

Environmental, Social, And Governance (ESG) Practices and *Maqasid Al-Shari'ah* in Islamic Banks: The Moderating Role of *Shari'ah* Compliance

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Abstract

*This study examines the relationship between Environmental, Social, and Governance (ESG) practices and the achievement of *Maqasid al-Shari'ah* in Islamic banks, with particular emphasis on the moderating role of *Shari'ah* compliance. Although ESG principles share strong ethical and normative foundations with the higher objectives of Islamic law, questions persist regarding the extent to which Islamic banks translate this alignment into substantive socio-economic outcomes beyond formal *Shari'ah* compliance. The growing global prominence of ESG has therefore renewed debates on whether Islamic banking institutions genuinely fulfil their moral, social, and developmental mandate. Despite this relevance, existing literature lacks an integrated conceptual framework that systematically explains how ESG practices contribute to *Maqasid al-Shari'ah* and how *Shari'ah* governance mechanisms influence this relationship. Adopting a qualitative and descriptive research design, the study employs document analysis to synthesize scholarly literature on ESG practices, *Maqasid al-Shari'ah*, Islamic banking, sustainable finance, and *Shari'ah* governance. The findings reveal a strong conceptual convergence between ESG practices and the core objectives of *Maqasid al-Shari'ah*, particularly in advancing sustainable development, social justice, ethical governance, and public welfare (*maṣlahah*). Crucially, the study demonstrates that effective *Shari'ah* governance through robust supervisory boards, compliance mechanisms, and accountability structures moderates and enhances the impact of ESG practices on *Maqasid* outcomes. Based on these insights, the paper proposes an integrated conceptual framework that positions *Shari'ah* compliance as a key moderating variable in the ESG–*Maqasid* relationship within Islamic banks. The study recommended that Islamic banks and regulators move beyond narrow product-level compliance by embedding ESG principles into institutional governance, strategic decision-making, and performance measurement systems. The proposed framework contributes theoretically to Islamic finance literature and provides a foundation for future empirical research across diverse regulatory and institutional contexts.*

Keywords: ESG practices, *Maqasid al-Shari'ah*, Islamic banks and *Shari'ah* governance.

1. Introduction

The growing concern for sustainability and social responsibility has led to increased attention to environmental, social, and governance (ESG) practices. ESG practices refer to the standards and policies

that organizations adopt to manage their environmental impact, social responsibilities, and governance structures in a manner that promotes long-term value creation and ethical accountability. Within

the context of Islamic finance and business, ESG practices exhibit strong conceptual alignment with *Maqasid al-Shari'ah* (the higher objectives of Islamic law), which seek to protect and promote five essential values: life, faith, intellect, lineage, and wealth. *Maqasid al-Shari'ah* represents the underlying objectives and wisdom of *Shari'ah* rulings, aimed at safeguarding public interest (*maṣlahah*) and preventing harm (*mafsadah*). Accordingly, any action that enhances societal welfare and mitigates harm is consistent with the objectives of *Shari'ah*. In Islamic finance, *Maqasid al-Shari'ah* plays a central role in guiding financial decisions with moral insight, ensuring that economic activities are not only *Shari'ah*-compliant (*halal*) but also wholesome (*tayyib*) and ethically constructive (Al-Qaradāwī, 2022).

Both ESG practices and *Maqasid al-Shari'ah* emphasize human responsibility toward society and the environment, advocating ethical conduct, accountability, and stewardship in business activities. They share a normative understanding that economic institutions should operate for the collective good of humanity by prioritizing social justice, environmental preservation, and sound governance. Islamic banking principles, rooted in divine revelation, inherently incorporate ethical and moral dimensions that resonate strongly with ESG standards. Financial activities are therefore expected to uphold justice, transparency, and social responsibility while serving broader societal interests. The integration of ESG principles within Islamic banking promotes a holistic approach to corporate responsibility that encompasses environmental sustainability, equitable wealth distribution, and responsible governance, thereby reinforcing the higher objectives of *Shari'ah*.

