PROCEEDING OF INTERNATIONAL CONFERENCE ON ACCOUNTING AND FINANCE

Volume 4, 2026, PP: 82-93

The pivotal role of sharia supervisory boards in enhancing ESG performance: A maqasid al-shariah perspective

Rifqi Muhammad*, Yunice Karina Tumewang*, Maulidyati Aisyah, Reny Lia Riantika , Noorfaiz Athallah Koeswandana

Department of Accounting, Universitas Islam Indonesia, Yogyakarta, Indonesia
*Corresponding Email addresses: rifqi.muhammad@uii.ac.id

Abstract

This conceptual paper examines the critical role of Sharia Supervisory Boards (SSBs) in driving Environmental, Social, and Governance (ESG) performance within Islamic banking institutions. Grounded in Maqāṣid al-Sharī'ah framework and legitimacy theory, we propose that SSBs serve as strategic catalysts rather than mere compliance mechanisms in sustainability transformation. The study introduces novel mediating variables including Spiritual-Ecological Intelligence - the integration of environmental consciousness within Islamic spiritual values, and Maqasid-Based Strategic Alignment - the systematic integration of higher Shariah objectives into corporate strategy. Through synthesis of contemporary literature from Scopus-indexed journals, we develop a comprehensive framework demonstrating how SSB characteristics - particularly diversity, expertise in sustainability matters, and independent oversight - directly influence green financial innovation and stakeholder engagement quality. The paper argues that effective SSBs transcend traditional supervisory functions by fostering Ethical Transformation Mechanisms that align banking operations with both Islamic principles and global sustainability standards. Our conceptual model provides valuable insights for regulators in developing SSB competency frameworks that emphasize sustainability expertise, while offering practical guidance for Islamic banks to leverage their governance structure as competitive advantage in emerging green finance markets. The study contributes to theoretical advancement by bridging Islamic governance principles with contemporary sustainability discourse, proposing testable propositions for future empirical research in Islamic finance and ESG performance literature.

Keywords: Sharia Supervisory Board, ESG Performance, Maqāṣid al-Sharī'ah, Islamic Banking, Sustainability Governance, Spiritual-Ecological Intelligence

INTRODUCTION

The United Nations (UN) has urged all member states to achieve the Sustainable Development Goals (SDGs) by 2030, aiming to foster new business opportunities while upholding universal ethical principles (Ngamvilaikorn et al., 2024). As a key pillar of national economies, the banking sector is expected to align with these global objectives by shifting its focus from individual profit maximization toward prioritizing sustainability (Avrampou et al., 2019). Environmentally conscious banks are more inclined to invest in eco-friendly initiatives that contribute to long-term sustainability. Over the past decade, environmental sustainability has become a central theme in financial discourse. Increasingly, the banking industry - particularly Islamic banking- faces mounting pressure to address climate change and implement environmentally responsible policies. As awareness of social and environmental obligations grows, Islamic financial institutions are being encouraged to demonstrate a genuine commitment to the Environmental, Social, and Governance (ESG) framework.

To achieve sustainability objectives, companies must establish robust corporate governance (CG) practices. Sound governance not only ensures long-term business continuity but also enhances trust among investors, regulators, and the public. Within the financial sector, CG holds even greater significance, as it is closely tied to maintaining financial system stability and mitigating systemic risks (Hernandez-perdomo et al., 2019). From the perspective of Maqasid Shari'ah, the principles of Environmental, Social, and Governance (ESG) align with core shared values such as responsibility, accountability, social welfare, and environmental stewardship. Guided by divine revelation from the Qur'an and Sunnah, Islamic banks operate under the framework of Islamic economics, emphasizing collective welfare over individual profit when offering Sharia-compliant products and services (Memon et al., 2025). Consequently, Islamic banks should establish a sustainable performance measurement framework that genuinely reflects their effectiveness in fulfilling their mission and vision. This framework should integrate both financial and non-financial indicators, addressing the interests of shareholders and stakeholders while remaining consistent with the principles of Maqasid Shari'ah.

Islamic banking is widely recognized for its potential to advance sustainability; however, limited empirical evidence exists regarding how the quality of Sharia governance influences environmental initiatives, particularly in Muslim-majority countries such as Malaysia, Indonesia, and the GCC region. Despite the global rise of the ESG agenda, a gap remains between the Sharia-based values that are promoted and their practical implementation in environmental policies. This raises an important question: does effective Sharia governance truly serve as a driver for environmental action, or is sustainability merely used as a symbolic form of legitimacy in response to regulatory and social expectations?

Strong corporate governance (CG) is crucial for ensuring transparency, accountability, and operational efficiency (Nya et al., 2023; Rakkarnsil & Butsalee, 2022). Implementing sound governance practices not only enhances a firm's long-term sustainability but also strengthens stakeholder confidence—including that of investors, regulators, and the public. Within the financial sector, CG plays an even more critical role as it is closely tied to maintaining systemic stability and mitigating financial risks.

Sharia governance (SG) is particularly vital in ensuring that Islamic financial institutions comply with Sharia principles, which emphasize justice, balance, and social as well as environmental responsibility. Because Islamic banks operate under both ethical and religious mandates, it is essential for them to understand how governance frameworks influence sustainability reporting and financial performance. To remain competitive in a global financial environment increasingly focused on ESG compliance, Islamic banks must adhere to international sustainability disclosure standards. However, the lack of explicit environmental reporting regulations in Islamic banking poses a major challenge.

