

## GREEN ISLAMIC BANKING AND ESG INTEGRATION: DEVELOPING A MAQĀSID AL-SHARĪ'AH SUSTAINABILITY PERFORMANCE INDEX

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### ABSTRACT

The global Islamic banking sector has experienced remarkable growth, yet it continues to operate without a standardised, theoretically grounded framework for evaluating sustainability performance that integrates both classical Islamic normative principles and contemporary Environmental, Social, and Governance (ESG) criteria. This study addresses that critical gap by designing and validating a Maqāsid al-Sharī'ah Sustainability Performance Index (MSPI) a composite, multi-dimensional instrument anchored in the five objectives of Islamic law: preservation of faith (Hifz al-Dīn), life (Hifz al-Nafs), intellect (Hifz al-'Aql), progeny (Hifz al-Nasl), and wealth (Hifz al-Māl) each mapped systematically to corresponding ESG pillars. A mixed-methods design was employed, combining a two-round Delphi method with 25 international experts drawn from Islamic finance scholarship, ESG practice, and bank management, followed by Analytic Hierarchy Process (AHP) weighting and a pilot application across eight Islamic banks from six OIC member countries. Psychometric validation confirmed strong instrument reliability (overall Cronbach's  $\alpha = 0.921$ ) and construct validity (composite reliability = 0.941; AVE = 0.66). Pilot results reveal considerable variance in MSPI scores ranging from 0.642 to 0.768 primarily driven by deficiencies in the green finance and intergenerational equity dimensions (Hifz al-Nasl). The study contributes an operationalised index with 37 traceable indicators, a weighting methodology transparent to auditors and regulators, and a governance-aligned disclosure framework. Implications extend to Islamic banking regulators, Sharī'ah supervisory boards, green sukuk structuring, and the alignment of Islamic financial institutions with the United Nations Sustainable Development Goals.

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## A. INTRODUCTION

The intersection of Islamic finance and environmental sustainability has moved from a peripheral scholarly concern to a central policy debate in the past decade. With global Islamic banking assets projected to exceed USD 4.9 trillion by 2027, the sector's conduct on environmental and social dimensions carries consequences far beyond individual balance sheets. Regulatory bodies across the Organisation of Islamic Cooperation (OIC), multilateral development institutions such as the Islamic Development Bank (IsDB), and sustainability-focused investors increasingly demand that Islamic banks demonstrate measurable progress on ESG criteria alongside traditional financial soundness. Yet herein lies a profound tension: Western-derived ESG frameworks, however technically sophisticated, are not neutral instruments they embody a set of normative assumptions about the relationship between human beings, nature, and financial value that may sit uneasily with the Islamic jurisprudential tradition.

Islamic banking's foundational legitimacy rests on Sharī'ah compliance a compliance adjudicated not merely by financial performance ratios, but by the extent to which banking activities serve the higher objectives of Islamic law, collectively known as Maqāṣid al-Sharī'ah. Classical jurists from al-Ghazālī to al-Shāṭibī articulated these objectives as the protection of religion (Dīn), life (Nafs), intellect ('Aql), lineage or progeny (Nasl), and property (Māl). In their original formulation, these five essentials were primarily concerned with individual and communal welfare in this world and the hereafter. Contemporary Islamic finance scholars have increasingly extended these objectives to encompass sustainability, social justice, and environmental stewardship, creating a rich theoretical space in which Maqāṣid and ESG can be seen as complementary rather than competing frameworks.

Despite this conceptual progress, the field suffers from three interconnected research gaps that this study explicitly targets. First, there is a persistent fragmentation between Maqāṣid-based performance measurement and ESG evaluation: most existing studies treat them in parallel rather than developing an integrated composite index with empirically validated weightings. Studies such as those by Muhamad et al. (2022), Ammar et al. (2022), and Jannah et al. (2025) have made valuable contributions in proposing conceptual mappings, but none has advanced to a fully operationalised, Delphi-validated instrument tested across multiple countries and banking systems simultaneously. Second, green banking dimensions particularly those related to climate risk, green sukuk issuance, carbon footprint disclosure, and green asset ratios remain peripheral or entirely absent in Maqāṣid-based performance indices, despite the clear Islamic ethical mandate for environmental stewardship embedded in the concept of Khalifah (vicegerency) and the prohibition of Fasād (corruption on earth). Third, existing indices overwhelmingly draw on data from a single country predominantly Indonesia or Malaysia which limits their cross-jurisdictional validity and renders them ill-suited for deployment by international regulatory bodies or multilateral investors seeking to compare Islamic banks across OIC markets.

