

EVALUATING THE IMPACT OF ISLAMIC BANKING SUSTAINABILITY PRACTICES ON FINANCIAL PERFORMANCE

A Thesis

**Submitted to the Master's Study Program of Economics at the Faculty
of Economics and Business in partial fulfillment of the requirements
for the degree of**

Master of Arts (M.A.)



by:

Ebrahim Omar Obaid Basalma

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UNIVERSITAS ISLAM INTERNASIONAL INDONESIA

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ABSTRACT

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This research aims to examine the sustainability practices of Islamic banking, their alignment with SDGs, and their effects on financial performance in GCC, Malaysian, and Indonesian contexts where these three markets occupy an important place in the Islamic finance business. Based on stakeholder engagement, legitimacy, good management, and beyond triple bottom line theories, the study uses a qualitative approach both through focused content analyses of firms' financial & sustainability reports to develop and measure ICSP disclosure. For a quantitative approach the use of regression analysis of the panel data, the results demonstrate that ICSP has a significant and positive association with financial performance, as measured by ROE and ROA; and it enhances economic/environmental aspects of ICSP. However, the analysis of the social component reveals an insignificant value, which presupposes the improvement of communications and specific social activities. In terms of the study's practical implications, this research enriches the conversation on sustainability and finance with findings that could be useful for tactical planning from the perspective of policymakers, regulators, and practitioners in the Islamic finance sector while also showing how the integration of Islamic banking practices and the implementation of sustainability practices can work in harmony for both financial sustainability and the generation of positive social and environmental impact.

Keywords: Financial Performance, Islamic banking, Sustainability Practices, SDGs, Panel Data Analysis

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ABBREVIATION DIRECTORY

AAOIFI	: <i>Accounting and Auditing Organization for Islamic Financial Institutions</i>
CSP	: <i>Corporate Sustainability Practices</i>
CSR	: <i>Corporate Social Responsibility</i>
GCC	: <i>Gulf Cooperation Council</i>
GRI	: <i>Global Reporting Initiative</i>
ICSP	: <i>Islamic Corporate Sustainability Practices</i>
IFSB	: <i>Islamic Financial Services Board</i>
OLS	: <i>Ordinary Least Squares</i>
PCSE	: <i>Panel-corrected standard error</i>
ROA	: <i>Return on Assets</i>
ROE	: <i>Return on Equity</i>
SDG	: <i>Sustainability Development Goal</i>
SRT	: <i>Sustainability Reporting Tool</i>
TBL	: <i>Triple Bottom Line</i>
UN	: <i>United Nations</i>
UNFCCC	: <i>United Nations Framework Convention on Climate Change</i>

CHAPTER 1

INTRODUCTION

1.1 Background

In today's financial landscape, the themes of ethical values, financial success, duty to the environment, and corporate social responsibility have found their manifestation in the rapidly progressing area of Islamic banking. Incorporating Islamic law, Islamic finance has been appreciated due to its excellent performance together with the effective compliance of ethical financial behaviors (Aliyu et al., 2017). At the same time, the growth of concerns related to sustainability creates increased pressure on the development of new solutions in all fields (United Nations, 2015). In this regard, the harmony between Islamic values on one hand and the Sustainable Development Goals on the other constitutes a tremendously influential paradigm of change (Ahmed et al., 2015).

The ethical makeup of this most varied banking system largely sets it aside from others that exist in the global banking market, and the foundation of such a system lies within the context of Sharia law. (Tabash & Dhankar, 2014). Pronounced in equity and disclosure and focusing on social justice, it presents a different paradigm of financial exchanges (Haneef, 2020). At the same time, environmental and social problems advance the world toward sustainable development, thus providing the rationale for merging Islamic banking values and the SDGs (Izhar & Munkin, 2021). The SDGs which were endorsed by the UN in 2015 aim at ending poverty, protecting the earth's environment accompanied with prosperity by the year 2030 (United Nations, 2015). This convergence has been noted to pose a ray of hope in tapping into Islamic finance for the reasonable achievement of these lofty targets (Hudaefi, 2020).

Because of the poor implementation of sustainable strategies by organizational entities, the world today is faced with critical environmental, economic, and societal issues with long-term repercussions (Olatunde et al., 2022; Jan et al., 2021). In response, the UN introduced and adopted 17 SDGs in 2015 to address the problems (Whittingham et al., 2022; Büyükoçkan et al., 2018). These SDGs require efficient and strategic Corporate Sustainability Practices (CSP). For example, first CO2 reduction, addressing global climate change, also public health enhancement, cleaner production, waste reduction, poverty alleviation, education improvement, human rights promotion, decent and good labor rights and practices, and community investment within business models (Jan et al., 2023; Maunganidze, 2022). As a result, Sebhatu and Enquist noted in 2022 that many business models have adapted to the implementation of SDGs. The Islamic Development Bank plans to extend more than \$150 billion to support SDG plans and projects in the subsequent 15 years (Ismail and Shaikh, 2017).

In the sphere of sustainable business, the significance of interacting with all the users or stakeholders not shareholders is also an important issue among organizations. A number of commerce and business organizations today report on sustainability performance due to continuous pressure from stakeholders on matters related to disclosure (Global Reporting Initiative, 2022). Thus, existing several types of corporate sustainability reporting tools (SRTs) help organizations gauge their sustainability performance (Siew, 2015).

It has a historical foundation in the Islamic period that covered major fundamental principles like profit and loss sharing, forbidding to take premiums or usury, and sharing of risks (Mohammad & Shahwan, 2013). Specific principles of asset backing and banning of practices involving speculation are among the basic principles that help in maintaining and improving economic stability of Islamic finance (Beck et al., 2013). Furthermore, it can be noted that its principles correspond with the concept of sustainable development, such as the eradication of poverty, reasonable distribution of wealth, and protection of the environment (Hamidi & Worthington, 2023). More specifically, market size, asset value, and geographical dissemination of Islamic banking show trends of higher growth and expansion in the global market over the passage of time (Ammar et al., 2023).

Sustainability involves environmental, social, and economic aspects or dimensions; however, recent disclosures revealed that the finance industry is highly influential in tackling world problems and challenges (Mufaidah, 2022). For example, the sociopolitical accords and policies such as the Paris Agreement under the United Nations Framework Convention on Climate Change (UNFCCC) in 2015, as the SDGs consider the importance of integrating sustainability in the management of finance (Battiston et al., 2021; Kashi & Shah, 2023). Justice, equity, and environmental stewardship also claim the essence of Islamic teachings and are also correlated with the objectives of the SDGs (Jan et al., 2023). A plethora of examples explain in what manner the values and principles of Islamic banking can support certain SDGs, for instance, poverty reduction; use of renewable resources, and efficient utilization of resources (Khansa & Violita, 2021). Other academic works and trade literature also provide some empirical evidence for the possible prospects of Islamic finance interlinked with sustainable development (Khan, 2019).

However, the findings of the global Islamic banking industry research demonstrate that it has not adequately and efficiently incorporated Contemporary CSPs and SDGs into its current globalized concepts (Platonova et al., 2018; Ellili and Nobanee, 2022). Studies indicate that different locations in the world have different percentages of CSP use or adaption, though the general percentile is between 23.64% to 49.56% in Middle Eastern countries such as the UAE, Qatar, Kuwait, and Saudi Arabia (Platonova et al., 2018; Ellili and Nobanee, 2022). However, analyzing the degree of sustainability practices within the

banking sectors of the world, the average figure is 31% for the Islamic banking industry counterpart (Jan et al., 2023).

The phenomenon of CSP is rather under-researched within Islamic banks primarily because the latter lack distinct disclosure practices that refer to CSP. This is slightly concerning because traditional or conventional banking institutions have a positive correlation with exposed CSP and financial success or performance (Zafar and Sulaiman, 2019). Some challenges hinder Islamic banks from practicing CSP, more specifically, lack of proper departments, fewer resources, and the absence of CSP measurement tools (Wan Jusoh & Ibrahim, 2017; Jusoh & Ibrahim, 2015). Nevertheless, there is gradual consciousness in the Islamic banking domain about the real possibility of boosting up its performance through sound sustainability frameworks (Umar, 2022).

Lastly, it can be said that the combination of Islamic banking and sustainability is a perspective direction for the development of international trends. Hence, the study of this research area will enhance the decision-making process, increase the level of awareness, and help create a coherent and more efficient financial system in terms of sustainability and justice. The next subtopics of this section will involve a presentation of the problem and its formulation, questions to be addressed, goals of the investigation, and purposes as well as advantages of this research, based on this introduction.

1.2 Problem Formulation

Sustainability terminology in the financial industry has now included Islamic banking and finances as these institutions strictly operate based on Shariah principles and laws (Sepideh Khavarinezhad et al., 2021). This is in line with the global trend evident across industries where stakeholder pressure for transparency or disclosure and accountability has resulted in the communication or reporting of sustainability activities by companies (Global Reporting Initiative, 2022). This shift means embracing new paradigms of more integrated-saturated and stakeholder-oriented systems of governance for higher value co-generation that is not restricted to the financial value proposition or return (Vilas et al., 2022).

Therefore, this study seeks to find and establish the relationship between sustainable Islamic banking practices with reference to the SDGs and financial performance. Consequently, there is a wealth of opportunities when it comes to studying the linkage between Islamic finance on one hand and the global sustainability map and agenda on the other; but, it is also characterized by promising yet disjointed gaps that exist in terms of theoretical propositions or frameworks, empirical reviews as well as policy insights and implications (Jan, Marimuthu, & bin Mohd @ Mat Isa, 2019).

Prior studies have also attempted to establish the links between sustainable development and Islamic finance concerning the prospects of common ground (Al-Jayyousi et al., 2022;

Harahap et al., 2023). Some research has brought out cases where Islamic banking principles as friendly or aligned to sustainable development goals so as to demonstrate the sector's possibilities (Jan et al., 2018). However, as with most research topics, important gaps of study exist which are not well covered or are insufficiently explored in this stream of current research. Most existing papers tend to have a more dominant and emphatic form of theoretical perspectives or cases with minimal empirical analysis on the factual impact of the enhancement of Islamic banking sustainability policies and practices that are in consonance with the SDGs for financial performance and success. Besides, previous studies are also characterized by the absence of an interdisciplinary focus that will draw from Islamic finance, sustainability, and financial performance evaluation. Thus, the purpose of this study is to fill these gaps by adopting a broad multi-disciplinary perspective. Hence, by using both theoretical frameworks and empirical analyses in this study, the purpose is to propose and, at the same time, contribute towards the understanding of the interaction of Islamic banking sustainability policies and practices, the SDG, and financial performance. Since its emergence, the literature has presented a steady increase in research on the topic (Jan, Marimuthu, Hassan et al., 2019; Jan, Marimuthu, Hassan et al., 2018).

In addition, Chapter 2 presents a rich literature review on the research methods employed by previous papers to analyze and examine the link between Islamic banks' sustainability initiatives and profitability alongside discussing common limitations like sample differences, differences in methods, and ambiguous results. In order to counterbalance these lacks, the present study suggests a mixed-methods technique a manner that implements both qualitative and quantitative procedures. The further qualitative research methods would be to use literature reviews and content analysis as qualitative research focusing on revealing the inner aspects of the relationship between sustainability activities and practices in Islamic banking in terms of SDGs alignment and financial performance. In parallel, quantitative research using robust and reliable statistics aims at providing support to the hypotheses formulated, and, therefore generalizing the findings, which provides A better understanding of the multiple processes taking place in such context. The objective of this research approach is to minimize the limitations of previous studies and offer a broad analysis of the effects and influence of Islamic banking sustainability activities on performances (Smolo, 2022).

In the literature review section of the scholarly research, previous studies looked into the direction of analyzing the correlation of financial success or performance with sustainability practices and vice versa in general enterprises and corporations and there was inconsistency in findings. From the first perspective, some of the previous research works support the positive relationship and connection between corporate social responsibility (CSR) or sustainability practices and either financial success or performance while the other studies depict a more ambiguous or even negative connection. Earlier research has mentioned

inconsistent findings on the correlation or relationship of either the Islamic sustainability practices' dimensions; economic, environmental, and social with the financial success or performance (ROA, ROE). In the following section, this uncertainty leads to the examination of possible moderating factors that impact the SP-FP relation, namely, bank size, age, and capital ratio as control factors (Jan et al., 2023; Platonova et al., 2018). Thus, in general, and more particularly within the scope of the present research, the investigation of this connection or a relationship within the framework of Islamic banking aims to contribute a theoretical and practical understanding of the sustainability-regulation-financial performance equation as applied to the specific case study of the Islamic finance sector.

1.2.1 Research Questions

1. Does the implementation of sustainability practices by Islamic banks have an impact on their ROE?
2. Does the implementation of sustainability practices by Islamic banks have an impact on their ROA?

1.2.2 Objectives

1. To examine the impact of sustainability practices implemented by Islamic banks on their ROE.
2. To investigate the relationship between ROA and the adoption of sustainability practices by Islamic banks.

1.3 Aims and Benefits

Although previous studies conceptualized Islamic finance as compatible or related to the SDGs and mainly investigated Islamic finance principles or values' synergies or association with the SDGs synergies (Al-Jayyousi et al., 2022; Harahap et al., 2023). Some major research gaps remain, such as a lack of empirical studies, an inadequate understanding of the trade-off possibility, and a narrow analysis of the alignment between them. This research aims to fill the said gaps by using inductive and deductive research that focuses on the empirical data and evidence on the effect of sustainability activities and practices on the Islamic banks' financial performance including ROE and ROA on the one hand, and potential opportunities and risks of sustainability alignment to the SDGs on the other hand; as well as conduct a most extensive analysis of the overall this relationship, encompassing a broader spectrum than addressed in some previous studies.

As a result, the benefits of research are the use of research results or findings in the development of science (theoretical benefits) and the benefits of findings for practical purposes (practical benefits) that may be obtained through literature novelty and research results. This study endeavors to serve as a pivotal source of knowledge and guidance for

policymakers, financial institutions, investors, and the broader community, shedding light on the implications of aligning Islamic banking practices with SDGs. By delving into the intricacies of this alignment, the research aims to offer multifaceted benefits that extend beyond the realm of academia to encompass practical applications and strategic decision-making within the Islamic banking sector.

Theoretical Benefits:

Advancement of Knowledge: In this respect, the study advances the accumulation of rich theoretical knowledge or principles and empirical evidence in the sustainability and Islamic banking research streams.

Conceptual Clarity: First, it contributes to academicians' improved conceptual clarity and understanding which is achieved by explicating the correlation between Islamic banking suitability practices and the SDGs: This increases insights and understanding of how finance and sustainable development activities are interrelated and interlinked

Theoretical Framework Refinement: The conclusions of this study may inspire future modification or development of the current theory, which will be beneficial for researchers because of the numerous insights into sustainability practices in Islamic banking.

Practical Benefits:

Informed Decision-Making: Thus, the findings of this research will be valuable for policymakers, financial institutions, and investors who will be able to use the information obtained in the course of this work to make sound decisions. Therefore, knowing the positives and negatives when approaching the Islamic banking sustainability practices connected per the SDGs, the members of the industry will be able to follow sustainable business models.

Risk Mitigation: Ensuring adequate understanding of the consequences that come with alignment under the SDGs eliminates risks from non-compliance or failure to adhere to stricter standards relating to sustainability. If taken at the operational level, the solution to sustainability challenges will help provide an increase in adaptation and enhanced reputation of financial institutions.

Market Competitiveness: From the analysis of the Study, it can be concluded that the findings can assist Islamic banks in how they will be able to create proper market differentiation and positioning by posting themselves, as key innovative players in sustainability finance. Banks that correlate their policies of sustainability with the SDG might gain the attention of socially conscious investors as well as possess greater financial gain in a more sustainability-conscious environment.

Societal Benefits:

Positive Social Impact: Thus, if pointed out to work synchronously with the SDGs, the Islamic banking institutions will facilitate social improvement that ranges from eradicating poverty, and empowering women to conserving the environment. Therefore, the societal

benefits that can be associated with sustainable banking practices are not only the ones that are related to the financial performance indicators but also the welfare and well-being levels of the society.

Environmental Stewardship: By an implication therefore of some of these sustainable financing schemes and activities or environmental hazard or risk managing practices, Islamic banks can be and surprisingly play a most crucial role in environmentalism and global climate change. Similarly, through funding and supporting such environmentally sustainable projects which also intend to embrace green banking strategies, the banks were also in a position to protect and conserve the natural resources and other ecosystems.

CHAPTER 2

LITERATURE REVIEW

2.1 Clarification of Concepts

2.1.1 Sustainability

The importance and implementation of sustainability related to the context of SDGs and Islamic banking are not limited to the preservation of the environment (Zimmermann, 2019). As Celik, S. in 2023 puts it relief, it is a systemic concept encompassing the current generation's requirement whilst maintaining the development and sustainability of future generations' capacity in equal standing. This all-embracing viewpoint recommended by Professor Caldwell requires not only the preservation of the environment but also the promotion of economic prosperity and social equity and justice (Celik, S. 2023). This amounts to the ability to harvest ecosystem services in the future, sustainable utilization of resources, and elimination of wastage while at the same time increasing rates of return and benefits.

The literature review gives more emphasis on sustainability as a complex concept. It is organizational self-regulation and change for sustainable operations (Demals & Hyard, 2014), leadership that stems from sustainability (Dyllick & Hockerts, 2002), and the incorporation of sustainability in the processes of education (Koehn, 2014). Along the same line, need-related sustainable consumption is singled out as another priority area, as well as needs justice, quality of life, and consumer health (Jørgensen et al., 2021). All these approaches provide a broad and rather richer perspective of how sustainability can look in different contexts.