Many countries operate under a dual banking system, where Islamic and conventional banks coexist to support national economic growth. Islamic banks, in particular, are expected to demonstrate stronger environmental awareness than their conventional counterparts (Sharmeen et al., 2018). This expectation stems from the principles of Maqasid Shariah, which aim to preserve religion, life, intellect, wealth, and lineage. The objectives of protecting life and future generations are inherently linked to environmental stewardship. To uphold these goals, Islamic financial institutions employ a unique governance mechanism, the Sharia Supervisory Board (SSB), which is a core component of Sharia governance (Simanjuntak et al., 2025). This distinctive governance framework enables Islamic banks to make more meaningful contributions to environmental and social sustainability compared to traditional banks.

Islamic banking governance combines Sharia principles with financial regulations, with the SSB playing a crucial role in ensuring ethical and religious compliance. Although the effectiveness of governance boards and mechanisms has been extensively examined in conventional finance, their specific role in Islamic banking -particularly in relation to environmental disclosure- remains underexplored (Muneer et al., 2025). Islamic banks must understand how governance frameworks impact sustainability reporting and financial performance, especially given the dual ethical and religious imperatives they face. To stay competitive in the global financial landscape that increasingly prioritizes ESG compliance, Islamic banks are required to align with international sustainability disclosure standards.

The central mechanism of Sharia governance is the SSB, a distinctive feature of Islamic financial institutions. However, a significant gap persists between the theoretical alignment of Sharia principles with sustainability and their practical implementation. This raises a critical question: can SSBs act as strategic catalysts for ESG performance, or are they merely compliance mechanisms, with sustainability efforts being largely symbolic for legitimacy? This paper argues that SSBs possess the potential to transcend traditional supervisory functions and become drivers of sustainability transformation. Grounded in the integrated theoretical framework of Maqāṣid al-Sharī'ah and Legitimacy Theory, we propose a conceptual model where effective SSBs foster Spiritual-Ecological Intelligence and Maqasid-Based Strategic Alignment. By synthesizing contemporary literature, we demonstrate how SSB characteristics—such as diversity, expertise in sustainability, and independent oversight—directly influence green financial innovation and the quality of stakeholder engagement. This paper contributes to the Islamic finance and ESG literature by bridging Islamic governance principles with contemporary sustainability discourse, offering a framework for regulators and practitioners, and proposing avenues for future empirical research.

LITERATURE REVIEW AND CONCEPTUAL DEVELOPMENT

Theoretical Foundation: Maqashid Sharia, Legitimacy Theory, and Upper Echelon Theory

This research adopts an integrated theoretical framework that combines Maqasid Shariah and Legitimacy Theory to explain organizational behavior and examine the relationship between the quality of Sharia governance and sustainability initiatives in Islamic banks within developing countries. According to Legitimacy Theory, as articulated by Dowling and Pfeffer (1975), organizational survival depends on securing social approval. Firms must therefore align their activities with the value system of the broader social environment in which they operate. Organizational legitimacy exists when an entity's values and actions are consistent with those of the surrounding social system. When this alignment is achieved, the organization is viewed as legitimate; when it is not, legitimacy is jeopardized -potentially resulting in diminished support from stakeholders, regulators, or society at large.

The fundamental value system underpinning Islamic banking is derived from Maqasid Shariah (the Objectives of Islamic Law). Maqasid Shariah asserts that the ultimate aim of any Islamic endeavor is to achieve maslahah (public good) through the protection of five essential elements: faith, life, intellect, progeny, and wealth. This framework provides a deeply rooted rationale for sustainability that transcends mere regulatory compliance. For example, the protection of life (hifzh al-nafs) and progeny (hifzh al-nasl) directly calls for safeguarding the environment to ensure the well-being of present and future generations, thereby addressing issues such as carbon emissions and environmental degradation. Likewise, the protection of wealth (hifzh al-mal) emphasizes sustainable and productive investment while prohibiting wastefulness (israf), which is often at the core of unsustainable economic practices (Boudawara et al., 2023; Mohammed & Taib, 2015; Sheikh, 2025). Thus, Maqasid Shariah transforms sustainability from a voluntary corporate effort into a moral and religious obligation for Islamic banks. However, these noble objectives risk remaining theoretical without a strong institutional mechanism to operationalize them.

Upper Echelon Theory (UET), originally proposed by (Hambrick & Mason, 1984), posits that organizational outcomes are significantly shaped by the values, cognitive bases, and experiences of top decision-makers. According to this theory, strategic choices and performance outcomes are reflections of the characteristics of an organization's dominant coalition, including board members and senior governance actors. In the context of banking institutions, governance bodies play a pivotal role in shaping strategic priorities, risk orientation, and disclosure practices—including sustainability and ESG-related initiatives. Within Islamic banking, the Sharia Supervisory Board (SSB) represents a unique form of upper echelon governance, distinguished by its dual ethical–religious mandate. Unlike conventional boards, SSB members are entrusted not only with ensuring Sharia compliance but also with safeguarding broader societal and environmental objectives embedded in Maqāṣid al-Sharī'ah. From an Upper Echelon perspective, the effectiveness of SSBs in influencing ESG performance depends on their observable characteristics, such as educational background, expertise in sustainability and Islamic jurisprudence, diversity, independence, and tenure.

SSB members with strong intellectual capital, multidisciplinary expertise, and heightened ethical awareness are more likely to interpret environmental and social issues as integral components of Sharia objectives rather than peripheral compliance requirements. Consequently, such boards tend to promote proactive ESG strategies, green financial innovation, and higher-quality sustainability disclosures. This aligns with the UET argument that decision-makers' cognitive frames shape how external pressures—such as climate change, stakeholder demands, and regulatory expectations—are perceived and translated into organizational actions.

