

IMPLEMENTATION OF ESG (ENVIRONMENTAL, SOCIAL, GOVERNANCE) IN ISLAMIC BANKS: A CRITICAL AND STRATEGIC REVIEW

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Article Info

Received: May 15, 2025

Revised: May 27, 2025

Accepted: June 15, 2025

Online Version: June 30, 2025

Abstract

This study aims to examine the implementation of Environmental, Social, and Governance (ESG) principles in the operations of Islamic banks in Indonesia. In the context of increasing demands for sustainable financial practices, this research is crucial to assess the extent to which ESG principles can be integrated with the core values of Shariah that underpin the Islamic banking system. The objectives of this study are to analyse the current application of ESG, identify existing challenges, and formulate implementation strategies aligned with *maqashid shariah* (the higher objectives of Islamic law). A qualitative phenomenological approach was employed to explore the perceptions, experiences, and perspectives of industry stakeholders. Data were collected through in-depth interviews, participant observations, and document analysis involving three major Islamic banks in Indonesia, regulatory authorities, and academics with expertise in Islamic economics and sustainability. The findings reveal that ESG implementation within Indonesian Islamic banks remains partial and lacks systemic integration. Environmental and social aspects have yet to become strategic components of institutional policy-making, while governance practices do not explicitly incorporate ESG indicators. Several factors contribute to this condition, including the absence of binding regulatory frameworks, limited awareness of ESG principles, and a lack of internal capacity to understand and operationalise ESG effectively. This study concludes that a reformulation of ESG strategies grounded in *maqashid shariah* is essential to ensure that sustainability principles and Islamic ethical values are harmoniously embedded within Islamic banking governance. Consequently, Islamic banks will not only enhance their competitiveness but also contribute meaningfully to holistic and sustainable development.

Keywords: Environmental, Governance, Social



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Journal Homepage <https://journal.zmsadra.or.id/index.php/ijie>

How to cite: Alif, Y. S., Fitri, S. R., & Pertiwi, H. P. (2025). Implementation of ESG (Environmental, Social, Governance) in Islamic Banks: a Critical and Strategic Review. *Al-Muwazanah: Indonesian Journal of Islamic Economics*, 1(1), 13–25. <https://doi.org/XX.XXXXX/ijie.v1i1.1420>

Published by: Yayasan Zia Mulla Sadra

INTRODUCTION

Islamic banks as financial institutions based on Islamic principles have broader moral and social responsibilities than conventional banks (Djamil, 2023). Not only pursuing financial profit, Islamic banks are expected to be pioneers in realizing a fair, sustainable, and ethical economic system. In a global context that increasingly demands sustainable business practices, the ESG (Environmental, Social, Governance) principle is an important reference in assessing the performance of financial institutions (Protugus dkk., 2025). However, the implementation of ESG in Islamic banks in Indonesia still faces several challenges. Among them are the absence of specific ESG standards based on Islamic principles, low institutional awareness of the importance of ESG, and limited data and reporting infrastructure (Roni dkk., 2025). This condition raises questions about the extent to which Islamic banks can apply ESG principles consistently and strategically, and how the compatibility between ESG and Islamic principles can be integrated into bank operations. This problem is important to study in depth considering the strategic position of Islamic banks in supporting sustainable economic development based on Islamic values.

Previous studies have highlighted the importance of implementing ESG in the financial sector as an instrument to improve reputation, competitiveness, and long-term sustainability (Jeon & Yang, 2025; Meng dkk., 2024). However, in the context of Islamic banks, the available literature is still limited and has not fully addressed the complexity of the challenges faced. Several theories of corporate governance and sustainability tend to be generic and have not comprehensively considered the sharia dimension. Models such as the triple bottom line or stakeholder theory are often used as references, but their application in Islamic banks requires adjustments to values such as maqasid al-shariah, distributive justice, and the prohibition of usury. This inconsistency indicates a theoretical gap that requires the development of an ESG framework that is by sharia principles. Therefore, it is important to review the existing literature and identify unfilled theoretical spaces to provide a solid foundation for the development of Islamic ESG practices in Islamic financial institutions.