However, Islamic banking extends beyond the mere delivery of *Shari'ah*-compliant

financial products and is intrinsically expected to advance public welfare, uphold social justice, and prioritize collective socio-economic interests over short-term profit maximization. Contemporary studies emphasize that Islamic banks are mandated to internalize ethical responsibility, social inclusion, and developmental objectives in their operations, reflecting the broader objectives of *Shari'ah* (Hassan, Aliyu & Huda, 2023; AAOIFI, 2024). Given these distinctive mandates, recent scholarship argues that conventional financial performance indicators are insufficient to capture the holistic mission of Islamic banks, thereby necessitating a more comprehensive and sustainability-oriented performance measurement framework (Khan & Bhatti, 2023). In this context, ESG-based evaluation has gained increasing relevance, as it systematically assesses institutional performance across environmental, social, and governance dimensions that directly affect long-term stability, ethical conduct, and societal impact. Empirical evidence from recent studies indicates that ESG metrics effectively complement traditional financial analysis by revealing non-financial risks, governance quality, and social value creation that are often overlooked by conventional accounting measures, particularly within Islamic financial institutions (Abdul-Rahman et al., 2024; Zhou & Wong, 2025).

Despite the apparent conceptual compatibility between ESG practices and *Maqasid al-Shari'ah*, the effectiveness of ESG implementation in Islamic banks largely depends on the strength and quality of *Shari'ah* compliance. *Shari'ah* compliance serves as a critical institutional mechanism that ensures ESG practices are not merely symbolic or driven by market trends, but are genuinely aligned with Islamic ethical objectives. Through *Shari'ah* supervisory boards, compliance

frameworks, internal controls, and accountability mechanisms, *Shari'ah* governance influences how ESG principles are interpreted, implemented, and monitored within Islamic banks. In the absence of effective *Shari'ah* governance, ESG initiatives may remain superficial, focusing on reputational gains rather than substantive *Maqasid* outcomes. Therefore, *Shari'ah* governance plays a moderating role by strengthening, directing, and legitimizing the impact of ESG practices on the achievement of *Maqasid al-Shari'ah*.

Against this background, this study examines the relationship between ESG practices and *Maqasid al-Shari'ah* in Islamic banking, with particular emphasis on the moderating role of *Shari'ah* compliance. It seeks to explore how ESG practices contribute to the realization of Islamic socio-economic objectives and to propose a conceptual framework that explains this relationship. The remainder of the paper is structured as follows. Section two reviews the relevant literature on *Maqasid al-Shari'ah*, ESG practices, *Shari'ah* governance, and their intersection within Islamic banking. Section three presents the proposed conceptual framework and outlines the theoretical relationships among ESG practices, *Shari'ah* governance, and *Maqasid al-Shari'ah* achievement. Section four discusses the expected outcomes and theoretical implications of the framework. Finally, Section five concludes the paper by highlighting key contributions, policy implications for Islamic banks and regulators, and directions for future empirical research.

2. Review of Related Literature

2.1 *Maqasid al-Shari'ah*

Maqasid al-Shari'ah refers to the higher objectives and underlying wisdom of Islamic law aimed at promoting human well-being, justice, and societal harmony.

Classical Islamic jurists conceptualized *Maqasid* as the protection and promotion of essential human interests. Al-Ghazali categorized these objectives into five essentials: protection of faith (*hifz al-din*), life (*hifz al-nafs*), intellect (*hifz al-'aql*), progeny (*hifz al-nasl*), and wealth (*hifz al-mal*), further classified into necessities (*daruriyyat*), needs (*hajiyyat*), and embellishments (*tahsiniyyat*) (Abdul Rasool, 2020). Ibn Ashur (2006) expanded this framework by emphasizing moral order, social justice, and collective welfare as central aims of *Shari'ah*. In contemporary Islamic finance discourse, *Maqasid al-Shari'ah* provides a normative benchmark for evaluating whether Islamic financial institutions genuinely contribute to socio-economic development rather than merely complying with legal formalities.

2.2 *Maqasid al-Shari'ah* and Islamic Banking

Islamic banking is expected to operationalize *Maqasid al-Shari'ah* by promoting justice, equitable wealth distribution, financial inclusion, and ethical conduct. Unlike conventional banking, Islamic banks are mandated to prioritize public interest (*maslahah*) over excessive profit maximization and to consider the broader socio-economic implications of their activities (Julia & Kassim, 2019). Empirical studies increasingly show that *Maqasid*-oriented banking enhances legitimacy and stakeholder trust. Saad and Fisol (2019) argue that effective alignment between management practices, *Shari'ah* governance, and ethical objectives is essential for Islamic banks to achieve *Maqasid* outcomes. Recent evidence suggests that Islamic banks with explicit *Maqasid*-based strategies demonstrate stronger social outreach and ethical performance compared to those focusing narrowly on *Shari'ah* compliance (Hassan et al., 2023).