Islamic finance perfectly correlates with such a diverse strategy. It helps inspire and compel investors to create and bring about positive non-financial value in addition to financial returns, thus cultivating certainly and also a system that is socially responsible, friendly, and environmentally (Sunarya & Rusydiana, 2022). This is in line with another perspective of the business-society interface that calls for improvement of the standard of living and well-being (Umar et al., 2022). Besides, the major principles of the Islamic economic model are equally based on justice and efficient information that additionally contributes to SDGs, social justice, and prosperity for all (Mallin et al., 2014). The SDGs build on this multiscalar and multi-sectoral vision of sustainability even more prominently. This makes them acknowledge the interactions and dependencies of the economic, social, and environmental dimensions where the action taken in one context influences the others (Khansa & Violita, 2021). This approach is exactly in tandem with the concept of Khalifah or stewardship in Islam where concomitant duty is with the future generations (Muhammad Siddique et al., 2023).

In the end, sustainability in Islamic banking goes beyond just one aspect. It calls for a well-rounded approach that considers the environment, the economy, and social factors for both today and tomorrow. By understanding that sustainability has many facets and that it resonates with Islamic principles, we can all work towards creating a fair and sustainable future for everyone.

2.1.2 Islamic Banking

Islamic banking is a system whose founding principles are rooted in and engulf the Islamic law or objectives of Shariah, also known as (Maqasid al-Shariah), and directed by Islamic economics (Jan, Marimuthu, & bin Mohd @ Mat Isa, 2019). The two major characteristics of Islamic banks that differentiate the two types are profit and loss sharing (Abdul-Rahman, 2017) and the prohibition of interest payment (Saeed et al., 2020). Besides, Sukuk (Islamic bonds), Islamic funds, and Takaful (Islamic insurance). However, Islamic banking is one of the significant areas or components of Islamic finance. It is showcased as operating under a distinct set of guidelines which are derived from the Islamic Shariah with regard to financial intermediation. The ban on usury or evil dimension of interest (riba) forms the basis of risk-sharing transfer and asset-based financing (Alam, 2013). This reinstates the importance of tangible resources and real business undertakings or economic activities, which fosters growth on the grounds that undermines speculations (Rofik et al., 2023).

In addition to these core principles, Islamic banking and finance apply transparency and fairness or justice within the contracts between the parties (Baydoun and Willet, 2000). It also stressed on simplicity in contractual structures which is quite in contrast with the convoluted dealings with instruments and derivatives (Beck et al., 2013). Furthermore, maintain a very high ethical standard strictly prohibited from investing in areas that are deemed socially irresponsible and destructive like gambling, alcohol, and tobacco (Alhammadi et al., 2022). These acts or commitments of performing social responsibilities regalia a vision of financial intermediation tied to the welfare of society (Malini, 2021).

These distinctive traits and characteristics, based respectively on ethical and sustainability parameters and values, are atomistic to Islamic banks' stability and appeal (Asutay. M., 2010). The main idea of Islamic banking is to offer a more satisfactory option to conventional finance, as it associates the banking operations with moral principles as well as real economic benefits by solving the problems of justice, transparency, and sustainability (Pappas et al., 2016). Thus, as the concern for Islamic finance that is free from interest and socially responsible increases, Islamic banks have an essential and significant role in the process of creating a stable, sustainable, and fair financial system (Hasan & Dridi, 2010).

2.1.3 Sustainability Practices & Islamic Banking

The Islamic banking system is based on the Shariah legal system where more focus is given to the ethical aspect of the banking activities targeting societies (Aman, A., 2020). Muslim banks were supposed to follow such principles as and informed by a profundity of profit and loss sharing, willingness to pay Zakah, also discretionary benevolent loans that called for social justice and economic equity and parity (Shahrier, Ho & Gaur, 2020). Furthermore, studies attributed that Islamic banks are mandated to get and take part in socially responsible and sustainable activities like sponsoring pilgrimage, providing scholarships, and putting into practice Shariah-permissible products and services (Dusuki & Abdullah, 2007a; Taşkın, 2015). Nonetheless, it was noted that some empirical researches show that although Islamic banks may express intentions to promote social responsibilities, they do not necessarily reveal it in practice, which, in essence, means there can be a gap between the declaration and practical outcomes (Farook, 2008; Farook et. al, 2011). Some of the initiatives that may help to increase the sustainability reporting standards include: the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has been working on developing some standards for sustainability reporting that can help Islamic banking to put sustainable reports more frequently (AAOIFI, 2010).

The strategies and practices of sustainability in Islamic banking include an overall framework promoting ethical, social, and environmental considerations in banking operations (Meutia & Febrianti, 2017). Focusing on sustainability reporting, it was found that Islamic banks still present a rather modest level of sustainability disclosures with reference to international trends (Belal et al ., 2015; Nobanee & Ellili, 2016). Mallin et al., (2014)'s conclusion was that Islamic banks with operations in a number of countries paid little heed or concern toward voluntary sustainability practices, activities, and disclosures. Such deficiency of engagement in comprehensive sustainability reporting creates doubt about how Islamic banks are implementing their sustainability practices or social responsibility and how effectively they are adapting to the sustainable development goals (Yusoff & Darus, 2014).

The practices of sustainability in Islamic banking are not only about social responsibility but rather a successful tool to enhance the banks' performance (Platonova et al., 2018). Previous works imply the existence of a positive relationship between sustainability practices and banking firms' financial performance (Yusoff & Adamu, 2016; Laskar & Maji, 2016). However, the research focused on the impact of sustainability practices on Islamic banks was limited, and more effort is needed (Platonova, 2018). It's important to create measurement frameworks that consider both financial and Shariah-compliant goals to fully assess and evaluate the performance of Islamic banks (Mohammed & Taib, 2015). By combining sustainability practices with financial performance metrics, Islamic banks can show their

commitment to societal welfare and environmental responsibility while also boosting their long-term economic sustainability (Rusydiaana & Parisi, 2016).

2.1.4 Maqasid al-Shariah

Shariah law's objectives and goals consist of preserving the five (religion, life, intellect, progeny, and property). Maqasid al-Shariah, or the objectives and goals of Islamic law play a fundamental role and part in guiding sustainable practices within Islamic banking. These objectives encompass the preservation of essential elements such as intellect, life, religion, progeny, and property (Auda, 2008). The theory of Maqasid al-Shariah outlines three main and core components; necessities, complementary elements, and embellishments. Necessities represent elements crucial for human life, while complementary elements complement these necessities to alleviate societal hardships. Embellishments, though not mandatory, contribute to the rightness and perfection of society (Hamidi & Worthington, 2021a; Auda, 2008).

Within Islamic banking, Maqasid al-Shariah serves as a guiding framework for promoting justice, equity, and societal well-being (Dusuki & Abdullah, 2007b). There are works on Maqasid al-Shariah that have been adopted by scholars in order to blend social responsibility into Islamic banking's practicing the compatibility of financial undertaking with the general societal goals and objectives (Mohammed et al., 2008). Frameworks of Maqasid al-Shariah give and provide a comprehensive method for evaluating Islamic banking's overall performance, encompassing economic, environmental, and social dimensions (Bedoui & Mansour, 2015). In this way, Maqasid al-Shariah's considerations of sustainability measurement with reference to Islamic ethical values can be integrated by the Islamic banks to practice sustainable development (Asutay & Harningtyas, 2015).

Maqasid al-Shariah theory contributes to the concept of Islamic banking sustainability as it focuses on an interrelated set of economic and environmental goals formulated and proactively implemented on the social level (Colantonio, 2007). Maqasid al-Shariah has also been used by scholars to formulate the indices and framework for the sustainability performance of Islamic banks namely in the endeavor to maintain the higher objectives of Shariah, which are to protect the public interest as well as ensure the welfare and well-being of the society (Hameed et al., 2004). Hence, by applying Maqasid al-Shariah in the sustainability indices, the researchers will obtain useful knowledge and comprehension concerning Islamic banking and its correlation with the SDGs in promoting sustainable finance within the Islamic banking system (Rusydiaana & Parisi, 2016).

2.1.5 Sustainable Development Goals

The SDGs are 17 universal goals that the UN is employing to solve different social, economic, goals, and environmental challenges in society by the year 2030 (Izhar & Munkin, 2021). These objectives are all important like poverty reduction, education improvement,

renewable energy, gender equality, and sustainable urban development (Nations, 2015). The SDGs are a set of developed goals that can form a general framework for the further development of sustainable active initiatives, focused on worldwide sustainable development, for governments, businesses, civil society, and other organizations (Avrampou et al., 2019). In the context of Islamic banking, integrating sustainability initiatives with the achievement of the SDGs has turned into one of the major precursors for imparting positive social and environmental change (Ammar et al., 2023).

To date, Islamic banking institutions are increasingly aware of entailing SDGs into their strategy and operations with the aim of enhancing business sustainability at the global level (Muhmad et al., 2022). Thus, the adherence of Islamic banks involved in the SDG implementation is a consequence of their understanding of the connection between sustainable development and their financial performance (Mumtaz and Smith, 2019). Following the accomplishment of SDGs, Islamic banks have strategic opportunities to apply their Ethical values for solving social and environmental issues and, at the same time, increasing the efficiency of their business (Rahman et al., 2022). Nonetheless, research focusing on sustainable practices and their assessment within the sector of Islamic banking has been relatively small despite the increased focus on sustainability in this area (Muhmad et al., 2022). This gap implies the necessity of future research with regard to the implementation of SDGs within Islamic banking in an effort to harness the possibilities of sustainable finance to improve the financial and social welfare of consumers (Mumtaz and Smith, 2019).

These aspects have pushed green banking along with the sustainable financing solutions associated with Islamic banking institutions due to the global demand for environmentally friendly financing and sustainable financing solutions (Wang & Zhi, 2016). These initiatives direct the investments toward projects with environmental and social returns, thus it is directly in line with the Goals highlighted in the SDGs (Rahman et al., 2022b). Thus, green finance has its grounding in providing a competitive edge for Islamic banks. Not only does it enhance their sustainability appeals but also a long-term commitment to investments that form the economy's sustainable trends (Wang & Zhi, 2016). Thus, by enhancing the utilization of green finance instruments, Islamic banks can act as decisive actors in SDG attainment and also be financially profitable in the continuously changing global environment (Mumtaz & Smith, 2019).



Figure 2.1 Illustrate the relationship between Concepts

2.1.6 Sustainability Reporting

The GRI standards are used in most countries around the world, and they play an important role in promoting transparency of companies' environmental and social impacts as well as governance challenges (Maftuchah et al., 2023; Gallego et al., 2018; Vigneau et al., 2015). In this regard, other important frameworks useful in Islamic banking would be AAOIFI and IFSB (Hassan et al., 2019; Ullah & Tasnim, 2018; El-Halaby & Hussainey, 2016). These organizations give standards that facilitate the integration of Sharia compliance with sustainable development goals (Ahmad et al., 2023). Given the focus on ethical investments, social issues, and general welfare reflected in its standards, AAOIFI comes closer to fulfilling several SDGs (El-Halaby et al., 2021). The guidelines formulated by the IFSB include governance, risk management, and capital adequacy whereby sustainability concerns are factored into the Islamic banks to enable them to properly and rightfully use the resources they obtain (Rosman & Rahman, 2015).

Globally, the GCC countries have continued engaging sustainability in their financial section at the national vision and strategy level like Saudi Arabia's Vision 2030 (Al-Saidi et al., 2019) and UAE Green Agenda (Samour et al., 2022). They are known by various names including green finance, sustainable finance, responsible finance, and climate finance, and they aim to ensure that banks undertake actions that are favorable to sustainability (Yang et al., 2022). In Indonesia, the OJK in 2017 made regulations that demand firms or banks to disclose sustainability aspects in their annual reports or separate reports (Maftuchah et al., 2023). Over the recent past, the Central Bank of Malaysia has adopted a new policy in the operation of Islamic banks known as Value-Based Intermediation, which makes the financial institutions integrate sustainability in their strategies and operations as they seek financing (Mahadi et al., 2019), in the end of 2007 Bursa Malaysia made sustainability disclosure a listing requirement for all listed firms or banks (Ioannou & Serafeim, 2017).

2.2 Theoretical Foundation

The study hereby adapts four theories to use to understand and conduct an analysis on the effects and drivers of aligning Islamic banking sustainability practices with the SDGs on financial performance.

2.2.1 The Stakeholder Theory

The stakeholder theory as an underlying key concept in sustainability and business research maintains that in making organizational decisions especially when affecting a firm or bank, all the stakeholders should be considered not just the shareholders (Freeman, 1984). This theory proposes that Islamic banking sustainability practices integrated into SDG can enhance the stakeholder value by fulfilling customers' needs, establishing trust, and creating sustainable values for banking sustainability (Marimuthu, et al., 2019; Jan et al., 2018; Jane et al., 2023). These are the customer or investor, depositor, communities; regulatory bodies; and the physical environment in which the Islamic banking activities are carried out. SDGs aligned with Islamic banking practices can be advantageous for a number of (Agustin et al., 2023) Much like the SDGs' aligning with the practices that are part of the Islamic banking structure can help numerous organizations and places: projects that need to be financed include renewable energy since it is socially beneficial in that it offers clean energy and employment while at the same time preserving the environment (Taghizadeh-Hesary et al., 2019).

Islamic banks have duties to their stakeholders; these include customers, public society, suppliers, employees, and the government (L'épineux, F., 2005). As for stakeholder theory, it highlights the importance of sustainable performance reporting to maintain the public's trust and increase Transparency (Sofian et al. , 2020). Hence, Islamic banking sustainability practices related to SDGs would help the banks to improve their position and relations with the stakeholders (Sofian et al., 2020). The application of the stakeholder theory in this perspective presents stakeholders as an instrument for improving corporate overall performance according to Egels-zand' den and Sandberg in 2010 and Jones in 1995. Describe the approach of stakeholder theory on which this study has been based the third type of approach used in this study is the instrumental approach. This studies also aims at describing and analyzing interaction and correlation between sustainable strategies/measures and financial outcomes in Islamic banks, and the study expect that enhancement of sustainable measures of the Islamic banks, it should reflect increases in their financial performances.

Evaluating sustainability practices in general, one can state that they can be motivated by self-interest, aimed at increasing profits and thus, creating value for shareholders (Agus & Salas, 2017). For instance, a company that demonstrates superior sustainability performance has the potential to significantly attract more resources and customers as stated by Cochran and Wood in 1984, "Maximize growth potential by exploring new market opportunities and implementing competitive pricing strategies as mentioned by Fombrun, Gardberg, and Barnett in 2000, also address employees (Turban & Greening, 1997). Hence, building and nurturing relationships with stakeholders can provide valuable competitive advantages (Barnett & Salomon, 2006). According to Jones (1995), stakeholder theory considers the

corporation as a ‘nexus of contracts’ connecting the firm and its shareholders and stakeholders and others. As by Jones in 1995 A company that promotes an ethical culture is believed to discourage dishonest behavior or conduct among its employees and also build relationships and positive reputations with both internal and external stakeholders. Hence, stakeholder theory emphasizes that a company's focus on ethical considerations can lead to both profitability and sustainability, providing a competitive advantage as to Jones, (1995). Furthermore, in 1987 Cornell & Shapiro proposed that company value is dependent on the company's ability to meet implicit and explicit contracts with different types of stakeholders. The failure to establish such influences or connections may cause a damaged corporate reputation and reduced financial performance.

Moreover, stakeholder theory suggests that there's a positive link between how well a company performs socially and how well it does financially. What this means is that Islamic banks that align themselves to sustainable practices in consonance with SDGs stand to benefit in terms of financial performance (Agus & Salas, 2017). Such initiatives as microfinance for poverty reduction, and investment in renewable energy among other initiatives can even improve the image of the bank, reduce risks, attract capital, and improve compliance with the law which will lead to improved financial performances (Marom, 2006; Orlitzky et al., 2003). Therefore, this study's objective of assessing the effects of Islamic banking sustainability practices compatible with the SDGs on financial performance based on Stakeholder Theory paves the way for discovering insights that will benefit stakeholders, policymakers, investors, and financial institutions.

2.2.2 Legitimacy Theory

Suchman, (1995)'s legitimacy theory gives important information about how Islamic banks can use the SDG objectives to achieve social acceptance and create a more robust place in the financial sector. This theory entails the appreciation of how society and organizations have signed a compact, as noted by Deegan (2002). With regard to these Islamic elements, for Islamic banks, the onus of satisfying the Islamic ethical principles concepts and norms is among the facets of this agreement (Weyzig, 2009). Supporting and participating in the achievement of SDGs proves their concern for society and the environment, which complies with these values (Agus & Salas, 2017).

It establishes that there is a strong and unique relationship between the political and bureaucratic types of the administrative system and the most important aspect of legitimacy, which is transparency. Sustainability reporting concerning the SDGs expected from Islamic banks enables the organization's disclosure of its social responsibility initiatives and activities to its clients and the public in general (Nguyen, 2020). Thus, this disclosure can help to change the perception of stakeholders in the context of the bank's activities and

contribute to improvement of its image as a socially oriented organization (Deegan, & Rankin, 1996). In this case, the benefits include the likelihood of introducing some new customers and deposits, which would be supportive of the bank's execution and finally, its gains (Cochran & Wood, 1984; Fombrun, Gardberg, & Barnett, 2000). In addition, reporting about sustainability in a way that follows the norms and values of the society ensures Islamic banks' recognition of legal legitimacy and minimizes the risk of sanctions (Badriah, Maslichah & Mawardi, 2017). In this way, by actively practicing the support of the SDGs and appreciation of Islamic regulations, they can level the threat of societal pressure or of the restriction of their actions if they are deemed to be conflicting with social morality (Rakhman, 2017).