This study aims to critically analyze the implementation of Environmental, Social, and Governance principles in the operations of Islamic banks in Indonesia. This analysis includes the identification of existing forms of ESG implementation and the extent to which ESG integration is by Islamic principles. In addition, this study also aims to identify the obstacles and challenges faced by Islamic banks in implementing ESG, both in terms of regulation, organizational structure, and institutional culture. By understanding these challenges, it is hoped that relevant strategies can be formulated that are on Islamic values to effectively integrate ESG into Islamic bank governance and policies. This strategy not only focuses on fulfilling social and environmental responsibilities but also on achieving Islamic objectives

(*maqasid al-shariah*) holistically. The objectives set in this study are applicable and strategic to strengthen the role of Islamic banks as agents of change towards sustainable finance based on Islamic ethics.

The urgency of this research is based on the fact that although ESG has become a global trend in financial management, there is still a significant gap in its implementation in the Islamic banking sector (Hasan dkk., 2024; López-Penabad dkk., 2024). The existence of ESG principles should not only be considered as an adaptation to market demands, but as an integral part of Islamic ethics that emphasize social justice, environmental protection, and trustworthy governance. With this foundation, this research is important to answer critical questions about how ESG can be operationalized within the framework of Islamic values. The fact that ESG adoption is low in Indonesian Islamic banks and the absence of standard guidelines that accommodate Islamic principles further strengthens the argument that this research is needed. Referring to the research objectives, the hypothesis proposed is that effective ESG implementation that is in line with Islamic principles can increase public trust and strengthen the competitiveness of Islamic banks in the long term. Therefore, this research contributes to the development of more strategic and sustainable policies.

The Environmental concept in the ESG framework refers to all aspects related to the environmental impact of an entity's activities, including in the banking context (Korzeb dkk., 2024; Liang dkk., 2025; Oliver Yébenes, 2024). This dimension emphasizes the institution's responsibility for environmental preservation through practices that reduce carbon footprints, manage waste sustainably, and maintain the sustainability of natural resources. In the financial sector, especially banking, ecological aspects are often articulated through investment and financing policies that pay attention to sustainability, such as green financing or support for the renewable energy industry (Cromwell & Peprah, 2025; Del Sarto, 2025; Sarath Chandran, 2024). The main objective of the Environmental aspect is to create a financial system that supports economic growth without sacrificing environmental quality (Arjun dkk., 2024; Javed & Rapposelli, 2024; Zhang dkk., 2024). Therefore, banks as financial intermediary institutions are expected to play an active role in encouraging environmentally friendly business practices, both directly through internal operations and indirectly through sustainability-oriented financing. In the context of Islamic banks, the Environmental principle is in line with Islamic values that encourage the preservation of nature as part of the mandate that must be maintained (Mohiuddin, 2024; Urio, 2024).

The manifestation of the Environmental aspect in Islamic banking practices can be categorized into several main activities that demonstrate a commitment to environmental preservation. First, in internal operations, Islamic banks can implement energy efficiency policies, reduce paper use, and environmentally friendly waste management systems (Khan dkk., 2024; Siswanti dkk., 2024). Second, in financing activities, Islamic banks can develop a green financing portfolio such as funding for renewable energy, organic farming, or clean water management projects (Duarte Santos, 2021). Third, banks can adopt the principle of environmental risk assessment in the feasibility test process for financing projects, so that only projects that do not damage the environment receive funding support (Joosen, 2024; van den Hurk & van der Klooster, 2024). Fourth, banks can participate in environmental reporting and audit programs as part of public transparency (Fülbier & Sellhorn, 2023; Héroux & Fortin, 2024). In the context of sharia, these categories must remain based on the values of *maslahah* and *tawazun* (balance), which emphasize the importance of benefits for society and harmony between humans and nature. This categorization shows that the Environmental aspect of ESG is not only globally relevant but also in principle compatible with Islamic values.