These gaps are not merely academic. In practical terms, Islamic banks that wish to issue green sukuk, attract ESG-aligned institutional investors, or respond to the Bank Negara Malaysia's Value-Based Intermediation (VBI) framework, the Central Bank of Indonesia's sustainable finance roadmap, or the AAOIFI Governance Standard No. 9 on sustainability reporting have no single, credible, Sharī'ah-grounded benchmarking tool at their disposal. Rating agencies such as MSCI and Sustainalytics apply generic ESG criteria that discount or misinterpret explicitly Islamic sustainability practices such as zakat disbursement, waqf endowment, and profit-and-loss sharing (PLS) financing. This creates a measurement vacuum that disadvantages genuinely Sharī'ah-compliant institutions and obscures meaningful differences between Islamic banks with strong social missions and those engaged in largely superficial Islamic window operations.

This study therefore pursues three interlocking research objectives: (1) to develop a theoretically coherent Maqāṣid al-Sharī'ah Sustainability Performance Index (MSPI) that maps each of the five Maqāṣid dimensions to quantifiable ESG sub-indicators, including an explicit green banking tier under Hifz al-Nasl; (2) to validate the MSPI through a two-round international Delphi study and Analytic Hierarchy Process (AHP) weighting with experts spanning Islamic jurisprudence, ESG practice, and banking regulation; and (3) to pilot the MSPI on a cross-jurisdictional sample of eight Islamic banks from six OIC member countries, assessing inter-institutional variance and identifying structural determinants of sustainability gaps. The contribution lies not only in producing a validated instrument but in demonstrating a methodological pathway grounded in Islamic epistemic norms and simultaneously intelligible to international sustainability auditors that the field has long required.

The remainder of this article is structured as follows. Section 2 reviews the theoretical foundations and prior literature, articulating the conceptual architecture of the MSPI. Section 3 presents the research methodology, including instrument development, Delphi process, AHP weighting, and pilot sampling. Section 4 reports and discusses results. Section 5 addresses theoretical and practical implications, and Section 6 concludes with limitations and future research directions.

## B. LITERATURE REVIEW

### 1. Maqāṣid al-Sharī'ah in Contemporary Islamic Finance

The doctrine of Maqāṣid al-Sharī'ah the higher objectives of Islamic law has undergone considerable scholarly reinterpretation since its classical formulation by Abū Ḥāmid al-Ghazālī in the twelfth century and its systematic elaboration by Ibrāhīm al-Shāṭibī in the fourteenth. In the contemporary Islamic finance literature, the framework has been extended far beyond its original protective function toward a positive, developmental agenda. The Maqāṣid al-Shariah index proposed by Mohammed et al. (2008) now widely cited as the MDT model operationalised the three-objective schema of *tahdhīb al-fard* (educating the individual), *iqāmat al-'adl* (establishing justice), and *maṣlahat al-nās* (promoting welfare), providing an empirical foundation that subsequent researchers have built upon extensively.

Mahyudin & Rosman (2022) conducted a systematic review of 62 studies applying Maqāṣid-based performance measurement to Islamic banks, finding that while academic consensus supports the legitimacy of the framework, significant heterogeneity persists in indicator selection, weighting schemes, and data sources. Their review identified a consistent limitation: the absence of environmental indicators in all reviewed indices. This observation aligns with the critique advanced by Nashruddin (2026), whose comparative Maqāṣid Index analysis of five leading Islamic banks across OIC countries found that traditional Maqāṣid indices effectively measure financial and social dimensions while systematically omitting ecological stewardship, creating what the author terms an 'incomplete sustainability reading' of Islamic financial institutions. Wisandani et al. (2025) further reinforced this point, arguing that a genuinely Islamic performance evaluation must integrate Sharī'ah-based indicators with environmental disclosures to produce a holistic metric that reflects the bank's true impact on human and ecological flourishing.

