40% of people on the planet reside in countries where interest payments receive a larger portion of government spending than necessary services like healthcare or education. In the framework of sustainable development, the expansion of the private sector is becoming increasingly significant. UN Report 2024. Governments urgently need to take significant action considering the aforementioned circumstances.

The financial sector has historically been a tool for growth and prosperity, but in recent years, it has suffered from a severe and ongoing misalignment of its operations. This means that the financial sector has neglected its primary role, which is to support and facilitate real economic activity. As a result, it has confused its support and service functions with wealth creation functions, which has led to a financialization problem as the financial sector grows, its power over the real economy increases, and society is reduced to the realm of finance. As a result, the financial sector has evolved into a tool for creating wealth and a quick and simple way to make money. More specifically, rather than supporting actual economic activity, giving the financial sector the wrong tasks has caused resources and capital to be diverted from the real economy to the financial sector. Because of this, the financial industry has risen and expanded quickly at the expense of the actual economy through virtual and speculative products. As a result, there is now financial disintermediation and a rift between the financial industry and the actual economy (Kahf, 2013). The economy draws attention to more general issues of unsustainability. The tremendous strain on the world's resources is highlighted by the fact that in 2019, global GDP only made up 8.3% of total financial assets (Guide, 2022). This disparity highlights the

increasing risk of resource depletion and environmental degradation in addition to the over-reliance on financial instruments and markets relative to actual economic activity. Concerns over long-term economic and environmental sustainability are heightened as a result of the disproportionate growth of financial assets, which puts more strain on ecosystems and natural capital.

Additionally, by increasing the demand for resources beyond an acceptable level through their lending practices, banks and other financial organisations have contributed to the problem's escalation and multiplication. As a result, the environmental crisis has worsened, and the world's resources have been depleted. In addition, the current financial system does not give everyone, particularly the poor and needy, equal access to resources, which is unfair. As a result, a new paradigm for reform should be put into place as a rescue strategy that incorporates the actual implementation of the SDGs (Guide, 2022).

A 2004 United Nations report called "Who Cares Wins" introduced the term "ESG" (Byrne, 2022). The Socially Responsible Investment (SRI) movement, which has been in place for a longer time, has contributed to a notable increase in ESG investment. ESG aspects are more financially relevant, according to some, while SRI is more associated with moral and ethical standards and is mostly used for negative screening, such as avoiding investments in guns, alcohol, or tobacco. Environmental, social, and governance (ESG) considerations are included into investment processes and decision-making, a practice known as ESG investing (Kell, 2018).

Islamic banks began to appear as a possible participant in the financial markets about fifty years ago. Islamic banking stands out for its Sharia-based business practices, which use the laws established by the Qur'an and Sunnah to deliver products and services that are morally upright, balanced, honest, and just. They already share many of the same characteristics as the main goals of sustainability, and they have a set of established standards that must be followed in order to be both Shariah compliant and Shariah objectives-oriented (Haq & Wahab, 2019).

Meutia & Febrianti, (2017) found that just 26 percent of Islamic banks in South-East Asia provided information about sustainability. Other researchers also found that Islamic banks in the United Arab

Emirates revealed sustainability data at a very low level in comparison to regular banks (Nobanee & Ellili, 2016). Another study that looked at 91 Islamic banks in 13 countries found that Islamic banks were less dedicated to sustainability norms and disclosure (Mallin et al., 2014). Dhuizii, (2001) also examined 14 Islamic banks from 14 countries on the basis of their poor sustainability and disclosure. Furthermore, studies have shown that sustainable regulations and disclosure are not the main issues facing Islamic banks in seven Muslim nations (Hassan & Syafri Harahap, 2010).

In reaction to Salam Gateway's assessment, the Islamic financial system has grown dramatically during the last four decades. At the moment, it is thought to be one of the financial system's fastest-growing sectors. The $2.2 trillion global Islamic finance market is expected to grow by 10% to 12% between 2021 and 2022, driven by an increase in the issuance of Islamic bonds and a slight economic recovery in key Islamic finance markets. Iran, Saudi Arabia, Malaysia, the United Arab Emirates, Kuwait, and Qatar are the market leaders in Islamic banking, accounting for almost 85% of the global Islamic banking assets, according to Jan et al., (2021). The top four nations in the world for Islamic banking are Bangladesh, Pakistan, Indonesia, and Turkey. The nations that hold the smallest share of the global Islamic banking market are Bahrain, Egypt, Oman, Brunei, and Sudan.

A critical inquiry in this context can be framed as follows: "How does the sustainability performance of Islamic banks compare to that of conventional banks?" Specifically, how can sustainability stakeholders—such as shareholders, investors, and regulators—ensure that Islamic banks are effectively integrating sustainability into their operational frameworks? Moreover, to what extent does the adoption of sustainability practices influence the financial performance of these banks? To address these questions, this study seeks to evaluate the sustainability performance of Islamic banks and investigate the relationship between their Environmental, Social, and Governance (ESG) scores and financial performance.

The analysis will leverage primary data sourced from the Eikon database to assess ESG scores, while financial performance will be evaluated using key metrics, including Return on Assets (ROA) and Return on Equity (ROE). Additionally, the research will involve a

comprehensive review of existing literature, encompassing financial reports, specialized sustainability reports, and ESG reports.

The Problem Statement

The growing significance of Environmental, Social, and Governance (ESG) performance in the financial industry has led to investigations on how it affects banks' financial performance, particularly in the context of Islamic banking, which follows Shariah rules. Islamic banks are naturally in line with several ESG objectives, including governance and social responsibility, because of their ethical foundation. Even with this inherent congruence, little is known about how ESG factors are integrated into the Islamic banking sector and how they affect financial performance. By examining the connection between ESG scores and the financial results of Islamic institutions, this study seeks to close that gap. The financial benefits of excellent ESG performance are difficult for many financial organisations to measure, despite the global movement towards sustainable finance. Understanding how ESG variables affect financial health and profitability is crucial for Islamic banks, particularly as they deal with the growing demand for sustainable and ethical banking practices. This study intends to offer useful insights for regulators, policymakers, and bank management by examining the degree to which ESG scores correspond with financial metrics. The results of this study may indicate if Islamic banks, which are by nature socially conscious, benefit financially from strong ESG adherence or whether there are gaps that must be filled to improve ESG results and profitability.