Integrating Upper Echelon Theory with Maqāṣid al-Sharīʿah provides a deeper understanding of how Islamic values are operationalized at the strategic level. While Maqāṣid al-Sharīʿah offers the normative foundation emphasizing the preservation of life, wealth, and future generations, UET explains the mechanism through which these values are enacted in practice-namely, through the strategic interpretations and decisions of SSB members. In this sense, SSBs function not merely as symbolic legitimacy devices but as strategic actors capable of embedding Maqāṣid-oriented sustainability into core banking operations.

Furthermore, Upper Echelon Theory complements Legitimacy Theory by distinguishing between symbolic and substantive ESG engagement. While Legitimacy Theory explains why Islamic banks may adopt ESG practices to gain societal approval, UET clarifies when such practices become genuine and value-driven. Specifically, when SSBs possess strong sustainability-oriented cognition and independence, ESG initiatives are more likely to be substantive rather than ceremonial. Conversely, weak or homogeneous SSBs may result in ESG disclosures that serve primarily as symbolic legitimacy tools.By incorporating Upper Echelon Theory, this study advances a more nuanced theoretical framework that links SSB characteristics to ESG performance through both normative (Maqāṣid al-Sharīʿah) and behavioral (UET) lenses. This integrated approach strengthens the argument that Sharia governance—when led by capable and ethically grounded upper-echelon actors—can play a pivotal role in transforming Islamic banks into authentic agents of sustainable development.

The SSB as a Strategic Catalyst: Mediating Mechanisms for ESG Performance

In this context, Islamic Corporate Governance (ICG) and the SSB play a pivotal role. ICG serves as the institutional bridge that translates the normative ideals of Maqasid Shariah into concrete governance practices while mitigating agency problems within Islamic financial institutions. The SSB, as a distinct governance organ, is tasked with ensuring not only the Sharia compliance of financial transactions but also the organization's adherence to the higher objectives of Islamic law. A high-quality SSB -marked by independence, expertise, and vigilance- acts as a strong internal advocate for sustainability. It can reinterpret the bank's responsibilities through the lens of Maqasid Shariah, encouraging management to pursue green financing, enhance ESG disclosure, and view environmental preservation as a religious duty rather than a financial burden (Issa et al., 2025). Empirical evidence supports the link between strong Sharia governance and improved social and environmental performance (Thnaibat et al., 2025). In the other hand, SSB size positively associated to green banking disclosure while higher proportion of foreign board members negatively affects green banking disclosure (Ardianto et al., 2025). By strengthening accountability to both God and society (Lewis, 2005), an effective ICG framework reduces information asymmetry and operationalizes the ethical objectives of Maqasid Shariah, thereby addressing the agency conflicts that hinder sustainability.

Spiritual-Ecological Intelligence construct represents the integration of environmental consciousness within Islamic spiritual values. An SSB with this intelligence does not see environmental care as a separate "ESG" agenda but as an inherent part of Tawhid (monotheism) and stewardship (khalifah) on Earth. This shifts the motivation from external compliance to internal, faith-based conviction, fostering a genuine culture of sustainability. Accordingly, Sharia governance represents a distinctive institutional mechanism capable of embedding sustainability within Islamic banking practices. Robust Sharia governance not only ensures compliance with ethical and religious obligations related to social and environmental responsibility but also enhances organizational efficiency by building stakeholder trust, promoting financial stability, and supporting long-term competitiveness.

Based on these theoretical foundations, this study proposes that the quality of Sharia governance positively influences the extent of sustainability engagement among Islamic banks in developing economies.

The integration between Maqasid Sharia and ESG performance also known as Maqasid-based strategic alignment which refers to the systematic integration of higher objectives of sharia into corporate and product development. An effective SSB ensures that strategic planning, risk management, and product innovation are consistently evaluated against their contribution to maslahah, thereby embedding sustainability into the bank's core business logic.

SSB Characteristics and Their Influence on ESG Outcomes

Sharia governance is fundamentally aligned with the principles of Maqasid al-Shari'ah, which emphasize the creation of value and the prevention of harm. This alignment promotes positive impacts on environmental, social, and economic dimensions (Abdullah et al.,2024). The principles of Maqasid al-Shari'ah serve as a guiding framework for Islamic financial institutions, encouraging them to adopt practices that contribute to sustainable development. Previous research in corporate governance and sustainability highlights that board composition and governance mechanisms play a vital role in shaping firms' environmental and social performance. For example, Cucari et al. (2018)found that board diversity strengthens environmental, social, and governance (ESG) disclosure, while Muhammad et al. (2021)) demonstrated that the quality of corporate governance significantly influences sustainability performance within the banking industry. In the realm of Islamic finance, Mollah and Zaman (2015)emphasized that the effectiveness of Sharia boards contributes substantially to the overall governance quality of Islamic banks (Muhammad & Riza, 2022). More recently, Muhammad et al. (2025) argued that Sharia governance mechanisms enhance transparency and accountability—both of which are fundamental to advancing sustainable finance. Collectively, these findings suggest that robust governance frameworks, especially those distinctive to Islamic banking, are instrumental in promoting proactive sustainability initiatives.

From a legitimacy perspective, Islamic banks with strong Sharia governance must comply not only with religious principles but also with environmental and social standards to maintain societal approval. From an efficiency perspective, effective Sharia governance fosters stakeholder trust and aligns banking operations with long-term financial and environmental objectives. Meanwhile, viewed through the lens of Maqasid Shariah, Islamic banks are expected to integrate environmental protection and sustainability into their core purposes—particularly those related to preserving life (hifzh al-nafs) and progeny (hifzh al-nasl). Therefore, it is reasonable to hypothesize that higher-quality Sharia governance will have a positive influence on the implementation of sustainability initiatives within Islamic banking.

