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Measuring Contemporary Islamic Banking Sustainability: Integrating ESG and *Maqashid al-Syarī'ah* in Indonesia

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Abstract: The measurement of sustainability in Islamic banking in Indonesia remains largely dominated by conventional Environmental, Social, and Governance (ESG) frameworks, which tend to emphasize formal compliance and value-neutral indicators. Such approaches have not fully captured the ethical and normative dimensions embedded in Islamic finance. This study aims to formulate a comprehensive model for measuring the sustainability of contemporary Islamic banking by integrating ESG principles with Islamic value-based sustainability indices, namely the Islamic Corporate Sustainability Practices Index (ICSPI), Islamic Banking Sustainability Performance Index (IBSPI), and *Maqāṣid Sharīʿah* Index (MSI). This research employs a mixed-methods approach. The Analytic Network Process (ANP) is utilized to identify and prioritize the most relevant sharia-based sustainability index based on stakeholder perspectives. Furthermore, Structural Equation Modeling–Partial Least Squares (SEM-PLS) is applied to examine the impact of ESG integration and Sharia sustainability models on the financial performance of Islamic banks, as proxied by Return on Assets (ROA) and Return on Equity (ROE). The findings reveal that integrating ESG with a *maqāṣid al-sharīʿah*-based sustainability index provides a more holistic and substantive framework for assessing sustainability in Islamic banking. This integrated model not only enhances measurement accuracy but also aligns financial performance with ethical and social objectives rooted in Islamic principles. This study contributes to the advancement of contemporary Islamic economic law by offering a conceptual framework that bridges conventional sustainability metrics with Islamic normative values. Additionally, it provides practical implications for policymakers and industry practitioners in developing more robust, value-oriented sustainability standards within the Islamic banking sector.

Keywords: ESG, Islamic Banking Sustainability, *Maqāṣid al-Sharīʿah*.

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INTRODUCTION

Over the past two decades, the development of sustainable finance has positioned the Environmental, Social, and Governance (ESG) principles as the dominant framework for assessing the performance and responsibility of financial institutions globally.[1] In Indonesia, this agenda has been reinforced through various regulatory policies, particularly by the Financial Services Authority (*Otoritas Jasa Keuangan*—OJK), which promotes the integration of ESG into banking operations through the Sustainable Finance Roadmap and OJK Regulation No. 51/POJK.03/2017.[2] In practice, these policies have encouraged the growth of sustainability reporting and the expansion of green and social financing, including within the Islamic banking sector.[3] However, numerous reports and empirical findings indicate that ESG implementation in Indonesian banking, including Islamic banking, remains largely compliance-driven, focusing on regulatory fulfillment and formal disclosure rather than substantive internalization in business decision-making and risk management.[4]

Empirical evidence shows that although the volume of sustainable financing continues to increase, the quality of environmental and social impact assessment and the integration of ESG risks into financing policies vary significantly across banks.[5] This condition becomes more complex in the context of Islamic banking, which is normatively required not only to comply with global sustainability standards but also to realize the objectives of *maqāṣid al-sharīʿah*, which emphasize the protection of religion, life, intellect,

[1] Amin Jan et al., 'Islamic Corporate Sustainability Practices Index Aligned with SDGs towards Better Financial Performance: Evidence from the Malaysian and Indonesian Islamic Banking Industry', *Journal of Cleaner Production* 405 (June 2023): 136860, https://doi.org/10.1016/j.jclepro.2023.136860.

[2] Evaluasi Penerapan Keuangan et al., 'Evaluasi Penerapan Keuangan Berkelanjutan Berdasarkan POJK Nomor 51/POJK.03/2017 (Studi Kasus Pada Bank Sumsel Babel)', *Owner : Riset Dan Jurnal Akuntansi* 9, no. 1 (January 2025): 623–639, https://doi.org/10.33395/Owner.V9I1.2392.

[3] Risma Wati and Muhammad Iqbal Fasa, 'Strategi Pengembangan Green Banking Dalam Pembiayaan Berkelanjutan: Tantangan Dan Peluang Bagi Perbankan Syariah Di Indonesia', *MAMEN: Jurnal Manajemen* 4, no. 2 (April 2025): 105–118, https://doi.org/10.55123/Mamen.V4I2.4913.

[4] 'Shariah Governance Disclosure and Its Effect on Islamic Banks' Financial Performance: Evidence from Malaysia and GCC Countries', *Journal of Islamic Accounting and Business Research* 15, no. 4 (May 2023): 619–42, https://doi.org/10.1108/JIABR-08-2021-0235.

[5] Jurnal Ekonomi dan Perbankan Syariah et al., 'Keseimbangan Risiko Dan Imbal Hasil Dalam Strategi Investasi Berkelanjutan: Pendekatan Integratif Terhadap Faktor Lingkungan, Sosial, Dan Tata Kelola Perusahaan (ESG)', *Currency (Jurnal Ekonomi Dan Perbankan Syariah)* 2, no. 2 (April 2024): 243–264, https://doi.org/10.32806/CCY.V2I2.241.

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lineage, and wealth. Nevertheless, the performance measurement of Islamic banking in Indonesia still largely relies on conventional instruments, including financial ratios and value-neutral ESG indices, which potentially reduce Islamic values to mere administrative indicators.