Research Objectives

This study's main objectives are:

1. To investigate whether sustainability policies in Islamic banks have impacted the growth and profitability of Islamic financial institutions (banks) by examining the connections between ESG scores and financial outcomes.
2. To assess how Islamic banks' financial results are impacted by their environmental performance.
3. To investigate the relationship between Islamic banks' financial performance and their social performance.

4. To evaluate how governance performance affects Islamic banks' financial performance.

Main Aim of the Research

This study aims to explore how Environmental, Social, and Governance (ESG) factors affect the financial performance of Islamic banks. It seeks to understand how sustainability policies shape their growth and profitability, while also examining the specific ways environmental, social, and governance practices influence their financial outcomes. Ultimately, the research hopes to shed light on the role of ESG factors in driving the success of Islamic banks.

Scope of the Study

Investigating the impact of ESG scores on financial performance of Islamic banks is the central point of this research. This means that the following areas of research will be excluded.

a. Sustainability performance in other Islamic financial institutions such as takaful companies, utility sector and investment funds
b. The impact of ESG scores on banks efficiency
c. The impact of ESG scores on banks stability
d. The impact of ESG scores on banks' efficiency and banks' technical efficiency.
e. The impact of ESG scores on conventional banks

Limitation of the Study

This study specifically examines the relationship between ESG (Environmental, Social, and Governance) scores and the financial performance of Islamic banks, which inherently imposes certain limitations on its scope. Firstly, the research does not extend to assessing sustainability performance in other Islamic financial institutions, such as Takaful companies, utility sectors, or investment funds. As a result, the findings are confined to Islamic banks and cannot be generalized to the wider Islamic financial industry.

Secondly, the study does not investigate the impact of ESG scores on critical dimensions of financial performance, such as bank efficiency or bank stability. This omission means the research does not provide insights into how ESG factors influence operational or technical efficiency, leaving a gap in understanding the broader implications of ESG initiatives on a bank's overall efficiency metrics.

Furthermore, the absence of a comparative analysis with conventional banks limits the findings to Islamic banks alone, missing an opportunity to contextualize ESG impacts across different banking models.

Lastly, a significant constraint of this study is the limited availability of ESG data for Islamic banks. Challenges such as inconsistent reporting frameworks, insufficient transparency, and a lack of comprehensive historical data restrict the ability to analyse a robust dataset. These limitations may affect the accuracy, depth, and generalizability of the findings regarding the relationship between ESG performance and financial outcomes in Islamic banks.

2.0 Literature Review

Sustainability: Theoretical Background

Bridging the gap between theory and practice is the primary objective of developing theories of sustainability. In other words, developing practical models that address real-world sustainability problems is often seen as more crucial than developing general sustainability theories (Grunwald, 2015). Jahn (2015) argues that sustainability is better understood as a dynamic process rather than a static phrase, and Grunwald (2015) agrees. The sustainability pillars also interact with one another, so changes to one will affect the others.

Ekardt (2015) emphasises many key elements in his argument for an integrated approach to sustainability. Clearly defining sustainability is the first step. Second, it's important to understand and assess sustainable development as it stands today. Third, causal analysis should be used to identify the factors that contribute to the successful or failed adoption of sustainable practices. Fourth, it's important to explain the rationale behind sustainable development programs. Finally, there should be a clear plan in place for conducting and implementing actions to achieve sustainability objectives.

The purpose of this study is to investigate how Islamic banks' financial performance is impacted by ESG scores. The relationship between ESG scores and banks' financial performance (BFP) has been examined using a variety of hypotheses. The relationship between Environmental, Social, and Governance (ESG) variables and bank financial outcomes can be understood using a number of fundamental

ideas. These consist of the following theories: a. the theory of stakeholders; b. the theory of corporate social responsibility (CSR); and c. the theory of agency.

Daniel (2018) observed that stakeholder theory and CSR theory, while distinct, address similar business issues from different perspectives. He suggested that stakeholder theory may be a more appropriate lens through which to examine the relationship between CSR and BFP, as CSR theory tends to prioritize societal interests over those of other stakeholders. Stakeholder theory, conversely, considers the concerns of a broader range of stakeholders, enabling firms to develop strategies that create value for both the organization and its relevant stakeholders (Vidal, Berman, & Van Buren, 2015).

A brief overview of sustainability

The concept of sustainability, while widely used, remains multifaceted and subject to diverse interpretations. Broadly defined as the capacity to endure over time, sustainability can be understood as the ability to persist or continue without depletion or significant environmental damage (Cambridge Dictionary, n.d.). Motivated by concerns regarding natural resource depletion and global warming, the United Nations initiated efforts to address these challenges. Tasked with examining these issues and their interconnections with social, economic, and environmental factors, a panel of scientists and experts was convened. Since the 1980s, discourse surrounding sustainability has evolved, solidifying its prominence within academic research (Scoones, 2007). Currently, sustainability is a top priority on government agendas globally, influencing policy across political, economic, and educational spheres (Neumann, Martinez, & Martinez, 2021). The World Commission on Environment and Development (WCED) originally defined "sustainability" in the Brundtland Report of 1987 as the combination of social equality, environmental preservation, and economic progress. Sustainability in business relates to how organisations handle hazards related to the economy, environment, and society. Consequently, sustainability can be divided into three main categories: social, environmental, and economic sustainability. Cash flow, income, expenses, taxes, employment, and business variety are all important aspects of economic sustainability (Hall et al., 2011). According to Jan et al. (2019), it can be interpreted

as a company's financial and economic success achieved by efficient stakeholder management. Furthermore, environmental sustainability refers to conscientious efforts to preserve global ecosystems and natural resources, which will impact their viability and maintain health and well-being for present and future generations. (Hall and others, 2011). "Meeting the resource and service needs of current and future generations without compromising the health of the ecosystems that provide them" is the definition of environmental sustainability, according to a different study (Morelli, 2011). "That meets the needs of the present without compromising the ability of future generations to meet their own needs" is how the Brundtland report defines sustainable development (United Nations General Assembly, 1987, p. 54). The report served as the foundation and starting point for the Rio Summit in 1992, which is regarded as another significant event that resulted in the establishment of the UN Commission on Sustainable Development. As previously stated, one of the most important aspects of sustainability is the environment, and there are numerous environmental problems that are always developing, including climate change. Global attention has been sparked by Li et al. (2018), carbon emissions, air, water, and land pollution, global warming, and rising energy prices (Gopalakrishnan et al., 2012).