Nevertheless, it is necessary to define the limitations of the legitimacy theory. It is suggested by critics that sustainability reporting has risks that are incorporated to enable the management of the company image while hiding unfavorable social and environmental effects (Patten, 2019). Hence, integrating a higher level of assay of the information that is presented to the users of financial statements is vital in order to support the credibility and efficiency of this strategy, as explained by scholars such as Deegan (2002) and Nguyen (2020). Finally, legitimacy theory helps us understand how Islamic banks can leverage their relationship with the SDGs to obtain popular support and demonstrate their responsibility as financial organizations. Islamic banks may contribute to a more sustainable future and earn the trust of their stakeholders by openly revealing their sustainability initiatives and adhering to Islamic principles, just as the SDGs seek to do.

2.2.3 Good Management Theory

According to Waddock and Graves (1997), there exists what they refer to as good management theory advising that corporate social performance or sustainable business practices do enhance the financial outcomes and performance of a firm. The theory treats sustainability activities as antecedent or input variables or independent variables that impact on a company's financial returns and competitive advantage (Waddock & Graves, 1997). For Islamic banking, integrating institutions into the SDG processes can help to improve the company's reputation, become closer to stakeholders, and increase the efficiency of management processes. This focus on sustainability sits well with the principles of Islamic banking, particularly social justice as well as the avoidance of and resistance to unfair practices.

From the perspective of the works of Waddock and Graves (1997), on overall, Islamic banks can develop the positive role of stakeholder activities and establish sustainable good reputation. This creates a good reputation for the public hence customers and investors demand products that are ecological and socially conscious (Deephouse, et al., 2016).

Furthermore, the management also acknowledges stakeholder concerns by enhancing their support of the company's interest, by enshrining the needs of employees, community, and environment hence improving relations, productivity, and loyalty (Waddock and Graves, 1997). Thus, sustainability can also become a mainstream practice at the strategic level of an organization and provide improved resource utilization and lower risk factors (Surroca et al., 2010). Sustainability approaches can promote sound resource utilization, which in the process could lead to cost optimization (Soana, 2011). Besides, awareness of global environmental and social risks means that Islamic banks would be in a position to prevent and avoid any of these risks before they surface.

According to the good management theory, there is a virtuous circle of sustainable management practices which, in turn, produce better results (Waddock & Graves, 1997). Some theoretical discussion in the context of good management theory indicates that it is possible to identify a relationship between firms' financial performance and their corporate social performance (McGuire et al., 1988, 1990). In the Islamic banking system point of view, integration with SDGs will help the industry to enhance its image (Saeidi et al., 2015), attract the public with socially responsible Investors (Saeidi et al., 2015) and can play a significant role in improving the long-term performances. This is in line with the observation that good management practices that include sustainability, translate to competition advantage among the firms (Sharma & Vredenburg, 1998; Lin, Chang, & Dang, 2015).

However, the good management theory provides useful practice, but the measurement of sustainable practices on organizational results is to some extent complicated. Furthermore, Good Management Theory is interconnected with the Stakeholder Theory, which is aimed at stressing the importance of managing the relations with stakeholders (Platonova, et al., 2018; Barnett and Salomon, 2006). The combination of the two theories gives a better perspective of how Islamic banks can benefit from sustainable practices. By incorporating Good Management Theory into their strategic frameworks, Islamic banks can utilize sustainable business practices to achieve a dual objective: improving the financial performance of the business, and, at the same time, contributing to the achievement of the sustainable development objectives and improving society's well-being.

2.2.4 Beyond Triple Bottom Line Theory

Beyond triple bottom line theory (TBL) is a progress of the idea of triple bottom line theory and a more elaborated business sustainability model that covers social as well as environmental and financial aspects of corporations' functioning (Elkington, 1997). However, TBL differentiates between financial profitability, which measures the company's performance limitedly with economic benefits, and the social and environmental effects, thus implying that the business performance cannot be defined solely by the financial result

(Elkington, 1997). This view is in concordance with the principles of Islamic banking, for ethical concerns are incorporated into its financial system a priori, rather than as an afterthought or a tangential component of a bank's performance evaluation (Chapra, 2007a). Being based on Islamic banking principles, its focus on the concept of Maqasid al-Shari'ah implies that the institution's functioning is supposed to not only generate income but also be beneficial for the development of the society and the environment (Haniffa & Hudaib, 2007; Mohammad & Shahwan, 2013).

Maqasid al-Shari'ah merely refers to the general aim and purpose of Islamic law, which helps to appreciate the comprehensive goal of Islamic finance other than merely pursuing the highest level of profit (Muhamad et al., 2022). Maqasid al-Shari'ah applies to various aspects of human affairs the preservation of faith, and protection of the soul, mind, offspring, and wealth, demonstrating the objectives of human welfare and the public interest (Auda, 2008; Chapra, 2007b). These objectives are expected to be internalized and realized by the Islamic banking institutions' everyday operations with a focus on social responsibilities and ethical conduct (Dusuki & Abdullah, 2007b; Asutay & Harningtyas, 2015). Also, Failure to uphold these principles may undermine the authenticity of Islamic banking practices and compromise their essential role in maximizing gains and benefits while preventing harm (Mansour et al., 2015; Chapra, 2007b).

Despite the fact that Islamic banks address the Islamic market segment and operate under certain Islamic Shariah guidelines, their integration of TBL principles with conventional banking practices is a perfect chance to improve the stability of sustainability in the banking industry (Hamidi et al., 2023). Thus, Islamic banks can apply the Quadruple Bottom Line (QBL) framework that extends upon the conventional TBL, which considers the dimensions of Prosperity, People, Planet, and Prophet to achieve Maqasid al-Shari'ah and modern sustainability in one (Hamidi & Worthington, 2021b). This widened outlook, in addition to aligning with the Islamic finance and usury-free conception of ethics, encompasses an assessment of sustainable development in economic, social, environmental, and spiritual realms (Danlami et al., 2023). In addition, the congruency of sustainability indicators with that of the UN SDGs also enables Islamic banking institutions to be associated with organizational endeavors and programs on social, environmental, and economic issues at the global level hence re-establishing their role as change makers (Hamidi & Worthington, 2021a; Hamidi & Worthington, 2021b).

In summary, Beyond Triple Bottom Line Theory provides valuable perspectives on the dynamic realm of corporate sustainability, especially in Islamic banking. Through the integration of Maqasid al-Shari'ah and ethical principles, Islamic banks can elevate their sustainability initiatives, advance social well-being and welfare, also support global sustainable development objectives. This alignment not only strengthens the ethical

underpinnings of Islamic finance but also highlights its capacity to generate positive societal and environmental change alongside financial success.

2.3 Empirical Studies

The present literature review presents a comprehensive analysis of how general business and corporations' sustainability practices influence their financial performance. Thus, although the results differ from one research to another and from one industry to another, there seems to be a positive relationship. For example, Margolis and Walsh (2009) critically reviewed the database of 252 scientific articles and identified a mostly positive relationship between CSR or sustainability practices and financial performance. Likewise, Ameer and Othman in 2012 established a comparative analyse between the enterprises with high sustainability rating and the enterprises with low sustainability rating to proof that the firms that possess high sustainability competencies realized better ROA and profitability. Based on these results, one can provides support for the proposition that implementing sustainable strategies can create positive financial effects, possibly via positive effects on organizational reputation, finances, and operations. On the other hand, Dhaliwal et al. (2011) observed a negative correlation of voluntary nonfinancial disclosure with the cost of equity capital suggesting that a high extent of disclosure may be costly for the firms.

Similarly, studies such as those by Burhan and Rahmanti (2012), Muchiri et al. (2022), and Platonova et al. (2018) reported a positive influence of sustainability reporting and CSR practices on financial performance metrics such as return on assets and annual revenue. However, not all empirical studies have shown a clear relationship between sustainability practices and financial outcomes or performance. Nollet et al. (2015) stated that between ESG disclosure scores and financial metrics, there was an insignificant relationship, suggesting that other factors may influence financial performance non-linearly.

When it comes to the specific subject of corporations within Islamic countries, the correlation between sustainability practices and financial performance seems less conclusive and carries some specifics. The findings of the previous investigations are ambiguous, the conclusions point of which underlines the multiaxiality of the problem. Certain pieces of work including Ghardallou (2022) and Rahman et al. (2022a, 2022b) reveal that there is a constructive relationship between firms' sustainability indices and financial performance in terms of Tobin-Q ratio, ROE, and ROA. Unlike, Nobanee and Ellili (2016) who reported a negative correlation, other authors as Raihan et al. (2015) observed mixed results. Some of the discrepancies could be attributed to methodological differences, samples, and fluctuating relations between diverse sustainability initiatives and their impact on finance.

Another aspect that complicates this equation is the incorporation of the SDGs. Though not many empirical research analyses have focused on examining the direct relation between

sustainability integrated practices based on SDG and financial performance in the Islamic banking sector, related literature provides significant information. Jan et al., (2019) proposed that the SDGs are compatible with the operational principles of Islamic finance and that practices in line with the SDGs may strengthen brand image, capture the attention of ethical consumers, and guarantee long-term financial viability. Al-Jayyousi et al. (2022) expand the idea that the practices associated with the SDG could have a positive effect on increasing the organization's capacity to manage risks and optimize its operations and, therefore, have a positive impact on the financial performance. Incorporation of SDG connecting with Islamic banks have been found to reveal certain impact on financial performance as indicated by early research (Sepideh Khavarinezhad; Ali Tasadduq et al. , 2021).

Consequently, the results of empirical research unambiguously show that there is mixed evidence about the relationship. As for the positive correlations, it is necessary to mention that there are other works that show the existence of a more complex connection or an inverse one. This places more emphasis on the need to embark on further research that might help in finding a better understanding of the rather vague and conjoint relationship and connection between sustainability practices, SDG, and financial performance in the context of the Islamic banking industry.

2.4 Conceptual Model

In this section, the author presents the theoretical framework as the conceptual model that would be used to test the antecedent of aligning Islamic banking sustainability with the SDGs on financial performance. The research model with a focus on different variables is presented in the form of a conceptual model in Figure (1), showing the interrelations of the independent, dependent, and control variables proposed in the hypothesis.

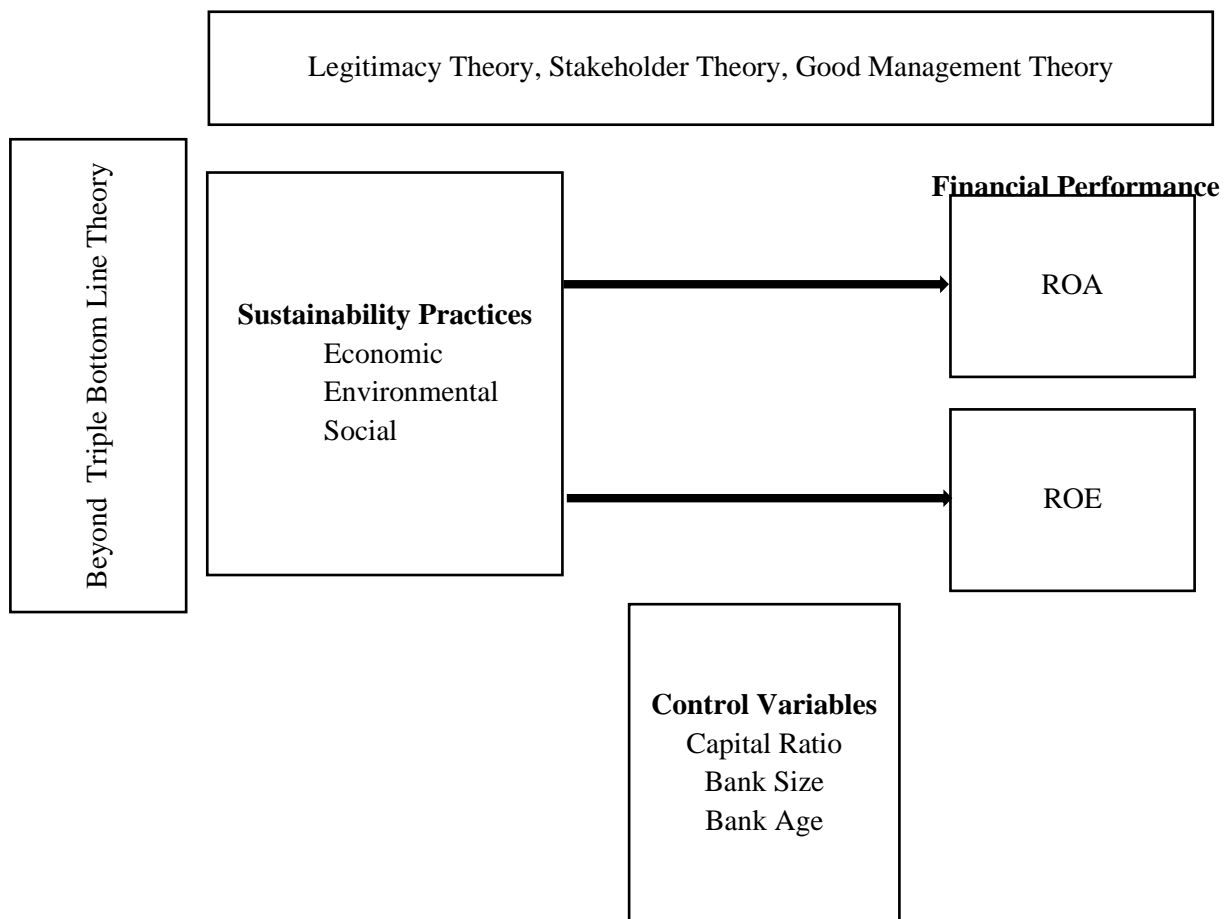


Figure 2.2 Conceptual Framework Model

Research shows that sustainable practices can lead to improved financial performance by reducing costs, enhancing brand reputation, and driving customer loyalty (Clark et al., 2015). Furthermore, sustainable firms often enjoy a competitive advantage due to increased operational efficiency and risk management (Eccles et al., 2014). Thus, we posit that integrating sustainability into core business strategies can directly enhance profitability. Additionally, brand image and competitive advantage are critical elements that mediate this relationship (Porter & Kramer, 2011).

2.4.1 Economic Sustainability Practices

According to Jan et al. , (2019b); GRI (2016), economic sustainability refers to such strategies, measures, actions, and procedures that do least harm to miscellaneous components of the community and at the same time create long term economic prosperity. This dimension is confronted with the question of how far the economic responsibility of an organization transcends its stakeholders and the immediate economic environment in the local, national or even international main frame. This encompasses the movement of money from one individual or sector to another and the organization’s chief socio-economic impacts on society. (Kristina Smiljkovic, 2023). The framework of economic sustainability includes the aspects like the support of the SMEs, community projects, microfinance services, and ethical

investment with the objective of the support of the economic growth and wellbeing aligned with the SDGs.

2.4.2 Environmental Sustainability Practices

Environmental sustainability refers to the capacity as to how one will be able to use the renewable resources without exhaustion, minimize pollution and continue using non-renewable resources endlessly (Amankwah-Amoah, 2020). It focuses on the organization's impact on geophysical environments, including ecosystems, air, water and land; non living and living (GRI, 2016). Some parameters of the environmental sustainability are types and volumes of inputs from the side of the material suppliers, energy and water consumption during the production process and utilization of outputs in the form of emissions, wastes and effluents. Furthermore, measurements may include the company's biological variety, and compliance with environmental laws and policies among other factors of environmental expenses and impact of the company's products and services. Finally, the environmental characteristic of sustainability seeks also to reduce carbon & waste emission, implement better working conditions and quality, and the overall quality of the air as well as the water for the present and future generations (Zabihollah Rezaee et al. , 2019).

2.4.3 Social Sustainability Practices

Social sustainability can be defined as the valuation of firms' activity and its relation to people and it is associated with categorizing and regulating the positive and negative effects of that relation. This focuses on the nature and interaction with stakeholders who are paramount and indispensable in the achievement of social sustainability (Govindan et al., 2021). Social sustainability therefore entails regulation of the corporation and its effects on people with an emphasis on rights and welfare, labor, society, and products or services (GRI, 2016). The objectives are decreasing poverty, investing in society, and building secure environments (Kristina Smiljkovic, 2023). Till date, sectors have adopted items that fall under ingestion, employment practices, human rights, impact on the community, and product responsibility (GRI, 2016). They encompass; Modern economic tools such as financial inclusion, and socio-economic niche areas such as; community welfare and employee satisfaction with greater society beneficitation to reflect on the tenets of the SDGs.

2.4.4 Overall Sustainability Practices

In other words, overall sustainability practices refer to the institutional regulations concerning the systematic approaches to meet stakeholders' expectations at the corporate level in terms of environmental, economic, and social settings (Ponomarenko et al., 2021). Composite indices can be constructed to assess these practices, capturing the whole impact of Islamic banking activities on the economic, social, and environmental dimensions.