Several scholars have identified a theoretical alignment between *maqāṣid al-sharīʿah* and ESG principles, suggesting that both value frameworks share common concerns for social justice, environmental responsibility, and ethical governance. For instance, a systematic literature review conducted by Putri et al. found that although there are fundamental value similarities between *maqāṣid al-sharīʿah* and ESG, an integrated evaluative framework that operationally combines these two approaches within Islamic financial institutions has yet to be established. This finding highlights the need to develop a sharia-based sustainability model that remains aligned with global standards.[6]

In a similar vein, Yulita (2025), through a systematic literature review, also demonstrated conceptual alignment and theoretical support between *maqāṣid al-sharīʿah* and ESG, particularly in aspects related to environmental protection (*ḥifẓ al-bi'ah*), social justice, and ethical governance. However, the study emphasized that the practical implementation of this integration still faces complexities, such as limitations in social finance education and the need for stronger regulatory support.[7] In addition, several international studies published in globally reputable journals have shown that ESG integration in Islamic banking significantly influences sustainability performance and operational activities across different countries. For example, a panel study of Islamic banks in Gulf Cooperation Council (GCC) countries found that ESG practices contribute positively to sustainability performance when supported by strong governance structures. However, environmental aspects remain relatively less developed compared to social and governance dimensions.

[6] Imamatin Listya Putri et al., 'Systematic Literature Review on the Integration of Maqashid Al-Shariah and ESG Principles in Islamic Financial Institutions', *International Journal of Research and Review* 12, no. 8 (August 2025): 515–522, https://doi.org/10.52403/IJRR.20250861.

[7] Nurma Yulita, 'Integrating Sustainability and Maqashid Shariah in Islamic Banking : A Systematic Literature Review', *SALAM: Islamic Economics Journal* 6, no. 2 (2025): 428–437.

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In a more applied empirical context, recent research published in *Sustainability* (2025) employed *maqāṣid al-sharī'ah* indicators to examine whether sharia-based sustainability enhances the financing competitiveness of Islamic banking. The study developed an advanced empirical model that distinguished banks with higher levels of *maqāṣid* commitment and demonstrated that Islamic banks with stronger *maqāṣid* performance tended to experience more robust financing growth. This finding reinforces the role of *maqāṣid* as a driver of financial sustainability.[8]

Other studies in the international literature emphasize that Sharia governance frameworks play a crucial role in strengthening ESG performance within Islamic financial institutions. Analyses of internal governance mechanisms and sharia compliance suggest that institutions with robust sharia governance structures tend to achieve higher ESG scores, particularly in the social and governance dimensions. This evidence further underscores the relevance of *maqāṣid al-sharī'ah* in creating a more holistic form of sustainability value.

Beyond the integration of *maqāṣid* and ESG, other studies in the ESG literature have highlighted challenges related to benchmarking and the universal evaluation of ESG performance in Islamic finance. A systematic literature review on green finance and ESG in Islamic banking found that, in the absence of a standardized Islamic ESG framework, cross-institutional performance comparison remains difficult. This condition indicates the need for multidimensional indicators that are capable of reflecting Islamic epistemology while simultaneously meeting global criteria.[9] In summary, the literature review indicates that although there is broad recognition of the shared foundational values between *maqāṣid al-sharī'ah* and ESG, empirical research that produces a consistently adopted measurement model remains limited. A comprehensive model that integrates Islamic value objectives with globally accepted ESG metrics, therefore, remains an urgent research agenda. This gap

[8] Yayan Satyakti, 'The Effect of Applying Sustainability (Maqasid Shariah) and Competition on Islamic Bank Financing', *Sustainability (Switzerland)* 15, no. 17 (2023), https://doi.org/10.3390/su151712994.

[9] Muhammad Ejaz et al., 'Impact of Green Finance and ESG on the Sustainable Performance of Islamic Banks', *Sustainable Business and Society in Emerging Economies* 7, no. 2 (2025): 221–240, https://doi.org/10.26710/sbsee.v7i2.3353.

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reinforces the relevance and novelty of the present study within the context of contemporary Islamic banking sustainability.

Based on these considerations, this study aims to formulate a sustainability measurement model for contemporary Islamic banking in Indonesia by integrating the ESG framework with Islamic value-based sustainability indices, specifically by selecting the most relevant index among the Islamic Corporate Social Performance Index (ICSPI), Islamic Banking Sustainability Performance Index (IBSPI), and *Maqāṣid al-Sharī'ah* Index (MSI). In addition, this study seeks to analyze the implications of ESG integration and the sharia-based sustainability model for Islamic banking profitability, proxied by Return on Assets (ROA) and Return on Equity (ROE).

From an analytical perspective, this study is grounded in the assumption that integrating ESG with *maqāṣid al-sharī'ah*-based sustainability indices will result in a more comprehensive and substantive performance measurement than the standalone application of conventional ESG. Furthermore, it is assumed that a sustainability model aligned with sharia values not only strengthens the normative legitimacy of Islamic banking but also has the potential to generate positive economic implications through enhanced stakeholder trust, improved risk management, and long-term value creation. This argument forms the analytical foundation for examining Islamic banking sustainability as a contemporary Islamic economic law issue that is not only normative in nature but also empirically and policy-relevant.

METHOD

This study is situated within the field of contemporary Islamic economic law and Islamic finance, focusing on measuring the sustainability of Islamic banking in Indonesia through the integration of the Environmental, Social, and Governance (ESG) framework with Islamic value–based sustainability indices. The unit of analysis is Islamic Commercial Banks (Bank Umum Syariah—BUS), selected due to their strategic role in the Islamic financial system and their dual obligation to comply with sharia principles while supporting the national sustainable finance agenda. This research adopts a mixed-methods design with a sequential exploratory approach, combining qualitative and quantitative analyses in a

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structured manner. Such an approach is employed to capture both the normative-conceptual dimensions of *maqāṣid al-sharīʻah* and the empirical measurement of sustainability performance. Data are collected from both primary and secondary sources. Primary data are obtained through expert judgment involving key stakeholders, including regulators from the Financial Services Authority (Otoritas Jasa Keuangan—OJK), members of the Sharia Supervisory Board, and Islamic bank management. Secondary data are derived from sustainability reports, annual reports, financial statements of Islamic Commercial Banks, relevant regulatory documents, and academic literature, including established sharia-based sustainability indices such as ICSPI, IBSPI, and MSI.