The term "social sustainability" relates to a community and includes the means of ensuring people's health, well-being, education, equity, and fair access to social resources without destroying the environment through resource exploitation (Hall et al., 2011). Businesses that incorporate social, ethical, and environmental factors into their planning and strategy are considered socially responsible. They understand how their operations effect these areas, improving the lives of most of their stakeholders in the process (Jan et al., 2019).

In 2015, all United Nations Member States adopted the Sustainable Development Goals (SDGs) to tackle global and environmental challenges with a target to achieve them by 2030. Investment in the sustainable and responsible investing (SRI) sector is projected to reach a substantial $53 trillion by 2025, it's becoming increasingly essential for financial professionals to integrate ESG knowledge into their work (Emerick, 2023).

With about three hundred different definitions, the term "sustainability" is still a complex one (Correia, 2019). According to Presley & Meade (2018), sustainability is usually framed around three main elements in recent studies and policy discussions: economic, social, and environmental. According to Glavič and Lukman (2007), these dimensions cover a range of concepts, procedures, systems, subsystems, and policies within each area. Economic growth, social advancement, and environmental preservation must all be integrated into sustainable development, according to UN publications, which emphasise the close interconnectedness of these three areas (Traer, 2020). An organization's financial success, profitability, and contributions to the larger economy are highlighted by the economic component of sustainability. Sustainability's relevance in today's globalised and resource-constrained world is further reinforced by the fact that, in addition to these fundamental components, it also entails long-term strategic planning and resource management intended to ensure resilience and adaptation in the face of future problems.

The social component considers a company's impact on the community, especially on the safety and well-being of its employees. Alhaddi (2015) asserts that the environmental dimension reflects the organization's commitment to addressing ecological concerns, mitigating environmental impacts, and managing finite global resources to save future generations. Businesses are encouraged to consider People, Planet, and Profit while making sustainability decisions by this concept, which is frequently referred to as the Triple Bottom Line (TBL) model. By including social and environmental factors, it expands the traditional focus on economic sustainability (Alhaddi, 2015; Correia, 2019).

Research on the three pillars of sustainability is inconsistent, despite its significance, with most studies giving environmental factors precedence over social and economic ones (Alhaddi, 2015). Correia (2019) claims that studies usually focus on the environment, considering the planet's resources and constraints to be essential. By highlighting the significant role that consumption plays in environmental effects and tying them to consumer behaviour, Sheth, Sethia, and Srinivas (2011) present a novel perspective on the environmental component. By applying the TBL model and examining

how consumption influences environmental effects, this study takes a holistic approach to sustainability in line with the recommendations stated by Sheth, Sethia, and Srinivas (2011).

Sustainability from an Islamic standpoint

The Islamic banking system is rooted in Islamic ontological and epistemological principles, emphasizing social virtue, good governance, environmental responsibility, and ethical behavior for both individuals and organizations (Asutay, 2013; Biancone, 2017). Governed by Shariah principles, also known as *Maqasid al-Shariah*, the system operates under specific regulations that set it apart from conventional banking (Jan & Marimuthu, 2015; Secinaro, 2017). According to Saeed et al. (2020), these regulations are built on two core concepts: profit and loss sharing and the prohibition of interest and other forbidden elements. Islamic finance is often viewed in academic literature as a complementary system that enhances understanding and engagement with the traditional financial system (Akhtar, 2008). As a result, the sustainability and growth of the Islamic finance sector depend significantly on its ability to interact with and draw benefits from improving the conventional financial system.

Nonetheless, Islamic finance adapts to and conforms to international norms and oversight while maintaining awareness of the dangers associated with Islamic financing products and their subtle differences. Because of the unique features of Islamic finance, which allow for necessary flexibility without sacrificing shariah norms, the sector's growth and a bright future depend on the emphasis on sustainability.

Sustainability, as defined by Keeble (1988), is a process that integrates social equity, environmental preservation, and economic growth. At its core, sustainability involves businesses managing risks - financial, environmental, and social - while addressing their responsibilities and opportunities. Thus, sustainability rests on three pillars: social, environmental, and economic.

For Islamic finance, sustainability is not a foreign concept. *Shari'ah* not only encourages (*mandoob*) but, in certain cases, mandates (*wajib*) Islamic Financial Institutions (IFIs) to achieve sustainable environmental and social goals. Conversely, engaging in activities that harm the environment or society is strongly discouraged

(*makrooh*) or outright prohibited (*haram*). Shari'ah principles guiding IFIs prioritize preventing harm over seeking benefits, emphasizing that harm should not be resolved by causing further harm. The obligations of IFIs in this regard depend on the likelihood or occurrence of harm, with relevant standards set by national authorities (CBUAE, 2023).

A key element in the Islamic paradigm is the concept of balance (*mizan*), which underscores the importance of a harmonious universe and earth, with humans as stewards (*khalifah*) responsible for maintaining this equilibrium. The "*mizan*" concept highlights the interconnectedness of all creation - humans, animals, and the environment - and stresses the need for equal opportunities for growth and development in alignment with their inherent nature (*fitra*). As vicegerents, humans must prevent disruptions to this balance and promote coexistence. Islamic banks, too, play a role in restoring and maintaining this balance (Guide, 2022).

Within the Islamic framework, sustainable development can be defined as: "Acknowledging the complementary nature of all stakeholders to achieve unity (*tawhid*) within balance (*mizan*). This requires providing each stakeholder with the opportunity to follow their natural (*fitra*) development path toward perfection, ensuring their growth harmonizes with others. This process fosters inter- and intra-generational justice (*adalah*) through governance rooted in equilibrium (*ihsani*)." This definition aligns with the Five Principles of Sustainability outlined in the Guide (2022).