The Social aspect in the ESG framework refers to how an institution interacts with society, employees, consumers, and other stakeholders ethically and equitably. In the banking world, the social dimension includes the treatment of workers, financial inclusion, consumer protection, and the bank's social contribution to community development. The values in this

aspect prioritize equality, social justice, respect for human rights, and empowerment of vulnerable groups. In Islamic banks, the Social principle has a very important place because it is in line with Islamic values such as justice (*al-'adl*), compassion (*rahmah*), and mutual assistance (*ta'awun*). The concept of society in Islam is also reflected in mechanisms such as zakat, waqf, and card hasan which aim to distribute welfare fairly and comprehensively. Therefore, the social dimension in ESG is not only a tool for measuring the social performance of institutions, but also a reflection of the morals and social responsibility that Islamic banks must have.

The manifestation of the Social aspect in Islamic banks can be seen in various programs and policies that reflect a commitment to social welfare and community empowerment (Leong dkk., 2024). First, Islamic banks are often involved in corporate social responsibility (CSR) programs that are oriented towards the education, health, and economic development of the poor. Second, financial inclusion is an important focus through the provision of financial products that are easily accessible to all levels of society, including MSMEs and underserved communities. Third, internal banks can implement fair employment practices, including providing decent wages, protecting labour rights, and developing employee capacity through ongoing training. Fourth, banks are also expected to maintain honest and transparent communication with customers and provide protection for consumer data and rights. Within the framework of Islamic values, all forms of these manifestations must be based on sincere intentions and *maslahah* goals, namely to provide broad benefits to society. Thus, social practices in ESG become a means of actualizing Islamic values in the modern banking world.

The Governance aspect in ESG refers to the corporate governance system that ensures that institutions are managed transparently, accountably, and ethically. Good governance includes organizational structure, decision-making processes, internal control systems, and regulatory compliance. In the context of Islamic banks, Governance has an additional dimension, namely compliance with Sharia principles through the existence of the Sharia Supervisory Board (SSB) which is tasked with supervising and ensuring that every product and service is by Islamic law. The concept of governance in Islam does not only emphasize formal legal compliance, but also moral and spiritual, which requires bank managers to be trustworthy, honest, and responsible. Thus, the Governance aspect in Islamic banks is a combination of modern corporate governance and Islamic ethical principles. This definition places Governance not merely as an internal control tool, but as a main pillar in maintaining the integrity of the institution and public trust.

Manifestations of good governance in Islamic banks can be identified through various structural and procedural mechanisms that support transparency, accountability, and sharia compliance. First, the existence of a clear governance structure, including an audit committee, a risk committee, and a Sharia Supervisory Board, which work independently to oversee the performance and compliance of the institution. Second, the implementation of a transparent reporting system through the publication of annual reports, sustainability reports, and Sharia compliance reports that are easily accessible to the public. Third, the implementation of an integrated and prudent-based risk management system, including sharia risk assessments. Fourth, the implementation of a code of ethics and business conduct guidelines that require all employees to act honestly and professionally. In the context of Islam, all forms of these manifestations are aimed at achieving *amanah* and *istiqamah* in managing institutions, so that good governance is not only a means of business efficiency, but also an effort to maintain *maqasid al-shariah* through institutions with integrity.

RESEARCH METHOD

This study focuses on Islamic banks as the main object of study, considering their role as financial institutions that not only pursue economic profit but also uphold ethical and sustainability values that are in line with Islamic principles. As Sharia-based institutions, Islamic banks are expected to integrate sustainability values reflected in the ESG (Environmental, Social, Governance) principles. However, the reality of ESG implementation in Indonesian Islamic banks shows various challenges, such as the unavailability of ESG standards that are contextualized within the Sharia framework, minimal institutional awareness of the urgency of ESG, and limited data infrastructure and sustainability reporting. This condition raises doubts about the consistency and strategy used by Islamic banks in implementing ESG comprehensively. Therefore, this study focuses on exploring the meaning and understanding of this phenomenon, which is an important foundation for developing a strategic model based on Islamic values and global sustainability principles.

