E-ISSN : 2549-3280 P-ISSN : 2549-5933
INTEGRATED JOURNAL OF BUSINESS AND ECONOMICS
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http://ojs.ijbe-research.com/index.php/IJBE/index

Beyond ESG: Embedding Maqasid al-Shariah into Sustainable Finance through Shariah Enterprise Theory

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Abstract

Sustainable finance has increasingly integrated environmental, social, and governance (ESG) principles into capital allocation, yet mainstream ESG remains largely anthropocentric and market-driven. This conceptual paper integrates Shariah Enterprise Theory (SET), maqasid al-shariah, and sustainable finance to bridge this gap. SET frames accountability as a tripartite responsibility to Allah, human beings, and nature, while maqasid al-shariah provides purpose logic through the preservation of religion, life, intellect, lineage, and wealth. The resulting Islamic Sustainable Finance (ISF) framework demonstrates how green sukuk, Islamic social finance, waqf-based investments, and sustainability reporting can move beyond symbolic Shariah compliance and ESG labeling toward verified social and environmental additionality. Theoretically, the paper specifies the accountability mechanisms through which SET extends ESG; managerially, it translates SET into observable governance, allocation, and impact practices; and policy-wise, it proposes actionable integration of maqasid-oriented indicators into sustainable-finance assessment. Ultimately, the paper concludes that SET positions Islamic finance as a distinctive, purpose-driven contributor to sustainable development while preventing spiritual accountability from being reduced to mere formal compliance.

Article Info
- ***Received*** *: 8 September 2025*
- ***Revised*** *: 10 February 2026*
- ***Published*** *: 8 September 2026*
- ***Pages*** *: 600-620*
- ***DOI*** *: 10.33019/ijbe.v10i3.1354*
- ***JEL*** *:* G20, G30
- ***Keywords*** *: Islamic Sustainable Finance, Shariah Enterprise Theory, Maqasid al-Shariah, ESG, accountability, sustainable development..*

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1. Introduction

Sustainable finance increasingly brings environmental, social, and governance (ESG) considerations into decisions that were once dominated by expected return and conventional risk measures. The change is substantive rather than merely terminological: financial institutions are being asked to consider how capital allocation affects social welfare and ecological resilience alongside economic performance (UNEP FI, 2016). Climate change, environmental degradation, and inequality make these effects financially relevant because they can alter asset values, operating conditions, and long-term business continuity (UNEP FI, 2019).

The global adoption of ESG practices has been facilitated by investors who increasingly recognize that sustainable portfolios can both mitigate long-term risks and generate competitive returns. Empirical studies show that companies with strong ESG performance are often better positioned to manage risks and deliver stable growth (Friede, Busch, & Bassen, 2015). Governance, in particular, has gained prominence as transparency, accountability, and ethical conduct are regarded as the foundation of sustainable corporate management (Eccles & Klimenko, 2019).

Regulation has accelerated this shift. The European Union's Sustainable Finance Disclosure Regulation (SFDR), for example, requires greater transparency about sustainability-related risks and impacts (European Commission, 2020). The United Nations' Sustainable Development Goals (SDGs) have added a broader development reference point, encouraging governments, firms, and financial institutions to connect investment decisions with inclusive and environmentally responsible growth (UNCTAD, 2021).

Financial products have evolved in parallel. Green bonds, social bonds, and sustainability-linked loans direct capital toward projects or targets with stated sustainability objectives (GSIA, 2020), while fintech can improve traceability and widen access to sustainable-finance channels (BIS, 2020). These developments have not resolved two persistent problems: ESG indicators remain fragmented, and weak definitions or verification can allow greenwashing to persist (Morningstar, 2021).

Within this global shift, Islamic finance offers a complementary pathway because its normative foundations already emphasize justice (adl), stewardship (amanah), risk sharing, the prohibition of harmful or exploitative transactions, and the equitable circulation of wealth. Through maqasid al-shariah, financial activity is expected to protect human welfare and prevent harm rather than treat sustainability only as a response to investor demand. This makes Islamic finance conceptually compatible with sustainability objectives, while also raising a deeper question: whether Islamic Sustainable Finance (ISF) should merely adopt ESG practices or articulate a distinct purpose-based framework grounded in Islamic accountability (Chapra, 2008; Dusuki & Bouheraoua, 2011; Harahap et al., 2023; Nasution et al., 2023).

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Emerging innovations in Islamic finance have demonstrated its compatibility with global sustainability practices. One notable development is the issuance of green sukuk, designed to fund environmentally sustainable infrastructure such as renewable energy and clean transportation projects (FAO, 2018). Additionally, waqf-based investments have been revitalized to support education, healthcare, and poverty alleviation, thereby enhancing social capital and contributing to SDGs related to well-being and equality (OECD, 2020). Islamic banks are also increasingly incorporating ESG compliance into their reporting practices, ensuring that financial performance is accompanied by accountability in environmental and social dimensions (GRI, 2020).

Taken together, these developments show that Islamic finance can contribute to sustainability through both commercial and social-finance instruments. The unresolved issue is conceptual coherence. Islamic Sustainable Finance (ISF) is often described through a combination of Shariah compliance and ESG practice, yet that combination does not by itself specify the purpose of sustainability, the scope of accountability, or how value and environmental burdens should be distributed. The resulting gap is therefore theoretical as well as practical (Eccles, Krzus, & Ribot, 2021).