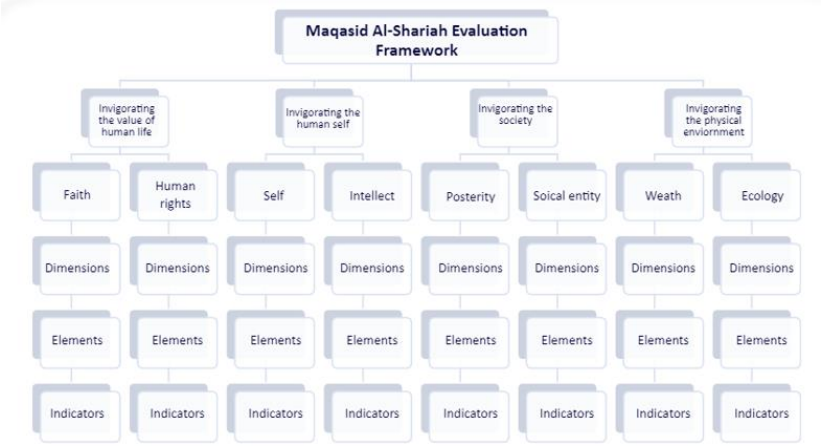
The Role of Islamic Banks to Achieve Sustainability

In order to achieve sustainability, Islamic banks must be aware about the impact of their business activities by adopting a proactive approach to incorporating sustainability goals. This entails recognizing, implementing, and evaluating sustainability objectives. Moreover, Islamic banks by implementing "*Maqasid Al-Shariah*" which refers to the objectives of Shariah in Islamic jurisprudence, and which consider the spirit of Islamic finance, will enhance the sustainability policy adopted by Islamic Banks. Since the *Maqasid Al-Shariah* considered a significant methodological tool to achieve ethical, moral, balanced, real, and justice products and services. The *Maqasid Al-Shariah* is based on the rules set by the *Quran* and *Sunnah* have a lot in common with the key objectives of sustainability. Al-Ghazali has interpreted

Maqasid Al-Shariah as human welfare However, based on the Islamic sustainability definition mentioned earlier, it should indeed be understood as the welfare of all stakeholders. This interpretation aligns with the "*mizan*-based" worldview, which emphasizes balance and equity, and should be reflected in the outcomes of any actions (Guide, 2022).

By understanding the *Maqasid Al-Shariah* structure, which is based on the degree of necessity, shows the degree of similarity with the key objectives of sustainability and the *Maqasid* can be categorized into three hierarchical levels: (i) Necessities (*daruriyyat*) involve the core elements that require protection and promotion. Al-Ghazali has interpreted these necessities which are essential for sustaining life and achieving salvation (*falah*), both in this world and the afterlife. They encompass safeguarding faith, life, wealth, intellect, and offspring; (ii) Complementaries (*hajiyyat*) that consist of elements that supplement and ease the essential necessities, making life more comfortable; and (iii) Beautification (*tahsiniyyat*), which encompass factors that enhance and contribute to overall improvement and the attainment of balance, often referred to as the "*mizan*".

Figure 2: *Maqasid Al-Shariah* Evaluation Framework



Sources: Mergaliyev, Asutay, Avdukic & Karbhari (2021); Asutay and Harningtyas (2015).

Table 1 introduces a reconfigured *Maqasid Al-Shariah* Framework that integrates ESG considerations in line with Figure 2. In this table, *Maqasid* objectives are categorized as 'Human Life,' 'Economic,' 'Environmental,' 'Societal,' and 'Governance' Goals. Additionally, 'Faith,' although not a core component of ESG or the SDGs, is incorporated into this framework as a primary *Maqasid* goal, intended to be informed by traditional *Maqasid* objectives. This integration is presented in the first column.

Table 1: Reconfiguring the ESG Augmented *Maqasid Al-Shariah* Framework

Faith (*Maqasid Goal* 1 [Corollary 1])	**Human Life** (*Maqasid Goal* 1 [Corollary 2] & 2)	**Economic and financial** (*Maqasid Goal* 4, Corollary 1)	**Environmental** (*Maqasid Goal* 4, Corollary 2)	**Societal** (*Maqasid Goal* 3)	**Governance** (*Maqasid Goal* 1 [Corollary 2] and 3 [Corollary 2])
Substantiative: • Sustaining Mizan • Actualising Khalifah Role **Prohibitions:** • Riba, Ghara, Maysir, Sinful Industries, Investments, Income and Financing **Mandatory**: • Zakat **Voluntary:** • Waqf Charity	• Human well-being • Health Provisioning • Education and Development • Training for Skill and Capacity Development • Research and Development • Financial Planning Related Skill Development • Human Rights • Consumer Protection	• Responsible Investment Strategies • Impact Investment Strategies • Productive and Real Economy Oriented Financing Strategies • Anti-poverty Programmes • Fair Pricing of Islamic Banking Products and Services • Integrated Islamic Financing Services Provision	• Climate • Environmental Protection Invigoration of Environment Through Proactive Strategies • Green Financing Strategies • Sustainable Use of Resources	• Harmonious Relationship between Stakeholders • Social Responsibility Programmes • Social Capital Development • Social Capacity Development • Diversity Human Rights • Consumer Protection • Animal Welfare	• Ihsani Governance • Disclosure and Transparency • Preventing Unethical Practices such as Fraud, Embezzlement and Conflicts of Interest • Defining Responsibilities for Members and Governance Bodies • Independence and Confidentiality of Information • Managerial Structure • Employee Relations • Employee Compensation and Rights • Executive Compensation • Sustainability Disclosure

Source: CIBAFI Guide, (2022)

Together, Figure 2 and Table 1 can provide Islamic banks with a comprehensive *Maqasid Al-Shariah*-based ESG evaluation guide.

Islamic banks have also a vital role to play in achieving sustainable development and the UN SDGs. Especially, taking into consideration that the majority of Islamic banks are operating within Muslim-majority countries that are mostly developing countries. In November 2023, the Central Bank of the United Arab Emirates (CBUAE, 2023) released the Higher Shari'ah Authority (HSA) Resolution No. 136/8/2023 on the Guiding Principles for Islamic Sustainable Finance. These principles are applicable to all financial institutions that conduct some or all of their operations in accordance with Islamic *Shari'ah* principles.