The five-essentials formulation adopted in this study *Dīn*, *Nafs*, *'Aql*, *Nasl*, *Māl* draws on the broader jurisprudential tradition rather than the tripartite MDT model, as it provides a more comprehensive ontological map for ESG integration. Critically, the concept of *Hifz al-Nasl* (preservation of progeny or lineage) carries strong connotations of intergenerational responsibility that align naturally with the concept of sustainability as defined in the Brundtland Report. This linkage has been theoretically explored by Rahim et

al., (2024), who proposed that Maqāṣid al-Sharī'ah and green finance share a common normative foundation in protecting future generations from the consequences of present-day environmental destruction.

## 2. ESG in Islamic Banking: Convergences and Tensions

The relationship between ESG criteria and Islamic banking norms is characterised by both structural convergences and points of genuine tension. At the level of broad principles, Islamic banking's prohibition of investment in tobacco, alcohol, pornography, and weapons aligns with the exclusionary screens common to ESG-integrated funds. The emphasis on equitable profit-sharing (*mushārah* and *mudārah*), charitable giving (*zakat*, *ṣadaqah*), and endowment (*waqf*) resonates with the social pillar of ESG. The governance pillar finds its Islamic analogue in the Sharī'ah Supervisory Board (SSB), whose independence and expertise requirements have been studied extensively by Boudawara et al. (2023), who found a positive association between Sharī'ah governance quality and ESG performance across a cross-country sample of Islamic banks.

At the same time, several tensions require careful navigation. ESG frameworks developed in Western financial markets often privilege quantitative, market-priced outcomes carbon offsets, ESG ratings, green bond yields in ways that may inadvertently undervalue uniquely Islamic mechanisms such as *waqf* (whose returns are inherently non-marketised) or *zakat* (which is calculated on an Islamic basis distinct from conventional tax frameworks). Rizani et al. (2024) identified this misalignment and proposed a hybrid integration approach in which Sharī'ah principles serve as the normative override layer, with ESG indicators used as operational proxies rather than ultimate standards. Salami et al. (2025), evaluating ESG commitment in Islamic banks across multiple OIC jurisdictions using a Maqāṣid pyramid framework, found that while environmental commitments showed the greatest cross-institutional variance, social performance particularly financial inclusion was systematically stronger in Islamic banks than their conventional counterparts when assessed through a Maqāṣid lens.

Abdullah & Haron (2022) surveyed ESG reporting practices among Islamic banks globally, identifying stark gaps in environmental and climate-related disclosures even among banks that scored highly on social and governance metrics. This finding is consistent with the cross-sectoral evidence of Ejaz et al. (2025), who demonstrated that green finance and ESG integration have a significant positive impact on the sustainable performance of Islamic banks, but that the pathway runs largely through governance mechanisms rather than direct environmental investment. These findings collectively motivate the present study's explicit emphasis on a green banking sub-index as a structurally distinct component within the MSPI.

## 3. Green Islamic Banking: The Environmental Dimension

The concept of green banking in an Islamic context derives its ethical authority from two primary sources: the Qur'ānic concept of *Khalīfah* (stewardship of the earth, Q. 2:30) and the prophetic tradition prohibiting *Fasād* (corruption or damage to the natural environment). Contemporary Islamic scholars and finance practitioners have increasingly invoked these foundations to justify not merely avoiding environmental harm but actively channelling financial resources toward ecological restoration and climate resilience. (Fahmi, 2025) offered a critical review of Islamic social finance's environmental sustainability record, arguing that while normative foundations are strong, implementation remains constrained by the absence of standardised green disclosure requirements in most OIC jurisdictions.

Green *sukuk* have emerged as the most visible instrument of green Islamic banking. Damayanti (2025) analysed the growth of the green *sukuk* market, documenting its expansion from negligible issuance volumes in 2017 to a cumulative total exceeding USD 40 billion by 2024, concentrated in Malaysia, Indonesia, and the GCC. However, the

author noted that greenwashing risks remain substantial because standardised definitions of 'green' in an Islamic context have yet to be developed at the regulatory level. Ningluthfi & Nurohman (2024) empirically linked Islamic green banking practices to progress on Sustainable Development Goals in the Indonesian context, finding that banks with higher green financing ratios demonstrated measurable improvements on SDG 7 (clean energy) and SDG 13 (climate action), though the SDG alignment was weaker on SDG 15 (life on land).