Existing literature on sustainable finance is predominantly rooted in Western theoretical frameworks such as stakeholder theory, legitimacy theory, and agency theory. Stakeholder theory emphasizes corporate accountability to diverse stakeholders, legitimacy theory stresses the alignment of business practices with societal expectations, and agency theory focuses on the contractual dynamics between principals and agents (Gompers, Ishii, & Metrick, 2003). While these perspectives are valuable, they are fundamentally anthropocentric and market driven, failing to capture the transcendental dimensions central to Islamic epistemology (Eccles & Klimenko, 2019).

For instance, stakeholder theory addresses accountability to human constituencies but overlooks accountability to God. Legitimacy theory emphasizes societal approval but does not address ethical imperatives rooted in divine command. Agency theory reduces corporate governance to incentive alignment without acknowledging stewardship responsibilities over natural resources as divine trust (Triyuwono, 2006; Chapra, 2008). As a result, the wholesale adoption of these theories risks reducing Islamic finance to a mere adaptation of secular paradigms, without recognizing its unique ontological and ethical foundations.

The conceptual gap is therefore not simply that mainstream ESG originates in Western theory. Islamic business and finance already contain stakeholder-oriented and ethical approaches. Islamic ethical-worldview scholarship grounds business conduct in tawhid, accountability to God, justice, and moral discipline (Hasan, 2002), while stakeholder-oriented Islamic governance emphasizes the protection of parties exposed to the risks and consequences of the firm’s activities (Iqbal & Mirakhor, 2004). These approaches are important, but they do not by themselves provide an accounting-based architecture that

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simultaneously treats nature as an accountability subject, distinguishes direct from indirect beneficiaries, and specifies how Shariah-consistent value should be created, distributed, measured, and assured. Consequently, they offer only a partial basis for explaining how Islamic values should reshape sustainable-finance instrument design and impact assessment rather than merely supplement conventional ESG.

This paper therefore selects Shariah Enterprise Theory (SET) not merely because it is an Islamic alternative to mainstream theories, but because its accounting ontology directly links ultimate ownership, stakeholder entitlement, value creation, value distribution, and accountability. Developed by Iwan Triyuwono (2006; 2011; 2012), SET locates ultimate ownership in Allah, treats human beings as trustees, recognizes direct and indirect stakeholders, and extends accountability to nature. These features provide a stronger bridge from Islamic ethical purpose to observable financial mechanisms than models that focus primarily on stakeholder rights, contract governance, or general Islamic business ethics.

This holistic model reframes the purpose of finance beyond profit maximization. It embeds sustainability into the spiritual, ethical, and environmental fabric of financial practices, aligning directly with the maqasid al-shariah (objectives of Islamic law). The maqasid emphasize the preservation of religion (*hifz al-din*), life (*hifz al-nafs*), intellect (*hifz al-ʻaql*), lineage (*hifz al-nasl*), and wealth (*hifz al-mal*) as the foundation of human well-being and justice (Chapra, 2008; Dusuki & Bouheraoua, 2011). By centering divine accountability and maqasid principles, SET offers a transformative framework that transcends anthropocentric limitations and embeds sustainability at the very core of financial operations (Triyuwono, 2011).

SET also emphasizes the integration of spirituality in organizational life, positioning business and finance as acts of worship when carried out with honesty, justice, and responsibility (Triyuwono, 2012). This provides a normative basis for embedding Islamic values into sustainability discourse and strengthens the distinctiveness of ISF as not just an economic system, but as a comprehensive ethical and spiritual framework.

The purpose of this paper is to develop a conceptual framework for Islamic Sustainable Finance (ISF) based on Shariah Enterprise Theory (SET). The novelty lies in using SET as an accounting-based mechanism for translating maqasid al-shariah into sustainable-finance decisions: who is recognized as a beneficiary, how value and burdens are distributed, how nature enters the accountability boundary, and what evidence is required in governance, reporting, and assurance. By synthesizing sustainable-finance literature, Islamic stakeholder and ethical perspectives, contemporary Islamic finance instruments, and the specific accounting mechanisms of SET, the paper moves beyond an 'ESG plus Shariah screening' model toward a purpose-accountability-mechanism framework.

Because the framework developed here is conceptual, its next test is empirical. Research can examine whether SET-based mechanisms are visible in settings such as agro-industry, green infrastructure, Islamic banking, and social entrepreneurship, and whether those mechanisms are associated with observable differences in allocation, distribution, and sustainability outcomes. Such evidence would help establish where SET adds explanatory or practical value and where its claims require further refinement.

This paper makes three contributions. Theoretically, it positions SET against both mainstream sustainability theories and established Islamic stakeholder/ethical approaches, showing that SET adds a distinct distributional and ecological accounting logic. Managerially, it translates that logic into product approval, stakeholder-impact assessment, value-distribution evidence, and assurance for instruments such as green sukuk, waqf, and Islamic social finance. Policy-wise, it proposes ways to connect maqasid-oriented evidence with sustainable-finance taxonomies and Shariah governance without creating a parallel or purely symbolic reporting system.

2. Literature Review

Global Sustainable Finance

Contemporary sustainable finance did not emerge in a single step. It developed from ethical and socially responsible investment into broader ESG integration, where environmental, social, and governance considerations increasingly inform capital-allocation decisions (UNEP FI, 2016; UNCTAD, 2021; Li et al., 2025; Gupta, 2025). Investors now evaluate financially material ESG risks and opportunities alongside conventional metrics, while the SDGs provide a widely used reference point for linking finance to climate, inequality, and governance challenges (UNEP FI, 2016; UNCTAD, 2021; Bolla et al., 2025; Juthi et al., 2024). Policy measures such as the EU SFDR have reinforced this movement by formalizing expectations for sustainability-related disclosure (European Commission, 2020; Yunus & Nanda, 2024).