2.3 ESG Practices in Islamic Banking

Environmental, social, and governance (ESG) practices have emerged as a comprehensive framework for assessing firms' sustainability, ethical responsibility, and long-term value creation. In Islamic banking, ESG principles resonate strongly with *Maqasid al-Shari'ah*, as both frameworks emphasize stewardship, justice, accountability, and social welfare. The ESG framework evaluates institutions across three dimensions: environmental responsibility, social engagement, and governance quality. Bursa Malaysia (2022) highlights that ESG indicators provide measurable proxies for sustainability and ethical performance, which are often absent in traditional financial metrics. The integration of ESG practices within Islamic finance aligns Islamic banks with global sustainability agendas such as the Sustainable Development Goals (SDGs), while remaining consistent with *Shari'ah* objectives (Nasir & Seman, 2022).

2.4 ESG Practices and *Maqasid al-Shari'ah*

2.4.1 Environmental Practices and *Maqasid al-Shari'ah*

Environmental responsibility directly supports the *Maqasid* objectives of protecting life (*hifz al-nafs*) and wealth (*hifz al-mal*) by preserving natural resources and mitigating environmental harm. Islamic principles of stewardship (*khilafah*) and trust (*amanah*) require financial institutions to promote sustainable use of resources. Empirical evidence supports this linkage. Sendi (2024) finds that environmental ESG practices positively influence the financial stability and long-term resilience of Islamic banks. Similarly, studies show that Islamic banks engaging in green financing and environmentally responsible investments contribute to sustainable development while reinforcing *Maqasid*-based outcomes.

H1: Environmental practices have a positive and significant effect on the achievement of *Maqasid al-Shari'ah* in Islamic banks.

2.4.2 Social Practices and *Maqasid al-Shari'ah*

Social practices including financial inclusion, fair labor policies, *zakat* distribution, *waqf* financing, and community development are strongly aligned with the *Maqasid* objectives of protecting faith, intellect, dignity, and social justice. These practices reflect Islamic finance's ethical mandate to reduce inequality and promote human welfare. Empirical studies consistently identify the social pillar as the strongest ESG dimension in Islamic finance. Boudawara et al. (2023) report that Islamic banks exhibit superior social ESG performance due to embedded mechanisms such as *zakat* and *Shari'ah*-mandated charitable activities. Agustin et al. (2023) further confirm that social responsibility enhances market confidence and stakeholder legitimacy.

H2: Social practices have a positive and significant effect on the achievement of *Maqasid al-Shari'ah* in Islamic banks.

2.4.3 Governance Practices and *Maqasid al-Shari'ah*

Governance practices are central to *Maqasid* achievement, particularly in safeguarding wealth (*hifz al-mal*) and lineage (*hifz al-nasl*) through transparency, accountability, and ethical oversight. In Islamic banks, governance extends beyond conventional mechanisms to include *Shari'ah* Supervisory Boards (SSBs), compliance audits, and ethical risk management. Empirical evidence demonstrates that strong governance structures enhance ESG and *Maqasid* outcomes. Boudawara et al. (2023) find that high-quality *Shari'ah* governance significantly improves ESG performance, especially in governance and social dimensions. Effective governance reduces

opportunistic behavior and ensures that ESG initiatives are genuinely aligned with Islamic ethical values.

H3: Governance practices have a positive and significant effect on the achievement of *Maqasid al-Shari'ah* in Islamic banks.