Sharia governance structures, such as Sharia Supervisory Boards (SSBs), also play a crucial role in enhancing ESG performance. Enhanced attributes of SSBs, such as their expertise and operational procedures, significantly contribute to better governance and social activities, although their impact on environmental performance may be limited (Boudawara et al., 2023). Board characteristics, including the size and independence of the Board of Directors and the SSB, positively influence sustainability reporting in Islamic banks (Wijayanti & Setiawan, 2023). Despite the alignment of Sharia principles with sustainability, challenges such as high costs, legal issues, and the need for standardized sustainability reporting specific to Islamic finance persist (Kismawandi et al, 2025). Muneer et al. (2025) also recommend to improving board environmental expertise, standardizing ESG frameworks, and investing in real-time sustainability reporting solutions. They also find that environmental disclosure and corporate governance structures in Saudi Islamic banks have been shown to boost profits and stakeholder trust. In another country, Indonesia, the implementation of sustainable finance in Islamic banks, such as Bank Mandiri Syariah, shows significant progress, with a notable portion of financing dedicated to sustainable projects (Nugroho et al., 2019).

Moreover, another board characteristic, such as board independence and oversight, also plays a crucial role. This argument is supported by Lewis (2025), which implies that independent SSBs are more likely to challenge management and set higher standards on environmental and social accountability. This action is due to minimize the risk of greenwashing. Board oversight also has an important effect on ESG outcomes. As mentioned by Muhammad et al. (2025), stronger board oversight will ensure that sustainability commitments are translated into tangible actions and more transparent reporting. The characteristics possessed by the boards are expected to influence ESG outcomes directly, such as driving green financial innovation and enhancing stakeholder engagement quality. By integrating both maqashid and ESG, they can launch products like green sukuk, sustainable trade financing, and green deposits, which fund renewable energy and other eco-friendly projects only (Johan, 2022; Sultan et al., 2024).

SSB Role in Enhancing the Environmentally and Friendly Products/Services

Islamic banking inherently promotes both sustainability and ethical conduct, grounded in fundamental values such as justice (adl), transparency, and social responsibility. A central tenet of Islamic banking is the prohibition of riba (interest), which leads to the adoption of profit-and-loss sharing schemes and asset-backed financing. This interest-free framework encourages genuine economic activities and discourages speculative or high-risk behavior, aligning closely with the objectives of sustainable finance and responsible investment (Sultan et al., 2024). By emphasizing risk-sharing and ethical investment, Islamic finance provides a model that advances not only economic development but also environmental stewardship and social equity.

The integration of sustainability principles within Islamic banking has become increasingly evident through the emergence of eco-friendly financial products and services. For instance, Wijayanti and Setiawan (2023) found that certain governance characteristics—such as board size and cross-directorship—positively influence the adoption and implementation of green financial practices. This finding suggests that governance structures play a pivotal role in aligning institutional goals with sustainable development objectives. Similarly, Sallemi (2024)) highlighted that governance mechanisms, particularly board size, have a significant effect on the success of sustainability initiatives within Islamic financial institutions. Collectively, these findings indicate that strong governance not only enhances accountability but also cultivates a corporate culture grounded in ethical and environmentally responsible behavior.

Sharia-compliant firms tend to demonstrate stronger commitment to sustainable and responsible practices, particularly in the environmental dimension. This commitment stems from faith-based business ethics that emphasize moral integrity, accountability, and responsible behavior. Adherence to Sharia principles in product development ensures that financial products not only comply with religious guidelines but also align with broader sustainability objectives, including the United Nations SDGs (Faizi, 2024; Sallemi, 2024).

Moreover, Sharia-compliant firms often exhibit higher levels of Environmental, Social, and Governance (ESG) disclosure, which has been shown to positively influence their financial performance. This indicates that the integration of ESG principles with Sharia governance can strengthen corporate responsibility, enhance transparency, and build stakeholder trust (Gati et al., 2025; Lee & Isa, 2025). In this context, ESG practices within Sharia-compliant institutions are viewed as vital for fostering just, peaceful, and inclusive societies—consistent with the objectives of SDG 16 (Ariff et al., 2025)

Islamic banking further reinforces this alignment through the provision of environmentally friendly and socially responsible financial instruments, such as green corporate deposits, sustainable trade financing, and non-interest-based loans. These products adhere to Sharia principles while actively promoting sustainability. The emergence of Sharia-compliant green financing and its integration with the SDGs underscores the complementary relationship between Islamic finance and green finance in advancing global sustainable development goals (Johan, 2022).

SSB Role in Enhancing Environmental Innovation

Environmental governance plays a significant role in promoting green innovation. Studies show that environmental governance pressure stimulates green innovation, with more pronounced effects in coastal regions compared to inland areas. The ethical and sustainability principles embedded in Sharia governance encourage firms to adopt innovative approaches that benefit both society and the environment. Unlike conventional governance systems, Sharia governance prioritizes the welfare of a broader range of stakeholders—including social well-being and environmental preservation—over mere profit maximization. This perspective is closely aligned with the principles of Maqasid Shariah. As a result, organizations operating under Sharia governance are more likely to integrate sustainability into their strategic objectives, leading to the development and implementation of green technologies. This ethical framework also promotes environmental innovation, motivating businesses to find creative solutions that balance economic objectives with ecological responsibility (Wahyudi et al., 2025). From a legitimacy perspective, environmental innovation enhances public approval and strengthens the organization's social standing within the community. Previous studies, such as Muneer et al. (2025) emphasize that corporate governance plays a crucial role in ensuring that corporate activities remain consistent with Sharia principles. Similarly, Jan et al. (2021)found that Sharia governance improves environmental performance due to its foundation in the core values of Maqasid Shariah.