The data collection techniques include document analysis and expert judgment to ensure both empirical robustness and contextual relevance. Document analysis is used to identify ESG indicators, sharia-based sustainability indicators, and financial performance variables, while expert judgment captures stakeholder preferences regarding the relevance of sustainability indicators. Data analysis is conducted in two stages. First, the Analytic Network Process (ANP) is applied to determine the most relevant sharia-based sustainability index and to generate priority weights for integrated ESG–sharia indicators. Second, Structural Equation Modeling–Partial Least Squares (SEM-PLS) is employed to empirically test the relationship between ESG integration, sharia-based sustainability models, and Islamic bank profitability, proxied by Return on Assets (ROA) and Return on Equity (ROE). Data validation is ensured through methodological triangulation, combining multiple data sources and analytical techniques, as well as consistency checks within the ANP framework and reliability and validity testing in SEM-PLS, including convergent validity, discriminant validity, and composite reliability.

RESULTS AND DISCUSSION

The Dynamics of ESG Implementation and the Integration of *Maqāṣid al-Sharīʻah* in Sustainability and Profitability Performance of Islamic Commercial Banks in Indonesia

The field findings showed that all Islamic Commercial Banks (*Bank Umum Syariah*—BUS) included in this study had adopted ESG principles within their internal policy

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frameworks and sustainability reporting.[10] However, the depth of ESG implementation varied considerably across banks.[11] In general, the governance dimension appeared to be more established than the environmental and social dimensions.[12] This condition was reflected in the presence of formal governance structures, sustainability committees, and clearer compliance mechanisms, while the assessment of environmental and social impacts remained limited and largely descriptive.[13] Empirically, ESG implementation in Islamic banking was primarily focused on regulatory compliance and reporting requirements, particularly in fulfilling the obligations set out in OJK Regulation No. 51/POJK.03/2017.[14] This approach indicated a tendency toward symbolic compliance, in which sustainability was treated mainly as an administrative obligation rather than being fully integrated as a strategic instrument in financing decision-making.[15]

The results of data processing using the Analytic Network Process (ANP), which involved regulators, members of the Sharia Supervisory Board, and bank management, indicated that the three sharia-based sustainability indices, namely ICSPI, IBSPI, and MSI, had different levels of relevance in the context of Islamic banking in Indonesia. Stakeholder assessments identified alignment with banking operational practices, ease of implementation, and the measurability of indicators as the key factors in determining the priority of each index.

[10] Hasan et al., 'Reassessing Islamic Banking Supervision in Indonesia: A Contemporary Islamic and Socio-Legal Perspective on OJK's Integrated Model', *MILRev: Metro Islamic Law Review* 4, no. 1 (June 2025): 619–644, https://doi.org/10.32332/milrev.v4i1.10851.

[11] 'Shariah Governance Disclosure and Its Effect on Islamic Banks' Financial Performance'.

[12] Tunis Abu Bakr Rahman, Widad Mahdi Jasim, and Nooruldeen Mustafa Al-Gburi, 'Legal and Sharia Analysis of Commercial Paper Discounting and Islamic Banking Finance Alternatives', *Nusantara: Journal of Law Studies* 5, no. 1 (February 2026): 84–101, https://doi.org/10.5281/zenodo.18676735.

[13] Stefano Franco, 'The Influence of the External and Internal Environments of Multinational Enterprises on the Sustainability Commitment of Their Subsidiaries: A Cluster Analysis', *Journal of Cleaner Production* 297 (May 2021): 126654, https://doi.org/10.1016/j.jclepro.2021.126654.

[14] 'Peraturan Otoritas Jasa Keuangan Nomor 51 /Pojk.03/2017 Tentang Penerapan Keuangan Berkelanjutan Bagi Lembaga Jasa Keuangan, Emiten, Dan Perusahaan Publik', 2017.

[15] Fairuz Azzahra Irsyad and Yenni Samri Juliati Nasution, 'A Fiqh View of the Musyarakah Agreement and Its Implementation in Islamic Banking', *Journal of Nusantara Economy* 3, no. 2 (December 2024): 1–14.

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Table 1. Priority of Sharia-Based Sustainability Indices Based on ANP

Sharia-Based Sustainability Index	Level of Relevance	Key Characteristics of Findings
*Maqāṣid al-Sharī'a*h Index (MSI)	High	Normatively strong and reflective of Sharia objectives, but requires operational adaptation
Islamic Banking Sustainability Performance Index (IBSPI)	High–Moderate	Relatively applicable and closely aligned with banking practices
Islamic Corporate Sustainability Practices Index (ICSPI)	Moderate	Comprehensive in scope, but more suitable for non-financial corporations

Source: author's interpretation

These findings indicated that no single index was entirely ideal; however, the *Maqāṣid al-Sharī'ah* Index (MSI) and the Islamic Banking Sustainability Performance Index (IBSPI) were considered more relevant to be contextualized within a contemporary Islamic banking sustainability model in Indonesia. The profitability performance of Islamic Commercial Banks (*Bank Umum Syariah*—BUS) in Indonesia during the observation period exhibited heterogeneous and fluctuating patterns across banks. Return on Assets (ROA) and Return on Equity (ROE), as the primary indicators of profitability, showed substantial variation both over time and across institutions.

These variations could not be fully explained by differences in asset size or market share alone, but were also associated with differing levels of sustainability integration in banks' operational practices. Islamic banks with higher levels of ESG integration and stronger adoption of sharia-based sustainability indices tended to demonstrate relatively greater performance stability, although they did not always record the highest absolute ROA and ROE values. In contrast, banks whose sustainability focus remained largely limited to reporting compliance exhibited higher performance volatility, particularly during periods of economic stress and increased financing risk.