2.5 Moderating Role of *Shari'ah* Compliance

In Islamic banking, *Shari'ah* compliance serves as a moderating variable that influences the strength and effectiveness of the relationship between environmental, social, and governance (ESG) practices and the achievement of *Maqasid al-Shari'ah*. Unlike a mediating variable, which transmits the effect of independent variables to the dependent variable, a moderating variable conditions or amplifies the impact of ESG initiatives on *Maqasid* outcomes (Boudawara, et'al 2023; Hilman & Nur Aslamah, 2025). By ensuring that ESG practices are aligned with Islamic legal and ethical principles, *Shari'ah* compliance strengthens the ability of Islamic banks to translate sustainability and ethical initiatives into measurable social, economic, and environmental benefits consistent with *Maqasid* objectives (Mohd Zain, Yahya, & Hassan, 2024). *Shari'ah* compliance is operationalized through *Shari'ah* Supervisory Boards (SSBs), internal *Shari'ah* audit mechanisms, policies, and regulatory oversight, which collectively ensure that ESG initiatives are authentic, ethically grounded, and oriented toward public interest rather than symbolic or reputational purposes (Sulistiyowati & Anam, 2025). Banks with robust *Shari'ah* compliance frameworks are more effective in implementing ESG practices that preserve life, intellect, lineage, wealth and faith, thereby operationalizing the *Maqasid-al-Shari'ah*. Conversely, weak compliance may reduce the ethical integrity of ESG initiatives, limiting their contribution to societal welfare and sustainable development (Agustin,

Mulyana, & Rahman, 2023). Empirical studies confirm that *Shari'ah* compliance enhances the effectiveness of ESG initiatives, particularly in governance and social dimensions, by reinforcing accountability, transparency, and ethical decision-making (Zhou & Wong, 2025; Abdul-Rahman, Sulaiman, & Masron, 2024). Therefore, *Shari'ah* compliance functions as a critical moderating mechanism, ensuring that ESG practices meaningfully contribute to *Maqasid* achievement rather than serving as symbolic or regulatory obligations.

H4: *Shari'ah* compliance positively moderates the relationship between environmental practices and *Maqasid al-Shari'ah* achievement.

H5: *Shari'ah* compliance positively moderates the relationship between social practices and *Maqasid al-Shari'ah* achievement.

H6: *Shari'ah* compliance positively moderates the relationship between governance practices and *Maqasid al-Shari'ah* achievement.

2.6 Empirical Literature Review

Hilman and Nur Aslamah (2025) evaluated the *Shari'ah* governance and ESG performance: Evidence from Islamic financial institutions, the study used panel data from Islamic banks in Indonesia (2016–2022) analyzed with structural equation modeling (SEM-PLS). The results revealed that *Shari'ah* governance positively influences ESG implementation, particularly in operationalizing governance and social ESG practices. The study provides empirical support for the argument that effective governance mechanisms enhance ESG outcomes in Islamic banks.

Shalhoob (2025) investigated ESG disclosure and financial performance: Survey evidence from accounting and Islamic finance, explored how ESG disclosure practices affect stakeholder perceptions and institutional performance

in 350 respondents from Saudi Arabia's Islamic finance sector. Using quantitative survey methods and regression analysis, the findings indicate that ESG disclosure, aligned with *Maqasid al-Shari'ah* principles, is positively associated with corporate governance quality, risk management, and stakeholder trust, highlighting the practical value of ESG in achieving *Maqasid* objectives.

Sulistiyowati and Anam (2025) conducted "Implementation of environmental social governance (ESG) on sustainable financing from perspective of *Maqashid Shari'ah*: Study on *Shari'ah* banks," using a mixed-methods approach combining document analysis of sustainability reports and interviews with *Shari'ah* compliance officers in Indonesian Islamic banks. The study found that integrating ESG practices into bank operations strengthens environmental stewardship, social welfare initiatives, and ethical governance, demonstrating that ESG practices operationalize *Maqasid al-Shari'ah* principles effectively when guided by *Shari'ah* governance mechanisms.

Boudawara et al (2023) investigated the *Shari'ah* governance quality and environmental, social and governance performance in Islamic banks: A cross-country evidence Using panel data from 66 Islamic banks across 14 countries over the period 2015–2019. The study employed a Heckman two-stage regression model to control for selection bias. The results reveal that higher *Shari'ah* governance quality particularly attributes of the *Shari'ah* supervisory board such as expertise, independence, and size has a positive and statistically significant effect on overall ESG performance, with stronger effects observed in the social and governance pillars than in the environmental dimension.