Sharia governance in the charitable sector emphasizes compliance with Islamic principles, enhancing trust and addressing unique risks. However, challenges such as the absence of standardized frameworks and a shortage of qualified professionals exist (Ghani et al., 2024). Integrating Sharia governance with modern practices is feasible and advantageous, requiring a multifaceted approach.

The principles of Maqasid Shariah can be integrated with green economy concepts to create sustainable models, such as in the halal industry. This integration ensures that environmental sustainability aligns with Islamic principles, promoting human welfare, justice, and sustainability. The development of Sharia-compliant sustainable products and the alignment of ESG principles with Islamic finance are crucial for promoting sustainable finance in the Islamic banking sector. This includes enhancing reporting and disclosure practices, stakeholder engagement, and regulatory support. Environmental innovation and Sharia governance intersect in promoting sustainable development. Effective environmental governance can drive green innovation, while Sharia governance ensures that these innovations align with Islamic principles. Integrating CSR and green finance within the Sharia-compliant business model can enhance both environmental and social outcomes, contributing to the broader goals of sustainability and ethical governance.

SSB Role in Resource Reduction Policies

Sharia governance involves institutional and organizational arrangements, policies, processes, and regulations to ensure compliance with Sharia principles. This framework is crucial for the Islamic finance industry and can be adapted to other sectors, including resource management. Islamic principles, particularly Maqasid al-Shariah (objectives of Sharia), emphasize the preservation of life, intellect, wealth, progeny, and religion. These principles align with sustainable practices and can guide resource management policies. Islamic principles, particularly Maqasid al-Shariah (objectives of Sharia), emphasize the preservation of life, intellect, wealth, progeny, and religion. These principles align with sustainable practices and can guide resource management policies (Hamdi et al., 2025). The integration of Maqasid al-Shariah into environmental governance can address issues such as legal dualism, weak institutionalization, and sectoral fragmentation, promoting justice and sustainability.

A clear link exists between Sharia governance and the advancement of sustainability initiatives. Larger and more diverse boards tend to facilitate more effective implementation of sustainability practices (Sallemi, 2024). Sharia-compliant financial systems inherently promote environmental stewardship, as instruments such as Sukuk and other Islamic financial products are increasingly being used to finance sustainability-oriented projects. This indicates that Sharia-compliant financial instruments can play a vital role in supporting environmental conservation and promoting resource efficiency (Nisa & Hamidi, 2025).

From the perspective of Maqasid Shariah, the principle of resource efficiency aligns with the objectives of preserving life (hifzh al-nafs) and progeny (hifzh al-nasl). Empirical evidence by Chiaramonte et al. (2024) demonstrates that resource reduction policies significantly enhance banks' engagement in environmental activities. Moreover, Osiichuk et al. (2021) found that strong governance quality contributes to more effective implementation of such resource efficiency measures.