2.4.5 Financial Performance (ROA & ROE)

The evaluation of a business entity's financial goals to identify their achievement and extent is a critical aspect of financial performance (Fatihudin, 2018). Thus, ROA or return on asset refers to a financial ratio that shows gross profit ratio with respect to assets as a percentage established by (Winqvist et al., 2019), except, ROE or return on equity establishes the ratio of gross profit ratio to equity as stated by (Yin et al., 2021). These measurements that are ROA and ROE give ratings to the profitability standards of the Islamic banks and explain how sustainability influences financial returns. ROA looks at the profitability of assets from the management's side of the spectrum, while ROE determines the Return on shareholders' equity that gives the shareholders' side, both point to the efficiency of sustainability practices in improving returns.

2.4.6 Control Variable

The capital ratio based on equivalent to equity to the average total assets is the measure determining the profit and stability of a bank or firm. Banks with higher capital ratios need less outside capital and are more profitable, more adaptable, and more capable of handling unexpected losses (Kosmidou, 2008; Athanasoglou et al., 2008). Past literature evidence indicate that capital ratio is positively related to bank profit levels (Athanasoglou et al. 2008; Demircuc-Kunt & Huizinga, 2000).

Bank size, represented by total assets, influences profitability through various financial and legal factors. Larger banks tend to attract cheaper capital and achieve higher profits due to economies of scale (Demircuc-Kunt and Huizinga, 2000). Moreover, larger firms face greater stakeholder expectations, potentially leading to increased corporate disclosures and higher financial performance (Makni, et al., 2009; Waddock and Graves, 1997).

The age of a bank, which is measured by how many years it has been around, shows how mature and well-known the organization is. People often think that older banks are more valuable, and groups that support sustainability pay more attention to them (Jan et al., 2019b; Naser et al., 2006). Because of this, earlier banks may share more information about their eco-friendly practices in order to raise their stock prices.

2.5 Hypotheses Development

Building upon the theoretical foundations explored in Section 2.2, the empirical evidence reviewed in Section 2.3, and the conceptual model depicting the hypothesized relationships in Section 2.4, this section formulates specific hypotheses to be tested in our study. Our research questions centered on investigating the impact of aligning Islamic banking sustainability practices with the SDGs on financial performance. These hypotheses aim to investigate considering both the management perspective (measured by ROA) and the shareholders' perspective (measured by ROE).

Section 2 was the literature review which provided the theoretical foundation for the study. focuses on the method of how sustainability factors related to Islamic banking, particularly the SDGs, influence its performance. Relating to the Stakeholders Theory, it might be effective in increasing the stakeholders' loyalty and investment. Legitimacy Theory also focuses on the development of transparent SDG-aligned sustainability reporting to build up the reputation and manage the risks. According to the Good Management Theory, sustainability enhances financial position through brands' reinforcement and better management of resources. Elaborating on Beyond TBL theory introduces ethical aspects as well as corresponding to the principles of the Islamic bank and indicating the latter's social and environmental benefits in addition to the financial profitability.

On this basis of theoretical views, Section 2 provided the empirical review. 3 helps to understand the nature of sustainability practices in those organizations and their connection with sustainability performance or financial results. Some studies present the positive correlation between sustainability activities and financial outcomes indicators while others depict a more sophisticated or negative view. This shows that there is a possibility of having more research on this area whether in the general banking practices or focusing on the Islamic banking industry.

Hypotheses for Management Perspective

H1: Sustainability Practices (SP) positively impact ROA in Islamic banking.

H1a: Economic sustainability practices positively affect ROA in Islamic banking.

H1b: Environmental sustainability practices positively influence ROA in Islamic banking.

H1c: Social sustainability practices positively contribute to ROA in Islamic banking.

Hypotheses for Shareholders' Perspective

H2: Sustainability Practices (SP) positively affect ROE in Islamic banking.

H2a: Economic sustainability practices positively impact ROE in Islamic banking.

H2b: Environmental sustainability practices positively influence ROE in Islamic banking.

H2c: Social sustainability practices positively contribute to ROE in Islamic banking.

According to these hypotheses, it has been foreseen that the sustainability practice of Islamic banking to be aligned with the SDGs will have positive impacts on the financial performance definite from the managerial angle in terms of return on asset and from the shareholder's angle in terms of return on equity in the context of the Islamic banking sector.

CHAPTER 3

RESEARCH METHODOLOGY

Thus, the current chapter presents the framework methodology, rationale, and method for assessing the effects of Islamic banking sustainability practices and initiatives alignment with the SDGs on financial considerations or performances.

3.1 Type of Research

Reliable with the factors inherent to the study questions and goals, this work uses a different type of design for the study. It serves as an exploratory study to investigate sustainability activities and assess the extent of Islamic corporate sustainability practices disclosures and their dimensions by Islamic banks. The purpose of exploratory research is to gain insights and familiarity for later investigation. It's important to note that the flexibility of exploratory research doesn't mean a lack or absence of direction. Instead, it means the researcher starts with a broad picture and gradually narrows it down as the research progresses (Saunders et al., 2009).

Additionally, it takes on an explanatory case study approach in its empirical analysis, aiming to measure how Islamic corporate sustainability practices impact the financial performance of Islamic banks under a certain geographical area. Explanatory research on the other hand aims at pointing out a causal relationship between variables also to address the question of why. It seeks to analyze a situation in order to pinpoint the real causes of a phenomenon (Saunders et al., 2009). So in explanatory research, researchers' questions seek to explain rather than just describe the phenomena under study. Usually, researchers referred to as explanatory research aims to comprehend the relationship that exists between variables.

Furthermore, given that it focuses on Islamic banks operating in Malaysia, Indonesia, and the GCC region, it can be framed as a case study. In a case study, researchers examine a process or a group of cases rather than just individual cases. Researchers are expected to reliably provide enough information and data on "the nature of the case, its relation to its contexts and other cases, its historical background, and as well as giving information to the informants who have given information" (Denzin and Lincoln, 2006). As a result, Research needs enough details to capture each case's unique features and compare similarities or differences between them (Ghauri and Grønhaug, 2010).

Lastly, it can be mentioned that the current research can be referred to as a multi-design study, where each chosen design corresponds to particular aspects of the investigation. In this regard, the mixed design research is suitable for offering an integrated perspective on the practices undertaken, as well as combining qualitative review and quantitative data and analysis methods (Creswell, 2018). Thus, using different research methods, this work will

include various views on the subject and provide detailed and comprehensive conclusions on the nature of the relationship.

3.2 Research Approach

This research is mainly based on stakeholder theory and good management theory which were par or related to positive accounting theory. Since the late 1980s, The rise of empirical and positive accounting theory challenged the dominance of the normative framework (Baker, 2011). In the literature, positive accounting theory is also called "neo-empirical research" according to Gaffikin, (2005), because it heavily depends on empirical evidence based on assuming an objective ontological position and established theories.

Objectivists believe the social world exists outside of individual interpretations or judgments. They also post that the scientific method employs observable and reportable information and these are only discernible in the sphere of action commonly referred to as the manifest behaviors (Diesing, 1966). Thus, this research intends to investigate how Islamic banks disseminate information or disclosure on sustainability practices, and how this process can impact their financial performance in Malaysia, Indonesia, and the GCC region. The research also creates and tests hypotheses. It relies on measurable observations and aims to uncover the truth about this relationship. Therefore, the research takes an objective ontological approach.

An interpretive research philosophy guides this study, emphasizing the understanding of subjective experiences and interpretations within the context of Islamic banking sustainability practices and their alignment with SDGs. In that vein, this study postulates that the phenomenon of financial performance and sustainability practices cannot be viewed in a unilateral manner in the context of the Islamic banking environment.

As for the methodological framework used in the context of the research approach of this study, it is significant to note that both qualitative and quantitative methods were utilized to investigate the research questions as comprehensively as possible. Specifically, during the qualitative phase, the approach uses the content analysis method to analyze and measure about the discourse of an index for Islamic Corporate Sustainability Practices (ICSP) that is aligned with SDGs by iteratively analyzing previous studies, annual reports, and sustainability reports.

Meanwhile, in the quantitative stage of the study, there is an intention to make use of a deductive research approach with the aim of analyzing the relationship between the enhancement of sustainability practices and financial performance. The theories and hypotheses will be borrowed from the literature and regression analysis will be conducted to examine the theories (Hall et al., 2022). Thus, the purpose of this analysis is to confirm the existing knowledge or, at the very least, to refine it. It is most effective when applied to

assessing the effectiveness of sustainability practices where the expressions of financial performance like the returns on assets and equities are concerned. In this study the secondary data was collected from Islamic banks' websites, sustainability reports as well as annual reports of the banks.

Complementarily, it is possible to observe that the methods applied in the research embrace both inductive and deductive approaches as the appropriate combination of the expert opinion and insights, obtained in the context of analyzing financial performance indicators allow to comprehensively answer the existing research questions. By using this approach, the study is expected to help in the growth of information in the areas of Islamic banking, sustainability techniques, and financial performance assessment. We use the following generic model to test the hypotheses.

$$ROA = f(\textit{sustainability practices} + \textit{control variables})$$

$$ROE = f(\textit{sustainability practices} + \textit{control variables})$$

3.3 Object and Subject of Research

The object of this study is to investigate the impact of aligning Islamic banking sustainability practices with SDGs on financial performance. The subject sample of the research encompasses, the unit of analysis and population data is Islamic banking; which are 10 Islamic banks operated in GCC, 10 Islamic banks operated in Indonesia, and 10 Islamic banks operated in Malaysia for five years. The chosen Islamic banks in GCC, Indonesia; and Malaysia were selected because they have readily available sustainability reports, annual reports, or any sustainability data on their websites. This ensures transparency, facilitates comparative analysis, and enhances the validity of the research findings. Access to sustainability data enables a comprehensive examination of the relationship and connection between sustainability practices and financial outcomes in Islamic banking. The reason for choosing these nations is because GCC has the biggest assets of Islamic banking and finance, Malaysia is considered the 3rd major market of Islamic banking, also Indonesia as country has the largest Muslim population, indicating a tremendous potential for growth and development for Islamic banking. The other rationale for selecting these countries is that they are still in the development stage, which allows us to better comprehend the association between financial performance and sustainability practices from the perspective of a growing economy.

In terms of sample methodology, the current study used purposive sampling in addition to availability sampling. In the current study, countries and banks were selected for the purposive sampling with the help of the above stated criteria as it allows the selection of the sample appropriate to meet the objectives of the research. The options used thereafter were

available sampling in order to select the banks operating in these countries with easy access to considerably sustainable reports and data.

3.4 Quantitative Data

3.4.1 Data Sources

Secondary quantitative data will be obtained from financial annual reports sustainability reports, and websites of Islamic banks operating in target regions, ensuring access to reliable and verifiable information. Key financial indicators such as ROE and ROA as dependent variables and control variables such as bank size represented by the total assets, bank age, and capital ratio all will be extracted from annual reports. The data of the independent variables of sustainability practices economic environmental social will be obtained from the sustainability reports, annual reports, and websites of the Islamic banks.

3.4.2 Data Collection

To compile quantitative data, secondary sources—including financial annual reports, sustainability reports, and websites of Islamic banks functioning in the target areas—will be used. Important financial indicators such as ROA and ROE were extracted from Islamic banks' balance sheets and financial statements. We also took into account control factors including bank age in years, bank size expressed in total assets, and capital ratio. Using the formulas for ROA, ROE, and capital ratio, the studies done by Bashir (1999) and Kosmidou (2008).

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$
$$ROE = \frac{\text{Net Income}}{\text{Total Equity}}$$
$$\text{Capital Ratio} = \frac{\text{equity capital}}{\text{Average Total Assets}}$$

Based on the index Islamic Corporate Sustainability Practices (ICSP) developed by Jan et al. (2023) the study will measure and compare the Islamic banks' sustainability practices in GCC, Malaysia, and Indonesia. This index centers on the independent factors of social, environmental, and financial sustainability practices. Data for the index were primarily collected from sustainability reports of Islamic banks. In cases where sustainability reports are unavailable or the information is missing, annual reports and banks' websites serve as alternative sources.

The weighted content analysis technique allows for a more nuanced approach to assessing the quality of disclosures compared to simple dummy codes of 0 and 1. Prior works

have different dummy scales in considering the level of the quality of disclosure; they may range from 0-4, 1-3, or 0-2 (Ameer & Othman, 2012; Saleh et al., 2010; Aktas et al., 2013). For example (Ameer & Othman, 2012), some researchers have applied higher numbers such as 0-4 to distinguish between levels of thoroughness or elaborateness of disclosure.

Consequently, the content analysis approach in the context of this study adheres to the Islamic bank's sustainability measurement index suggested by (Jan et al., 2023) for Muslim nations in the Appendix section. The items in this index sum up to 32 items whereby the economic sustainability practices consist of 8 items, the environmental sustainability comprises 11 items, and the remaining 13 items are in the social sustainability measures. They are then ranked on this dummy code scale of 0-2 depending on the wording documented in the annual reports of the Islamic banks. More particularly, a score of 2 means that an item in the annual reports or sustainability report positively and significantly enhanced the sustainability by being measurable by weight or in monetary measurement, volume, etc. while it means that disclosure of the respective sustainability practice is systematic and detailed. On the other hand, a score of 0 is given when no information about an item is disclosed in the annual reports hence, implies that an issue has been nondisclosed. A score of 1 is obtained where the reporting is only partial or semi-reporting meaning some information is given but not enough with a perceived positive impact. Therefore, by employing this approach, the study seeks to cover as many aspects of sustainability practices as possible so that every significant finding made in the disclosed annual reports of the Islamic banks can be properly analyzed with respect to the globalization sustainability performance of the respective institutions.

Various methods are adopted to calculate the CSR or CS of firms in GCC, Malaysia, and Indonesia. According to Amran et al. (2017), a specific formula was used.

$$SP\ index = \frac{\sum x}{N}$$

The formula to calculate the mean values of sustainability practices of all and each section involves $\sum x$ as the score of these practices and N as the maximum score of disclosures a bank could perform in all sections and each section. Using a formula, one computes the mean values of the dimensions of environmental, economic, and social sustainability as well as general sustainability practices. These principles will guide later empirical research and testing.

3.4.3 Data Analysis

The main focus of regression analysis would involve the use of statistical techniques to examine the correlation between the sustainability practices of Islamic banking and various financial outcome measures. This involves doing regression analysis to examine hypotheses and ascertain the influence of sustainable practices on variables like ROA and ROE. The

Panel-corrected standard error (PCSE) regression technique will be used to account for heteroscedasticity, hence providing accurate coefficient estimations. Furthermore, a one-year lag will be implemented for the dependent variables in order to address autocorrelation problems. The analysis will rely on secondary data collected from financial, annual, and sustainability reports of Islamic banks. Previous studies of a like nature have suggested the use of the PCSE estimator for analyzing the relationship between sustainability practices and financial performance (Jan et al., 2023; Nyeadu et al., 2018; Molla, 2021; Rahman et al., 2021; MOLLA et al., 2021; Rahman et al., 2022a; Naimy et al., 2021; Rehman et al., 2020; Kaakeh and Gokmenoglu, 2022).

CHAPTER 4

RESULTS & DISCUSSION

This chapter builds upon the data by applying fundamental analysis with a dynamic perspective, following the study methodology outlined in Chapter 3. Our central focus is to evaluate the influence of Sustainable practices, encompassing social, environmental, and economic aspects, on financial outcomes and performance. The initial sections provide descriptive statistics and correlation analysis to establish relationships. Subsequently, the chapter delves into aggression analysis, exploring their statistical properties and measurement capabilities. Finally, the empirical findings derived from these investigations are discussed.

4.1 Descriptive Analysis

These descriptive statistics highlight and show the diverse landscape of Islamic banking in the GCC, Malaysia, and Indonesia in terms of sustainability practices and financial performance. The variations observed in the ICSP and its dimensions and financial metrics suggest that while there is a trend towards increasing the sustainability agenda among the banks, the extent and impact of these practices vary significantly among banks.

Table 1. Summary Statistics (All)

Variable	Mean	SD	Min.	Max.
ICSP	31.913	10.735	13.000	58.000
Economic	11.293	2.704	1.000	15.000
Environmental	8.280	5.892	0.000	22.000
Social	12.340	4.595	6.000	26.000
ROA	0.006	0.024	-0.169	0.036
ROE	0.056	0.314	-3.533	0.641
Age	20.067	13.635	4.000	61.000
Bank Size	5.308	2.793	1.146	8.353
Capital Ratio	0.092	0.107	0.016	0.801

Source: Authors' computation using E-Views 12.

Table 1, providing descriptive statistics offers a thorough overview of the key variables in this study, capturing the sustainability practices, financial performance, and other control variables for the Islamic banks sampled from Indonesia Malaysia, and the GCC over a five-year period.

Islamic Corporate Sustainability Practices (ICSP): The mean ICSP score is 31.913, with a standard deviation of 10.735. The wide range from a minimum of 13.000 to a maximum of 58.000 indicates significant variation in the implementation and adoption of sustainability practices among the Islamic banks. This variation suggests that while some banks are highly committed to sustainability, others are still in the early stages of integrating such practices into their operations.

Economic Practices: The economic dimension of sustainability practices shows a mean score of 11.293 with a standard deviation of 2.704. The range from 1.000 to 15.000 highlights

that most banks are actively engaging in economic practices, but the level of engagement varies. This reflects differences in strategic priorities and perhaps regulatory environments across the regions.

Environmental Practices: With a mean of 8.280 with a standard deviation of 5.892, environmental practices exhibit considerable variability (from 0.000 to 22.000). The minimum score of 0.000 indicates that some banks do not engage in any environmental sustainability activities. This could be due to differing regulatory pressures, market demands, or intrinsic organizational priorities regarding environmental sustainability.