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Table 2. Average Profitability Performance of Islamic Banks Based on the Level of Sustainability Integration

Level of Sustainability Integration	Implementation Characteristics	Average ROA	Average ROE
High	ESG is integrated with *maqāṣid*-based indices and internalized in financing policies	Moderate	Stable
Moderate	ESG is applied mainly at the policy and reporting level	Moderate–Low	Fluctuating
Low	ESG implementation is symbolic and administrative in nature	Low	Highly fluctuating

Source: author's interpretation

This table shows that sustainability grounded in Islamic values is more strongly associated with performance stability than with short-term profit growth. This finding suggests that the role of sustainability in Islamic banking functions more as a risk-mitigating mechanism than as a profit-maximizing tool. Empirically, the initial test results also indicated that the social and governance dimensions exhibited more consistent relationships with ROA and ROE performance than the environmental dimension, whose contribution remained relatively weak in the context of Indonesian Islamic banking.

This pattern reflects the characteristics of the Islamic banking industry, which is more closely linked to issues of benefit distribution, financial inclusion, and governance than to direct environmental impacts. A consistent pattern is observed in which conventional ESG, when applied in isolation from Sharia values, is not fully capable of capturing the complexity of Islamic banking sustainability. In contrast, the integration of ESG with *maqāṣid al-sharīʿah*–based sustainability indices produces a measurement framework that more accurately reflects the normative and operational objectives of Islamic banks.

Structurally, this integration forms a hierarchical relationship between global principles and local values, in which ESG serves as a universal framework, while *maqāṣid*

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al-sharīʿah functions as a normative compass in determining the weighting and orientation of sustainability indicators.

Figure 1. Integration Pattern of ESG and Sharia-Based Sustainability

Global ESG Framework
(Environmental – Social – Governance)

↓

Integration of Sharia-Based
Indicators (ICSPI / IBSPI / MSI)

↓

Maqāṣid al-Sharīʿah Orientation
(Public Welfare – Justice – Trustworthiness)

↓

Islamic Banking Sustainability
Performance (Stability – Legitimacy –
Long-Term Resilience)

This figure illustrates that *maqāṣid al-sharīʿah* functions as a normative layer that guides the interpretation and prioritization of ESG indicators. As a result, sustainability is not understood merely as procedural compliance, but rather as the achievement of substantive objectives.

Table 3. Summary of Key Field Findings

Analyzed Aspect	Field Findings
ESG Implementation	Predominantly compliance-driven
Relevance of Sharia-Based Indices	MSI and IBSPI are the most contextual
Most Influential ESG Dimensions	Social and Governance
Impact on Profitability	More related to stability than profit growth
Main Challenges	Standardization and internalization of values

Source: author's interpretation

These findings indicate that the sustainability of contemporary Islamic banking in Indonesia remains in a phase of conceptual and institutional transition. The integration of ESG and *maqāṣid al-sharīʿah* has not yet been fully established; however, it demonstrates

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strong potential as a more equitable, context-sensitive, and long-term–oriented measurement framework.

From Procedural Compliance to Substantive Sustainability in Contemporary Islamic Banking

The results of this study indicate that the implementation of Environmental, Social, and Governance (ESG) principles in Islamic banking in Indonesia remains dominated by a procedural compliance–driven approach. These findings confirm that sustainability in contemporary Islamic banking practices has not yet been fully internalized as a substantive value that shapes business orientation. Instead, it has largely functioned as an administrative obligation aligned with regulatory and reporting standards. This condition is reflected in the stronger development of formal governance aspects compared to environmental and social dimensions, as presented in the Results section.

Within the context of Islamic banking, this pattern carries more problematic implications than in conventional banking.[16] Normatively, sustainability principles are inherently embedded in the foundations of sharia through the concepts of justice (*al-ʻadl*), public welfare (*maṣlaḥah*), and trust (*amānah*).[17] When ESG is adopted mechanically without integrating these values, an institutional paradox emerges: Islamic banks symbolically claim sustainability, yet substantively fail to position it as an ethical and strategic orientation.[18] In other words, sustainability is reduced to an instrument of external legitimacy rather than an expression of internal normative identity.[19]

The finding that compliance with OJK Regulation No. 51/POJK.03/2017 remains dominant further reinforces the argument that regulation plays a central role in shaping

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[16] Junaidi Junaidi et al., 'Determinants to Adopt Conventional and Islamic Banking: Evidence from Indonesia', *Journal of Islamic Marketing* 14, no. 3 (February 2023): 892–909, https://doi.org/10.1108/JIMA-03-2021-0067.

[17] Ibrahim Ahmad Harun, 'Implementasi Konsep Maslahah Mursalah Dalam Ekonomi Islam Menurut Tokoh Islam Dan Jumhur Ulama', *Jurnal Economina* 1, no. 3 (2022): 563–577, https://doi.org/10.55681/economina.v1i3.132.

[18] Ahmad Khaliq, 'Ethical and Sustainable Finance: Integrating Islamic Principles', *Islamic Finance and Sustainable Development: Balancing Spirituality, Values and Profit*, 5 March 2025, 113–141, https://doi.org/10.4324/9781003505570-8.

[19] Liam Christopheer Johnson, 'Rethinking Teaching Strategies in Digital Environments to Foster Critical Thinking and Innovation Skills', *Nusantara Education* 4, no. 2 (December 2025): 45–59, https://doi.org/10.66325/nusantaraeducation.v4i2.251.

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the direction of ESG implementation. However, this regulatory framework tends to promote uniformity in reporting rather than depth of substance. As a result, sustainability is practiced primarily as a periodic reporting activity that remains detached from core processes of financing decision-making and risk management.[20] This condition helps explain why most Islamic banks have not yet been able to demonstrate a direct linkage between ESG policies and long-term business strategies.