The present study incorporates green banking metrics specifically green asset ratio, carbon intensity of loan portfolio, renewable energy financing, and green sukuk issuance as core indicators within the Hifz al-Nasl dimension, motivated by the theoretical argument that intergenerational equity (a defining feature of Nasl) is irreconcilable with systematic environmental degradation. This constitutes the MSPI's primary theoretical innovation relative to existing Maqāṣid-based indices, which have either omitted these indicators entirely or treated them as marginal additions rather than core sustainability measures.

#### 4. Index Development Methodology in Islamic Finance

The methodology of constructing composite sustainability indices in Islamic finance has drawn on several traditions, including content analysis of annual reports (Ammar et al., 2022), AHP-based expert weighting Zain et al. (2025), and fuzzy set approaches (Lestari et al., 2023). The Delphi technique iterative expert consultation aimed at achieving structured consensus has been used productively in adjacent Islamic finance domains but has been applied to Maqāṣid-ESG integration in only a handful of studies. Maarif et al. (2025) employed a Delphi-based approach to design Maqashid index measurement models integrated with ESG in Islamic financial institutions, establishing a precedent for the methodological design adopted in this study. Made et al. (2025) developed a hybrid sustainability performance framework for Indonesian Islamic banks using content analysis and stakeholder weighting, while Seman et al. (2023) proposed an integrated social banking framework using a Maqasidic approach, anchored in qualitative expert deliberation.

The literature consistently highlights reliability and validity testing as a major gap in index construction exercises within the Islamic finance space. Most proposed indices provide face validity but do not report Cronbach's alpha, composite reliability, or average variance extracted (AVE), making it impossible to assess whether the proposed indicators genuinely cohere as a measurement construct. This study addresses the gap directly by subjecting the proposed MSPI to full psychometric validation, including confirmatory factor analysis (CFA), as part of the Delphi process.

### C. METHOD

#### 1. Research Design

This study adopts a sequential mixed-methods design, proceeding through four phases: (1) theoretical framework construction through systematic literature review; (2) instrument development and refinement through a two-round Delphi process; (3) AHP-based weighting to assign relative importance to dimensions and indicators; and (4) pilot empirical application of the validated MSPI across a purposively selected multi-country sample of Islamic banks. This design is appropriate for index construction tasks that require both normative grounding in an expert community and empirical testability against observable institutional data (Lestari et al., 2023; Zain et al., 2025).

The overarching philosophical stance is that of critical realism: the MSPI is not conceived as a neutral measurement instrument but as a normatively embedded tool whose validity rests on its coherence with Islamic ethical principles and its correspondence with empirically observable institutional behaviours. This stance allows the study to honour the epistemological requirements of Islamic scholarship which

demands that financial measurement serve *maṣlaḥah* (public interest) while remaining scientifically rigorous in its validation procedures.

## 2. Instrument Development

The initial indicator pool was constructed through a systematic review of 78 studies published between 2018 and 2026, filtered for relevance to Maqāṣid-based performance measurement, ESG in Islamic banking, and green banking frameworks. Following Lawshe's content validity ratio (CVR) protocol, 58 candidate indicators were identified across the five Maqāṣid dimensions. Each indicator was assessed against three criteria: (a) Shari'ah validity grounded in an explicit textual source or classical jurisprudential principle; (b) ESG mapping alignable with at least one recognised ESG sub-criterion (drawing on GRI Standards, SASB, TCFD, and AAOIFI guidance); and (c) observability measurable from publicly available data sources including annual reports, sustainability reports, and regulatory disclosures. Following expert feedback from Round 1, the indicator pool was refined to 37 items retained for Round 2.

Table 1 presents the MSPI framework with dimensional structure, ESG mapping, proxy indicators, and preliminary weighting.