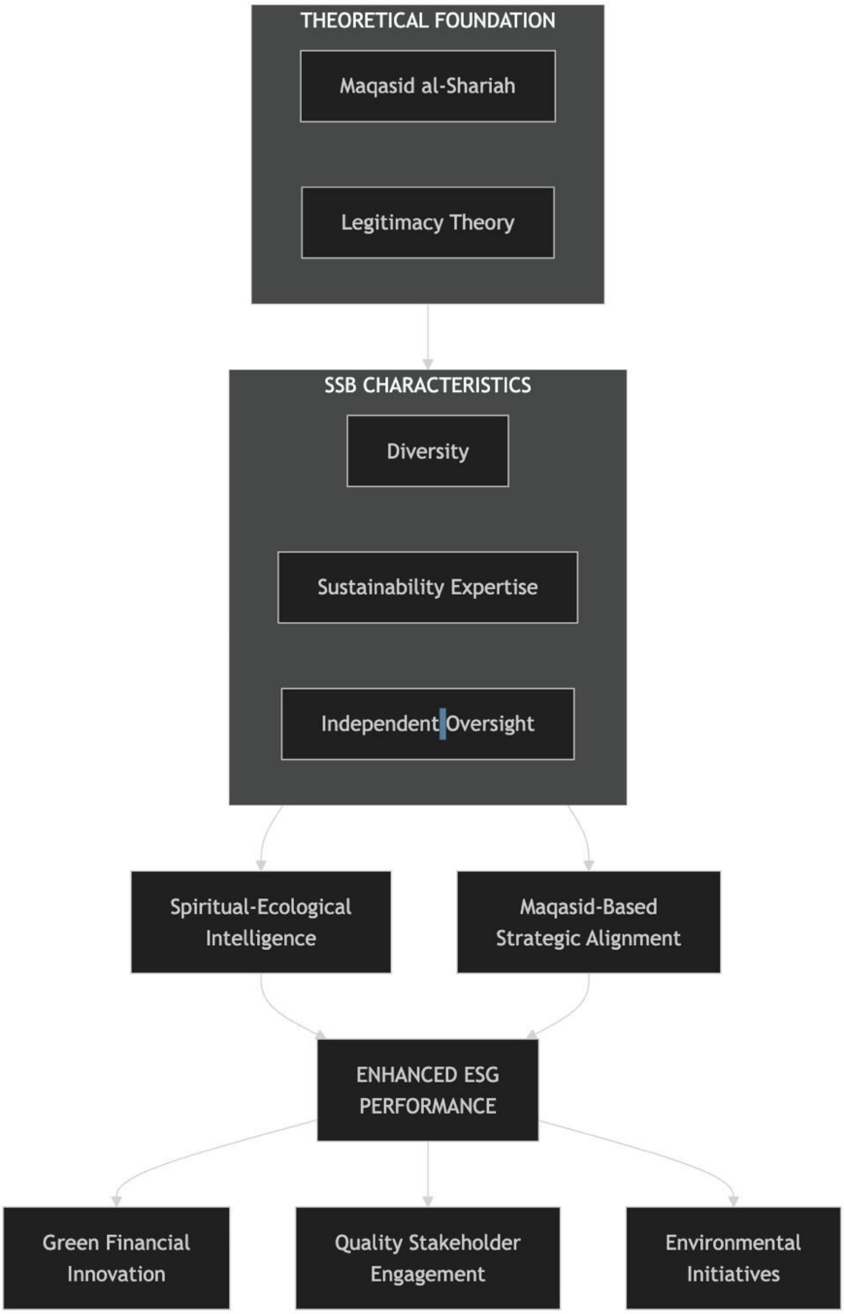

Figure 1. The Conceptual Framework of SSB Roel in Enhancing ESG Performance

CONCLUSION, IMPLICATION AND RECOMMENDATION

This study concludes that Sharia governance plays a central role in promoting sustainability within Islamic banking. Effective governance, particularly through the SSB, ensures that Islamic financial institutions operate in alignment with ethical and religious values rooted in Maqasid al-Shariah. These principles—centered on justice, social welfare, and environmental stewardship—position sustainability as both a moral and operational necessity. The findings reveal that high-quality Sharia governance, characterized by board independence, expertise, and accountability, enhances environmental innovation, ESG disclosure, and the integration of sustainability strategies. Building on this, the paper argues that SSBs in Islamic banks are uniquely positioned to act as strategic catalysts for ESG performance, moving beyond their traditional compliance role. Grounded in the integrated framework of Maqasid al-Shariah and Legitimacy Theory, effective SSBs can drive sustainability transformation by fostering Spiritual-Ecological Intelligence and ensuring Maqasid-Based Strategic Alignment. Furthermore, the characteristics of the SSB—particularly its expertise in sustainability matters, diversity, and independent oversight—are critical determinants of its ability to promote green financial innovation and strengthen the quality of stakeholder engagement, ultimately bridging faith-based values with modern sustainability practices and aligning Islamic finance with global SDGs.

This study contributes to the theoretical advancement of Islamic governance and sustainability by bridging the gap between classical Islamic principles and contemporary sustainability discourse. Through the introduction of novel mediating constructs such as Spiritual-Ecological Intelligence and Maqasid-Based Strategic Alignment, it develops a more nuanced theoretical framework for understanding how Sharia governance influences ESG outcomes. This integrated model not only enriches the conceptual foundation of Islamic finance but also offers empirically testable propositions for future research aimed at examining the mechanisms through which governance structures drive sustainability performance.

From a practical perspective, the proposed framework provides Islamic banks with strategic insights into leveraging their unique governance mechanisms as a source of competitive advantage in the rapidly growing global green finance market. It offers a pragmatic approach to repositioning the SSB from a passive compliance-oriented body to a proactive driver of ethical leadership, innovation, and long-term value creation. This transformation underscores the role of Islamic banking institutions as both moral and economic actors contributing to sustainable development.

At the policy level, the findings highlight the importance of regulatory reforms that move beyond conventional Sharia compliance checklists. Regulators and standard-setting bodies are encouraged to design governance frameworks that incentivize Islamic banks to operationalize their Maqasid al-Shariah-based responsibilities toward society and the environment. Such policies would strengthen the alignment between Islamic financial institutions and the broader SDGs. Future empirical studies are encouraged to quantitatively test the proposed relationships among SSB characteristics, mediating variables, and specific ESG performance indicators across different jurisdictions to validate and refine the theoretical propositions advanced in this study.

Based on the conceptual analysis, several strategic recommendations are proposed to strengthen the integration of sustainability within the framework of Islamic governance. For regulators such as central banks and the Islamic Financial Services Board, there is an urgent need to develop and implement a comprehensive SSB Competency Framework that explicitly incorporates sustainability and ESG expertise as essential qualifications for appointment. This initiative would ensure that members possess the interdisciplinary knowledge required to address emerging environmental and social challenges. Additionally, regulators should mandate and standardize Maqasid al-Shariah-aligned ESG reporting across Islamic banks to enhance consistency, comparability, and transparency in sustainability disclosures. To further stimulate progress, policy frameworks should include incentive mechanisms that reward Islamic financial institutions demonstrating leadership in green financial innovation and superior ESG performance, thereby aligning regulatory objectives with sustainable development imperatives.

For Islamic banking institutions, it is essential to proactively reform their internal governance structures to operationalize these sustainability goals. Banks are encouraged to restructure the composition of their SSBs by incorporating members with cross-disciplinary expertise in environmental science, sustainable finance, and the SDGs. Empowering the SSB at the strategic level—by involving them in long-term planning, product development, and risk management—will facilitate Maqasid-Based Strategic Alignment and ensure that sustainability principles are embedded into the organization's core strategy. Furthermore, Islamic banks should invest in comprehensive internal training programs aimed at cultivating Spiritual-Ecological Intelligence across all levels of the institution. Such capacity building would help translate Islamic environmental ethics into daily operations, reinforcing the moral and social dimensions of Islamic finance while advancing its contribution to global sustainability objectives.