Usman and Yusoff (2023), examined the effect of *Shari'ah* governance on performance of fully fledged Islamic banks

in Africa," used panel data from Islamic banks across multiple African countries (2015–2021) and applied dynamic panel regression analysis. The results showed that banks with stronger *Shari'ah* governance frameworks exhibited higher financial and non-financial performance, including better ethical compliance and social responsibility. This evidence supports the moderating role of *Shari'ah* governance, reinforcing the effectiveness of ESG practices in contributing to *Maqasid al-Shari'ah* objectives.

2.7 Theoretical Lens: Value-Based Intermediation and Stakeholder Perspective

This study is anchored in the Value-Based Intermediation (VBI) framework, complemented by Stakeholder Theory and Institutional Theory, to explain how ESG practices contribute to the achievement of *Maqasid al-Shari'ah* in Islamic banking. The VBI framework emphasizes that Islamic banks should operate not merely as financial intermediaries but as institutions that create value for the economy, society, and environment in alignment with *Maqasid* objectives (AIBIM, 2022; Mohd Zain, Yahya, & Hassan, 2024). By adopting VBI, this study moves beyond the traditional compliance-focused perspective, highlighting how Islamic banks can translate ethical principles into measurable operational outcomes through ESG initiatives, thus promoting long-term sustainability, financial inclusion, and socio-economic welfare.

Stakeholder Theory further justifies the inclusion of ESG practices by framing Islamic banks as accountable to a broad spectrum of stakeholders, including depositors, employees, regulators, communities, and the environment (Freeman et al., 2023; Hilman & Nur Aslamah, 2025). From this perspective, ESG practices are not only compliance mechanisms but also strategic tools for balancing competing stakeholder interests,

ensuring that *Maqasid* principles such as justice (*'adl*), public welfare (*maslahah*), and harm prevention (*dar' al-mafasid*) are operationalized in banking decisions. Empirical studies demonstrate that integrating stakeholder considerations enhances bank legitimacy, trust, and social impact, which aligns directly with the *Maqasid*-oriented mission of Islamic finance (Boudawara, Toumi, Wannas, & Hussainey, 2023).

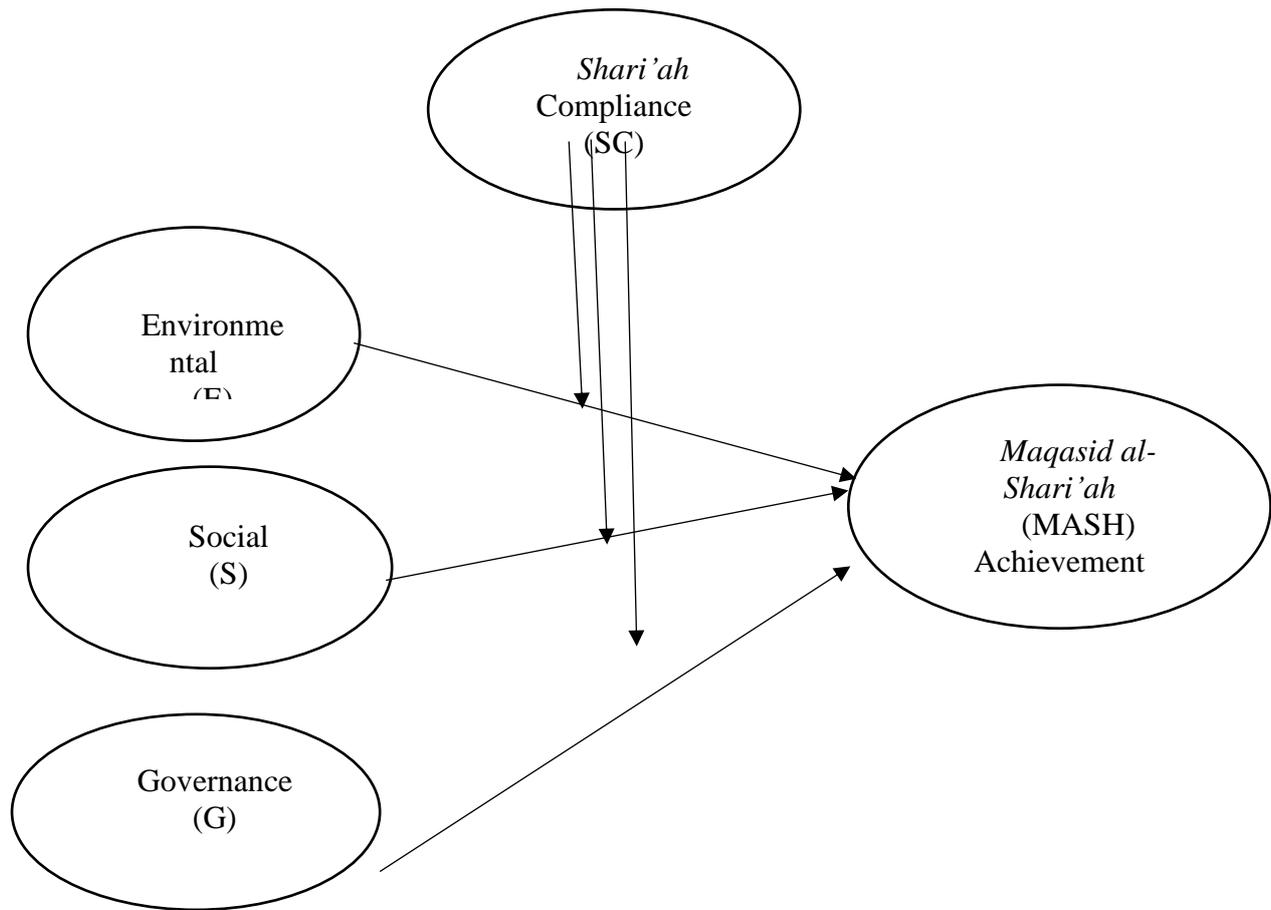
Institutional Theory complements the above by explaining variations in ESG adoption and effectiveness across Islamic banks. This theory posits that regulatory pressures, *Shari'ah* governance structures, and societal norms shape institutional behavior and encourage conformity to ethical and sustainability standards (Zhou & Wong, 2025; Sulistyowati & Anam, 2025). In this context, *Shari'ah* compliance functions as an institutional force, moderating the relationship between ESG practices and *Maqasid* outcomes. Banks with strong *Shari'ah* governance are more likely to implement ESG initiatives authentically and in alignment with Islamic ethical objectives, while weak governance may reduce the effectiveness of ESG practices in achieving *Maqasid* goals (Agustin, Mulyana, & Rahman, 2023).