Evidence from empirical syntheses suggests that ESG integration need not imply a financial-performance penalty and may, in many settings, be compatible with stronger risk-adjusted outcomes (Friede, Busch, & Bassen, 2015; Bolla et al., 2025; Indriani, 2024). Governance is especially important because board quality, transparency, and ethical conduct shape how sustainability commitments are translated into organizational practice (Eccles & Klimenko, 2019; Eccles, Ioannou, & Serafeim, 2014; Rahmiyati, 2025; Warokka et al., 2025). Reporting has also become more structured through internationally recognized standards, improving the comparability and decision usefulness of sustainability information (GRI, 2020; Eccles, Krzus, & Ribot, 2021; Juthi et al., 2024).

Two structural forces sustain this momentum. First, policy signals (e.g., mandatory ESG reporting, tax incentives, and green-market infrastructure) reduce information asymmetry and crowd in private capital for green and social outcomes (OECD, 2020; UNCTAD, 2021;

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Daida, 2024; Zhang, 2025). Second, financial innovation and digitalization (fintech, open banking, blockchain) broaden participation and traceability, enabling lower cost, higher-reach sustainable finance models that support inclusion (BIS, 2020; World Bank, 2021; Juthi et al., 2024).

Yet key debates persist. The field continues to grapple with ESG metric fragmentation, impeding cross-issuer comparability and inviting greenwashing risks (Morningstar, 2021; Juthi et al., 2024; Yunus & Nanda, 2024). Moreover, the proliferation of instruments (green/social/sustainability-linked bonds, transition finance) raises methodological questions about additionality, impact verification, and the consistency of taxonomies across jurisdictions (GSIA, 2020; European Commission, 2020; Zhang, 2025; Daida, 2024). Finally, scholars call for contextualized sustainability, noting that one-size-fits-all frameworks can under-represent local norms, values, and religious worldviews—an omission especially salient for Islamic economies (Ejaz et al., 2025; Nasution et al., 2023).

Viewed together, the global literature describes a more developed market and institutional architecture for sustainable finance, but it leaves unresolved questions about ethical purpose and the ends against which financial activity should be judged. Those questions are especially relevant when sustainability is examined from an Islamic perspective (Ejaz et al., 2025; Putri et al., 2025).

Islamic Sustainable Finance

Islamic finance begins from a different normative premise. Justice (ʿadl), benevolence (iḥsān), stewardship (amānah), risk sharing, the prohibition of riba, and linkage to the real economy place ethical constraints on both the means and ends of financial activity (Sullivan & Mackenzie, 2017; Chapra, 2008; Ahmed et al., 2015; Ejaz et al., 2025). Maqāṣid al-sharīʿah extends this logic by directing economic activity toward the protection of religion, life, intellect, lineage, and wealth, with human flourishing (falāḥ) and social welfare as broader objectives (Chapra, 2008; Dusuki & Bouheraoua, 2011; Anwar et al., 2025). From this standpoint, ISF should amount to more than Shariah screening added to conventional ESG practice; it requires a purpose structure that connects financial decisions with those normative ends (Putri et al., 2025; Ejaz et al., 2025). Instruments and practices.

- Green sukuk adapt sukuk's asset-backed structure to fund renewable energy and low-carbon infrastructure, aligning Shariah compliance with climate mitigation and adaptation goals (FAO, 2018; OECD, 2020; Mohamad, 2023; Zhang, 2025)
- Waqf-based investment revitalizes endowments for education, health, poverty alleviation, and environmental protection, often via contemporary cash-waqf structures that enable professional asset management within Shariah constraints (Dusuki & Bouheraoua, 2011; Hai et al., 2022; Fahmi, 2025).
- Islamic social finance—zakat, waqf, ṣadaqah, qard ḥasan provides counter cyclical buffers and direct social protection, complementing market-based Islamic

commercial finance and reinforcing SDGs on poverty, health, and education (Chapra, 2008; Dusuki & Bouheraoua, 2011; Harahap et al., 2023; Ahmed et al., 2015).

- ESG in Islamic banking is increasingly formalized in governance and reporting, integrating global sustainability standards (GRI/TCFD/SASB) with Shariah governance (shariah boards, fatwa processes) (GRI, 2020; Eccles, Krzus, & Ribot, 2021; Shalhoob, 2025; Ejaz et al., 2025).

Debates and challenges. First, conceptual clarity: Is ISF simply ESG plus Shariah screening, or a distinct paradigm grounded in maqāṣid? The literature warns that mapping Islamic values onto secular ESG without a coherent teleology risks shallow convergence (Chapra, 2008; Putri et al., 2025). Second, impact measurement: Islamic banks report ESG indicators heterogeneously; harmonization with Shariah governance indicators (e.g., ḥalāl value chains, distributive justice) remains incomplete (GRI, 2020; Eccles, Krzus, & Ribot, 2021; Ejaz et al., 2025). Third, market development: Green sukuk scale is growing but still small relative to global green bond markets, with concerns about verification standards, additionality, and cross-jurisdictional Shariah rulings (Mohamad, 2023; Zhang, 2025). Fourth, institutional architecture: Integrating Islamic social finance with state welfare and development banks raises governance and fiduciary design questions (e.g., professionalisation of waqf management, performance mandates, and impact audits) (Fahmi, 2025; Ahmed et al., 2015). Finally, financial inclusion and fintech: Digital waqf, zakat platforms, and qard ḥasan wallets promise reach and transparency but introduce data protection, cyber-risk, and consumer literacy challenges akin to conventional digital finance (BIS, 2020; World Bank, 2021; Ejaz et al., 2025).