3.0 Research Methodology

The study focusses on how dependent and independent variables relate to one another quantitatively. According to Basias and Pollalis (2018), quantitative research looks at circumstances that have a high chance of happening when the reasons and causes for that likelihood may be identified inside the circumstance. Furthermore, quantitative research is used since the goals of the study include cause-and-effect reactions, which are better examined with the use of numerical data and statistical analysis. The factors that were chosen, their expected correlations, and the sources of the data that were gathered are also explained below.

For this study, a sample of Islamic banks was meticulously chosen from various countries, with the primary criterion being the availability of data in the Refinitiv Eikon Thomson Reuters database. The selection process involved several stages. Initially, all potential Islamic banks were identified, followed by verifying the availability of their Environmental, Social, and Governance (ESG) scores in the Refinitiv database. Finally, only full-fledged Islamic banks were included in the sample. The chosen countries provide a diverse context for analyzing the influence of ESG scores on financial performance, as they host significant Islamic financial institutions.

The sample was drawn from the Thomson Reuters Eikon database (solutions.refinitiv.com/eikon), resulting in the selection of 31 Islamic banks from 11 countries (Table 1). These banks were chosen based on data accessibility. Certain countries, such as Malaysia and Nigeria, were excluded due to insufficient data. Additionally, some banks, such as Al Arafah Islami Bank Ltd, AL Rayan Bank PLC,

Bank Islam Malaysia Bhd, CIMB Islamic Bank Bhd, and Jaiz Bank PLC, were excluded because their ESG scores were unavailable. Furthermore, several banks, including Affin Bank Bhd, Sohar International Bank SAOG, Ahli Bank SAOG, Bank Rakyat Indonesia (Persero) Tbk PT, and Bank Dhofar SAOG, were removed from the final list as they did not meet the criteria of being full-fledged Islamic banks.

Table 2: List of Islamic Banks Analyzed in this Research

No.	Country	Banks
1	Saudi Arabia	Bank Aljazira SJSC Bank Albilad SJSC Al Rajhi Banking & Investment Corporation SJSC Alinma Bank SJSC
2	United Arab Emirates	Emirates NBD Bank PJSC Dubai Islamic Bank PJSC Ajman Bank PJSC Sharjah Islamic Bank PJSC Abu Dhabi Islamic Bank PJSC Mashreqbank PSC
3	Qatar	Qatar Islamic Bank QPSC Masraf Al Rayan QPSC Qatar International Islamic Bank QPSC Lesha Bank LLC
4	Oman	Bank Muscat SAOG Bank Nizwa SAOG
5	Kuwait	Kuwait Finance House KSCP Kuwait International Bank KSCP Boubyan Bank KSCP
6	Indonesia	Bank BTPN Syariah Tbk PT Bank Panin Dubai Syariah Tbk PT
7	Jordan	Jordan Islamic Bank Co PLC Safwa Islamic Bank PSC
8	Bahrain	Khaleeji Commercial Bank BSC Al Salam Bank BSC Ithmaar Holding BSC
9	Egypt	Al Baraka Bank Egypt SAE

10	Turkey	Albaraka Turk Katilim Bankasi AS
11	Pakistan	Habib Bank Ltd Meezan Bank Ltd Bank Alfalah Ltd

Data Analysis Method

This study addresses questions concerning the impact of social, environmental, and governance factors on financial metrics with regard to the return on equity and return on assets. Two statistical programs, AMOS (Analysis of Moment Structures) and SPSS (Statistical Package for the Social Sciences), were used in this work to analyse data and cross-validate results for robustness and reliability programs. For the goal of triangulation, each is employing a distinct strategy within the software. Additionally, this multi-software application strategy improves the dependability.

4.0 Empirical Analysis and Findings

Research Hyphothesis

H1: The IBs' ESG scores positively impact financial performance.
H2: The IBs' Environmental scores positively impact financial performance.
H3: The IBs' Social scores positively impact financial performance.
H4: The IBs' Governance scores positively impact financial performance.

Variables Definitions

Variable	Measure
Return on equity	Net income / Average shareholder's equity
Environmental score	Refinitiv
Social score	Refinitiv
Governance disclosure score	Refinitiv
ESG score	Derived variable: Average (Environmental score + Social score + Governance disclosure score)
Bank size	Ln (Total assets)
Return on assets	Net income/ Average total assets
Leverage	(Long-term debt + Short-term debt) / Total assets
Liquidity	Current assets / Current liabilities

Source: Authors Own

SPSS Output

Dependent Variable = Return on Equity (ROE)

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.069[a]	.005	-.022	76.38146%

a. Predictors: (Constant), ESG, Social, Governance, Environmental

The correlation coefficient (0.069) between observed and predicted ROE values indicates a weak relationship between ESG, Environmental, Social, and Governance predictors. The R Square (0.005) explains only 0.5% of ROE variance, while the adjusted R Square (-0.022) suggests the model is not useful for explaining the data. The large Standard Error of the Estimate (76.38146) reflects significant variability around the regression line, further indicating the model's poor predictive power for ROE.

Table 3: ANOVA[a]

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4140.272	4	1035.068	.177	.950[b]
	Residual	875119.130	150	5834.128		
	Total	879259.401	154			

a. Dependent Variable: Return on Equity

b. Predictors: (Constant), ESG, Social, Governance, Environmental

The ANOVA table reveals that the model, which includes ESG, Social, Governance, and Environmental factors as predictors, does not significantly explain the Return on Equity (ROE) as the outcome. The sum of squares for regression and residual sums shows the variability in ROE that can be explained by the predictor variables, while the total sum of squares shows the total variability in ROE. The F-statistic is low (0.177), indicating that the model does not explain much variance in ROE. The p-value is 0.950, indicating that the predictors collectively have a statistically significant effect on ROE. This

indicates that the predictors are not useful for predicting ROE in this analysis. The high p-value (0.950) indicates that the relationship between the predictors and ROE is not statistically significant, meaning these predictors are not useful for predicting ROE.

Table 4: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.773	11.771		.236	.814
	ESG	-.048	.311	-.014	-.156	.876
	Enviromental	.329	.445	.110	.740	.460
	Governance	.036	.285	.014	.126	.900
	Social	-.215	.512	-.067	-.419	.675

a. Dependent Variable: Return on Equity

Table 4 analyzes the impact of ESG factors on Return on Equity (ROE). The constant (2.773) represents ROE when all predictors are zero. None of the variables show a statistically significant effect on ROE, as all p-values are greater than 0.05. ESG (-0.048), Environmental (0.329), Governance (0.036), and Social (-0.215) coefficients indicate small positive or negative effects, but they are not meaningful due to their high p-values. Thus, the study cannot confirm any real impact of these factors on ROE.