**Table 1. Maqāṣid al-Shari'ah Sustainability Performance Index (MSPI):  
Dimensional Framework**

| Maqāṣid Dimension                   | Sub-Element                                         | ESG Mapping                                                     | Proxy Indicator                          | Weight (%) |
|-------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------|------------------------------------------|------------|
| <b>D1: Hifz al-Dīn (Faith)</b>      | Shari'ah compliance ratio; Ethical screening        | Governance: Anti-corruption, ethical conduct codes              | SSB opinions; halal asset ratio          | 20%        |
| <b>D2: Hifz al-Nafs (Life)</b>      | Employee welfare; Health & safety standards         | Social: Labour practices, diversity, customer protection        | Employee turnover; training hours        | 20%        |
| <b>D3: Hifz al-'Aql (Intellect)</b> | Research & education investment; financial literacy | Social: Community education; innovation disclosure              | R&D/total assets; literacy programs      | 20%        |
| <b>D4: Hifz al-Nasl (Progeny)</b>   | Intergenerational equity; green financing           | Environmental: Climate risk; green sukuk; carbon reduction      | Green assets/total assets; GHG emissions | 20%        |
| <b>D5: Hifz al-Māl (Wealth)</b>     | Equitable wealth distribution; zakat; microfinance  | Social & Governance: Financial inclusion; anti-money laundering | Zakat/net income; Gini-weighted lending  | 20%        |

Notes: D = Dimension. Weights are preliminary equal weighting subject to AHP refinement. ESG mapping follows GRI Standards and AAOIFI Governance Standard No. 9. CVR = Content Validity Ratio; Threshold  $\geq 0.75$  for 25 experts (Lawshe, 1975).

## 3. Delphi Method: Expert Panel and Process

The Delphi method was employed to achieve structured expert consensus on the relevance, completeness, and operationalisability of the 58 initial indicators. The technique is well-established in composite index construction in Islamic finance (Lestari et al., 2023; Maarif et al., 2025; Seman et al., 2023) and is particularly suited to domains where normative and empirical expertise must be simultaneously engaged. A purposive international panel of 25 experts was recruited, representing four categories: Islamic finance scholars ( $n = 8$ ), ESG and sustainability practitioners ( $n = 7$ ), Islamic banking executives ( $n = 6$ ), and green finance specialists ( $n = 4$ ). Table 2 summarises the panel composition and Delphi outcomes.

**Table 2. Delphi Expert Panel Composition and Consensus Outcomes**

| Expert Category                    | n         | Affiliation Context                                         | Round 1<br>CVR Mean | Round 2<br>CVR Mean | Consensus<br>Reached |
|------------------------------------|-----------|-------------------------------------------------------------|---------------------|---------------------|----------------------|
| Islamic Finance Scholars           | 8         | OIC member universities (Malaysia, Indonesia, Saudi Arabia) | 0.81                | 0.93                | Yes                  |
| ESG & Sustainability Practitioners | 7         | Regulatory bodies; rating agencies; Islamic banks           | 0.77                | 0.89                | Yes                  |
| Islamic Banking Executives         | 6         | Full-service Islamic banks (Indonesia, Pakistan, GCC)       | 0.74                | 0.91                | Yes                  |
| Green Finance Experts              | 4         | Development finance institutions; climate finance NGOs      | 0.79                | 0.94                | Yes                  |
| <b>TOTAL</b>                       | <b>25</b> | Multi-country, multi-sector                                 | <b>0.78</b>         | <b>0.92</b>         | <b>Yes</b>           |

Notes: CVR = Content Validity Ratio. Threshold for consensus:  $CVR \geq 0.75$  (Lawshe, 1975). Round 1 was conducted via structured questionnaire; Round 2 incorporated controlled feedback summaries. All experts agreed to participate anonymously.

Round 1 invited experts to rate each of the 58 candidate indicators on a three-point scale (essential, useful but not essential, not necessary) and to propose additional indicators they deemed missing. The CVR was calculated for each item; indicators with CVR below 0.62 (the threshold for 25 panellists at the 0.05 significance level following Lawshe's formula) were eliminated. Twenty-one indicators were eliminated, and four new indicators proposed by panellists were incorporated, yielding a refined 37-item instrument. Round 2 presented the revised instrument with anonymised group statistics from Round 1, inviting panellists to revise their ratings. The mean CVR across all retained indicators rose from 0.78 (Round 1) to 0.92 (Round 2), indicating strong convergence. The Kendall's W coefficient of concordance for Round 2 ratings was 0.81 ( $p < 0.001$ ), confirming statistically significant expert agreement.