Future research should explore the moderating influence of institutional contexts, such as regulatory quality, cultural values, and political stability, on the relationship between Sharia governance and sustainability performance. Comparative studies between Islamic and conventional banks across various regions could provide deeper insights into how different governance models influence ESG outcomes. Moreover, longitudinal and mixed-method research designs are recommended to capture the evolving nature of Sharia governance and its long-term impact on sustainability. Finally, future studies should focus on developing standardized Maqasid Shariah-based ESG measurement frameworks, which would strengthen the integration between Islamic ethical principles and global sustainability reporting standards.

REFERENCES

Abdullah, N. A. I. N., Hamid, N. A., & Haron, R. (2024). Issues and Challenges of Sustainable Finance: An Experience from the Islamic Banking Industry. Islamic Finance and Sustainable Development, 187-194.

Ardianto, A., Cahyono, S., Noman, A. H., & Sulaiman, N. A. (2025). Sharia-supervisory board ' s characteristics and green banking disclosure : exploring from Islamic banking in MENA countries. *International Journal of Ethics and Systems*, *November*. https://doi.org/10.1108/IJOES-06-2024-0171

Ariff, A. M., Majid, N. A., Kamarudin, K. A., Abidin, A. F. Z., & Muhmad, S. N. (2025). Corporate ESG performance , Shariah-compliant status and cash holdings. *Journal of Islamic Accountiing and Business Research*, *November*. https://doi.org/10.1108/JIABR-08-2022-0217

Avrampou, A., Skouludis, A., Iliiopoulos, G., & Khan, N. (2019). Advancing the sustainable development goals: evidence from leading European banks. *Sustainable Development*, *27*(4), 743–757. https://doi.org/10.1002/sd.1938

Boudawara, Y., Toumi, K., Wannes, A., & Hussainey, K. (2023). Shari'ah governance quality and environmental, social and governance performance in Islamic banks. A cross-country evidence. *Journal of Applied Accounting Research*, *24*(5), 1004–1026. https://doi.org/10.1108/JAAR-08-2022-0208

Chiaramonte, L., Dreassi, A., Goodell, J. W., Paltrinieri, A., & Piserà, S. (2024). Banks' environmental policies and banks' financial stability. *Journal of International Financial Markets, Institutions and Money*, *91*(December 2023). https://doi.org/10.1016/j.intfin.2023.101927

Cucari, N., Esposito De Falco, S., & Orlando, B. (2018). Diversity of Board of Directors and Environmental Social Governance: Evidence from Italian Listed Companies. *Corporate Social Responsibility and Environmental Management*, *25*(3), 250–266. https://doi.org/10.1002/csr.1452

Dowling, J., & Pfeffer, J. (1975). ORGANIZATIONAL LEGITIMACY : Social Values and Organizational Behavior between the Organizations seek to establish congruence. *The Pacific Sociological Review*, *18*(1), 122–136.

Gati, V., Harymawan, I., & Nasih, M. (2025). Indonesia Shariah Stock Index (ISSI) fi rms and environmental , social , and governance (ESG) disclosure in Indonesia. *Journal of Islamic Accountiing and Business Research*, *November*. https://doi.org/10.1108/JIABR-12-2022-0354

Ghani, N. A. R. N. A., Aliias, M. N., Alazemi, M. S. G. O., & Kamis, M. S. (2024). Implementation of Shariah Governance in the Charitable Sector : Challenges and Importance from an Islamic Perspective. *Pakistan Journal of Life and Social Sciences*, *22*, 6890–6904.

Hambrick, D. C., & Mason, P. A. (1984). Upper Echelons : The Organization as a Reflection of Its Top Managers. *Academy of Management Review*, *9*(2), 193–206.

Hamdi, F., Ladraa, K., Benjammour, M., Hafidzi, A., & Ilhami, H. (2025). Integrating Maqashid al-Sharia, Fiqh al-Bi'ah, and Islamic Ethics for Sustainable Water Management: A Case Study of Indonesia. *Al-Ahkam: Jurnal Ilmu Syari'ah Dan Hukum*, *10*(1), 1–19.

Hernandez-perdomo, E., Guney, Y., & Rocco, C. M. (2019). A reliability model for assessing corporate governance using machine learning techniques. *Reliability Engineering and System Safety*, *185*(December 2018), 220–231. https://doi.org/10.1016/j.ress.2018.12.027

Issa, S. O., Alabi, A. T., & Ubandawaki, A. T. (2025). Borsa Istanbul Review Climate change governance , Shariah governance quality , and financed emission mitigation : Evidence from Islamic banks in Southeast and West Asia. *Borsa Istanbul Review*, *25*(4), 722–732. https://doi.org/10.1016/j.bir.2025.03.011

Jan, A. A., Lai, F. W., & Tahir, M. (2021). Developing an Islamic Corporate Governance framework to examine sustainability performance in Islamic Banks and Financial Institutions. *Journal of Cleaner Production*, *315*(March), 128099. https://doi.org/10.1016/j.jclepro.2021.128099

Johan, S. (2022). *International Journal of Sustainable Development and Planning Complementary or Substitute : Sharia Financing , Green Financing , and Sustainable Development Goals ? 17*(2), 487–495.

Lee, S., & Isa, M. (2025). *Environmental , social and governance (ESG) practices and fi nancial performance of Shariah - compliant companies in Malaysia*. *14*(2), 295–314. https://doi.org/10.1108/JIABR-06-2020-0183

Lewis, M. (2005). Islamic Corporate Governance. *Review of Islamic Economics*, *9*(1).