The implication is that ISF already possesses relevant instruments and a normative direction through maqāṣid, but the connection between purpose and organizational practice remains incomplete. A coherent accountability framework is needed to show how divine, human, and ecological responsibilities enter decisions, measurement, and reporting rather than remaining at the level of general ethical aspiration (Putri et al., 2025; Ejaz et al., 2025).

Theoretical Perspectives in Prior Research

Mainstream sustainable-finance research commonly draws on stakeholder, legitimacy, and agency theories. Together they explain important mechanisms: stakeholder theory clarifies responsiveness to multiple constituencies; legitimacy theory explains alignment with societal and regulatory expectations; and agency theory addresses information asymmetry and governance incentives (Freeman, 1984; Suchman, 1995; Gompers, Ishii, & Metrick, 2003). For ISF, however, their shared limitation is not analytical usefulness but normative scope. None intrinsically specifies divine accountability, maqasid-based ends, nature as an entrusted accountability subject, or a Shariah-based rule for distributing created value. The paper therefore retains these theories as explanatory benchmarks while using SET to supply the purpose and accountability architecture they do not contain.

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Shariah Enterprise Theory (SET)

Concept and stakeholder architecture. Shariah Enterprise Theory (SET), developed within Islamic accounting scholarship (Triyuwono, 2006; 2011; 2012), reconceptualizes the enterprise as a trusteeship institution rather than a private nexus organized solely around capital providers. Allah is the ultimate source of ownership and trust, while the organization acts as a khalifah responsible for the use and distribution of resources. Human stakeholders are not restricted to parties with contractual or financial claims. SET distinguishes direct stakeholders, whose contributions are directly connected with organizational operations, from indirect stakeholders, including the poor and other groups who may not contribute resources to the firm but remain entitled to the social consequences and distribution of value. Nature is also included within the accountability domain because ecological resources are treated as an amanah rather than an ownerless input.

Mental, spiritual, and maqasid foundations. SET rejects a purely materialistic conception of organizational performance by balancing material outcomes with mental and spiritual value. In SET terminology, these mentalistic and spiritualistic orientations broaden performance assessment beyond economic outputs toward ethical awareness, inner responsibility, and transcendental accountability. Its purpose logic is consistent with maqasid al-shariah: preserving religion, life, intellect, lineage, and wealth (hifz al-din, al-nafs, al-aql, al-nasl, al-mal) through economic activity (Chapra, 2008; Dusuki & Bouheraoua, 2011). Consequently, financial decisions are evaluated not only by profitability or legal form but also by whether they prevent harm (darar), advance justice, distribute welfare, and preserve ecological conditions that support present and future life.

Accounting mechanisms and their finance translation. A distinctive implication of SET is the shift from profit-centred reporting toward Shariah value added and the distribution of value among a wider set of beneficiaries. In this logic, value creation has economic, social, mental, spiritual, and environmental dimensions, and the legitimacy of value depends on how it is obtained, processed, and distributed in accordance with Shariah principles (Triyuwono, 2006; 2011; 2012). This mechanism is important for sustainable finance because it converts SET from a broad ethical statement into a decision rule: financing should identify who receives the created value, who bears social or ecological costs, and whether benefits extend beyond capital providers.

- For green sukuk, this implies assessing not only eligible green assets and carbon outcomes but also the distribution of project benefits, affordability and access, effects on local communities, and intergenerational consequences. SET alignment therefore requires both environmental eligibility and evidence that the financed activity creates additional social-ecological value rather than simply relabeling an existing asset.
- For waqf-based investment and Islamic social finance, SET places beneficiaries and purpose before return maximization. Investment mandates should preserve the corpus

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where relevant, generate sustainable benefits, and disclose how value is distributed to direct and indirect stakeholders, particularly vulnerable groups.

- For Islamic banks, SET extends Shariah governance beyond contract-form compliance. Shariah boards and management can jointly review financial materiality and impact materiality by asking whether financing decisions protect stakeholders, avoid harm, support fair value distribution, and preserve nature. This connects spiritual accountability with observable governance processes rather than with an unverifiable claim about individual religiosity.
- For sustainability reporting and assurance, SET implies reporting on both value creation and value distribution. Conventional ESG indicators can therefore be complemented by maqasid-oriented measures such as beneficiary reach, distributive effects, affordability, environmental additionality, grievance resolution, and the share of financing directed toward socially and ecologically beneficial activities.

What SET adds to sustainable-finance theory is thus not simply an additional ethical vocabulary. It changes the purpose of the organization, broadens the set of legitimate beneficiaries, and introduces a distributional test for value creation. Teleology (maqasid), accountability (Allah-human beings-nature), and Shariah value distribution together provide the causal logic through which SET can discipline product design, governance, reporting, and assurance in ISF.

Positioning SET against Islamic alternatives. Islamic ethical-worldview approaches emphasize God-consciousness and moral conduct in business (Hasan, 2002), while Islamic stakeholder governance gives a stronger normative foundation to stakeholder rights through property rights, contracts, and risk exposure (Iqbal & Mirakhor, 2004). SET is complementary to these perspectives but extends them in three ways that are especially relevant to sustainable finance: (1) it explicitly includes nature within the accountability domain; (2) it distinguishes direct and indirect stakeholders, making non-contractual and vulnerable beneficiaries part of value distribution; and (3) it develops an accounting logic of Shariah value creation and distribution across material, mental/spiritual, social, and environmental dimensions. These features allow SET to connect Islamic purpose not only to governance rights but also to instrument design, impact measurement, reporting, and assurance.