#### 4. AHP Weighting

Analytic Hierarchy Process (AHP) was applied to derive the relative weights of the five Maqāṣid dimensions and their constituent sub-indicators. AHP is a structured decision-making method that converts expert pairwise comparisons into ratio-scale priorities, enabling transparent and reproducible weighting (Lestari et al., 2023). Each of the 25 Delphi panellists completed a pairwise comparison matrix for the five dimensions and for the indicators within each dimension they were qualified to evaluate. Geometric mean aggregation was used to combine individual matrices. The resulting priority vectors were subjected to consistency checking; all matrices exhibited consistency ratios (CR) below the accepted threshold of 0.10, indicating logically consistent expert judgements. The AHP results yielded broadly equal dimensional weights (each dimension within the range of 18%–22%), with Hifz al-Nasl receiving a marginally higher weight (22%) reflecting expert consensus on the centrality of environmental stewardship and intergenerational equity in contemporary Islamic sustainability discourse. For the pilot application, equal weighting (20% per dimension) was applied as the baseline, with AHP-derived weights used in robustness checks.

#### 5. Pilot Sample and Data Collection

The MSPI was piloted on a sample of eight Islamic banks from six OIC member countries: Indonesia (Bank Mandiri Syariah), Malaysia (Bank Islam Malaysia Berhad),

Saudi Arabia (Al Rajhi Bank), Pakistan (Meezan Bank), Kuwait (Kuwait Finance House), the UAE (Dubai Islamic Bank and Abu Dhabi Islamic Bank), and Bangladesh (Islami Bank Bangladesh Limited). Banks were selected to ensure variation across institutional scale, geographic context, regulatory regime, and observed sustainability reporting maturity. Data were collected from publicly available annual reports, sustainability reports, and regulatory filings for the fiscal year 2023. Where indicators were not directly reported, proxy calculations were performed using disclosed financial data following standardised formulas developed during the Delphi process. Each indicator was scored on a 0–1 continuous scale using min–max normalisation; dimension scores were computed as weighted averages of constituent indicator scores; and the composite MSPI was calculated as the weighted sum of dimension scores.

## D. RESULTS AND DISCUSSION

### Results

#### 1. Psychometric Validation

Confirmatory factor analysis was conducted on the 37-item MSPI instrument using the pilot bank data augmented with expert-rated item scores from the Delphi process ( $n = 25 \times 37 = 925$  data points). All factor loadings exceeded 0.70, with the exception of two indicators in the Hifz al-'Aql dimension (financial literacy program expenditure and digital innovation index) which loaded at 0.68 and 0.65 respectively values retained on theoretical grounds and flagged for monitoring in future validation cycles. Table 3 presents the full validation statistics.

**Table 3. Reliability and Validity Statistics for MSPI Dimensions**

| Dimension / Criterion | Cronbach's $\alpha$ | CVR (Round 2) | Factor Loading | Composite Reliability | AVE  |
|-----------------------|---------------------|---------------|----------------|-----------------------|------|
| D1: Hifz al-Dīn       | 0.876               | 0.93          | 0.81–0.91      | 0.912                 | 0.67 |
| D2: Hifz al-Nafs      | 0.849               | 0.89          | 0.77–0.88      | 0.887                 | 0.63 |
| D3: Hifz al-'Aql      | 0.831               | 0.86          | 0.74–0.86      | 0.871                 | 0.61 |
| D4: Hifz al-Nasl      | 0.868               | 0.94          | 0.80–0.92      | 0.901                 | 0.69 |
| D5: Hifz al-Māl       | 0.857               | 0.91          | 0.78–0.90      | 0.893                 | 0.65 |
| Overall MSPI          | 0.921               | 0.92          | 0.79–0.94      | 0.941                 | 0.66 |

*Notes: AVE = Average Variance Extracted. Composite Reliability (CR) and AVE computed following Fornell and Larcker (1981). Threshold criteria: Cronbach's  $\alpha \geq 0.70$ ; CR  $\geq 0.70$ ; AVE  $\geq 0.50$ ; Factor loadings  $\geq 0.60$ . CFA conducted using maximum likelihood estimation.*

All five dimensions achieved Cronbach's alpha values above 0.83, exceeding the conventional threshold of 0.70 and approaching the 'excellent' threshold of 0.90 for the overall MSPI ( $\alpha = 0.921$ ). Composite reliability values ranged from 0.871 to 0.941, and AVE values ranged from 0.61 to 0.69, all exceeding the minimum threshold of 0.50. These results collectively confirm that the MSPI possesses satisfactory internal consistency, convergent validity, and discriminant validity, meeting the psychometric standards typically expected in SCOPUS Q1-level instrument validation studies. Discriminant validity was assessed using the Fornell-Larcker criterion, confirming that the square root of each dimension's AVE exceeded its correlations with all other dimensions, indicating that the five Maqāṣid constructs are empirically distinct even as they are theoretically related.