Mohammed, M. O., & Taib, F. M. (2015). Developing Islamic Banking Performance Measures Based on Maqasid Al-Shari'Ah Framework: Cases of 24 Selected Banks. *Journal of Islamic Monetary Economics and Finance*, *1*(1), 55–77. https://doi.org/10.21098/jimf.v1i1.483

Mollah, S., & Zaman, M. (2015). Shari'ah supervision, corporate governance and performance: Conventional vs. Islamic banks. *Journal of Banking and Finance*, *58*, 418–435. https://doi.org/10.1016/j.jbankfin.2015.04.030

Muhammad, R., Azlan Annuar, H., Taufik, M., & Nugraheni, P. (2021). The influence of the SSB's characteristics toward Sharia compliance of Islamic banks. *Cogent Business and Management*, *8*(1). https://doi.org/10.1080/23311975.2021.1929033

Muhammad, R., & Riza, F. (2022). The effect of sharia supervision effectiveness and financial performance on Islamic banking efficiency in Indonesia. *International Journal of Trade and Global Markets*, *15*(3), 377. https://doi.org/10.1504/IJTGM.2022.124094

Muneer, S., Singh, A., Choudhary, M. H., Alshammari, A. S., & Butt, N. A. (2025). Does Environmental Disclosure and Corporate Governance Ensure the Financial Sustainability of Islamic Banks? *Administrative Sciences*, *15*(2), 1–25. https://doi.org/10.3390/admsci15020054

Ngamvilaikorn, K., Lhaopadchan, S., & Treepongkaruna, S. (2024). Corporate governance, social responsibility and sustainability commitments by banks: Impacts on credit risk and performance. *Corporate Social Responsibility and Environmental Management*, *August 2023*, 5109–5121. https://doi.org/10.1002/csr.2852

Nisa, M., & Luthfi Hamidi, M. (2025). Relational Ramifications Between Political Factors and Sukuk in Promoting Sustainable Forest Management. In *Islamic Finance and Sustainability* (pp. 265–292). Routledge. https://doi.org/10.4324/9781003518617-15

Nugroho, L., Badawi, A., & Hidayah, N. (2019). Discourses of Sustainable Finance Implementation in Islamic Bank (Cases Studies in Bank Mandiri Syariah 2018). *International Journal of Financial Research*, *10*(6), 108–117. https://doi.org/10.5430/ijfr.v10n6p108

Nya, M. T., Kouao, G. S., & Tchuigoua, H. T. (2023). *Governance quality and international accounting standards adoption by microfinance institutions comptables internationales par les institutions de*. 157–186.

Osiichuk, D., Wasilewski, M., & Zabolotnyy, S. (2021). The impact of independent supervisory boards on transformations in the energy sector: Results of an international longitudinal study. *Energies*, *14*(17). https://doi.org/10.3390/en14175293

Rakkarnsil, S., & Butsalee, P. (2022). The Influence of Corporate Governance and Profitability Affecting Operational Efficiency of The Listed Companies of The Stock Exchange of Thailand. *International Journal of Economics and Finance Studies*, *8055*, 259–284. https://doi.org/10.34109/ijefs.

Sallemi, N. (2024). Internal governance and the sustainability development practice in Islamic financial institutions. *International Journal of Disclosure and Governance*, *22*, 155–164. https://doi.org/https://doi.org/10.1057/s41310-024-00246-3

Sharmeen, K., Hasan, R., & Miah, M. D. (2018). Underpinning the benefits of green banking : A comparative study between Islamic and conventional banks in Bangladesh. *Thunderbird International Business Review*, 1–10. https://doi.org/10.1002/tie.22031

Sheikh, R. (2025). Developing ethical investment criteria based on Maqasid Shariah. *Qualitative Research in Financial Markets*. https://doi.org/10.1108/QRFM-04-2025-0103

Simanjuntak, J. M., Faizi, F., & Kusuma, A. S. (2025). The Moderating Role of SSB Conflicts of Interest and Audit Committee Independence in Good Corporate Governance and Islamic Bank Performance in Indonesia. *Journal of Risk and Financial Management*, 1–17.

Sultan, S. A. M., Ahmad, W. M. W., Bacha, O. I., & Ramlee, R. (2024). Impact of Corporate Social Performance on Financial Performance: Evidence From Islamic Banks, Conventional Banks and Social Banks. *ISRA International Journal of Islamic Finance*, *16*(2), 109–130. https://doi.org/10.55188/ijif.v16i2.697

Thnaibat, M. Al, Al-Hajaya, K., & Alshhadat, M. Q. (2025). Do the characteristics of the Sharia Supervisory Board affect the Islamic banks ' performance ? Evidence from Arab countries. *Journal of Financial Reporting and Accounting*, *November*. https://doi.org/10.1108/JFRA-05-2024-0271

Wahyudi, H., Tubarat, C. P. T., Rodliyah, N., Kusnadi, A., & Leny, S. M. (2025). The Nexus of Crowdfunding and e-Wakaf to Islamic Fintech in Indonesia in the Era of Industrial Revolution 5.0. *Journal of Ecohumanism*, *4*(1), 208–219. https://doi.org/10.62754/joe.v4i1.4657

Wijayanti, R., & Setiawan, D. (2023). The role of the board of directors and the sharia supervisory board on sustainability reports. *Journal of Open Innovation: Technology, Market, and Complexity*, *9*(3), 100083. https://doi.org/10.1016/j.joitmc.2023.100083