Together, these three theoretical lenses provide a robust, multi-dimensional foundation for understanding how ESG practices can operationalize *Maqasid al-Shari'ah*. VBI offers the overarching framework for value creation, Stakeholder Theory ensures accountability to broader societal interests, and Institutional Theory explains the moderating role of *Shari'ah* governance in reinforcing ethical and sustainable outcomes within Islamic banks.

2.8 Research Framework

This study investigates the impact of environmental, social, and governance (ESG) practices on the achievement of *Maqasid al-Shari'ah* (MASH) in Islamic

banks. The central research question is: *How do ESG practices influence the achievement of Maqasid al-Shari'ah in Islamic banks?* The study seeks to identify ESG practices adopted by Islamic banks, examine their relationship with *Maqasid al-Shari'ah*, and develop a conceptual framework to guide future empirical testing. In this framework, the dependent variable is *Maqasid al-Shari'ah achievement*, reflecting the extent to which Islamic banks fulfill the higher objectives of *Shari'ah*, including preservation of faith, life, intellect, progeny, and wealth. The independent variables are Environmental (E), Social (S), and Governance (G) practices, representing operational ESG initiatives within Islamic banking. *Shari'ah* compliance (SC) serves as a moderating variable, influencing the strength and effectiveness of the relationship between ESG practices and MASH achievement. Strong *Shari'ah* compliance ensures that ESG initiatives are ethically aligned with Islamic principles, while weak compliance may reduce their impact. This framework provides a structured basis for empirical investigation, allowing researchers to test how each ESG dimension contributes to MASH and how *Shari'ah* compliance strengthens these relationships, thereby linking operational practices with normative *Maqasid* objectives. The proposed conceptual framework is illustrated as follows:



3. Methodology

This study adopts a conceptual empirical research design, where a theoretically grounded framework is developed through systematic literature synthesis and subsequently positioned for future empirical validation. This approach is appropriate because the research area the relationship between ESG practices and *Maqasid al-Shari'ah* in Islamic banks, and the moderating role of *Shari'ah* governance is still emerging, requiring a solid theoretical model before large-scale quantitative testing can be undertaken (Agustin et al., 2023; Boudawara et al., 2023). At this stage, the study does not empirically test hypotheses; rather, it proposes a structured model that can be examined in future quantitative studies involving Islamic banking institutions. The conceptual framework is developed

through an extensive review and synthesis of prior literature on environmental, social, and governance (ESG) practices, *Maqasid al-Shari'ah*, value-based intermediation, and *Shari'ah* governance (Sulistyowati & Anam, 2025; Shalhoob, 2025). By integrating insights from Islamic jurisprudence and sustainability-oriented finance, the framework posits that ESG practices constitute institutional mechanisms through which Islamic banks operationalize *Maqasid al-Shari'ah* objectives (Mohd Zain et al., 2024). Consistent with the theoretical arguments advanced in environmental, social, and governance practices are treated as explanatory variables, *Maqasid al-Shari'ah* achievement as the outcome variable, and *Shari'ah* compliance as a moderating institutional condition that shapes the strength of ESG–*Maqasid* relationships. *Shari'ah* compliance is

conceptualized as a moderator because it conditions the effectiveness of ESG practices in achieving *Maqasid* outcomes rather than acting as a causal pathway (Hilman & Nur Aslamah, 2025). To enable empirical validation, the study specifies a testable econometric model that reflects the proposed hypotheses:

$$\text{MASH} = \beta_0 + \beta_1 E + \beta_2 S + \beta_3 G + \beta_4(\text{ESC}) + \beta_5(\text{SSC}) + \beta_6(\text{GSC}) + \varepsilon$$

Where:

MASH = *Maqasid al-Shari'ah* achievement

E = Environmental practices

S = Social practices

G = Governance practices

SC = *Shari'ah* compliance

β_0 = Intercept

β_1 - β_6 = Coefficients

ε = Error term

The proposed model offers a clear roadmap for future empirical studies. Researchers may operationalize ESG practices using disclosure indices, sustainability ratings, or survey-based measures (Shalhoob, 2025), while *Maqasid al-Shari'ah* achievement can be assessed through established *Maqasid*-based performance indicators (Agustin et al., 2023). *Shari'ah* compliance may be measured through *Shari'ah* governance quality, characteristics of *Shari'ah* Supervisory Boards, or compliance indices (Boudawara et al., 2023; Hilman & Nur Aslamah, 2025). By clearly distinguishing between conceptual development and empirical testing, this study ensures methodological coherence while providing a robust foundation for future quantitative investigation across diverse Islamic banking contexts.

4. Results and Discussion

Based on the conceptual analysis and synthesis of prior literature, this study finds that environmental, social, and governance (ESG) practices are strongly aligned with the objectives of *Maqasid al-Shari'ah* and serve as effective institutional mechanisms for operationalizing the ethical and socio-

economic mandate of Islamic banks (Agustin et al., 2023; Boudawara et al., 2023). The findings indicate that ESG practices do not operate in isolation but are intrinsically linked to the higher objectives of *Shari'ah*, which prioritize public welfare, justice, and holistic human well-being.

Environmental practices are found to support the *Maqasid* objectives of protecting life (*hifz al-nafs*) and wealth (*hifz al-mal*). Activities such as financing green projects, promoting sustainable resource management, and reducing environmental degradation operationalize the Islamic principles of stewardship (*khalāfah*) and accountability (Sulistiyowati & Anam, 2025). By mitigating environmental risks and preserving natural resources, Islamic banks contribute to both long-term economic resilience and societal well-being, demonstrating that environmental ESG initiatives are not merely compliance activities but essential elements for fulfilling *Maqasid*-aligned goals (Shalhoob, 2025).

Social ESG practices show the strongest alignment with *Maqasid al-Shari'ah*, particularly in advancing justice, human dignity, and social welfare. Practices such as financial inclusion, equitable labor policies, zakat and waqf distribution, and community development initiatives reflect the ethical and socio-economic principles embedded in Islamic finance (Agustin et al., 2023; Shalhoob, 2025). The literature consistently shows that Islamic banks tend to perform better in the social dimension of ESG due to the institutionalization of social responsibility within Islamic financial principles. These findings suggest that social practices are central to achieving *Maqasid*-oriented outcomes such as protection of faith (*hifz al-din*) and intellect (*hifz al-'aql*), highlighting the practical impact of socially responsible banking on societal development (Mohd Zain et al., 2024).