This study uses a qualitative approach with a phenomenological method to deeply understand the experiences and meanings of actors and stakeholders regarding the implementation of ESG in Islamic banks. The phenomenological approach was chosen because it can explain the meaning of an event experienced by individuals or groups in a certain context, namely the implementation of ESG in Islamic financial institutions. The types of data used consist of primary data and secondary data. Primary data were obtained through in-depth interviews with informants from various backgrounds that are relevant to ESG issues in Islamic banks. Meanwhile, secondary data were collected from relevant literature, such as academic journals, policy documents, sustainability reports, and publications from financial authorities and Islamic institutions related to the Environmental, Social, and Governance dimensions. This combination of data aims to provide a holistic picture of the reality of ESG implementation in the Islamic banking sector in Indonesia.

Participants in this study were selected purposively based on their involvement and relevance to the topic of ESG in Islamic banking. There are three main groups of informants who are used as primary sources of information. First, internal parties of Islamic banks including risk managers, Sharia compliance divisions, and corporate social responsibility (CSR) teams from three major Islamic banks in Indonesia. This group was selected to understand how ESG is translated into internal operational policies and practices of banks. Second, supervisory and regulatory authorities such as representatives from the Financial Services Authority (OJK) and the National Sharia Council-Indonesian Ulema Council (DSN-MUI), play a role in forming ESG compliance regulations and standards in the context of Sharia. Third, academics and Islamic economic experts focus on sustainability and ESG in the Islamic financial system. These participants contribute to forming theoretical and critical perspectives on the challenges and opportunities for ESG integration in the Islamic financial system.

Data analysis in this study uses the Miles and Huberman model which includes three main stages: data reduction, data presentation, and drawing and verifying conclusions. Data reduction is done by selecting relevant information from interviews, observations, and documentation. The reduced data is then presented narratively for further analysis, especially in identifying patterns, themes, and relationships between concepts. The final stage is drawing temporary conclusions which are then verified through a triangulation process and discussion between researchers. Data validity is tested through four criteria: credibility, transferability, dependability, and confirmability. Data are analyzed phenomenologically by interpreting the meaning of the informants' experiences of ESG implementation in Islamic banks. The analysis process is also carried out reflectively and iteratively, where each interview result is evaluated and updated to explore the deep and essential meaning of the phenomenon being studied.

RESULTS AND DISCUSSION

Based on the results of interviews with internal parties of Islamic banks, it was obtained that most Islamic banks in Indonesia do not yet have specific policies that explicitly regulate environmentally friendly financing. Informants stated that although there are green financing initiatives, they are generally still limited to the renewable energy sector and have not touched on other sectors that are also related to environmental sustainability. The results of observations of annual reports and bank policies show that only a small number of banks include environmental indicators in their sustainability reports. The documentation analyzed, such as sustainability reports and Sharia guidelines, also indicates that there are no ESG reporting standards that are integrated with maqashid Sharia. Most of the focus of internal policies still emphasizes compliance with fiqh law, without developing a strategic approach to environmental responsibility. This fact illustrates that the ecological dimension has not become an integral part of strategic governance in Islamic banks.

An explanation of the data findings on the environmental dimension shows that there is a gap between institutional awareness of environmental issues and their practical implementation at the bank's operational level. Informants from the CSR and risk management teams stated that green financing initiatives are still incidental and not supported by a strong and comprehensive policy framework. The observation results added that the absence of an ESG roadmap in the bank's strategic documents resulted in a lack of clear direction in achieving long-term environmental goals. In addition, the documentation analyzed also showed that reporting on environmental aspects had not been prioritized, and was not carried out in a structured manner based on indicators that were relevant to ESG and sharia. Thus, it can be concluded that the environmental dimension is still treated as an additional element (add-on) in the bank's operations, not as a core component of the business strategy.

The relationship between descriptive and explanatory data on the environmental dimension with the research problem shows that the absence of specific ESG standards in the Sharia context is the main obstacle to environmental integration in Islamic banks. The low institutional awareness of the importance of environmental aspects, as reflected in interviews and observations, supports the initial hypothesis that ESG has not been implemented consistently and strategically. The absence of an ESG reporting and planning structure strengthens the argument that environmental aspects have not become a managerial priority. In addition, the lack of involvement of the maqashid sharia principle in the preparation of environmental policies indicates a lack of internalization of Islamic values in the sustainability practices of Islamic banks. Thus, the problems raised in this study find a strong foothold in the field findings, especially in the environmental dimension.