Synthesis of limitations. Existing sustainable finance research, though extensive, exhibits four gaps when assessed against ISF's aims:

1. Normative deficit. Stakeholder, legitimacy, and agency theories explain *behavioral responses* to ESG pressures but do not embed obligatory ends that bind financial practice to justice, welfare, and environmental stewardship as moral imperatives. This deficit fosters instrumentalism and greenwashing risks under metric fragmentation (Morningstar, 2021).

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2. Metric and disclosure mismatch. ESG reporting has advanced (GRI/SASB/TCFD), yet Islamic banks' disclosures seldom reflect maqāṣid-consistent metrics (e.g., distributive justice, poverty impact, real-sector linkage), causing misalignment between Shariah governance and sustainability assurance (GRI, 2020; Eccles, Krzus, & Ribot, 2021).
3. Instrument-purpose disconnect. Green sukuk and waqf investments demonstrate promise, but verification and additionality standards vary across jurisdictions, and Shariah rulings may differ complicating scale, comparability, and investor confidence (OECD, 2020; FAO, 2018). Without a unifying *purpose logic*, instruments risk converging to conventional ESG labels.
4. Institutional integration. Public policy has moved toward sustainable finance via rules, incentives, and market infrastructure (SFDR; national ESG codes), but Islamic social finance (zakat/waqf/*qard ḥasan*) remains under-integrated with development finance ecosystems and fintech infrastructures—limiting impact, traceability, and scale (BIS, 2020).

Why SET is a stronger lens for ISF. SET addresses these gaps by:

a. Embedding teleology (*maqāṣid*), converting sustainability from a strategic response to a *religious-ethical duty*.
b. Respecifying accountability (Allah–humans–nature), which legitimizes double materiality and expands stakeholder definitions to include the vulnerable and the environment as entrusted entities.
c. Guiding measurement and assurance by motivating indicators of justice, welfare, and ecological balance complementary to ESG metrics and aligned with established sustainability-reporting architectures (GRI, 2020; Eccles, Krzus, & Ribot, 2021).
d. Aligning instrument design with purpose, offering criteria for green sukuk verification, waqf asset allocation, and social finance governance that transcend box-ticking and ensure substance over form (Triyuwono, 2011; Chapra, 2008).
e. Supporting policy coherence, enabling regulators to connect Shariah governance with sustainability taxonomies, impact assurance, and inclusive fintech rails consistent with Islamic ethics (European Commission, 2020; BIS, 2020).

Future research opportunities. The ISF SET nexus invites empirical programs: (i) develop maqāṣid-aligned impact metrics for Islamic banks and test associations with risk/return; (ii) design SET-based assurance frameworks for green sukuk (linking Shariah audit with environmental impact verification); (iii) evaluate waqf investment mandates under SET for welfare outcomes; (iv) assess digital Islamic social finance governance and consumer protection consistent with SET; and (v) study policy interoperability between Shariah governance and national sustainable-finance taxonomies.

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3. Method

Methodologically, this article uses an integrative conceptual review combined with conceptual framework development. Following Jaakkola (2020), it brings previously separate theoretical domains into dialogue in order to clarify the focal conceptual problem, define the role of each theoretical element, and derive an explanatory framework with propositions. The aim is theory development rather than effect-size estimation or an exhaustive systematic review. The material considered covers four connected domains: (1) sustainable finance and ESG, including dominant theoretical explanations and debates on greenwashing, additionality, and impact measurement; (2) Islamic finance and maqasid al-shariah; (3) Shariah Enterprise Theory and its accounting implications; and (4) contemporary Islamic sustainable-finance instruments and institutional practices, including green sukuk, waqf, Islamic social finance, Shariah governance, and sustainability reporting.

The synthesis uses purposive conceptual selection. Sources were retained when they met at least one of three criteria: conceptual authority for SET or maqasid al-shariah, relevance to the core ESG/sustainable-finance debate, or direct applicability to Islamic financial instruments and policy. Peer-reviewed scholarship was complemented by institutional and regulatory sources where these documents define market practices, reporting expectations, or sustainable-finance frameworks. The review therefore prioritizes theoretical relevance and cross-domain integration rather than bibliometric completeness.

The analytical procedure involved three stages. First, the assumptions of stakeholder, legitimacy, and agency theories were compared with SET to identify differences in purpose, accountability, stakeholder scope, and treatment of nature. Second, SET constructs were mapped onto observable financial mechanisms: governance and screening, allocation and distribution of value, impact measurement, reporting, and assurance. Third, theoretical propositions were derived deductively by specifying a mechanism that links a SET construct to an expected sustainability outcome. A proposition was retained only when the direction of the relationship could be explained through this mechanism rather than asserted from normative desirability alone.

Because the framework contains a transcendental dimension, the study distinguishes between a theological principle and its empirical manifestation. Accountability to Allah is treated as a normative source of obligation; empirical research should assess its organizational manifestations in decisions, governance processes, distributional outcomes, and verified impacts rather than attempt to quantify faith itself. This distinction is also used to identify operationalization risks and boundary conditions discussed later in the paper.

4. Conceptual Framework and Proposition Development

4.1 Spiritual Accountability: From Divine Obligation to Observable Governance

Spiritual accountability originates in tawhid and the idea that ownership is ultimately entrusted by Allah. Its financial consequence is purpose-first governance: Shariah

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compliance should not stop at the legal form of a contract but should test whether financing advances maqasid and avoids harm. In organizational terms, this principle can be manifested through documented Shariah-board deliberation on sustainability impacts, exclusion or mitigation of harmful activities, explicit maqasid criteria in product approval, and post-financing review of whether intended social and environmental outcomes were achieved.