Social Practices: The mean score for social practices is 12.340, with a standard deviation of 4.595. The scores range from 6.000 to 26.000, suggesting that social responsibility is a somewhat consistent area of focus across the banks, although there is still notable variation. The consistency is due to the social justice principles in Islamic banking, which closely align with social sustainability goals.

Financial Performance (ROA and ROE): The average ROA is 0.006, with a standard deviation of 0.024, ranging from -0.169 to 0.036. Similarly, the average ROE is 0.056, with a much higher standard deviation of 0.314, ranging from -3.533 to 0.641. These figures indicate that while most banks achieve modest profitability, there are instances of significant losses and gains, suggesting diverse financial health across the sample.

Control Variables: The average age of the banks is 20.067 years, with a standard deviation of 13.635, indicating a mix of both established and relatively new institutions in the sample. The mean bank size is 5.308, with a standard deviation of 2.793, ranging from 1.146 to 8.353, reflecting a varied asset base among the banks. The capital ratio has a mean of 0.092, with a standard deviation of 0.107, indicating most banks maintain a conservative capital structure, though some exhibit significantly higher or lower capital ratios.

Table 2. Summary Statistics (Malaysia)

Variable	Mean	SD	Min.	Max.
ICSP	37.120	8.994	25.000	58.000
Economic	11.900	1.887	8.000	14.000
Environmental	12.220	3.986	6.000	22.000
Social	13.000	4.686	8.000	23.000
ROA	0.006	0.003	-0.003	0.011
ROE	0.092	0.049	-0.022	0.189
Age	13.400	7.775	7.000	35.000
Bank Size	7.431	0.424	6.869	8.353
Capital Ratio	0.081	0.031	0.046	0.182

Source: Authors' computation using E-Views 12.

In Table 2, the descriptive statistics for ten Islamic banks in Malaysia offer insight into the financial performance and sustainability practices within this specific context. The data reveals several key trends and characteristics.

Islamic Corporate Sustainability Practices (ICSP): The mean ICSP score for Malaysian Islamic banks is 37.120, with a standard deviation of 8.994. The scores range from 25.000 to 58.000, indicating that Malaysian banks generally score higher in sustainability practices compared to the overall sample. This higher average suggests a strong commitment to sustainability and CSR activities, which may be influenced by Malaysia's regulatory framework and market expectations.

Economic Practices: A standard deviation of 1.887 and a mean score of 11.900 define the economic component of sustainability. The quite limited range of the scores is 8.000 to 14.000. This suggests a more consistent approach to economic sustainability policies among Malaysian Islamic banks, probably reflecting a set of economic principles shared across these institutions

Environmental Practices: Malaysian banks' green banking policies or environmental activities have a mean score of 12.220 and a standard deviation of 3.986. As you can see, the scores range from 6,000 to 22,000, which means that people are interested in environmental problems to different degrees. There may be differences in this because each bank has its policies or puts different amounts of importance on environmental problems.

Social Practices: The social dimension has a mean score of 13.000 and a standard deviation of 4.686, with scores ranging from 8.000 to 23.000. This indicates a fairly consistent emphasis on social responsibility, aligning well with the broader principles of Islamic finance, which are community welfare and prioritizing social justice.

Financial Performance (ROA and ROE): The average ROA for Malaysian Islamic banks is 0.006, with a standard deviation of 0.003, which spans from - 0.003 to 0.011. With values ranging from -0.222 to 0.189, the ROE has a mean of 0.092 and a standard deviation of 0.049 with values ranging from -0.022 to 0.189. These numbers reveal that, compared to the whole sample, Malaysian Islamic banks typically have modest profitability and somewhat low volatility in their financial returns. The less fluctuation in ROA and ROE points to consistent financial success in the Malaysian Islamic banking industry.

Control Variables: The average age of Malaysian banks in the sample is 13.400 years; a standard deviation of 7.775 spans from 7.000 to 35.000. This suggests that, in comparison to the larger sample, the banks that were selected are somewhat young, which would represent Malaysia's recent fast expansion in the Islamic financial sector. With a standard deviation of 0.424 and a mean bank size of 7.431, Malaysian Islamic banks are generally more asset-sized than the sample overall. With a standard deviation of 0.031 and an average capital ratio of 0.081, Malaysian banks display a more consistent and cautious attitude to capital adequacy.

These numbers show that Malaysian Islamic banks put a lot of stress on being sustainable, especially in terms of the economy and the environment. The pretty high ICSP scores suggest that these banks are ahead of the curve when it comes to making their operations more

sustainable. This could be because of regulations and what the market expects. The steady financial performance shown by stable ROA and ROE numbers shows that this focus on sustainability does not hurt the company's financial health. Instead, it says that sustainability and business operations should work together in a way that is in line with the SDGs' larger goals.

Table 3. Summary Statistics (Indonesia)

Variable	Mean	SD	Min.	Max.
ICSP	29.100	10.748	13.000	55.000
Economic	10.120	3.432	1.000	15.000
Environmental	5.700	5.003	0.000	17.000
Social	13.280	4.982	7.000	26.000
ROA	-0.006	0.039	-0.169	0.036
ROE	-0.065	0.515	-3.533	0.120
Age	17.400	11.368	4.000	46.000
Bank Size	7.054	0.727	5.226	7.993
Capital Ratio	0.180	0.142	0.032	0.801

Source: Authors' computation using E-Views 12.

Table 3 displays the descriptive statistics of ten Islamic banks in Indonesia. These banks' sustainability policies and financial performance are presented in depth, allowing readers to understand the country's specific market dynamics and regulatory landscape.

Islamic Corporate Sustainability Practice (ICSP): Islamic financial institutions in Indonesia have an average ICSP score of 29.100 and a standard deviation of 10.748. The results show a wider range of sustainable practices when compared to Malaysia, with scores ranging from 13.000 to 55.000. Overall, Islamic banks in Indonesia may not be as far along in implementing complete sustainability policies, as indicated by their lower average ICSP score.

Economic Practices: The economic part of sustainability has a mean score of 10.120 and a standard deviation of 3.432. Scores range from 1.000 to 15.000. There are big differences in how Indonesian banks think about economic survival, as shown by this wide range and higher variability. Some banks may put a lot of importance on economic practices, while others may not do as well.

Environmental Practices: When it comes to environmental practices, the mean number for these is 5.700, and the standard deviation is 5.003. The scores run from 0.000 to 17.000, which shows that the banks' environmental efforts are very different from one another. The average number isn't very high, which suggests that environmental sustainability might not be a top priority for many Indonesian Islamic banks. This could be because of differences in how much regulatory focus there is or how resources are allocated.

Social Practices: The social dimension has a mean score of 13.280, with a standard deviation of 4.982, and scores ranging from 7.000 to 26.000. This suggests a relatively strong

and consistent emphasis on social responsibility, similar to Malaysian banks, which aligns with the core principles of Islamic finance.

Financial Performance (ROA and ROE): The average ROA for Indonesian Islamic banks is -0.006, with a standard deviation of 0.039, ranging from -0.169 to 0.036. The ROE has a standard deviation of 0.515 and a mean of -0.065, with values ranging from -3.533 to 0.120. These negative averages for both ROA and ROE indicate that Indonesian Islamic banks have faced profitability challenges during the study period. The higher variability, especially in ROE, suggests greater volatility and financial instability compared to their Malaysian counterparts.

Control Variables: The average age of the banks in the Indonesian sample is 17.400 years, with a standard deviation of 11.368, ranging from 4.000 to 46.000. This indicates a mix of relatively young and more established banks. The mean bank size is 7.054, with a standard deviation of 0.727, suggesting that Indonesian Islamic banks are generally large in terms of asset size. The capital ratio averages 0.180, with a standard deviation of 0.142, indicating a stronger capital adequacy position compared to Malaysian banks. This higher average capital ratio might be a response to the financial instability indicated by the negative profitability metrics.

The descriptive data for Islamic banks in Indonesia show a scene of mixed sustainability policies and poor financial results. Indonesian banks would benefit from a greater emphasis on sustainability if they want to bring themselves in line with global norms and the SDGs, given their lower average ICSP score, especially in the environmental dimension. They may be unable to invest in or prioritize sustainability projects due to serious financial problems, as shown by the negative ROA and ROE. These results show that Islamic banks in Indonesia need specific rules and programs to improve their sustainability practices and financial security.

Table 4. Summary Statistics (GCC)

Variable	Mean	SD	Min.	Max.
ICSP	29.520	10.603	14.000	49.000
Economic	11.860	2.185	8.000	15.000
Environmental	6.920	6.334	0.000	21.000
Social	10.740	3.669	6.000	20.000
ROA	0.017	0.005	0.008	0.028
ROE	0.142	0.092	0.057	0.641
Age	29.400	15.301	8.000	61.000
Bank Size	1.440	0.168	1.146	1.690
Capital Ratio	0.016	0.000	0.016	0.016

Source: Authors' computation using E-Views 12.

Table 4 displays descriptive information for 10 GCC Islamic banks. These banks reflect the economic and regulatory conditions of their respective nations through their sustainability practices and financial performance.

Islamic Corporate Sustainability Practices (ICSP): The mean ICSP score for GCC Islamic banks is 29.520, with a standard deviation of 10.603. The scores range from 14.000 to 49.000, showing considerable variation in the implementation and adoption of sustainability practices. This average score is similar to that of Indonesian banks, indicating a moderate level of commitment to sustainability across the GCC region.

Economic Practices: The economic dimension of sustainability has a mean score of 11.860 and a standard deviation of 2.185, with scores ranging from 8.000 to 15.000. The relatively high mean score and lower variability suggest that economic sustainability practices are more uniformly adopted among GCC Islamic banks, reflecting a stronger emphasis on financial stability and growth.

Environmental Practices: Environmental sustainability practices have a mean score of 6.920, with a standard deviation of 6.334. The scores range from 0.000 to 21.000, indicating significant disparities in environmental initiatives. The low average score suggests that environmental concerns are not as prominently addressed in GCC Islamic banks compared to their economic and social counterparts.

Social Practices: The social dimension has a mean score of 10.740, with a standard deviation of 3.669, and scores ranging from 6.000 to 20.000. This indicates a moderate but consistent focus on social responsibility, though less pronounced than in Malaysian and Indonesian banks. Social practices are an essential component of Islamic finance, and the relatively lower scores might reflect varying degrees of implementation across the region.

Financial Performance (ROA and ROE): The average ROA for GCC Islamic banks is 0.017, with a standard deviation of 0.005, ranging from 0.008 to 0.028. The ROE has a mean of 0.142 and a standard deviation of 0.092, with values extending from 0.057 to 0.641. These positive averages for both ROA and ROE suggest that GCC Islamic banks are relatively more profitable compared to their counterparts in Malaysia and Indonesia. The higher profitability could provide these banks with more resources to invest in sustainability initiatives.

Control Variables: The average age of the banks in the GCC sample is 29.400 years, with a standard deviation of 15.301, ranging from 8.000 to 61.000. This indicates a mix of well-established and relatively newer banks, with a tendency towards older institutions. The mean bank size is 1.440, with a standard deviation of 0.168, which is notably smaller compared to banks in Malaysia and Indonesia. The capital ratio remains constant at 0.016, indicating a uniform regulatory or reporting practice across the banks in the sample.

Islamic banks in the GCC are somewhat engaged in sustainability initiatives, according to descriptive statistics, with a focus on maintaining economic stability. The ecological considerations don't appear to be getting the weight they deserve. If this isn't already in line with global sustainability standards and the SDGs, it might be. ROA and ROE are positive, indicating that GCC banks are financially successful. This bodes well for their financial

situation, as they will have more resources to invest in sustainability initiatives. Using regional characteristics and governing environments as examples, the report highlights opportunities for GCC countries to improve their sustainable policies.

Figure 4.1 ICSP Disclosure Index of Islamic Banks

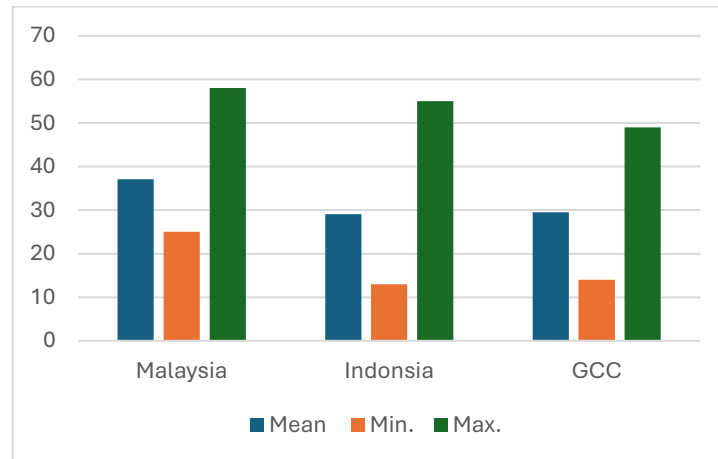


Figure 4.1 shows that Malaysian Islamic banks have the highest average ICSP scores, which means they are better at putting sustainable practices into action and getting people to use them. On the other hand, the average scores of Indonesian and GCC Islamic banks are about the same. However, Indonesia's ICSP scores vary more, which suggests that the country's sustainability practices are not always constant. In terms of average ICSP scores, the GCC area is still behind Malaysia, even though there is some variation. This study shows that Islamic banks in different parts of the world have different sustainability practices. In general, Malaysian Islamic banks do better in this area.

4.2 Correlation Analysis

Table 5's correlation matrix offers a whole picture of the links and interactions among important factors influencing the financial performance of Islamic banks spread over the GCC, Indonesia, and Malaysia. In order to understand how sustainability practices, economic factors, environmental worries, social responsibilities, and different control variables affect return on assets and return on equity, this analysis is useful.

There is a strong and positive correlation between ROA and ROE (0.59550), which means that banks that make more money from their assets also tend to make more money from their stock. There is a strong link between these two performance measures ($p < 0.01$), which suggests that they work well together. We can see that the general ICSP score is slightly related to both ROA (0.11407) and ROE (0.11184), but these links are not very strong ($p > 0.05$). This implies that while Islamic banks with stronger corporate social responsibility practices may exhibit slightly higher profitability, the effect is not robust across the board. The economic dimension exhibits a moderate positive correlation with ROA (0.45348, $p < 0.01$) and a weak positive correlation with ROE (0.19719, $p < 0.05$). This suggests that

focusing on economic sustainability practices could potentially enhance both asset and equity returns. The environmental dimension shows a weak positive correlation with ROE (0.11580), although it is not statistically significant ($p > 0.05$). Interestingly, the correlation with ROA (0.06769) is even weaker and insignificant ($p > 0.05$), indicating that environmental practices may not significantly impact asset profitability in these banks. There is a weak negative correlation between the social dimension and ROA (-0.08712) and a negligible correlation with ROE (-0.00324), both of which are not statistically significant ($p > 0.05$). This suggests that social sustainability initiatives do not strongly influence financial performance in the studied banks.

Bank age shows a weak and positive correlation with ROA (0.17099, $p < 0.05$) and a negligible correlation with ROE (-0.04875, $p > 0.05$), indicating that older banks might have slightly higher asset profitability, but this effect is not consistent across equity returns. There is also a negative correlation between bank size and ROA (-0.27112, $p < 0.01$), suggesting that larger banks may experience lower asset returns. Bank size also shows a weak negative correlation with ROE (-0.16108, $p < 0.05$), indicating a slight reduction in equity profitability for larger banks. The capital ratio exhibits a strong negative correlation with ROA (-0.51580, $p < 0.01$) and a weak negative correlation with ROE (-0.12728, $p > 0.05$). This suggests that higher capital ratios are associated with lower asset profitability, though the effect on equity returns is less pronounced.

The correlation matrix shows that while ICSP and its economic, environmental, and social dimensions are strongly correlated among themselves, they do not exhibit high correlations with the control variables (AGE, BZ, CR). This indicates that the study is not plagued by multi-collinearity issues among the independent variables, which is essential for robust regression analysis. To avoid the multi-collinearity between ICSP and its dimensions, this paper applied separate regression models. All in all, The correlation analysis underscores the complex relationship and connection between sustainability practices and financial performance in the area of Islamic banking. While economic sustainability appears to positively influence both ROA and ROE, environmental and social dimensions show weaker associations. Control variables such as bank size and capital ratio also play significant roles in shaping financial outcomes.

4.3 Estimation Method Selection

The statistical tests employed in the study, specifically the Breusch-Pagan/Cook-Weisberg tests, revealed a violation of the assumption of homoscedasticity. In simpler terms, this signifies that the variances of the error terms were not constant across the models investigated. As a consequence of this heteroscedasticity, the study opted to utilize the Ordinary Least Squares (OLS) method with Panel-Corrected Standard Errors (PCSEs) for

estimating the models presented in Tables 6, 7, 8, and 9. This selection proved to be a more robust choice compared to standard OLS, random effects, or fixed effects models. The rationale behind this decision lies in the fact that OLS-PCSEs are demonstrably more reliable, particularly when encountering data exhibiting heteroscedasticity, as identified in the present study. The application of OLS-PCSEs assists in rectifying the issue of heteroscedasticity, thereby enhancing the trustworthiness of the estimated coefficients reported in the tables (H.U Rahman et al., 2021; Beck & Katz, 1995; Jan et al., 2023).