The social dimension in ESG implementation in Islamic banks shows that corporate social responsibility (CSR) activities are still dominated by short-term and non-strategic philanthropic activities. Based on the results of interviews with informants from the CSR division, the social activities carried out are more in the form of providing funds for disaster relief, scholarships, and socio-religious activities without any measurable social impact indicators. Observations of annual reports show that reporting of CSR activities is not explicitly linked to ESG social objectives, and does not reflect integration with long-term business strategies. Internal policy documentation also strengthens this finding, where there is no social policy that integrates aspects of community empowerment or social inclusion as part of a sustainability strategy. This shows that the social dimension has not been operationalized systematically and strategically within the ESG framework in Islamic banks.

An explanation of the social dimension shows that the orientation of Islamic banks towards social responsibility is still normative and symbolic. Informants from the managerial sector admit that CSR activities are carried out more because of external demands or regulations, rather than as part of a long-term strategic commitment. The lack of stakeholder involvement in the planning and evaluation of social programs indicates a lack of participatory

approach in the implementation of the social ESG dimension. Observations of documents show the absence of social impact evaluation standards, which makes it difficult to measure CSR activities' contribution to sustainability. Overall, this indicates that the approach to social responsibility is not yet in line with ESG principles that emphasize long-term impacts, stakeholder involvement, and integration with corporate governance.

The relationship between empirical data on the social dimension and research problems indicates that the integration of social aspects into ESG has not been fully realized in the practice of Islamic banks. The dominance of short-term philanthropic activities shows that ESG has not been used as a strategic reference in the bank's social policy. The lack of strategic documentation and the lack of stakeholder involvement in social activities support the finding that the social dimension does not yet have a clear roadmap or framework. Thus, this field data strengthens the initial conclusion in the study that limited data, infrastructure, and strategic awareness are the main obstacles to implementing ESG, especially in the social aspect which should reflect the values of humanity and justice in Islam.

The governance dimension in Islamic banks shows that Sharia governance has been implemented quite strictly, especially in ensuring compliance with fiqh principles. Informants from the compliance division stated that the Sharia supervision structure has been implemented through the supervision of the Sharia Supervisory Board (SSB) in each bank. However, field findings show that governance aspects related to ESG, such as transparency of ESG indicators, climate risk reporting, and socio-environmental accountability, have not been implemented explicitly. Based on observations, stakeholder involvement in strategic decision-making related to ESG is still limited and tends to be centred at the managerial level. The internal documentation reviewed also shows that sustainability reports do not cover ESG governance indicators in detail, and there is no systematic reporting mechanism regarding environmental and social risks.

The explanation of the governance dimension shows that although sharia supervision is running functionally, the implementation of ESG governance has not been included in the bank's internal policy framework. Informants from regulatory authorities emphasized that there are no technical guidelines that direct Sharia banks to report ESG risks in a structured manner. The absence of ESG transparency and accountability indicators in financial reports and sustainability reports shows a gap between existing governance practices and the governance principles promoted by ESG. In addition, observations of the decision-making mechanism show that the process has not accommodated the principle of inclusivity, especially in involving customers and communities as important stakeholders. This indicates that governance in Sharia banks is still focused on conventional Sharia compliance, and has not shifted towards broader sustainability governance.

The relationship between governance data and research problems shows that governance in Islamic banks has not yet touched on ESG aspects comprehensively. Too much emphasis on fiqh compliance has resulted in aspects of sustainability and socio-environmental responsibility not getting space in the governance structure. This confirms the initial statement of the study that the absence of ESG indicators integrated with sharia principles is one of the main obstacles. Limited climate risk reporting and lack of ESG transparency are clear evidence of the lack of internalization of ESG governance principles. Thus, the data from this study provide strong support for the urgency of developing an inclusive, transparent, and maqashid sharia-compliant governance strategy in the context of ESG in Islamic banks. The following is a table of research findings presented by the researcher based on the results of interviews with participants, the results of field observations, and the results of documentation studies.