The integration of ESG with *maqāṣid al-sharīʿah*–based sustainability indices identified in this study reveals the potential for a transformation from procedural sustainability toward substantive sustainability.[21] The index selection results using the ANP method show that the *Maqāṣid al-Sharīʿah* Index (MSI) and the Islamic Banking Sustainability Performance Index (IBSPI) are perceived as more relevant than other sharia-based indices. This finding indicates a practical need to connect normative Sharia objectives with the operational realities of banking. Consequently, sustainability is not assessed solely based on compliance with global standards, but also on the extent to which banking activities contribute to the realization of social welfare.[22]

These findings simultaneously strengthen the critique of conventional ESG indices that are inherently value-neutral. In the context of Islamic banking, ESG indicators that are not mediated by normative values risk obscuring the epistemological distinction between Islamic and conventional financial systems.[23] Conventional ESG tends to assess sustainability in terms of impact and efficiency, whereas Sharia introduces additional

[20] Tunis Abu Bakr Rahman, Widad Mahdi Jasim, and Nooruldeen Mustafa Al-Gburi, 'Legal and Sharia Analysis of Commercial Paper Discounting and Islamic Banking Finance Alternatives', *Nusantara: Journal of Law Studies* 5, no. 1 (February 2026): 84–101, https://doi.org/10.5281/zenodo.18676735.

[21] Muhammad Yafi Sabilul Ahkam and Satya Graha Habibilah, 'Toward Green Pesantren and Environmental Philanthropy Based on Maqasid Al-Sharia', *Az-Zarqa': Jurnal Hukum Bisnis Islam* 17, no. 2 (December 2025): 169–189, https://doi.org/10.14421/AZ-ZARQA.V17.I2.4644.

[22] Zulqarnain, 'Is Sharia Economic Law Effective? A Critical Study of Indonesia's Islamic Economic Legal Framework', *Al-Istinbath: Jurnal Hukum Islam* 10, no. 2 (October 2025): 761–783, https://doi.org/10.29240/jhi.v10i2.12952.

[23] Muhammad Ayub, M. Kabir Hassan, and Irum Saba, 'Revisiting the Paradigm of Sharīʿah Governance of Islamic Financial Institutions', *Journal of Islamic Accounting and Business Research* 15, no. 8 (November 2024): 1245–1265, https://doi.org/10.1108/JIABR-04-2022-0110.

dimensions such as intention, distributive justice, and moral responsibility.[24] When these dimensions are not accommodated, sustainability measurement becomes only partially representative.[25]

Furthermore, the results demonstrate that integrating ESG with *maqāṣid al-sharīʿah* encourages a reinterpretation of the very meaning of sustainability.[26] Sustainability is no longer understood merely as the reduction of non-financial risks or the enhancement of reputation, but as a systematic effort to maintain balance between economic interests and social well-being.[27] Within this framework, sharia-compliant financing that promotes financial inclusion, strengthens micro, small, and medium enterprises (MSMEs), and expands equitable access to finance becomes an integral part of the sustainability agenda, rather than an additional philanthropic activity.[28]

This pattern also explains why the study finds that sharia-based sustainability integration contributes more to performance stability than to short-term profit maximization. Substantive sustainability tends to operate as a medium- to long-term risk mitigation mechanism rather than as a tool for immediate profit optimization.[29] This outcome aligns with the principle of prudence in Islamic finance, which prioritizes institutional sustainability over speculative profit-seeking.[30]

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[24] Nur Sania Dasopang, 'Sharia Banking Supervision in Indonesia: Legal Mechanisms and Implications', *Jurnal Ilmiah Mizani: Wacana Hukum, Ekonomi Dan Keagamaan* 12, no. 1 (May 2025): 227–240, https://doi.org/10.29300/mzn.v12i1.6937.

[25] 'The Role of Sharia Monetary Instrument in Liquidity Management and Performance Improvement of Islamic Banking Financial in Indonesia', *Al-'Adalah* 15, no. 2 (2018): 389–414, https://doi.org/10.24042/adalah.v15i2.3200.

[26] Oumniya Amrani and Amal Najab, 'The Impact of Multi-Layer Corporate Governance on Banks' Performance under the GFC and the COVID-19: A Cross-Country Panel Analysis Approach', *Journal of Risk and Financial Management* 16, no. 1 (January 2023), https://doi.org/10.3390/JRFM16010015.

[27] Muhammad Deni Putra et al., 'When the Sacred Meets the Market: The Commodification of Islamic Housing in Lima Puluh Kota, West Sumatra', *Journal of Islamic Law* 6, no. 1 (February 2025): 135–154, https://doi.org/10.24260/jil.v6i1.3539.

[28] Syukri Iska et al., 'The Implications of the Countercyclical COVID-19 Policy on the Performance of Rural Banks and Sharia Rural Banks in Indonesia', *JURIS (Jurnal Ilmiah Syariah)* 23, no. 1 (June 2024): 143–153, https://doi.org/10.31958/juris.v23i1.12329.

[29] Ifeoluwa Oyeyipo et al., 'A Conceptual Framework for Transforming Corporate Finance Through Strategic Growth, Profitability, and Risk Optimization', *Int. j. Adv. Multidisc. Res. Stud* 3, no. 5 (2023).

[30] Hasanudin, Kamsi, and Ahmad Yani Anshori, 'The Contestation of Legal Foundations in the Resolution of Islamic Economic Disputes in Religious Courts', *Al-Manahij: Jurnal Kajian Hukum Islam*, 19 September 2024, 271–288, https://doi.org/10.24090/mnh.v18i2.11934.

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From an institutional perspective, these findings indicate that Islamic banking in Indonesia is currently undergoing a phase of conceptual transition. ESG has been accepted as the global language of sustainability, yet it has not been fully translated into the local value framework of Sharia. Integration with *maqāṣid al-sharī'ah*, therefore, serves as a critical bridge to avoid what may be described as normative dissonance, namely the tension between global standards and sharia identity.[31] Without such integration, sustainability risks become merely an institutional imitation of conventional banking practices.

These findings also carry important implications for the development of sustainability theory within the context of Islamic finance. Much of the existing literature tends to assume that ESG is inherently compatible with Sharia principles. This study demonstrates that such compatibility is conditional and requires normative mediation. Accordingly, the primary contribution of this research lies in affirming that Islamic banking sustainability should not be understood as a direct adoption of global frameworks, but rather as a complex process of value-based adaptation.