The mechanism is therefore not that spirituality mechanically improves performance. Rather, an internalized duty that is embedded in governance can widen the decision criterion beyond minimum regulation and short-term return. This should make institutions more attentive to long-horizon social and ecological risks, stakeholder harm, and mission consistency. Where spiritual accountability is translated into governance routines rather than symbolic statements, stronger Shariah governance should be more likely to generate sustainability-oriented decisions.

Proposition 1: Greater integration of SET principles into governance and product approval is expected to be positively associated with multidimensional sustainability performance and long-term organizational resilience.

Proposition 2: The organizational internalization of accountability to Allah is expected to strengthen the relationship between Shariah governance quality and sustainability-oriented decision-making.

4.2 Social Accountability: Direct, Indirect, and Vulnerable Stakeholders

SET widens the beneficiary set beyond investors and contractual stakeholders. Direct stakeholders participate in or contribute to organizational operations, whereas indirect stakeholders - including poor and vulnerable groups - may have no contractual claim but remain legitimate recipients of social value. This distinction changes the evaluation of Islamic finance: the relevant question is not only whether financing is profitable and Shariah-compliant, but also how the created value is distributed and whether the financing reduces or shifts burdens onto weaker groups.

Islamic social-finance instruments provide a direct mechanism for this distributional logic. Zakat, waqf, qard hasan, and inclusive Islamic financing can channel resources toward groups that are otherwise underserved by market finance. Their sustainability contribution, however, depends on governance quality, targeting, continuity of benefits, and evidence of outcomes. Integration with national sustainable-finance frameworks can improve scale and traceability when it preserves the redistributive purpose rather than converting social finance into a branding device.

Proposition 3: Deeper integration of well-governed Islamic social-finance instruments into sustainable-finance ecosystems is expected to be positively associated with distributive-justice and inclusion outcomes.

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4.3 Environmental Accountability: Nature as an Entrusted Entity

Environmental accountability follows from khilafah and amanah: nature is not merely a resource to be priced but an entrusted entity whose degradation imposes moral and intergenerational consequences. For financial institutions, this requires project selection, covenants, monitoring, and reporting that consider ecological thresholds and the distribution of environmental costs. Carbon reduction remains important, but it is insufficient if a project causes material harm to ecosystems or communities.

This logic is especially relevant for green sukuk. A conventional green label can establish eligibility without necessarily demonstrating that the financed activity causes additional positive impact. SET adds two discipline mechanisms. First, maqasid-oriented screening requires the project to avoid material harm and contribute to welfare, not only to satisfy an environmental category. Second, Shariah value-distribution logic requires issuers to consider who receives benefits and who bears transition costs. When these requirements are combined with credible baselines, use-of-proceeds controls, impact indicators, and independent assurance, the risk of label-only compliance falls and the probability of genuine additionality rises.

Proposition 4: SET-aligned green sukuk that combine environmental eligibility, maqasid-oriented harm screening, distributive-impact assessment, and credible assurance are expected to exhibit higher social-environmental impact additionality than otherwise comparable green financing based primarily on label eligibility.

4.4 Measurement and Reporting: From ESG Metrics to Maqasid-Aligned Evidence

SET does not require replacing ESG metrics. It requires extending them so that measurement captures purpose and distribution as well as exposure and disclosure. A maqasid-aligned measurement architecture can combine conventional indicators - such as emissions, energy use, governance quality, and social safeguards - with measures of beneficiary reach, distributive justice, affordability, real-sector contribution, environmental additionality, and the consistency of Shariah governance decisions with stated sustainability objectives.

A central safeguard is to avoid constructing a direct numerical 'spirituality score'. Accountability to Allah is not empirically observable in the same way as carbon emissions. Its empirical content should instead be inferred cautiously from process and outcome evidence: whether governance explicitly considers maqasid, whether harmful activities are rejected or mitigated, whether value is distributed fairly, whether impacts are verified, and whether reporting is consistent over time. Triangulation across governance records, disclosures, stakeholder outcomes, and assurance can reduce the risk that spiritual accountability becomes a superficial checklist.

Proposition 5: The use of maqasid-aligned, process-and-outcome-based sustainability measures is expected to improve the congruence between Islamic financial institutions'

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reporting, governance decisions, and stated ethical objectives, thereby reducing the risk of symbolic sustainability compliance.

4.5 Integrated ISF-SET Framework

The framework can be summarized as a purpose-accountability-mechanism-instrument-outcome chain. Maqasid al-shariah defines the ends of finance; SET specifies accountability to Allah, human beings, and nature; Shariah value creation and distribution translate those accountabilities into governance, allocation, reporting, and assurance mechanisms; ESG criteria operate as an evidence lens rather than the ultimate purpose; and Islamic financial instruments carry these mechanisms into practice. Sustainability outcomes are then evaluated through financial resilience, distributive justice, and ecological stewardship. Figure 1 visualizes these interactions and distinguishes the framework from an 'ESG plus Shariah screening' model because Islamic values enter before product approval and capital allocation, not only after the fact as a compliance overlay.