Table 1. research findings based on interview results, observation results, and documentation study results

No.	Research Purposes	Key Findings	Obstacles and Challenges	Recommended Strategy
1	Critically analyze the implementation of Environmental, Social, and Governance (ESG) principles	<ul style="list-style-type: none"> - The environmental aspect has not yet become a strategic priority, most Islamic banks do not yet have a systematic environmentally friendly financing policy. - The social aspect is still focused on philanthropy, not yet integrated into an impact-oriented ESG framework. - The Governance aspect only refers to conventional sharia governance, has not explicitly adopted ESG risk transparency and reporting. 	<ul style="list-style-type: none"> - Low institutional awareness of ESG. - Lack of technical and human resource capacity in ESG management. - The absence of ESG standards that are aligned with maqashid sharia. 	<ul style="list-style-type: none"> - Strengthening ESG awareness through internal training and sustainability literacy. - Adjustment of governance guidelines to include ESG indicators. - Initiation of internal ESG policies based on maqashid sharia.
2	Identifying obstacles and challenges in implementing ESG	<ul style="list-style-type: none"> - Lack of ESG integration in Islamic banks' strategic planning. - ESG data is not yet comprehensively available in sustainability reports. - Stakeholder engagement in sustainability issues is still limited. 	<ul style="list-style-type: none"> - Data and reporting infrastructure limitations. - There is no institutionally binding ESG roadmap. - CSR policies are not yet directed at long-term ESG-based outcomes. 	<ul style="list-style-type: none"> - Development of ESG reporting system based on maqashid indicators. - Increased collaboration between regulators, academics and banks. - Establishment of a dedicated ESG unit within the organizational structure.
3	Develop a sharia-based strategy for ESG integration	<ul style="list-style-type: none"> - ESG needs to be positioned as part of a holistic sharia responsibility. - The concept of sustainability must be linked to the principles of maslahah and justice. 		

The results of this study indicate that the implementation of ESG principles in Islamic banks in Indonesia is still partial and has not been integrated into the institutional strategic framework. The Environmental dimension has not been a top priority, with limited green initiatives and not based on comprehensive policies. In the Social aspect, CSR activities tend to be symbolic and less directed at measurable social development (Suiran, 2024). Meanwhile, in the Governance dimension, although structurally Islamic governance has been running well, the accountability and transparency aspects that are ESG demands have not been explicitly adopted. The fundamental weakness identified is the absence of Sharia-based ESG guidelines that can frame policies and practices consistently. This is reinforced by data from interviews, observations, and documentation that show institutional limitations, a lack of ESG roadmaps, and the dominance of fiqh compliance orientation in policymaking.

This study expands the discourse of ESG in Islamic finance, which in many previous studies has only stopped at the normative or theoretical level. Several previous studies, such as by Dusuki (2008) and Kamla & Rammal (2013), emphasize that the principles of justice and sustainability are inherent in Islamic value (El-Essa dkk., 2024). However, this study emphasizes that in practice, the integration of ESG into Islamic bank operations does not run automatically. Different from studies that rely more on literature approaches, this study presents empirical contributions based on field data, revealing the gap between principles and practices. Another advantage lies in the phenomenological approach used, which provides an in-depth understanding of the meaning of ESG from the internal perspective of Islamic financial institutions themselves. Thus, this study not only describes the implementation but also analyzes the actual obstacles and opportunities from within the system itself.

Reflection of these findings indicates the urgency of reformulating sustainability strategies in Islamic banks that are not only based on normative compliance, but also consider long-term benefits for the environment, society, and institutional governance. The aim of identifying challenges in ESG implementation has successfully revealed that the dominance of a literal fiqh approach, minimal ESG literacy among internal banks, and the absence of Sharia-based ESG standards are the main obstacles. This shows that the purpose of the study can not only be articulated as an effort to map problems, but also as a critical reflection on the epistemological conditions of Islamic banking practices that are not yet responsive to the global dynamics of sustainability. In other words, this study raises the awareness that sharia values should be a tool for liberation and socio-ecological transformation, not just a formal legitimacy for conventional practices.