Dependent Variable = Return on Assets (ROA)

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.245[a]	.060	.035	1.89763%

1. Predictors: (Constant), ESG,Social, Governance, Environmental

In Table 5, the correlation between observed and predicted ROA values is 0.245, indicating a weak to moderate relationship. The R Square, which accounts for 6% of the variance in ROA, is 0.060, indicating a low level of model strength. The adjusted R Square, 0.035,

accounts for the number of predictors, indicating a slightly lower model strength. The standard error of the estimate is 1.89763, indicating a low average prediction error.

Table 6: ANOVA[a]

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	34.543	4	8.636	2.398	.053[b]
	Residual	540.151	150	3.601		
	Total	574.694	154			

a. Dependent Variable: Return on Assets

2. Predictors: (Constant), ESG, Social, Governance, Environmental

The model's variance is 34.543 (Table 6), with residuals at 540.151. The degrees of freedom for regression and residuals are 150 and 80 respectively. The mean square is 8.636, and the F-statistic is 2.398, which is close to significance but low. The significance level is 0.053, suggesting the model is not statistically significant at the 5% level.

Table 7 analyzes the impact of ESG scores on ROA. ESG has a positive and significant effect on ROA (β = 0.022, p = 0.005). However, Environmental (β = -0.002, p = 0.842), Governance (β = 0.003, p = 0.682), and Social (β = -0.012, p = 0.336) do not show statistically significant effects on ROA.

Table 7: Coefficients[a]

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.899	.292		3.073	.003
	ESG	.022	.008	.251	2.836	.005
	Environmental	-.002	.011	-.029	-.200	.842
	Governance	.003	.007	.044	.411	.682
	Social	-.012	.013	-.149	-.966	.336

1. Dependent Variable: Return On Assets

H1, H2, H3 and H4 SPSS Findings summary

The AMOS analysis (Table 8) shows that ESG has a significant positive impact on ROA (estimate = 0.022, p-value = 0.004) but no meaningful effect on ROE. Environmental, Social, and Governance factors individually do not significantly influence ROA or ROE. Overall, ESG is more relevant for predicting long-term performance (ROA) than short-term performance (ROE).

AMOS Output

Table 8: AMOS output

Regression Weights: (Group number 1 default model)

			Estimate	S.E.	C.R.	P
ROE	<---	ESG	-.048	.307	-.158	.874
ROE	<---	environmental	.329	.439	.750	.453
ROE	<---	Social	-.215	.505	-.425	.671
ROE	<---	Governance	.036	.281	.127	.899
ROA	<---	ESG	.022	.008	2.873	.004
ROA	<---	Social	-.012	.013	-.979	.328
ROA	<---	environmental	-.002	.011	-.203	.840
ROA	<---	Governance	.003	.007	.416	.677

Figure 3: Standardized Estimates

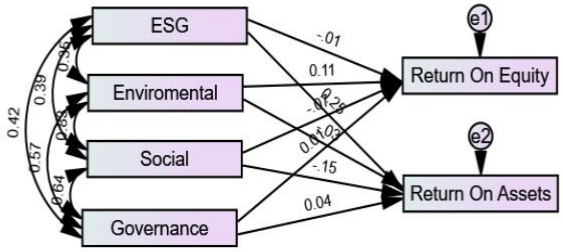
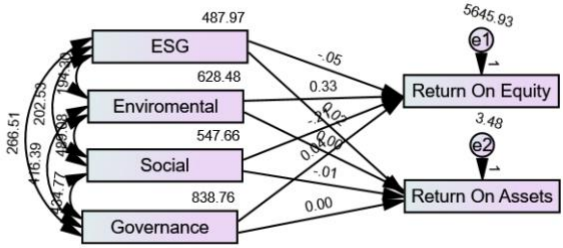


Figure 4: Unstandardized Estimates



For Return on Equity (ROE)

AMOS Findings summary

AMOS analysis confirms ESG's minimal impact on ROE, with no significant predictors. However, it supports SPSS findings, showing ESG has a significant positive impact on ROA. Other individual ESG components lack significant effects on both ROE and ROA. In short, ESG strongly predicts ROA, but no factor, including ESG, significantly predicts ROE.

Table 9: AMOS output

1.Regression Weights

			Estimate	**S.E.**	**C.R.**	**P**
ROE	<---	ESG	.212	.370	.571	.568
ROE	<---	Total_Debt	.004	.002	2.448	.014
ROE	<---	Total_Assets	.000	.000	-.128	.898
ROA	<---	Total_Assets	.000	.000	-1.565	.117
ROA	<---	Total Debt to Total Equity	-.001	.001	-1.394	.163
ROA	<---	Leverage	-.051	.023	-2.235	.025
ROA	<---	Liquidity	.000	.001	.379	.704

			Estimate	S.E.	C.R.	P
ROA	<---	ESG	.029	.006	4.438	*
ROA	<---	Total_Debt	.000	.000	.241	.809
ROE	<---	Social	-.461	.589	-.782	.434
ROE	<---	Enviromental	.291	.555	.524	.600
ROE	<---	Governance	-.020	.336	-.060	.952
ROA	<---	Social	.006	.010	.620	.535
ROA	<---	Enviromental	.003	.010	.263	.793
ROA	<---	Governance	-.009	.006	-1.594	.111
ROE	<---	Total Debt to Total Equity	.034	.042	.798	.425
ROE	<---	Liquidity	.025	.052	.474	.635
ROE	<---	Leverage	-.590	1.312	-.450	.653