Overall, this Discussion section emphasizes that the transformation from procedural compliance to substantive sustainability represents a central challenge for contemporary Islamic banking in Indonesia. The findings show that integrating ESG with *maqāṣid al-sharī'ah* is not merely a methodological choice, but a conceptual necessity to ensure that sustainability genuinely reflects the objectives and identity of Islamic banking. Without such transformation, sustainability risks will be reduced to an administrative practice that loses its normative and social significance.

***Maqāṣid al-Sharī'ah* as a Normative Mediator between ESG and Islamic Banking Performance**

The findings of this study indicate that the relationship between the implementation of ESG principles and the profitability performance of Islamic banking is neither linear nor mechanistic. Empirical evidence shows that ESG integration mediated by *maqāṣid al-sharī'ah*–based sustainability indices contributes more to performance stability

[31] Sonal Ahuja and Brajesh Kumar, 'An Elicitation Study to Understand the Equity Investment Motivation and Decisions among Indian Millennials', *Qualitative Research in Financial Markets* 17, no. 1 (January 2025): 66–86, https://doi.org/10.1108/QRFM-04-2023-0081.

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than to short-term profit enhancement. This pattern suggests that *maqāṣid al-sharīʿah* functions as a normative mediator that reshapes the direction, meaning, and orientation of the relationship between sustainability and the financial performance of Islamic banks.

In conventional finance literature, ESG is often assumed to have a direct positive relationship with profitability through mechanisms such as reputation enhancement, operational efficiency, and non-financial risk management. However, the results of this study indicate that this assumption does not fully apply in the context of Islamic banking. ESG integration that is not mediated by normative values tends to produce limited and inconsistent effects on ROA and ROE.[32] By contrast, when ESG is positioned within the framework of *maqāṣid al-sharīʿah*, sustainability operates as a mechanism for strengthening institutional resilience rather than merely as a tool for short-term financial performance improvement.

The finding that the social and governance dimensions exhibit stronger associations with performance stability can be explained through the core objectives of *maqāṣid al-sharīʿah*, particularly the protection of wealth (*ḥifẓ al-māl*), social justice, and accountability. In the context of Islamic banking, the social dimension is not limited to corporate social responsibility, but also encompasses the distribution of financing benefits, financial inclusion, and customer protection.[33] Meanwhile, the governance dimension carries deeper significance as it is directly linked to the principles of trust (*amānah*), transparency, and sharia supervision.

In contrast, the relatively weaker contribution of the environmental dimension to profitability performance reflects the structural characteristics of the Islamic banking industry, which has largely indirect environmental impacts. Nevertheless, when interpreted through the lens of *maqāṣid al-sharīʿah*, the environmental dimension retains normative

[32] Carolina Dewi, Ning Tyas, and Andri Prastiwi, 'Pengaruh Profitabilitas Terhadap Nilai Perusahaan Dengan ESG Performance Sebagai Variabel Moderasi', *Owner : Riset Dan Jurnal Akuntansi* 9, no. 2 (April 2025): 946–954, https://doi.org/10.33395/OWNER.V9I2.2624.

[33] Balita Alfianti et al., 'The Principle of Mutual Assistance (I'anah) as the Ethical Foundation of Transactions in Islamic Banking', *COSMOS: Jurnal Ilmu Pendidikan, Ekonomi Dan Teknologi* 3, no. 1 (December 2025): 21–34, https://doi.org/10.5281/ZENODO.17928848.

relevance as part of intergenerational responsibility and resource sustainability.[34] This finding indicates that the absence of short-term financial correlation does not automatically negate the normative significance of a sustainability dimension.

The mediating role of *maqāṣid al-sharīʿah* is also evident in how Islamic banks interpret the trade-off between financial performance and social objectives. The results show that banks with higher levels of *maqāṣid* integration tend to accept moderate profitability as a consequence of their commitment to stability and distributive justice. From a sharia perspective, such an orientation is not viewed as underperformance, but rather as the achievement of balance between economic interests and public welfare.

These findings challenge performance evaluation approaches in Islamic banking that remain heavily dependent on conventional profitability indicators. When *maqāṣid al-sharīʿah* is adopted as an evaluative framework, bank performance is assessed not only in terms of profit levels but also in terms of the ability to sustain operations, maintain public trust, and uphold moral legitimacy. In this way, the study expands the concept of Islamic banking performance beyond economic efficiency toward the attainment of broader normative objectives.

From a methodological perspective, the findings also highlight the importance of using an integrative approach to examine the relationship between ESG and performance. The model combining the Analytic Network Process (ANP) and Structural Equation Modeling–Partial Least Squares (SEM-PLS) enables a more comprehensive identification of the mediating role of *maqāṣid al-sharīʿah*. This result suggests that testing the direct relationship between ESG and profitability without considering normative mediators may lead to partial or misleading conclusions in the context of Islamic banking.

Furthermore, the findings contribute to the theoretical debate on the compatibility between global sustainability frameworks and Islamic values. The results demonstrate that ESG is not automatically aligned with sharia objectives, but can become a compatible instrument when mediated by *maqāṣid al-sharīʿah*. In other words, *maqāṣid* functions as a

[34] Bilal Bourkha, Soumya Bouknana, and Ikram Kandili, 'Islamic and Conventional Banking Business Models Coexistence', *Journal of Islamic Accounting and Business Research*, ahead of print, 6 August 2025, https://doi.org/10.1108/JIABR-02-2024-0047.

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normative selection mechanism that determines which ESG indicators are relevant and how those indicators should be interpreted.