Governance practices are found to be critical in ensuring that ESG initiatives are effectively translated into *Maqasid al-Shari'ah* outcomes. Strong governance structures characterized by transparency, accountability, board effectiveness, and robust *Shari'ah* supervisory mechanisms enhance institutional integrity and safeguard stakeholder interests (Boudawara et al., 2023; Hilman & Nur Aslamah, 2025). Empirical evidence demonstrates that good governance facilitates credible, sustainable, and ethical ESG implementation, ensuring that the objectives of protecting wealth (*hifz al-mal*) and maintaining social order are achieved. Governance quality, therefore, functions as an enabling condition for realizing the *Maqasid*, reinforcing the idea that ESG practices alone are insufficient without strong institutional oversight.

Finally, *Shari'ah* compliance is found to moderate the relationship between ESG practices and *Maqasid al-Shari'ah* achievement. Islamic banks with strong *Shari'ah* governance frameworks are more capable of ensuring that ESG initiatives are authentically aligned with Islamic ethical objectives, rather than serving purely symbolic or reputational purposes (Usman & Yusoff, 2023; Hilman & Nur Aslamah, 2025). The literature suggests that the presence of rigorous *Shari'ah* compliance enhances the effectiveness of environmental, social, and governance practices in achieving the higher objectives of *Shari'ah*, including societal welfare, justice, and accountability.

Collectively, these findings support the proposed conceptual framework, confirming that ESG practices when implemented in conjunction with robust governance and *Shari'ah* compliance mechanisms can serve as practical pathways for operationalizing *Maqasid al-Shari'ah* in Islamic banking. The study highlights the interconnected nature of ESG dimensions, institutional governance,

and ethical compliance in achieving *Shari'ah*-aligned socio-economic objectives, emphasizing the need for Islamic banks to integrate sustainability and ethics at both strategic and operational levels.

5. Conclusion and Recommendation

This study conceptually examined the relationship between environmental, social, and governance (ESG) practices and the achievement of *Maqasid al-Shari'ah* in Islamic banks. Recognizing that Islamic banking has often prioritized formal *Shari'ah* compliance over substantive socio-economic impact, the study developed an integrative framework linking ESG practices to *Maqasid*-oriented outcomes through value-based intermediation, stakeholder theory, and institutional theory. The analysis demonstrates that ESG practices offer a practical and measurable means for Islamic banks to operationalize their ethical and developmental mandate. Specifically, environmental practices support the preservation of life and wealth, social practices advance justice, human dignity, and social welfare, and governance practices enhance transparency, accountability, and institutional integrity core objectives of *Maqasid al-Shari'ah*. The study further finds that *Shari'ah* compliance plays a critical moderating role, strengthening the effectiveness of ESG practices in achieving *Maqasid* outcomes and ensuring that sustainability initiatives are genuinely aligned with Islamic principles rather than symbolic or compliance-driven. By proposing a testable conceptual empirical model, this study contributes to Islamic finance literature by bridging the gap between normative *Maqasid* theory and contemporary ESG frameworks, providing a coherent foundation for future empirical research and a practical guide for Islamic banks, *Shari'ah* boards, and regulators

seeking to enhance the sector's social and environmental impact.

Based on the conceptual insights of this study, it recommended that Islamic banks systematically integrate environmental, social, and governance (ESG) principles into their core governance structures, strategic decision-making, and performance measurement systems to enhance the achievement of Maqasid al-Shari'ah. Banks should strengthen ESG disclosure and reporting by explicitly linking sustainability initiatives to Maqasid-based outcomes, thereby improving transparency, accountability, and stakeholder confidence. Shari'ah Supervisory Boards should expand their oversight beyond product compliance to include ESG performance, ensuring that initiatives genuinely promote public interest (*maslahah*) and prevent harm (*mafsadah*). Regulators and standard-setting bodies, such as AAOIFI and IFSB, are encouraged to develop harmonized guidelines that integrate ESG practices with Maqasid al-Shari'ah, facilitating consistency and comparability across Islamic financial institutions. Finally, future research should empirically test the proposed framework using survey, case study, or panel data across different institutional and regulatory contexts to identify the ESG dimensions most effective in advancing Maqasid-oriented outcomes in Islamic banking.

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