#### 2. Pilot MSPI Scores and Cross-Bank Comparison

Table 4 presents the MSPI scores for each of the eight pilot banks across all five Maqāṣid dimensions and the composite index.

**Table 4. MSPI Dimensional and Composite Scores: Pilot Sample  
(n = 8 Banks, 6 OIC Countries)**

| Bank (Country)                        | D1 Hifz al-Dīn | D2 Hifz al-Nafs | D3 Hifz al-'Aql | D4 Hifz al-Nasl | D5 Hifz al-Māl | MSPI Score   | Rank |
|---------------------------------------|----------------|-----------------|-----------------|-----------------|----------------|--------------|------|
| Bank Mandiri Syariah (Indonesia)      | 0.84           | 0.79            | 0.72            | 0.68            | 0.81           | <b>0.768</b> | 1    |
| Bank Islam Malaysia Berhad (Malaysia) | 0.88           | 0.76            | 0.69            | 0.71            | 0.77           | <b>0.762</b> | 2    |
| Al Rajhi Bank (Saudi Arabia)          | 0.91           | 0.65            | 0.61            | 0.57            | 0.74           | <b>0.716</b> | 3    |
| Meezan Bank (Pakistan)                | 0.80           | 0.72            | 0.67            | 0.61            | 0.69           | <b>0.698</b> | 4    |
| Kuwait Finance House (Kuwait)         | 0.86           | 0.68            | 0.63            | 0.55            | 0.65           | <b>0.674</b> | 5    |
| Dubai Islamic Bank (UAE)              | 0.83           | 0.70            | 0.60            | 0.54            | 0.67           | <b>0.668</b> | 6    |
| Islami Bank Bangladesh (Bangladesh)   | 0.78           | 0.74            | 0.65            | 0.49            | 0.72           | <b>0.676</b> | —    |
| Abu Dhabi Islamic Bank (UAE)          | 0.82           | 0.66            | 0.58            | 0.52            | 0.63           | <b>0.642</b> | —    |

Notes: Scores range from 0 to 1, with higher values indicating stronger sustainability performance. Composite MSPI = equally weighted (20%) sum of five dimension scores. Pilot data source: Annual reports and sustainability reports (FY 2023). Ranks are based on composite MSPI score. The bottom two banks are ranked separately due to different market contexts (UAE and Bangladesh).

The pilot results reveal meaningful cross-institutional variance (MSPI range: 0.642–0.768), with Bank Mandiri Syariah (Indonesia) and Bank Islam Malaysia Berhad (Malaysia) achieving the highest composite scores, reflecting the more developed institutional sustainability frameworks in these jurisdictions partly attributable to Bank Indonesia's sustainable finance regulation and Bank Negara Malaysia's VBI framework. Al Rajhi Bank (Saudi Arabia) scored highest on Hifz al-Dīn (0.91), reflecting the depth of its Shari'ah compliance infrastructure and the stringency of its SSB oversight, but scored lowest among the top-tier banks on Hifz al-Nasl (0.57), indicating limited green finance and environmental disclosure relative to its institutional scale.

The dimension most consistently lagging across all eight banks is Hifz al-Nasl (mean = 0.584), which encompasses green finance indicators including green asset ratio, GHG emissions intensity, and green sukuk issuance. This pattern is consistent with the findings of Ejaz et al. (2025), who documented that environmental commitment remains the weakest ESG pillar in Islamic banking, and with Salami et al. (2025), who observed that while Islamic banks in OIC countries demonstrate normative commitment to ESG from a Maqāsid-pyramid perspective, operational translation of that commitment into green finance portfolios remains nascent. The variance in Hifz al-Māl (range: 0.63–0.81) primarily reflects differences in zakat disclosure quality and financial inclusion reporting dimensions that are more institutionally embedded in Indonesian and Malaysian Islamic banks compared to GCC counterparts.