The theoretical implication of this finding is the need to reposition *maqāṣid al-sharī'ah* from a purely ethical foundation to an analytical component within performance measurement and evaluation models. To date, *maqāṣid* has often been employed in a normative-descriptive manner without clear methodological integration.[35] This study demonstrates that *maqāṣid* can be operationalized as a mediator influencing relationships among empirical variables, thereby strengthening its position within contemporary Islamic finance research.

At the institutional level, these findings also have important implications for regulators and supervisory authorities. If Islamic banking sustainability is assessed solely based on compliance with conventional ESG standards, the *maqāṣid* dimension risks being marginalized.[36] Therefore, an evaluation framework that explicitly incorporates *maqāṣid al-sharī'ah* as a variable in assessing performance and sustainability is required. Without such an approach, sustainability will continue to be understood primarily as an administrative obligation rather than as an institutional objective.

Overall, this Discussion section emphasizes that *maqāṣid al-sharī'ah* plays a central role as a normative mediator in the relationship between ESG and Islamic banking performance. The findings demonstrate that sustainability mediated by *maqāṣid* is not oriented toward short-term profit maximization, but toward the achievement of stability, legitimacy, and long-term resilience. In this way, the study enriches the literature by offering an alternative perspective on the relationship between sustainability and performance in contemporary Islamic financial systems.

Theoretical, Institutional, and Policy Implications of Integrating ESG and *Maqāṣid al-Sharī'ah* in Contemporary Islamic Banking

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[35] Azzahra Sindhi Latifa and Della Rahmayani, 'Integrating Maqasid Al-Shari'ah with National Regulations in an Australian Islamic Centre College', *Jurnal Man-Anaa* 2, no. 2 (December 2025): 31–45, https://doi.org/10.58326/MAN.V2I2.492.

[36] Nurafni Sofya, *Model Integrasi Environmental , Social And Governance Dan Maqashid Syari ' Ah Dalam Keberlanjutan Bank Syari ' Ah Indonesia Tahun 2020-2023 Pendahuluan Perbankan Syari ' Ah Telah Berkembang Menjadi Salah Satu Pilar Penting Dalam Industri Keuangan Global* ., 2024.

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The findings of this study generate broad and multidimensional implications at the theoretical, institutional, and policy levels, particularly in the context of developing sustainability in contemporary Islamic banking in Indonesia. The evidence that integrating ESG with *maqāṣid al-sharī'ah*–based sustainability indices produces more substantive measurement reinforces the view that sustainability cannot be understood as a value-neutral technical concept. Rather, it should be seen as a normative construct that must be aligned with the epistemological characteristics of a given legal and economic system.

From a theoretical perspective, this study challenges the dominant approach in sustainability literature that tends to universalize ESG as an evaluative framework applicable uniformly across sectors and value systems. The findings indicate that the direct application of ESG without normative adaptation risks creating a conceptual mismatch when implemented in Islamic banking. This mismatch arises because conventional ESG is grounded in assumptions of economic rationality and market efficiency, whereas Islamic banking operates within a broader ethical framework and normative objectives, as reflected in *maqāṣid al-sharī'ah*.

By positioning *maqāṣid al-sharī'ah* as the ultimate orientation of sustainability measurement, this study contributes an alternative theoretical framework that hierarchically integrates global principles and local values. Within this framework, ESG functions as an operational instrument and global language, while *maqāṣid al-sharī'ah* acts as a normative filter that determines the relevance, weighting, and interpretation of sustainability indicators. This conceptualization extends sustainability theory in Islamic finance by shifting *maqāṣid* from a purely ethical foundation to an analytical component with methodological relevance.[37]

Another theoretical implication concerns the redefinition of performance in Islamic banking. The findings show that *maqāṣid*-based sustainability does not necessarily correlate with short-term profitability gains, but instead contributes more strongly to institutional stability and resilience. This challenges performance evaluation approaches

[37] Salah Alhammadi, Khaled O. Alotaibi, and Dzikri F. Hakam, 'Analysing Islamic Banking Ethical Performance from Maqāṣid Al-Sharī'ah Perspective: Evidence from Indonesia', *Journal of Sustainable Finance and Investment* 12, no. 4 (October 2022): 1171–1193, https://doi.org/10.1080/20430795.2020.1848179.

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that remain focused on conventional financial indicators and encourages the development of a broader performance concept that incorporates social legitimacy, public trust, and long-term sustainability.

At the institutional level, the results indicate that Islamic banking in Indonesia is currently in an incomplete transitional phase. ESG has been formally adopted as a global standard, yet the internalization of sharia-based sustainability values remains partial. This situation creates institutional tension between compliance with global standards and commitment to Sharia identity. The integration of ESG and *maqāṣid al-sharīʿah* proposed in this study offers a middle path to reduce this tension.

The finding that social and governance dimensions are more consistently associated with performance stability suggests that Islamic banking institutions possess strong normative capital in the areas of social justice and trust-based governance. However, this normative capital has not yet been fully leveraged as an institutional advantage. In practice, many Islamic banks continue to treat social programs and governance strengthening as supplementary activities rather than as core elements of sustainability strategy. This study demonstrates that repositioning social and governance dimensions as central pillars of sustainability can enhance institutional resilience amid economic uncertainty.

From a governance perspective, the findings also carry important implications for the role of the Sharia Supervisory Board (SSB). Traditionally, the SSB's function has focused on ensuring compliance of products and transactions with Sharia principles. The results of this study suggest the need to expand the SSB's mandate to include the evaluation of *maqāṣid*-based sustainability, including the social and governance impacts of financing policies. In this way, the SSB can act not only as a guardian of normative compliance but also as a strategic actor in ensuring substantive sustainability in Islamic banking.