Figure 5: Standardized Estimates

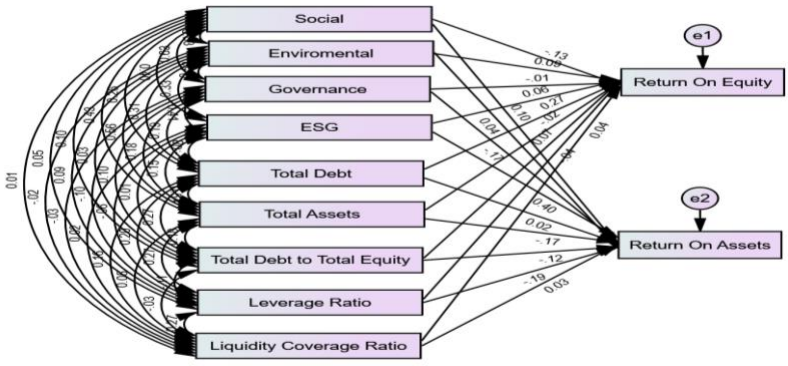
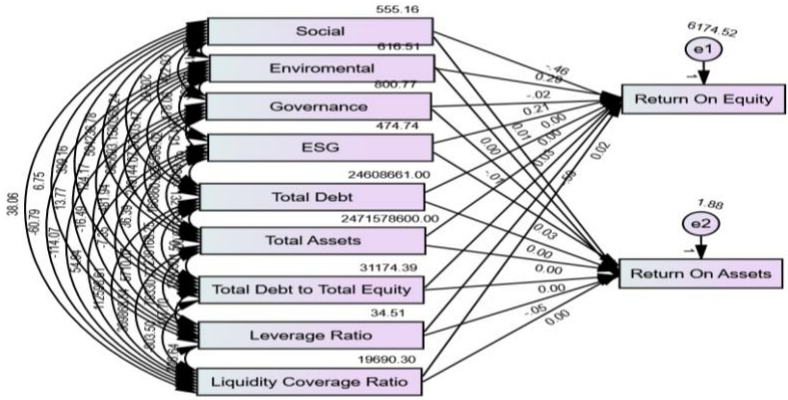


Figure 6: Unstandardized Estimates



This AMOS output provides the results for how various predictors (ESG, Total Debt, Total Assets, Social, Environmental, Governance, Total Debt to Total Equity, Leverage, and Liquidity) impact two dependent variables: Return on Equity (ROE) and Return on Assets (ROA). The table includes Estimate values (the strength and direction of the relationship), Standard Error (S.E.), Critical Ratio (C.R.), and p-values (P) to indicate statistical significance.

Table 10: Regression Weights (South-East Asia Default Model)

			Estimate	**S.E.**	**C.R.**	**P**
ROE	<---	ESG	-.141	.132	-1.073	.283
ROE	<---	Total Debt	.011	.003	3.282	.001
ROE	<---	Total Assets	.000	.000	-.705	.481
ROA	<---	Total Assets	.000	.000	-4.187	*
ROA	<---	Total Debt to Total Equity	-.004	.004	-.950	.342
ROA	<---	Leverage	-.726	.284	-2.556	.011

			Estimate	S.E.	C.R.	P
ROA	<---	Liquidity	-.001	.004	-.254	.800
ROA	<---	ESG	-.025	.027	-.913	.361
ROA	<---	Total_Debt	.001	.001	.945	.345
ROE	<---	Social	-.688	.259	-2.654	.008
ROE	<---	Environmental	.106	.152	.697	.486
ROE	<---	Governance	.147	.102	1.434	.152
ROA	<---	Social	-.061	.054	-1.129	.259
ROA	<---	Environmental	-.035	.032	-1.108	.268
ROA	<---	Governance	.049	.021	2.293	.022
ROE	<---	Total Debt to Total Equity	.068	.019	3.633	*
ROE	<---	Liquidity	.017	.017	.973	.331
ROE	<---	Leverage	-.420	1.361	-.308	.758

Figure 7: Standardized Estimates

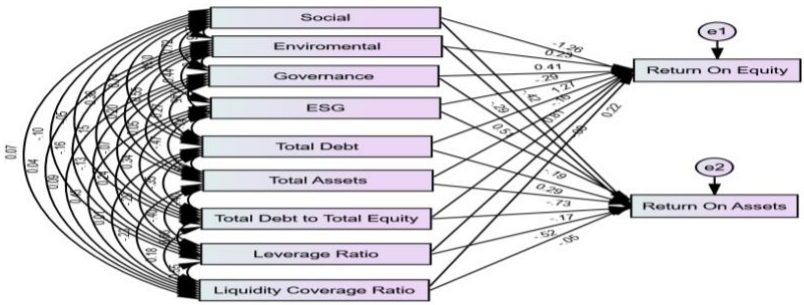
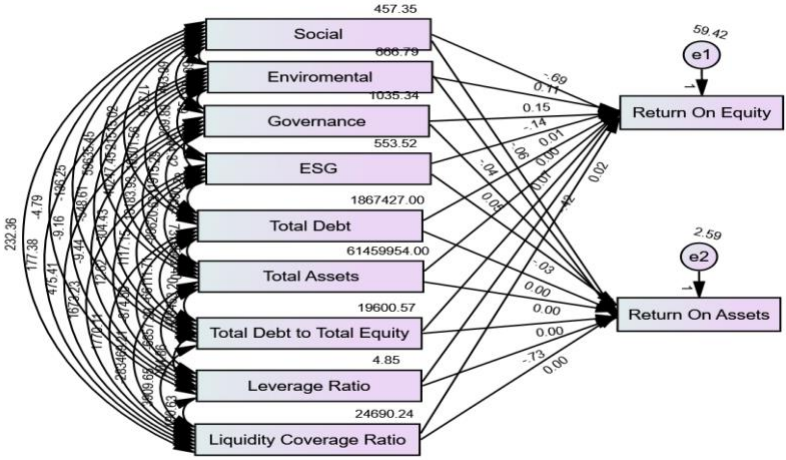


Figure 8: Unstandardized Estimates



The AMOS output provides estimates of the effects of various predictors (ESG, Total Debt, Total Assets, Social, Environmental, Governance, Total Debt to Total Equity, Leverage, and Liquidity) on the dependent variables: Return on Equity (ROE) and Return on Assets (ROA). Each predictor's impact is represented in terms of Estimate, Standard Error (S.E.), Critical Ratio (C.R.), and p-value (P).

Hypothesis Results Discussion with Justifications

Table 11: Summary of Hypothesis Results with Justifications

Hypothesis	Software	Dep. Var.	Results	Accepted/ Rejected	Theoretical Justification	Practical Justification
H1: The IBs' ESG scores positively impact financial performance	SPSS	ROE	Weak and insignificant relationship	Rejected	ESG investments often yield long-term benefits, while ROE focuses on short-term profitability.	During the COVID-19 pandemic, many institutions prioritized operational resilience over ESG integration, diluting short-term financial impacts.