The results of this study have direct implications for policy formulation, human resource capacity development, and structural transformation in Islamic financial institutions. In terms of policy, intervention from regulators such as OJK and DSN-MUI is needed to develop ESG standards that are in line with maqashid sharia. Implications for human resource development include the importance of ESG training that is not only technical but also theological, to unite the vision of sustainability and Islamic values. More broadly, these results indicate that the successful integration of ESG in Islamic banking can strengthen the competitiveness of this sector globally, especially amidst the trend of sustainable finance. Therefore, ESG is not just a complement in the annual report but becomes part of the heart of the sustainability strategy that reflects the ethical superiority of Islamic banks compared to conventional systems.

The reason why ESG has not been effectively integrated into the Islamic banking system lies in the complexity of the relationship between Islamic normative values and modern policy instruments. The absence of a conceptual framework for ESG that is contextual to Islamic principles makes its implementation unsynchronized. This is exacerbated by the dominant legalistic fiqhiyah approach, which ignores the substantial and transformative maqashid aspects. Institutionally, there is still fragmentation between units responsible for Islamic law and sustainability, causing ESG not to be discussed as an integrated strategic agenda. Other influential factors are weak pressure from stakeholders and a lack of public awareness of the

importance of ESG in banking services so there is no urgency for change from the demand side. In other words, this result arises from the structural and cultural unpreparedness of the Islamic banking system itself.

Based on the findings of this study, strategic steps that need to be taken include: first, the preparation of ESG guidelines based on maqashid sharia as a national reference; second, the reformulation of internal policies of Islamic banks that integrate ESG in all operational lines and decision-making; third, increasing ESG literacy for all levels of management and implementers; and fourth, encouraging collaboration between banks, regulators, academics, and civil society to build an inclusive sustainability ecosystem. These strategies will not only answer the challenges of ESG implementation but also strengthen the ethical and spiritual position of Islamic banks amidst global competition. Therefore, ESG integration is not merely a technocratic obligation, but an ethical calling from Islamic values themselves that demand justice, sustainability, and social responsibility.

CONCLUSION

The most surprising finding of this study is the fact that although Islamic banks are conceptually positioned as financial entities based on ethical and sustainable values, the implementation of Environmental, Social, and Governance (ESG) principles has not been systematically integrated into its operations. This shows a paradox between the ideal values carried by the Islamic banking system and ongoing institutional practices. The environmental aspect is still positioned as a symbolic complement, the social aspect is held hostage to a non-strategic philanthropic approach, and the governance aspect has not touched on modern ESG indicators such as climate risk transparency and stakeholder engagement. This finding not only raises critical awareness about the gap between principles and practices but also opens up space for in-depth discussion about how Islamic values can be translated into a global sustainability system authentically.

This study provides an important contribution to the development of ESG literature in the context of Islamic economics, particularly in bringing the concept of maqashid sharia closer to the global sustainability framework. Theoretically, this study broadens the understanding that ESG principles can be contextualized holistically within the framework of Islamic values, rather than as a passive adoption of the Western model. Practically, the results of this study serve as a reference for Islamic banking, regulators, and academics in formulating ESG implementation strategies that are not only compatible but also rooted in the identity of Sharia itself. This study also serves as an empirical reference source that shows the importance of a phenomenological approach in uncovering complex and meaningful institutional realities, thus becoming an initial foothold towards Sharia-based sustainability policy reform.

As every research has limitations of space and time, this study also has limitations that pave the way for further exploration. The limited focus of the research on large Islamic banks and certain institutional informants means that the dynamics of ESG at a more micro-operational level, such as Islamic business units in the regions or Islamic microfinance institutions, have not been fully described. In addition, the phenomenological approach used emphasizes meaning more, so it has not quantitatively measured the impact of ESG on the financial and social performance of banks. Therefore, future research development can be directed at quantitative or mixed-method studies to explore the causal relationship between ESG integration and sustainability performance. In addition, it is also important to conduct cross-country research to see how ESG practices in Islamic banking adapt to different social, cultural, and regulatory contexts.

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