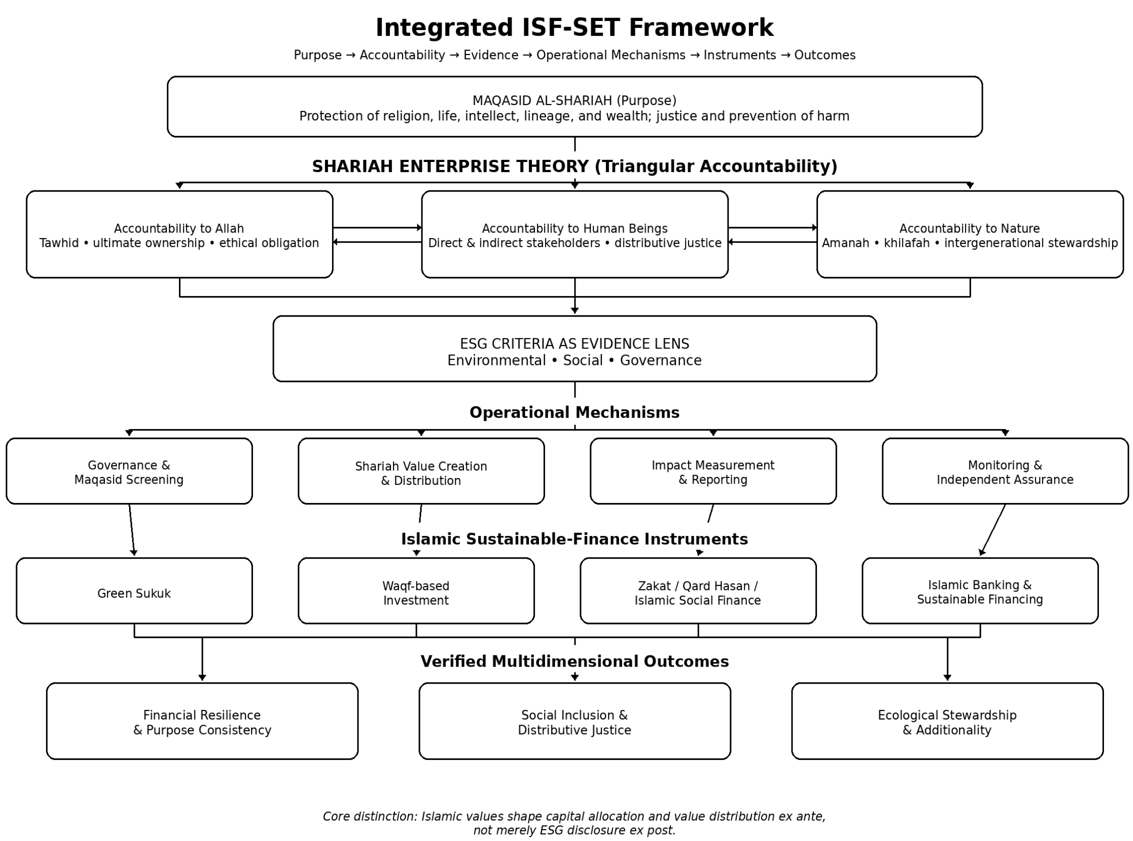

Figure 1. Integrated ISF-SET Framework: Purpose, Accountability, ESG Evidence, Instruments, and Outcomes

Source: Authors' conceptualization.

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The five propositions translate this chain into claims that can be examined empirically. They do not assume that invoking SET will by itself improve outcomes. Any effect depends on governance capacity, data quality, credible assurance, and, most importantly, whether the framework changes actual decisions rather than only the language of disclosure.

5. Discussion

The framework makes a theoretical distinction between explanation, Islamic ethical orientation, and accounting-based operationalization. Mainstream stakeholder, legitimacy, and agency theories remain useful for explaining responses to investors, regulation, reputation, and information asymmetry. Islamic ethical and stakeholder approaches strengthen the normative case for God-conscious conduct and broader stakeholder rights (Hasan, 2002; Iqbal & Mirakhor, 2004). SET adds a further layer by specifying an accountability and value-distribution architecture that includes Allah, direct and indirect human stakeholders, and nature. Maqasid provides the ends, while SET explains how those ends can enter governance, allocation, reporting, and assurance. The contribution is therefore not to dismiss existing theories, but to specify what SET uniquely adds to the design of Islamic sustainable finance.

A second contribution is distributional. Mainstream ESG can identify environmental or social performance without necessarily asking how value and burdens are distributed. SET's direct-indirect stakeholder distinction and Shariah value-added logic make distribution part of the sustainability question. This is particularly relevant for green and transition finance, where projects may produce aggregate environmental benefits while imposing costs on low-income communities, workers, or future beneficiaries. An SET-based assessment requires these trade-offs to be made visible.

A third contribution concerns additionality. Proposition 4 does not assume that a Shariah label automatically makes green sukuk more impactful. Higher additionality is expected only when SET changes project selection, harm screening, benefit distribution, monitoring, and assurance. If SET is used only as a narrative overlay, there is no theoretical reason to expect better outcomes. This boundary condition is important because it converts the proposition from a normative claim into a falsifiable empirical expectation.

Operationalization presents the framework's most important challenge. 'Accountability to Allah' cannot and should not be measured as an individual's level of faith. Attempting to do so would invite superficial scoring and could turn a transcendental principle into a compliance checkbox. The appropriate empirical strategy is to measure observable organizational manifestations: whether maqasid criteria are embedded in product approval; whether Shariah governance documents consider stakeholder and environmental harm; whether institutions reject or redesign harmful financing; whether value-distribution outcomes are reported; and whether stated impacts are independently verified.

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This process-based approach still faces risks. First, different Shariah boards may interpret maqasid priorities differently, limiting comparability. Second, additional impact data increase measurement and assurance costs, particularly for smaller institutions and issuers. Third, managers may resist a framework that constrains short-term profitability or adds approval layers. Fourth, overlapping ESG, prudential, and Shariah requirements can create reporting fatigue. Fifth, institutions may adopt SET language without changing allocation decisions, producing a form of 'Shariah-washing' analogous to greenwashing.

These risks suggest three safeguards. SET indicators should focus on decision-relevant evidence rather than long checklists; governance and impact data should be triangulated rather than relying on self-declared compliance; and assurance should test both the use of proceeds and the consistency between stated maqasid objectives and actual outcomes. Proportionality is also necessary: smaller institutions may use a core set of indicators, while large banks and sukuk issuers can be expected to provide more granular impact evidence.