Table 5. Correlation Matrix

Variables	ROA	ROE	ICSP	ECO	ENV	SOC	AGE	BZ	CR
ROA	1.00000 -----								
ROE	0.59550 0.00000	1.00000 -----							
CSP	0.11407 0.16450	0.11184 0.17300	1.00000 -----						
ECO	0.45348 0.00000	0.19719 0.01560	0.65139 0.00000	1.00000 -----					
ENV	0.06769 0.41050	0.11580 0.15820	0.88836 0.00000	0.44058 0.00000	1.00000 -----				
SOC	-0.08712 0.28910	-0.00324 0.96860	0.81389 0.00000	0.36849 0.00000	0.53394 0.00000	1.00000 -----			
AGE	0.17099 0.03640	-0.04875 0.55360	0.07121 0.38650	0.31408 0.00010	-0.05964 0.46850	0.05802 0.48060	1.00000 -----		
BZ	-0.27112	-0.16108	0.25918	-0.03820	0.22991	0.33318	-0.45491	1.00000	
CR	-0.51580 0.00000	-0.12728 0.12060	-0.22396 0.00590	-0.61651 0.00000	-0.11088 0.17680	-0.01829 0.82420	-0.34473 0.00000	0.38846 0.00000	1.00000 -----

4.4 Regression Analysis

Table 6. Panel Data Regression Analysis – PCSE (All)

Variable	ROA	ROA	ROE	ROE
Constant	0.05347*** (0.001194)	0.003822* (0.002049)	0.073918*** (0.016589)	0.071735** (0.03367)
ICSP	0.03547** (0.001374)	-	0.117114*** (0.037806)	-
Eco	-	0.005206* (0.002793)	-	0.089885* (0.051948)
Env	-	0.002411** (0.001498)	-	0.048572** (0.022635)
Soc	-	-0.00227 (0.00175)	-	-0.0094 (0.020262)
Age	0.000034 (0.00012)	0.000043 (0.000028)	-0.001593*** (0.000483)	-0.00166*** (0.00051)
Bank Size	-0.00042 (0.00178)	-0.00048 (0.000262)	-0.00964*** (0.003192)	-0.00841*** (0.00267)
Capital Ratio	-0.02315 (0.012628)	-0.02288 (0.015407)	-0.14846*** (0.036503)	-0.19108*** (0.055091)
Lag (ROA)	0.57816*** (0.59622)	0.570118*** (0.098275)	-	-
Lag (ROE)	-	-	0.527321*** (0.095284)	0.385631*** (0.140674)
Observation	120	120	120	120
R-squared	0.606583	0.693935	0.66546	0.749407
Prob(F-statistic)	0.0000	0.0000	0.0000	0.0000

Source: Authors' computation using E-Views 12.

Standard error values are in the parentheses()

* = Significant at 10%, ** = significant at 5%, *** = significant at 1%

The panel data regression analysis results presented in Table 6 shed light on the influences and impact of various independent variables (Islamic Corporate Social Performance - ICSP, and its dimensions: Economic, Environmental, and Social) and control variables (Age, Bank Size, Capital Ratio) on the financial performance of Islamic banks, represented by ROA and ROE. This analysis encompasses data from Islamic banks in Malaysia, Indonesia, and the GCC over a five-year period. The R-squared values for the ROA models (0.606583, 0.693935) and ROE models (0.66546, 0.749407) indicate a good fit, suggesting that the models explain a substantial portion of the variance in financial performance. The F-statistic is highly significant ($p < 0.01$) for all models, confirming the overall significance of the regression equations.

The constant term is significant in both models (ROA with ICSP and ROA with dimensions), suggesting that there are baseline levels of ROA that are not explained by the included variables. Also, ICSP exhibits a positive and significant effect on ROA (0.03547, $p < 0.05$). This indicates that enhanced Islamic sustainability performance is connected and associated with higher returns on assets, emphasizing the beneficial role of overall sustainability practices in asset profitability.

When analyzing the dimensions separately, the economic dimension shows a positive and significant relationship with ROA (0.005206, $p < 0.10$). This suggests that banks focusing on economic sustainability practices tend to achieve better asset returns. The environmental dimension also shows a significant and positive effect on ROA (0.002411, $p < 0.05$), highlighting the importance of environmental practices in enhancing asset profitability. The social dimension has a negative but not significant effect on ROA (-0.00227, $p > 0.10$), indicating that social sustainability practices do not have a notable impact on asset returns in this context.

The age of the banks does not have a significant influence or impact on ROA in either model, suggesting that the maturity of the bank does not significantly influence asset profitability. Bank size shows a negative but not significant relationship with ROA in both models, implying that larger banks may have slightly lower asset returns, though this effect is not robust. There is a negative but not significant relationship between capital ratio and ROA, suggesting that higher capital ratios might lead to lower asset profitability, but this effect is not strong. The lagged ROA variable is highly significant and positive (0.57816, $p < 0.01$; 0.570118, $p < 0.01$), indicating that past ROA performance is a strong predictor of current ROA, demonstrating persistence in asset returns.

The constant term is significant in both models (ROE with ICSP and ROE with dimensions), indicating baseline levels of ROE not explained by the variables included. ICSP has a significant and positive impact on ROE (0.117114, $p < 0.01$), suggesting that better corporate social performance correlates with higher equity returns, underlining the value of sustainability practices for shareholder returns.

The economic dimension shows a positive and significant effect on ROE (0.089885, $p < 0.10$), indicating that economic sustainability practices positively influence equity returns. The environmental dimension has a significant and positive relationship with ROE (0.048572, $p < 0.05$), reinforcing the notion that environmental practices contribute to enhanced equity profitability. The social dimension shows a negative but not significant impact on ROE (-0.0094, $p > 0.10$), similar to its effect on ROA, indicating minimal influence on equity returns.

Bank age has a negative and significant influence on ROE (-0.001593, $p < 0.01$; -0.00166, $p < 0.01$), suggesting that older banks might experience lower equity profitability. There is a significant and negative relationship between bank size and ROE (-0.00964, $p < 0.01$; -0.00841, $p < 0.01$), indicating that larger banks tend to have lower equity returns. The capital ratio shows a strong negative and significant effect on ROE (-0.14846, $p < 0.01$; -0.19108, $p < 0.01$), suggesting that higher capital ratios are associated with reduced equity profitability. The lagged ROE variable is highly significant and positive (0.527321, $p < 0.01$; 0.385631, p

< 0.01), indicating that past ROE performance is a strong predictor of current ROE, demonstrating persistence in equity returns.

Table 7. Panel Data Regression Analysis – PCSE (Malaysia)

Variable	ROA	ROA	ROE	ROE
Constant	-0.00066 (0.00583)	-0.00442 (0.005422)	-0.05017 (0.06433)	-0.07768 (0.070898)
ICSP	0.001346** (0.001386)	-	0.044308** (0.016803)	-
Eco	-	0.009075*** (0.00222)	-	0.07472** (0.034054)
Env	-	0.0031176* (0.001754)	-	0.03137** (0.028576)
Soc	-	-0.00627 (0.002333)	-	-0.02153 (0.032214)
Age	0.000643 (0.000236)	0.000129** (0.0000271)	0.000437** (0.000185)	0.000739** (0.000321)
Bank Size	-0.000436 (0.000178)	0.000897 (0.000687)	0.012204 (0.008947)	0.014704 (0.009849)
Capital Ratio	-0.0182 (0.20828)	-0.0634*** (0.0202295)	-0.44387*** (0.162544)	-0.72102*** (0.222665)
Lag (ROA)	0.552*** (0.09784)	0.309874** (0.116301)	-	-
Lag (ROE)	-	-	0.58405*** (0.065568)	0.47796*** (0.099173)
Observation	40	40	40	40
R-squared	0.541664	0.786867	0.798221	0.802022
Prob(F-statistic)	0.0000	0.0000	0.0000	0.0000

Source: Authors' computation using E-Views 12.

Standard error values are in the parentheses()

* = Significant at 10%, ** = significant at 5%, *** = significant at 1%

The panel data regression analysis for Islamic banks in Malaysia, presented in Table 7, examines the effects of Islamic Corporate Social Performance (ICSP), its dimensions include social, economic, and environmental. Furthermore, the control variables (Age, Bank Size, Capital Ratio) on the financial performance metrics: ROE and ROA. The findings provide a nuanced understanding of how sustainability practices influence financial outcomes in the Malaysian context. The R-squared values for the ROA models (0.541664, 0.786867) and ROE models (0.798221, 0.802022) indicate a good fit, suggesting that the models explain a substantial portion of the variance in financial performance. The F-statistic is highly significant ($p < 0.01$) for all models, confirming the overall significance of the regression equations.

The constant term is not significant in both ROA models, indicating that the baseline levels of ROA are not explained by the included variables. ICSP shows a positive and significant effect on ROA (0.001346, $p < 0.05$). This states that enhanced corporate social performance is associated with higher returns on assets, underscoring the value of sustainability practices for asset profitability.

The sustainability activities of the economic dimension have a positive and highly significant connection and relationship with ROA (0.009075, $p < 0.01$). This indicates that banks focusing on economic sustainability practices achieve better asset returns. The environmental dimension also demonstrates a significant and positive effect on ROA (0.0031176, $p < 0.10$), highlighting the beneficial impact of environmental practices on asset profitability. The social dimension has a negative but not significant effect on ROA (-0.00627, $p > 0.10$), indicating that social sustainability practices do not notably influence asset returns in the Malaysian context.

The age of the banks shows both a positive and significant relationship with ROA (0.000643, $p < 0.05$; 0.000129, $p < 0.05$), suggesting that older banks might achieve slightly higher asset returns. Bank size shows a negative but not significant relationship with ROA (-0.000436, $p > 0.10$), indicating that the size of the bank doesn't significantly influence asset returns. Capital ratio has a negative but not significant relationship with ROA (-0.0182, $p > 0.10$), suggesting that higher capital ratios might lead to lower asset profitability, though this effect is not robust. The lagged ROA variable is highly significant and positive (0.552, $p < 0.01$; 0.309874, $p < 0.05$), indicating that past ROA performance strongly predicts current ROA, showing persistence in asset returns.

The constant term is not significant in both ROE models, suggesting that baseline levels of ROE are not explained by the variables included. ICSP has both impact that positive and significant on ROE (0.044308, $p < 0.05$), indicating that better corporate social performance correlates with higher equity returns, emphasizing the importance of sustainability practices for shareholder returns.

The economic dimension of sustainability activities shows a positive and significant effect on ROE (0.07472, $p < 0.05$), suggesting that economic sustainability practices positively influence equity profitability. The environmental dimension exhibits a positive and significant relationship with ROE (0.03137, $p < 0.05$), reinforcing the notion that environmental practices enhance equity profitability. The social dimension shows a negative but not significant influence on ROE (-0.02153, $p > 0.10$), similar to its effect on ROA, indicating minimal influence on equity returns.

The age of the banks has a both significant and positive influence on ROE (0.000437, $p < 0.05$; 0.000739, $p < 0.05$), suggesting that older banks might experience higher equity profitability. Bank size shows a positive but not significant relationship with ROE (0.012204, $p > 0.10$; 0.014704, $p > 0.10$), indicating that larger banks might have slightly higher equity returns, although this effect is not robust. Capital ratio has a strong negative and significant effect on ROE (-0.44387, $p < 0.01$; -0.72102, $p < 0.01$), indicating that higher capital ratios are associated with reduced equity profitability. The lagged ROE variable is highly

significant and positive (0.58405, $p < 0.01$; 0.47796, $p < 0.01$), indicating that past ROE performance strongly predicts current ROE, demonstrating persistence in equity returns.

Table 8. Panel Data Regression Analysis – PCSE (Indonesia)

Variable	ROA	ROA	ROE	ROE
Constant	0.015651 (0.020675)	-0.04255 (0.046443)	0.089773 (0.023182)	-0.45487 (0.382968)
ICSP	0.005802** (0.003621)	-	0.22206*** (0.075129)	-
Eco	-	0.105839** (0.050325)	-	0.567435* (0.282276)
Env	-	0.003696* (0.012314)	-	0.004735* (0.065955)
Soc	-	-0.0476 (0.021872)	-	-0.01274 (0.077624)
Age	-0.000027** (0.00012)	-0.0000743 (0.000296)	-0.00555** (0.002477)	-0.00556* (0.003032)
Bank Size	-0.0012 (0.002412)	-0.00109 (0.003356)	-0.00515 (0.02482)	0.013981 (0.024973)
Capital Ratio	-0.01907 (0.029525)	0.038053 (0.063912)	-0.34684 (0.215163)	0.437105 (0.446109)
Lag (ROA)	0.498478*** (0.175282)	0.190164** (0.236246)	-	-
Lag (ROE)	-	-	0.082315* (0.206647)	0.176703* (0.307508)
Observation	40	40	40	40
R-squared	0.528143	0.44227	0.450793	0.384269
Prob(F-statistic)	0.000069	0.000088	0.0000	0.0000

Source: Authors' computation using E-Views 12.

Standard error values are in the parentheses()

* = Significant at 10%, ** = significant at 5%, *** = significant at 1%

The panel data regression analysis for Islamic banks in Indonesia, presented in Table 8, explores the impact of Islamic Corporate Social Performance (ICSP) and its dimensions (Economic, Environmental, Social), along with control variables (Age, Bank Size, Capital Ratio), on financial performance metrics: ROA and ROE. These insights reveal how sustainability practices influence financial outcomes in the Indonesian context. The R-squared values for the ROA models (0.528143, 0.44227) and ROE models (0.450793, 0.384269) indicate a moderate fit, suggesting that the models explain a considerable portion of the variance in financial performance. The F-statistic is highly significant ($p < 0.01$) for all models, confirming the overall significance of the regression equations.

The constant term is not significant in both ROA models, indicating that the baseline ROA levels are not explained solely by the included variables. ICSP shows a positive but also significant effect on ROA (0.005802, $p < 0.05$). This states that improved corporate social performance is associated with higher returns on assets, indicating the value of sustainability practices for asset profitability.

The economic dimension of sustainability practices has a positive and significant connection and relationship with ROA (0.105839, $p < 0.05$), suggesting that banks focusing on economic sustainability practices achieve better asset returns. The environmental dimension shows a significant and positive effect on ROA (0.003696, $p < 0.10$), indicating that environmental practices positively impact asset profitability. The social dimension has a negative but not significant effect on ROA (-0.0476, $p > 0.10$), indicating that social sustainability practices do not significantly influence asset returns in the Indonesian context.

Age shows a negative and significant relationship with ROA (-0.000027, $p < 0.05$), suggesting that older banks might achieve lower asset returns. Bank size shows a negative but not significant relationship with ROA (-0.0012, $p > 0.10$), indicating that the size of the Islamic bank does not significantly impact asset returns. Capital ratio has a negative but not significant association with ROA (-0.01907, $p > 0.10$), suggesting that higher capital ratios might lead to lower asset profitability, although this effect is not robust. The lagged ROA variable is highly significant and positive (0.498478, $p < 0.01$; 0.190164, $p < 0.05$), indicating that past ROA performance strongly predicts current ROA, showing persistence in asset returns.

The constant term is not significant in both ROE models, suggesting that baseline levels of ROE are not explained by the included variables. ICSP has a positive but also highly significant impact on ROE (0.22206, $p < 0.01$), indicating that better corporate social performance correlates with higher equity returns, emphasizing the importance of sustainability practices for shareholder returns.

The economic dimension shows both a positive and also significant effect on ROE (0.567435, $p < 0.10$), suggesting that economic sustainability practices positively influence equity profitability. The environmental dimension exhibits a positive and significant relationship with ROE (0.004735, $p < 0.10$), reinforcing the notion that environmental practices enhance equity profitability. The social dimension has a negative but not significant influence on ROE (-0.01274, $p > 0.10$), similar to its effect on ROA, indicating minimal influence on equity returns.

The age of the banks has a negative and significant impact on ROE (-0.00555, $p < 0.05$; -0.00556, $p < 0.10$), suggesting that older banks might experience lower equity profitability. Bank size shows a negative but not significant relationship with ROE (-0.00515, $p > 0.10$; 0.013981, $p > 0.10$), indicating that larger banks might have slightly higher equity returns, although this effect is not robust. Capital ratio has a negative but not significant effect on ROE (-0.34684, $p > 0.10$; 0.437105, $p > 0.10$), suggesting that higher capital ratios might be associated with reduced equity profitability, although this effect is not robust. The lagged ROE variable is significant and positive (0.082315, $p < 0.10$; 0.176703, $p < 0.10$), indicating

that past ROE performance strongly predicts current ROE, demonstrating persistence in equity returns.

Table 9. Panel Data Regression Analysis – PCSE (GCC)

Variable	ROA	ROA	ROE	ROE
Constant	-0.00139 (0.002569)	0.00343 (0.00412)	0.142325** (0.056935)	0.218737*** (0.071612)
ICSP	0.003105* (0.001647)	-	0.014198* (0.021553)	-
Eco	-	0.002427 (0.002809)	-	0.052838** (0.037465)
Env	-	0.000282 (0.001151)	-	0.031606 (0.01966)
Soc	-	0.002158 (0.002772)	-	-0.10129 (0.044449)
Age	0.0000247 (0.00016)	0.0000154 (0.0000208)	0.00748** (0.000306)	0.001304*** (0.000443)
Bank Size	-0.000313 (0.000493)	0.0000611 (0.000544)	-0.00903 (0.007381)	-0.00656 (0.006096)
Capital Ratio	0.017864** (0.007719)	0.019235 (0.008251)	-0.61001*** (0.195616)	-0.74433*** (0.208962)
Lag (ROA)	0.857144*** (0.59622)	0.85908*** (0.095406)	-	-
Lag (ROE)	-	-	0.01743*** (0.134386)	0.774197*** (0.165945)
Observation	40	40	40	40
R-squared	0.846885	0.845106	0.760921	0.767678
Prob(F-statistic)	0.0000	0.0000	0.0000	0.0000

Source: Authors' computation using E-Views 12.