		ROA	Positive and significant relationship	Accepted	ESG practices enhance operational efficiency and mitigate risks, improving asset returns over time.	Institutions with strong ESG policies likely adapted better to pandemic disruptions, reducing asset inefficiencies.
	AMOS	ROE	Weak and insignificant relationship	Rejected	ROE emphasizes profitability from equity, which ESG practices may not influence directly in the short term.	Short-term focus on cost reduction during economic downturns may have overshadowed ESG's immediate impact on equity returns.
		ROA	Positive and significant relationship	Accepted	ESG initiatives improve long-term risk management and stakeholder trust, driving asset efficiency.	Sustainable practices (e.g., renewable energy projects) generated steady returns, especially during periods of economic uncertainty.
H2: The IBs' Environmental scores positively impact financial performance	SPSS	ROE & ROA	Insignificant impact	Rejected	Environmental initiatives often require high upfront investments, delaying financial benefits.	The COVID-19 crisis shifted focus from environmental initiatives to immediate survival strategies for many businesses.

	AMOS	ROE & ROA	Insignificant impact	Rejected	Environmental factors contribute indirectly through risk reduction, often not captured in short-term metrics.	In regions with weaker regulatory frameworks, environmental compliance may not be a critical driver of financial performance.
H3: The IBs' Social scores positively impact financial performance	SPSS	ROE	Negative and insignificant relationship	Rejected	Social initiatives may initially increase costs without immediate financial returns.	Social programs (e.g., employee benefits or community initiatives) were deprioritized during the pandemic in favor of cost control.
		ROA	Mixed results, occasionally significant	Partially Accepted	Social practices improve stakeholder relationships, indirectly enhancing asset efficiency.	Companies investing in employee well-being or customer engagement during COVID-19 likely retained long-term asset value.
	AMOS	ROE	Insignificant relationship	Rejected	Social investments are often intangible and take time to reflect in profitability measures like ROE.	Reduced social spending in cost-sensitive markets dampened its measurable impact on short-term equity returns.

		ROA	Negative and insignificant relationship	Rejected	Social initiatives face challenges in translating to consistent asset returns, especially during economic downturns.	Uneven outcomes from social initiatives, exacerbated by regional disparities in stakeholder expectations, diluted ROA impact.
H4: The IBs' Governance scores positively impact financial performance	SPSS	ROE	Insignificant impact	Rejected	Governance alone may not directly drive profitability but reduces operational risks.	Governance reforms during crises (e.g., remote oversight) likely focused on stability rather than profitability.
		ROA	Positive and significant relationship	Accepted	Strong governance improves decision-making and resource allocation, leading to better asset utilization.	Institutions with robust governance avoided financial pitfalls during the pandemic, preserving asset returns.
	AMOS	ROE	Insignificant impact	Rejected	Governance reforms are often structural and show delayed financial outcomes.	Pandemic-induced operational challenges may have obscured governance's short-term impact on equity returns.

		ROA	Positive and significant relationship	Accepted	Governance minimizes risks and ensures better alignment with long-term asset management.	Well-governed IBs maintained efficiency and compliance under regulatory scrutiny, supporting asset profitability.

Table 12: Objectives with Findings

Objective	Findings	Conclusion
I. Environmental Performance	No significant impact on ROE or ROA.	Environmental initiatives face delayed financial benefits due to high upfront costs and weak enforcement in some regions.
II. Social Performance	Mixed results, with occasional significance for ROA but not ROE.	Social performance can enhance financial performance, particularly in stakeholder-driven contexts, but its impact is inconsistent.
III. Governance Performance	Significant positive impact on ROA, but not on ROE.	Governance is the most impactful ESG component, driving long-term efficiency and risk mitigation.

5.0 Conclusion

This study offers a comprehensive exploration of the relationship between ESG scores and the financial performance of Islamic Banks (IBs), The key findings can be summarized as follows:

- **ESG scores demonstrate a significant positive impact on long-term financial performance**, particularly in influencing Return on Assets (ROA). However, their effect on short-term

performance metrics, such as Return on Equity (ROE), remains limited, suggesting that the benefits of ESG integration may take time to materialize fully.

- Governance consistently stands out as the most critical predictor of financial performance, highlighting its pivotal role in enhancing risk management, operational efficiency, and overall organizational stability. This finding underscores the importance of robust governance frameworks in driving sustainable financial outcomes.
- Social and Environmental factors do not have a statistically significant impact on Return on Assets (ROA). While the Social factor shows a slight negative relationship with ROA, it is not meaningful. Similarly, the Environmental factor has a negligible effect, confirming no significant influence on ROA. Overall, neither Social nor Environmental factors play a measurable role in shaping financial performance as measured by ROA in this study.
- The combined use of SPSS and AMOS in this study underscores the value of employing diverse analytical tools to ensure robust, reliable, and multifaceted insights. This methodological approach enhances the credibility and depth of the findings, providing a more nuanced understanding of the ESG-financial performance relationship.
- For investors, the study emphasizes the importance of incorporating ESG scores as part of a broader evaluation framework for assessing long-term sustainability and risk mitigation. ESG scores should not be viewed in isolation but rather as complementary indicators of a bank's resilience and future growth potential.
- **The study reinforces the critical role of governance** in driving financial performance while challenging the assumption that all ESG components uniformly contribute to financial success.
- **Future research should focus on longitudinal studies** to better understand the dynamic and evolving nature of ESG practices over time. Additionally, integrating regional dimensions into the analysis will provide deeper insights into how cultural, regulatory, and economic factors influence the effectiveness of ESG initiatives.

In summary, this study not only advances the understanding of the ESG-financial performance nexus in Islamic Banks but also provides actionable insights for policymakers, investors, and bank managers. By highlighting the importance of governance and the contextual nature of environmental and social factors, the study paves the way for more targeted and effective ESG strategies in the banking sector. Future research should build on these findings to further explore the temporal and regional dynamics of ESG practices, ensuring that they are tailored to the unique needs and challenges of different markets.

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