The framework consequently reframes future empirical research. Rather than asking whether institutions 'have SET', studies can examine degrees of SET institutionalization and test the mechanisms proposed here. Possible measures include the depth of maqasid consideration in governance, treatment of indirect stakeholders, distribution of value, environmental additionality, and the quality of impact assurance. Such measures would allow researchers to test whether substantive SET implementation is associated with stronger sustainability outcomes and whether symbolic implementation fails to produce comparable outcomes.

6. Policy and Managerial Implications

For Islamic financial institutions, the framework can be implemented as a three-stage product-governance protocol. At approval, the institution should document the product's maqasid objective, affected direct and indirect stakeholders, material environmental risks, and expected distribution of benefits. During implementation, management should monitor financial performance together with selected social and environmental outcome indicators. At reporting, the institution should disclose whether the promised outcomes were achieved, explain material deviations, and obtain independent assurance for high-impact products. This makes SET part of the decision process rather than an ex post narrative.

For green sukuk issuers, SET can be translated into a minimum impact package: a clearly defined baseline and counterfactual; use-of-proceeds controls; environmental performance indicators; social-distribution indicators such as beneficiary reach, affordability, employment quality, or community effects where material; a documented do-no-harm assessment; and post-issuance impact assurance. These requirements would provide the evidence needed to evaluate the additionality proposed in this paper.

For Shariah boards and internal governance functions, the key managerial change is coordination. Shariah review, sustainability teams, risk management, and finance functions

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should jointly assess products whose environmental or social impacts are material. Shariah-board minutes or equivalent governance records can document how maqasid, stakeholder harm, and value distribution were considered. This provides an auditable organizational manifestation of spiritual accountability without attempting to quantify faith.

For Otoritas Jasa Keuangan (OJK), the practical route is not merely to state that SET should be 'integrated'. Indonesia now uses the Taksonomi untuk Keuangan Berkelanjutan Indonesia (TKBI) as its sustainable-finance taxonomy (OJK, 2026). For Islamic financial products, OJK could develop an application note or supplementary assessment layer that links TKBI classification with maqasid-oriented evidence. In addition to the taxonomy's environmental and social criteria, such guidance could require material indicators of distributive justice, beneficiary inclusion, Shariah value creation and distribution, social safeguards, and verified environmental additionality. A phased pilot for selected green sukuk and Islamic-bank portfolios would allow these indicators to be tested before wider adoption, preserving interoperability with TKBI while making the distinctive accountability claims of Islamic sustainable finance auditable.

- For DSN-MUI, AAOIFI, and other Shariah standard-setters, product standards for green or sustainability-linked Islamic instruments could require two linked assessments: Shariah validity of the contractual structure and maqasid consistency of the financed purpose and impact. Guidance could specify minimum disclosure on use of proceeds, material harm, stakeholder distribution, and impact verification, thereby reducing the risk that Shariah approval and sustainability certification operate as separate silos.
- For regulators and industry associations, implementation should be phased. A core indicator set can be piloted on selected green sukuk and Islamic-bank portfolios, followed by sector-specific metrics once data availability improves. Proportionality is important so that the framework does not create excessive compliance costs for smaller institutions. Pilot testing, common definitions, assurance guidance, and periodic review would also help address interpretive differences among Shariah boards and reduce the risk of checklist-based adoption.
- These implications position SET as an operational complement to ESG rather than a parallel reporting burden. The practical objective is to make the Islamic purpose of finance visible in allocation decisions, distributional outcomes, and impact evidence while retaining compatibility with established sustainable-finance taxonomies and reporting systems.

7. Conclusion

This article develops a conceptual framework for Islamic Sustainable Finance (ISF) by bringing Shariah Enterprise Theory (SET), maqasid al-shariah, and contemporary sustainable-finance mechanisms into a single analytical structure. The integrative review suggests that SET contributes more than a religious justification for ESG. Its distinctive contribution lies in how it defines organizational purpose, broadens accountability, and places the creation and distribution of value inside the sustainability assessment itself.

The framework links maqasid as the purpose of finance with accountability to Allah, human beings, and nature, and translates these commitments into observable mechanisms of governance, screening, value distribution, impact measurement, reporting, and assurance. Direct and indirect stakeholders, Shariah value added, and the material-mental-spiritual orientation of SET deepen the framework beyond a simple 'ESG plus Shariah compliance' model. Five propositions specify how substantive SET institutionalization may shape sustainability performance, Shariah governance, distributive justice, green-sukuk additionality, and reporting congruence.

The paper also clarifies an important boundary: accountability to Allah is a normative source of obligation, not a variable that should be reduced to a direct spirituality score. Empirical research should examine its organizational manifestations and triangulate governance processes with distributional and impact outcomes. This approach helps guard against symbolic compliance while making the framework testable.

For practice and policy, the framework supports gradual integration of maqasid-oriented evidence into product governance, green sukuk impact assessment, Shariah-board processes, and Indonesia's sustainable-finance taxonomy architecture. Empirical validation is now needed across institutions and jurisdictions, particularly to examine proportionality, assurance costs, interpretive differences, and the gap between substantive and symbolic implementation. SET is therefore presented not as a replacement for ESG, but as a way to make the purpose, accountability, and distributional consequences of Islamic sustainable finance more explicit.

Acknowledgment
The authors gratefully acknowledge the financial support provided by the Institute for Research and Community Service (LPPM), Universitas Jember, Indonesia. This support contributed to the completion of the research and the preparation of this article.

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