Standard error values are in the parentheses()

* = Significant at 10%, ** = significant at 5%, *** = significant at 1%

The panel data regression analysis for Islamic banks in the GCC region, detailed in Table 9, investigates the influence of Islamic ICSP and its dimensions (Economic, Environmental, Social), alongside control variables (Age, Bank Size, Capital Ratio), on financial performance metrics: ROA and ROE. This analysis sheds light on how sustainability practices affect financial outcomes in GCC's Islamic banking sector. The R-squared values for the ROA models (0.846885, 0.845106) and ROE models (0.760921, 0.767678) indicate a high fit, suggesting that the models explain a substantial portion of the variance in financial performance. The F-statistic is highly significant ($p < 0.01$) for all models, confirming the overall significance of the regression equations.

The constant term is not significant in the ROA models, indicating that the baseline ROA levels are not substantially explained by the included variables. The research findings indicate that ICSP has a notable and positive impact on ROA (0.003105, $p < 0.10$), highlighting its significant influence in driving financial performance. This suggests that higher corporate social performance is linked to improved returns on assets, highlighting the importance of sustainability practices for asset profitability in GCC Islamic banks.

The economic dimension shows a positive but not significant relationship with ROA (0.002427, $p > 0.10$), suggesting that economic sustainability practices do not have a strong direct impact on asset returns. The environmental dimension exhibits a negligible and non-significant impact and effect on ROA (0.000282, $p > 0.10$), indicating that environmental practices do not significantly influence asset profitability. The social dimension has a positive but non-significant impact on ROA (0.002158, $p > 0.10$), suggesting that social sustainability practices do not substantially affect asset returns.

Age shows a positive nonetheless non-significant relationship with ROA (0.0000247, $p > 0.10$), implying that the age of the Islamic bank doesn't significantly impact and influence asset returns. Bank size shows a negative but non-significant relationship with ROA (-0.000313, $p > 0.10$), indicating that the size of the Islamic bank doesn't significantly affect asset profitability. Capital ratio has a significant and positive impact and effect on ROA (0.017864, $p < 0.05$), suggesting that higher capital ratios are associated with better asset returns. The lagged ROA variable is highly significant and positive (0.857144, $p < 0.01$; 0.85908, $p < 0.01$), indicating strong persistence in asset returns over time.

The constant term is significant in both ROE models (0.142325, $p < 0.05$; 0.218737, $p < 0.01$), suggesting that baseline levels of ROE are explained to some extent by the included variables. ICSP has both positive and significant influence and impact on ROE (0.014198, $p < 0.10$), indicating that better corporate social performance correlates with higher equity returns, reinforcing the value of sustainability activities and practices for shareholder returns.

The economic dimension shows a positive and significant effect on ROE (0.052838, $p < 0.05$), suggesting that economic sustainability practices positively influence equity profitability. The environmental dimension exhibits a positive but non-significant relationship with ROE (0.031606, $p > 0.10$), indicating that environmental practices do not substantially impact equity returns. The social dimension has a negative but non-significant impact on ROE (-0.10129, $p > 0.10$), suggesting minimal influence on equity returns.

The age of the banks has an impact on ROE both positive and significant (0.00748, $p < 0.05$; 0.001304, $p < 0.01$), indicating that older banks might experience higher equity profitability. Bank size shows a negative but non-significant relationship with ROE (-0.00903, $p > 0.10$; -0.00656, $p > 0.10$), indicating that larger banks do not significantly influence equity returns. Capital ratio has a negative and also significant effect and impact on ROE (-0.61001, $p < 0.01$; -0.74433, $p < 0.01$), suggesting that higher capital ratios are related with reduced equity profitability. The lagged ROE variable is highly significant and positive (0.01743, $p < 0.01$; 0.774197, $p < 0.01$), indicating strong persistence in equity returns over time.

4.5 Discussion of the Findings

This section discusses the key findings of our analysis regarding the impact and influence of ICSP on the financial performance of Islamic banks, measured by ROA and ROE. The study explores how these findings align with our hypotheses, previously established research, and the theoretical frameworks employed in this study.

Our findings show that ICSP positively and significantly impacts both ROA and ROE across all banks combined and separated for GCC Banks, Malaysian Banks, and Indonesian Banks. This suggests that better corporate sustainability performance correlates with higher returns on both assets and equity, which supports the two main hypotheses of this study. Moreover, this aligns with the stakeholder theory, which posits that addressing stakeholders' needs can enhance a company's market image and financial performance (Freeman, 1984). Also, the good management theory states that there's a positive feedback loop where improved sustainability leads to better and higher financial performance (Waddock and Graves, 1997). In addition, legitimacy theory by Suchman (1995) transparent sustainability reporting is crucial for maintaining legitimacy and a positive public image. This can lead to benefits like attracting new customers and investors.

Our results are consistent with previous studies demonstrating that sustainability practices are beneficial for financial performance in Islamic banks (Ebru et al., 2023; Jan et al., 2023; Ellili and Nobanee, 2022; Ghardallou, 2022; Coelho et al., 2023; Celik, I. E. 2023). Their findings indicate that ICSP is a successful technique for enhancing Islamic banks' financial performance in these nations. It is significant since banks, particularly those in developing nations, are primarily concerned with improving financial outcomes. Islamic banks are expected to be stricter and adhere to Islamic values and Shariah norms. Furthermore, the results are congruent with the Islamic philosophy and values that support ICSP because these require rich people to undertake Zakat and Sadaqah for society's welfare, particularly impoverished people (Jan et al., 2023).

The AAOIFI standard, which focuses on procedures that are market-based to solve Islamic social activities and Maqasid Al-shariah, environmental risk management, and green growth in the financial industry, aims to improve both sustainability and financial performance (Shahrier, Ho & Gaur, 2020). As a result, the financial industry appears to be more sustainable, capable of generating larger financial returns and increasing ROA, and ROE. Furthermore, because of the bank's Islamic uniqueness and identity, stakeholders are urging banks to uphold the Islamic environmental, social, and economic ideals that are required of them, rather than focusing solely on profit. This resulted in a beneficial financial impact for banks, as reflected in their statements. This led to improved sustainability performance in the banking industry, increased environmental awareness among stakeholders, and the implementation of eco-friendly business practices (Chowdhury, 2018).

When examining the sustainability practices of the economic dimension, we find a positive and significant relationship with both ROE and ROA in combined banks as well as GCC banks, Malaysian banks, and Indonesian Banks. This resonates with the provisions of stakeholder theory and good management theory postulating that those organizations which undertake economic sustainability activities reap the delights of both market and customer who are pleased to reward such measures leading to enhanced improved economic performances. Junaidi et al., (2022) posited that customers in Muslim countries might prefer Islamic banks because of the factor of economic openness as well as their compliance with the economic tenets of the Islamic principles of profit and loss sharing.

These results confirm hypotheses connected with the economic feasibility of this study and correspond with the existing literature (Yunieta et al., 2023; Attah-Botchwey et al., 2022; Jan et al., 2023; Torre et al., 2021). Many economic sustainable initiatives in Islamic banking entail consideration of ethical funding and hurling techniques (Elamin, 2023). It also results in achieving greater stability of the customer base and noted decrease in non-performing loans. Furthermore, there are possibilities of the fact that Islamic banks focusing on economic sustainability may be more operationally efficient, thus they could pass this advantage onto the consumer through the reduction of expenses and hence enhanced profitability (Aliyu et al., 2017). For instance, when Islamic banks provide funds for projects in their locality that are likely to generate high returns and therefore are likely to repay the financing, the rate of default and consequently the sick neglected assets increase hence improving the overall health of the banking institutions (Khan et al., 2017).

In turn, when Islamic banks show their concern for the aspect of economic sustainability, they are able to promote a positive perception of financial activities. This can help to pull in the right kind of customers who will endorse the new branding and who are concerned about ethical banking (Hoque et al., 2022). Also, economic sustainability best practices can help improve customer relations. The secondary stakeholder benefit is that Islamic business entities benefit the economy and the Islamic bank has certain customers they have to support therefore such business entities provide shared objectives for the Islamic banks with their customers which in turn can lead to a higher return on equity from repeat business and positive word-of-mouth (Muflih et al., 2023).

The environmental dimension also shows an impact and effect both positive and significant on ROA and ROE in all banks' data Malaysia data and Indonesia data. This aligns with the theory of stakeholder theory and good management theory suggesting that organizations that prioritize environmental sustainability activities are rewarded by customers and the market, resulting in improved financial success. In today's era of global warming and climate change, it is reasonable for the public to assign significant value to environmental protection. This demonstrates that the publication of environmental

information has increased the operational and market profitability of Islamic banks. Based on these findings, Islamic banks boost their return on assets by focusing more on environmental transparency (Buallay et al., 2021). That is to say, there is recognition of environmental principles by the stakeholders of those nations as the primary cause of enhanced efficiency, in decision-making regarding investments in those nations. This has enriched the financial sector of society and as a result of this corporations have emerging in the enhancement of their acquisition of physical and financial assets (Buallay et al., 2020).

Evidence for the hypotheses regarding environmental sustainability has been presented and the literature review indicated the supporting evidence from previous studies (Zahid et al., 2023; Bin et al., 2022; Attah-Botchwey et al., 2022; Jan et al., 2023; Bachtiar et al., 2023). From this, one can underscore and underline the significance of environmental practices as the major determinant of financial performance (Rahman et al., 2021). The outcomes have shown that the environmental sustainability performs in Islamic banking can result in overall cost savings and efficiency of resource utilization which in turn can be reflected in corresponding better performance Financial (Muhamad et al. , 2022). For instance, through the use of energy-efficient equipment and discouragement of the use of paper, Islamic banking institutions can achieve environmental-friendly operations besides cutting on costs (Miroshnychenko et al. , 2017). Besides, expanding financing sources for environmental projects can also help secure government or NGO grants and subsidies, which also contribute to the increase in profitability (Deng et al., 2022). It makes the Islamic banks socially responsible towards the environment and also can attract more deposits from customers and has better access to the capital markets thereby making the conditions of its also better (Sisdianto et al, 2023; Khan et al., 2024).

Peculiarly, there is no significant impact of the social dimension on the alteration of both ROA and ROE for all the data of banks pooled together as well as when considering only GCC, Malaysia, and Indonesia. This does not align with the theory of stakeholder theory and good management theory suggesting that organizations that prioritize social sustainability activities are rewarded by customers and the market, resulting in improved financial success. The findings are fascinating because, in spite of a high mean value of social scores across all three dimensions, nevertheless, social sustainability doesn't have a substantial impact on the financial performance of Islamic banks in the combined as well as independent analyses. The results indicate that the community either has yet to recognize Islamic banks' efforts for social sustainability practice and social welfare in these nations or expects more. This is a severe problem for all the main stakeholders; therefore, they need to investigate more and identify and resolve its core causes.

This finding does not support hypotheses related to the social sustainability dimension and contrasts with some previous studies (Gutiérrez-Ponce & Wibowo, 2023; Canh et al.,

2022; Olateju, et al., 2023), but consists with some previous studies (Salim et al., 2023; Jan et al., 2023; Gok et al., 2019; Alessandro et al., 2023; Tay, 2023; Handajani et al., 2021). These findings can explain that it's possible that social efforts by Islamic banks haven't been effectively communicated or haven't resonated with the community. Increased transparency and targeted social initiatives that directly address community needs could bridge this gap (Amran et al, 2017). Also, the financial benefits of social sustainability efforts might accrue over a longer time horizon compared to environmental practices. The study might not have captured the long-term effects if the data covered a shorter period. Moreover, accurately measuring the impact of social sustainability practices can be complex, therefore; developing a more robust social impact measurement framework could be necessary to better assess their financial contribution (Von et al., 2023; Vila et al., 2023).

Islamic banking has been criticized for social failure when addressing its mandate of acting in the interest of society (Asutay, 2012). Studies also show that Islamic banks provide restricted social responsibility as a result of the restricted disclosure of social practices and other social expenses (Hamza et al., 2022). Researches in Malaysia especially focus on the identification of the effects of Shariah non-compliance funds on the social well-being with the recommendation of concerned maintenance techniques for the Islamic Financial Institutions encouraging the primarily maintenance of social welfare along with overall stability (Lee et al., 2022). Some of the Indonesian Islamic rural banks and some of the commercial banks have displayed social failures and it was revealed that there is a need for enhancement of social results, especially concerning with the environmental and customer outcomes as the Islamic banking system advances (Hamidi & Worthington, 2021). The solution that has been put forward to try and overcome the perceived or real social flaws of Islamic banking is what has been called Islamic social banking, work that proposes the achievement of social goals in addition to the strictly financial ones (Hamidi et al, 2019; Hamidi & Worthington, 2018; Hamidi & Worthington, 2017; Nor, 2022).

From the 6 to 9 tables, the effect of ICSP on ROE is generally stronger and more consistent across different regions compared to ROA. This suggests that sustainability practices are more crucial for enhancing shareholder value than operational efficiency. Integrating sustainability into corporate strategies can significantly improve financial performance, particularly from the shareholders' perspective (Ismail et al., 2022; Clark & Viehs, 2015; Eccles et al., 2014; Gómez-Bezares et al., 2017). Furthermore, economic and environmental sustainability activities positively affect both ROA and ROE, though their impact is more pronounced on ROE. This indicates that while these factors help in better asset utilization, they are even more critical for driving returns on equity. Companies with strong sustainability practices tend to outperform their peers in terms of stock market performance, supporting the idea that economic and environmental factors are vital for

shareholder returns (Lueg & Pesheva, 2021; Przychodzen; 2013; Gómez-Bezares et al., 2016).

While the study donates and contributes to the understanding of ICSP and its impact on financial outcomes or performance, there are opportunities for further research in this area. Limited research has examined the specific association between ICSP and financial results in Islamic banking. This study is the first to explore the sustainability performance and practices of Islamic banks in GCC, Malaysia, and Indonesia together. Thus, a substantial part of the current CSR or sustainability practices research studies in Islamic banks utilize case analysis based on textual information extracted from annual reports. In these studies, it is foreseeable that the views held by Islamic banks regarding the sustainability practices they have implemented are compared to what is referred to as the best practice standard by applying Sharia standards as well as the standards of AAOIFI.

CHAPTER 5 CONCLUSION

This chapter provides the study's main findings and recommendations in terms of policies, the contribution of the study to theory, its limitations, ideas for other studies, and research directions.

5.1 Conclusion

As for the findings of this thesis, the overall research analysis aimed to ascertain the effect and significance of ICSP on the financial performance of these Islamic banks operating in the said countries of the GCC, Malaysia, and Indonesia. Therefore, in integrating the stakeholder theory, legitimacy theory, and good management theory this paper was able to develop a sound theoretical framework that could help explain how sustainability practices affect financial outcomes.

a. The overall conclusion derived from the analysis of empirical data is rather clear: ICSP has a positive impact on the financial performance of Islamic banks. Based on this, it can be concluded that more sustainable Islamic banks are more profitable since they have greater sustainability management structures and policies in place. Therefore, these results are consistent with the initial hypotheses and in support of stakeholder theory, good management theory, and legitimacy theory. Ali et al., (2022) opine that the management of stakeholder demands, and sustainable communication, can influence the creation of a favorable market image and positive growth in the level of financial performance of Islamic banks.

b. Subsequently, the disaggregate results of economic and environmental sustainability dimensions indicated the positive relationship between the selected levers and both, the ROA and ROE of all the banks and more specifically each region. This means that ethical financing, risk management, environmental disclosure, and adopting green thought have rewards for Islamic banks.

c. However, the social sustainability dimension, while valued, did not exhibit a significant direct impact on financial metrics, suggesting that social efforts by Islamic banks might not be well-communicated or haven't yet translated into clear financial benefits and the need for more targeted and effectively communicated social initiatives.

Descriptive and correlation analyses underscored the variability in sustainability practices across regions, with Malaysian banks showing a particularly strong commitment to both economic and environmental sustainability. Indonesian banks, while demonstrating potential, faced challenges in profitability, which may hinder their sustainability efforts. GCC banks exhibited robust financial performance, driven significantly by economic sustainability practices.

Hence, this research supports the idea that efficient sustainability strategies can benefit the financial results and performance of Islamic banks as well as improve the global sustainability objectives and Shari'ah standards. Besides, this alignment contributes to the socio-economic development of areas where they are implemented thus enhancing the sustainability of the banking industry in these regions.