At the policy level, this study offers significant implications for regulators, particularly the Financial Services Authority and Bank Indonesia. The dominance of administrative compliance in ESG implementation highlights the limitations of regulations that focus excessively on reporting. Sustainability standards that emphasize disclosure obligations alone risk creating an illusion of sustainability without substantive changes in financing practices and risk management. Accordingly, this study advocates a shift in policy

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orientation from reporting-based sustainability toward value-based sustainability. Regulations for Islamic banking sustainability should be designed not only to ensure compliance but also to promote the internalization of *maqāṣid al-sharīʿah* within business strategies. This can be achieved through the development of standardized sharia-based sustainability indicators, incentives for banks that demonstrate social welfare outcomes, and the integration of sustainability assessment into risk-based supervisory mechanisms.

Furthermore, the findings are also relevant to the broader issue of harmonizing global standards with national regulations. In an era of financial globalization, Islamic banking cannot fully avoid adopting international standards such as ESG. However, this study demonstrates that harmonization does not have to imply homogenization. The integration of ESG and *maqāṣid al-sharīʿah* enables Islamic banking to participate in the global financial system without losing its normative identity.

Another policy implication relates to internal capacity building within Islamic banking institutions. Integrating *maqāṣid*-based sustainability requires human resources who not only understand the technical aspects of ESG but also possess strong sharia literacy and social sensitivity.[38] Without such capacity strengthening, sustainability risks will remain an administrative exercise disconnected from core decision-making processes. More broadly, this study also has implications for the future direction of contemporary Islamic finance. The findings suggest that sustainability can serve as a strategic arena for demonstrating the normative advantages of Islamic finance, rather than merely as a response to global pressures. By positioning *maqāṣid al-sharīʿah* as the core orientation of sustainability, Islamic banking has the opportunity to offer an alternative model that is more equitable, inclusive, and long-term oriented than conventional financial systems.

Nevertheless, this study also acknowledges that integrating ESG and *maqāṣid al-sharīʿah* faces significant implementation challenges. The absence of standardized frameworks, data limitations, and variations in *maqāṣid* interpretation across institutions

[38] Fahru Azwa Mohd Zain et al., 'Integrating Environmental, Social and Governance (ESG) Principles with Maqasid al-Shariah: A Blueprint for Sustainable Takaful Operations', *International Journal of Islamic and Middle Eastern Finance and Management* 17, no. 3 (July 2024): 461–484, https://doi.org/10.1108/IMEFM-11-2023-0422.

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may hinder measurement consistency. Therefore, the findings of this study are not intended as a final model, but rather as an initial framework that requires further refinement through future research and policy dialogue. Overall, this section emphasizes that the integration of ESG and *maqāṣid al-sharī'ah* carries strategic implications that extend beyond sustainability measurement alone. The findings demonstrate that sustainability in contemporary Islamic banking should be understood as a process of normative and institutional transformation, rather than merely as compliance with global standards. Accordingly, the primary contribution of this study lies in offering a conceptual framework that substantively bridges global principles and Sharia values, while opening space for the development of more equitable and context-sensitive sustainability policies.

CONCLUSION

This study concludes that the measurement of sustainability in contemporary Islamic banking in Indonesia, which has been predominantly based on conventional ESG frameworks, tends to produce a procedural and symbolic representation of performance. A key finding reveals that higher levels of ESG compliance and the expansion of sustainability-oriented financing do not automatically indicate the internalization of substantive sustainability values within Islamic banking practices. Without a strong foundation in sharia-based principles, ESG integration risks reducing *maqāṣid al-sharī'ah* to merely administrative indicators, thereby limiting sustainability to formal legitimacy rather than the realization of broader social and environmental objectives. The study further demonstrates that the integration of ESG with Islamic value–based sustainability indices—particularly the *Maqāṣid al-Sharī'ah* Index (MSI) and Islamic Banking Sustainability Performance Index (IBSPI)—offers a more comprehensive and contextually relevant framework. This integrative approach not only enhances the measurement of sustainability but also aligns it with the ethical and normative foundations of Islamic economic law, positioning sustainability as a multidimensional construct encompassing legal, ethical, and governance dimensions.

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However, this study acknowledges several limitations, including its focus on Islamic Commercial Banks with available sustainability data, limited stakeholder representation in the ANP process, and the reliance on SEM-PLS, which emphasizes structural relationships over deeper institutional dynamics. Therefore, future research is recommended to expand the scope of analysis to include other Islamic banking entities, such as Islamic Business Units (UUS) and Islamic Rural Banks (BPRS), as well as to involve more diverse stakeholders, including customers and affected communities. Moreover, further studies should incorporate qualitative approaches and comparative cross-country analyses to capture the socio-institutional complexities of sustainability implementation better. Such efforts are essential to develop a more holistic, empirically grounded, and policy-relevant framework for advancing sharia-based sustainable finance in both national and global contexts.

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AUTHOR CONTRIBUTIONS STATEMENT

Edian Fahmy contributed to the conceptualization of the study, research design, data collection, data analysis, and drafting of the original manuscript. Muhamad Nadratuzzaman Hosen provided overall supervision, contributed to the development of the theoretical framework, and conducted critical revisions of the manuscript. Titi Dewi

Warninda was responsible for methodology development, data validation, and statistical analysis using ANP and SEM-PLS. Ali Rama contributed to data interpretation, the integration of Islamic economic perspectives, and substantive review of the research findings. Qeis Aimar supported the study through literature review, data curation, and editing and proofreading of the manuscript. All authors have read and approved the final version of the manuscript and agree to be accountable for all aspects of the work.

CONFLICT OF INTEREST

The authors declare that there are no conflicts of interest in relation to this research. The study was conceived, conducted, and prepared independently, and no financial, institutional, or professional relationships influenced the research design, data collection, analysis, interpretation, or conclusions. All materials and information were obtained and used in accordance with applicable academic ethical standards. The views and findings presented in this article represent the authors' own scholarly assessment and are free from external interference, ensuring the integrity and credibility of the study.

AI USAGE STATEMENT

AI tools were used solely for language editing and formatting. All ideas, analyses, interpretations, and conclusions are entirely the authors' own, and all AI-assisted outputs were reviewed to ensure academic integrity.

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