5.2 Policy Implications & Recommendations

The findings of this study have significant policy implications, emphasizing the need for regulatory frameworks that encourage and support sustainability practices in Islamic banking; For example:

- a. In the provision of support to sustainability policies; governments and regulating authorities in GCC, Malaysia, and Indonesia should encourage and set policy direction for the Islamic banks to incorporate, promote, and report on sustainability activities. These could be in the form of tax exemptions, awards, and subsidies for banks with excellent sustainability records.
- b. Furthermore, while incorporating sustainability into banking regulations; sustainability must be made compulsory right from the center of Islamic banking regulations. This entails incorporating environmental and social risks in the lending services and the investment processes.
- c. Moreover, improved clarity over compliance reporting standards; Sustainability reporting is one more important area in which the regulators should set strict codes for Islamic banks to report the bank's influence and impacts of its operations on the environment, economy, and society in the most detailed and transparent manner possible. This may include developing checklists for the disclosure of ICSP and executing banker training on sustainable finance. This would increase accountability and the ability of other stakeholders to make sound decisions.
- d. Due to the fact that social sustainability has a negligible influence on financial performance according to this investigation, policymakers should encourage programs that would make an improvement to the quality of life of communities served by the Islamic banks. This could include opens with non-profit organizations, community developments, and social investment funds that specific programs in regard to the needy in society.
- e. In addition, Islamic banks need to pay attention to environmental sustainability activities because such have a way of boosting financial performance. This encompasses the use of green technology, the provision of green finance as well as the aim of achieving low-carbon economies.
- f. Thus, the so-called 'Islamic economic sustainability' indicators should remain important for Islamic banks, which should accent on shariah and ethical financing, risk management,

and the creation of a community-centered economic environment. This can meet the Islamic law requirement and can impact a business's performance in the long run.

g. For Islamic scholars, they should furnish more specific elaboration for implementing the principles of sustainable development into the processes of Islamic banking. This could entail providing fatwas that promote sustainability in the financing and investment business.

h. Also, governance in Islamic banks should carry on with training and developing their staff's capacity for sustainability. This would mean that sustainability would be affairs deeply in the organization that makes up the bank serving to support the implementation of the sustainability frameworks well.

i. Businesses or banks can effectively integrate sustainability into their core strategies by adopting several key practices. These include developing sustainable product lines, leveraging green technologies, and implementing comprehensive CSR or sustainability programs. Additionally, organizations should align their sustainability goals with their overall strategic objectives to ensure consistency and impact. By embedding sustainability into the core business model, companies can enhance their competitive positioning and drive long-term profitability

5.3 Theoretical Contribution

The following theoretical implications are considered in this study to advance the knowledge of sustainability and the financial performance of Islamic banking.

a. Some of them are; first, Integration of multiple theories; by integrating good management theory, stakeholder theory, and legitimacy theory, this study offers a good framework through which the link between financial performance and sustenance practices in Islamic banks can be properly established. Based on the scenario the roles and significance of the stakeholder theory in Islamic banking are amplified.

b. The second is empirical evidence in ICSP: This research contributes empirical literature and findings on the positive impact of Islamic CSP on financial performance and is a scarce resource in the Islamic banking literature. This pertains to economic and environmental sustainability, though it also explores a few issues with social sustainability candidly.

c. This study contributes to the theoretical literature by considering financial performance from the management and shareholders' view. From the policyholder's perspective, it improves overall comprehension of sustainability practice on the financial performance and discusses the relationship between ICSP and the financial performance in a developing economy by dissecting the financial performance metrics from the lenses of the management and the shareholders.

d. Moreover, it provides a regional perspective; the study provides a useful regional perspective that sheds light on Islamic banks' sustainability activities and practices in the

GCC, Malaysia, and Indonesia. It highlights the variations and commonalities across these regions, contributing to a more nuanced understanding of how regional contexts influence and affect sustainability and financial performance.

e. For the methodological contribution, the study operationalizes the concept of Islamic corporate sustainability practices by developing a measurement framework based on Islamic principles and the SDGs. The ICSP index which was developed by (Jan et al., 2023) contributes to a more nuanced understanding and thoughtful of how Islamic banks can integrate sustainability into their operations through three dimensions. Also, unlike Jan this study uses a (0,1,2) scale for the content analysis of the index items.

f. Lastly, the use of descriptive statistics, correlation analysis, and regression analysis provides a robust methodological approach to studying the impact of sustainability practices on financial performance. This approach can be replicated in future studies to further explore this relationship in different contexts.

5.4 Limitations and Future Research Opportunities

The lack or absence of standardized public reporting about sustainability by Islamic banks limited the sample size of this study. Big data methodologies could be employed in future research to analyze environmental, social, economic, and financial factors. The study analyzed data for a five-year period. Thus, future research could extend the timeframe to capture the potential long-term effects of social sustainability practices. The study focused on 30 Islamic banks., so expanding the sample size to include banks from other regions could provide a more comprehensive picture. In addition, the study's findings suggest that the impact of social sustainability practices is not as pronounced as environmental and economic practices. Future research could develop more nuanced measures of social sustainability to better capture its impact on financial performance.

According to this study's results, a future research direction could involve examining the need for core and directly offered environmental, social, and both green products also green services within the context of Islamic banking. When more data becomes accessible, additional studies could pay attention to how present standards and regulations influence performance and the level of productivity and efficiency with which banks adhere to sustainability standards. The scope of future studies could be broadened to encompass not only financial institutions and banks but also the broader environment and sustainable development influenced by existing Sharia-based sustainability regulations. This would offer a more in-depth and detailed understanding of the environmental, social, and economic context.", potentially revealing areas where stakeholder awareness can be improved. By presenting well-founded information, such research can prompt stakeholders to adopt more responsible and sustainable practices. All in all, this study underscores the importance of

sustainability practices in enhancing the financial performance of Islamic banks. It provides valuable insights for policymakers, practitioners, and researchers, contributing to the ongoing discourse on sustainability in the banking sector.

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Appendix

Table 10. Brief of Previous Research

Author	Main Variables	Data & Method	Main Findings
(Gutiérrez-Ponce and Wibowo, 2023)	Dependent variables were return on equity, return on asset, and Tobin's Q (TQ) Independent variables were Environmental activities (ENVI), Governance activities (GOV), and social activities (SOC)	Panel data analysis using the ESG data from Thomson Reuters The statistical correlations and regression models were used for analysis.	ESG is negatively related to the financial performance of Indonesian banks. The social pillar has a positive effect on ROE and ROA.
(Zahid et al., 2023)	Dependent variable: Financial performance (Tobin's Q ratio) Independent variables: ESG practices (formative factor, reflective factors: environmental, social, governance)	Data collected from selected banks in Pakistan from their annual reports The method used includes t-test and regression analysis to analyze the impact of ESG practices on financial performance	In the pre-COVID-19 period, ESG practices positively impacted the financial performance of banks. Environmental sustainability was ignored during the COVID-19 period, which negatively affected financial outcomes.
(Salim et al., 2023)	The dependent variable was non-performing loans (NPL) to measure Bank stability. Independent variables: Corporate environmental performance, corporate social performance	Panel dataset of 473 banks in 74 countries used for analysis. Robust econometric specifications are used to test the relationship between variables.	Corporate environmental performance (CEP) is negatively related to bank stability. Corporate social performance (CSP) does not have a significant relationship with bank stability.
(Jan et al., 2023)	Dependent: Financial Performance (ROA, ROE)	Data: Panel data for 12 Islamic banks in Indonesia and 16	Islamic corporate sustainability practices positively impact financial performance in Indonesian

	Independent: Islamic Corporate Sustainability Practices	Islamic banks in Malaysia (2009–2018) Method: Content analysis then Panel corrected standard errors regression technique	and Malaysian Islamic banks. Variations exist in results across environmental, economic, and social dimensions.
(Bachtiar and Nainggolan, 2023)	Dependent variables: Financial performance (capital adequacy ratio, non-performing loans, net interest margin), ESG performance Independent variable: Sustainability financing	The study uses panel data regression and logistic binary regression. The data includes financial performance and ESG rating as secondary data.	The distribution of sustainable financing has a positive influence on financial performance. Distribution of sustainable financing improves ESG performance.
(Mohd., 2023)	Dependent variable: Financial performance of banks indicators Independent variable: Corporate Social Responsibility (CSR) practices	The study uses a causal and cross-sectional model. The impact of CSR practices on financial performance is examined.	Banks focus on community and farmers' welfare programs. A significant difference between the CSR practices of private and public sector banks.
(Aydođan and Kara, 2023)	Dependent variable: Financial performance indicators Independent variable: Corporate sustainability practices	Data: 58 firms were included in the Borsa Istanbul (BIST) Sustainability Index between 2015 and 2021. Method: System Generalized Method of Moments (system GMM) estimator.	Positive connection between corporate sustainability practices and financial performance indicators Sustainability investments affect market value more and faster than return on assets
(Alessandro et al., 2023)	Dependent variable: Financial performance (NPM, ROA, ROE)	The study analyzes KBMI 4 banks and their financial	There is a correlation between ESG scores and financial performance.

	Independent variable: ESG score	performance from 2017 to 2021. The study examines the correlation between ESG scores and financial performance indicators.	ESG and financial performance indicators do not have a significant relation.
(Tay, 2023)	Dependent variable: Financial performance (ROE) Independent variable: Sustainability practices (FTSE Russell ESG ratings)	Text mining was used to analyze sustainability reports. The top ten sustainability-related words were identified and mapped to UN SDGs.	Organizations with higher ESG ratings and FTSE Russell have higher transparency in their reporting. No relationship was statistically significant between ESG ratings & FTSE Russell and ROE.
(Ghardallou, 2022)	Dependent: Financial Performance (Tobin-Q, ROA, ROE) Independent: Corporate Sustainability	Data was collected from the annual reports and Bloomberg database of 34 Saudi publicly traded companies. Methodology used to investigate the impact of corporate sustainability on firm performance.	Firms engaged in corporate social responsibility practices have better financial performance. CEO education and tenure positively moderate the relationship between CSR and business performance.
(Rahman et al., 2022a)	Dependent variable: Firm Financial Performance (Tobin's Q, ROE) Independent variables: Women directors, Sustainability Committee; independent directors, board size.	In 35 different sectors on the Pakistan stock exchange the population of 581 non-financial companies listed The content analysis from the sustainability, CSR, and annual	Women directors, independent directors, and board size have an impact on firm financial performance. The presence of a sustainability committee also affects firm financial performance.

		reports of the sample firms from 2012 to 2016 for 5 years The study uses a unique method to analyze the relationship between these variables.	
(Rahman et al., 2022b)	Dependent variable: Corporate Sustainability (CS) and Firm Financial Performance (ROE, SMP) Independent variable: Integrated Management System (IMS)	Data was collected through content analysis from 2011 to 2016 of 23 top companies listed in the real estate and construction industry in Bursa Malaysia Employed ordinary least squares (OLS) and two-stage least squares (2SLS) for analysis.	The integrated management system is a positive and significant predictor of corporate sustainability (CS) and all of its dimensions. Corporate sustainability (CS) mediates the relationship between IMS and firm financial performance.
(Muchiri et al., 2022)	Dependent variable: Financial performance of financial institutions (measured as net profit after tax) Independent variables: Ethical CSR activities, gender-mainstreaming activities, charitable activities	Primary data was collected through questionnaires administered in person to selected employees. Regression analysis correlation analysis and hypothesis testing using SPSS software version 20.0	The study revealed a robust, positive correlation between CSR practices and the financial performance of financial institutions.
(Canh et al., 2022)	Dependent variable: Financial performance (ROA) Independent variable: Corporate social	The study uses content analysis to collect data about the CSR index from annual reports of	The findings specify that overall CSR disclosure has a negative effect on firm performance, with environmental

	responsibility (CSR) disclosure	Vietnamese-listed companies The study uses a Fixed effects model and System Generalized Method of Moments for analyzing	responsibility exerting a significant detrimental influence. Social responsibility has a minimal but favorable impact on financial performance.
(Ellili and Nobanee, 2022)	Dependent variable: Banking performance (interest income) Independent variables: Sustainability disclosure, economic disclosure, social disclosure, environmental disclosure	Content analysis of annual reports was used to measure sustainability disclosure. Dynamic panel regression was applied to analyze the impact on banking performance.	The levels of sustainability disclosure in the UAE banks were low. Sustainability disclosure has a both positive and significant influence on bank performance.

Table 11. Islamic Sustainability Practices Index by (Jan et al., 2023)

Dimensions	Items, Measuring Scale (0 = Not reported, 1 = semi-reported, 2 = fully-reported), their Aligning SDGs
Economical	1. Profit portion based on Shariah principles guidelines: Reporting whether the total profit allocated adheres to Shariah guidelines (aligned with SDG 10, sub-goal 10.3)
	2. Islamic banks Zakat Payment: Reporting how much amount of paid Zakat (aligned with SDGs 1, 2, 3, 4, 6, 7, 10, 15)
	3. an investment that has been screening for Shariah: Including a statement on Shariah compliance in investment screening (aligned with SDG 16, sub-goal 16.6)
	4. Community project investment: Reporting how much amount invested in community projects (aligned with SDG 11)
	5. Qard-e-Hassan: Reporting the total amount of Qard-e-Hassan given (aligned with SDGs 1, 2, 3, 4, 6, 7, 10, 15)
	6. Shariah forbids disclosing earnings: Recording the total amount of earnings forbidden by Shariah (aligned with SDG 16, sub-goal 16.6)
	7. Sadaqah, Almsgiving, and Waqaf: Reporting how much amount given as Waqaf and Sadaqah (aligned with SDGs 1, 2, 3, 4)
	8. Local suppliers purchasing: Detailing the total expenditure on purchases from local suppliers (aligned with SDGs 10, 12)
Environmental	9. Emission: Reporting the percentage reduction in CO2 emissions (aligned with SDGs 13, 15)
	10. Islamic bank effort of energy and reduction and conservation: Reporting the total amount or units of energy-reduced and conserved (aligned with SDG7)
	11. The spending overall on Environmental issues: Reporting the total amount of the environmental budget (aligned with SDGs 13, 14, 15)
	12. The used and recycled materials by Islamic banks: Reporting the overall quantity of materials recycled (aligned with SDG 12)
	13. Cleaning of waste and effluents: Reporting the overall quantity of effluents or waste cleaned (aligned with SDGs 12, 13, 15)
	14. Biodiversity: Including a statement on biodiversity (aligned with SDGs 14, 15)
	15. Compliance with Islamic laws for the environment: Reporting compliance with Islamic environmental laws (aligned with SDGs 13, 14, 15)
	16. Initiatives and practices for water recycling by Islamic banks: Reporting the amount of water that is recycled in gallons (aligned with SDG 6)
	17. Unveiling of green services and goods: Reporting the quantity and number of services launched and green products (aligned with SDGs 13, 14, 15)

	18. Direct a portion of funds towards environmentally responsible groups: Reporting the overall amount of quota funding for environmentally friendly groups (aligned with SDGs 13, 15)
	19. Contributions for green awareness and environmental education campaigns: Reporting the overall amount donated to raise environmental awareness (aligned with SDGs 13, 14, 15)
Social	20. New employment generation: Reporting the overall number of employees that are newly hired (aligned with SDG 8)
	21. Diversity and Equality: Reporting progress on diversity and gender equality (aligned with SDG 5)
	22. Protection of local communities: Reporting initiatives taken to support local communities (aligned with SDGs 1, 2, 3, 4, 5, 7)
	23. Scholarships: Reporting the overall number of provided scholarships to disadvantaged and needy people (aligned with SDG 4, sub-goal 4B)
	24. Islamic banking education for the staff: Reporting the overall number of staff educated in Islamic banking (aligned with SDG 4, sub-goal 4B)
	25. Islamic training for the staff: Reporting the overall number of training sessions provided and educated to staff (aligned with SDG 4, sub-goal 4B)
	26. health and safety at work: Reporting about workplace safety programs initiated (aligned with SDG 10)
	27. Child labor protection: Reporting the development or continuation of child labor protection policies (aligned with SDG 10)
	28. Forced labor protection: Reporting the development or continuation of forced labor protection policies (aligned with SDG 10)
	29. Indigenous peoples' rights: Reporting the development or continuation of policies promoting Indigenous people's rights (aligned with SDGs 5, 10)
	30. Human rights: Reporting the overall number of solved cases related to human (aligned with SDG 10)
31. Labelling of services and products: Providing a Shariah-compliant statement on services and product labeling (aligned with SDG 16)	
32. Actions towards anti-corruption for building a culture of integrity: Reporting the overall number of actions taken against fraud and corruption (aligned with SDG 8)	

The accompanying table depicts the literature on Islamic banks' ICSP index. The index approximately characterizes three phases. In the initial step, it searched for Islamic sustainability practices articles in the literature and categorized them according to sustainability features. In the following stage, a scale of new measurement for each item was implemented. In the last phase, the predicted impact and influences of the new item were assessed using a suitable SDG. To accomplish the three phases listed above, the study used the ECA Method (Jan et al. 2019; Jan et al. 2021). This new index, designed to

measure Islamic corporate sustainability performance based on Islamic principles, consists of 32 indicators. It breaks down into eight for economic well-being, eleven for environmental responsibility, and thirteen focused on social impact, all considering Islamic values. The creators hope this index will achieve three goals: firstly, to precisely assess how sustainable Islamic businesses are; secondly, to guarantee Islamic banks are aligned with the UN's SDGs; and lastly, to support GCC, Malaysian, and Indonesian Islamic banks on their path to sustainable growth, ultimately helping them achieve their aim of becoming fully developed nations. For reliability and validity of the index see (Jan et al. 2023).

The alignment of ICSP with SDGs is crucial for promoting global sustainable development. ICSP items come in the Maqasid al-Shariah, inherently support the achievement of SDGs by emphasizing social justice, economic stability, and environmental stewardship (Jan et al. 2021). For instance, ICSP's focus on ethical investments aligns with SDGs 11 and 16, while its emphasis on environmental conservation items supports SDGs 13 and 15. This alignment underscores the potential of Islamic banking to contribute significantly to global sustainability efforts. To read more about the alignment see (Jan et al. 2021).