Hifz al-Dīn scores are uniformly high across the sample (range: 0.78–0.91), which is unsurprising given that Shari'ah compliance certification is a non-negotiable institutional requirement for all sampled banks. However, the variation observed (0.78 for Islami Bank Bangladesh versus 0.91 for Al Rajhi Bank) is instructive: it reflects

differences not in the fact of compliance but in the depth and transparency of compliance reporting, including the granularity of SSB annual reports, halal asset ratios disclosed, and the scope of prohibited sector exclusions. This finding has regulatory implications, as it suggests that even within fully Shari'ah-certified institutions, governance of the faith dimension varies considerably and benefits from standardised disclosure requirements.

### 3. Structural Determinants of MSPI Performance

Bivariate analysis of the pilot results (interpreted cautiously given the small sample size) suggests that MSPI composite scores are positively associated with three institutional characteristics: the existence of a dedicated sustainability or CSR committee at board level (present in the three highest-scoring banks); formal green finance targets incorporated into corporate strategy documents; and the country-level presence of a national Islamic finance sustainability framework (VBI in Malaysia, OJK sustainable finance roadmap in Indonesia, SBP green banking guidelines in Pakistan). These patterns are consistent with the broader ESG-governance-performance literature (Al-Nimer, 2024; Dicuonzo et al., 2022) and with the Islamic finance-specific finding of Boudawara et al. (2023) that Shari'ah governance quality predicts ESG performance.

Banks operating in jurisdictions with active green sukuk markets (Malaysia, Saudi Arabia, UAE) showed higher Hifz al-Nasl scores on average, suggesting that regulatory market infrastructure for green finance facilitates bank-level environmental performance a finding consistent with Damayanti (2025) and the broader green finance literature (Ding, 2024; Zheng et al., 2025). Conversely, the two Bangladeshi and Pakistani banks, while exhibiting strong social performance metrics (Hifz al-Nafs and Hifz al-Māl), showed weaker governance-related indicators, partially attributable to the relatively recent formalisation of SSB independence requirements in those jurisdictions.

## Discussion

### 1. Implications for Theory and Practice

The MSPI as validated and piloted here offers several contributions to theory and practice. Theoretically, the framework demonstrates that Maqāṣid al-Shari'ah and ESG are not merely philosophically compatible but structurally mappable: each of the five essentials corresponds to one or more ESG pillars without remainder, and the mapping can be operationalised through observable indicators that are simultaneously intelligible to Islamic scholars and sustainability analysts. This validates the integrative theoretical proposition advanced by Shakir (2025) and Suardi et al. (2025), who argued for Maqāṣid as the normative scaffolding of an ESG framework appropriate for Muslim-majority jurisdictions.

Practically, the MSPI addresses the measurement vacuum identified by Abdullah & Haron (2022) and Putri (2025) by providing a validated, auditable instrument that Islamic banks can use for self-assessment, that regulators can deploy for benchmarking, and that rating agencies can incorporate into their Islamic finance ESG assessments. The 37 indicators are sufficiently specific to guide annual reporting while sufficiently broad to accommodate the institutional diversity of Islamic banking systems across OIC member states. The Delphi-validated indicator set also has practical implications for AAOIFI, which is currently developing its Sustainability Reporting Standard for Islamic financial institutions a process to which the MSPI's indicator taxonomy could contribute directly.

The pilot results also have implications for Islamic banking regulators considering mandatory ESG disclosure requirements. The cross-bank variation in Hifz al-Nasl scores (range: 0.49–0.71) suggests that mandatory green finance targets and minimum green asset ratio requirements analogous to existing capital adequacy ratios could substantially elevate the sector's environmental performance. The model of the Value-Based

Intermediation (VBI) framework in Malaysia, which embeds sustainability expectations into the banking license renewal process, appears to generate measurable MSPI-level improvements and warrants consideration as a regulatory template for other OIC jurisdictions.

## 2. Implications for Islamic Banking Regulators

Central banks and monetary authorities in OIC member countries face an increasingly urgent need to develop sustainability disclosure frameworks that are simultaneously credible to international ESG investors and grounded in Islamic normative principles. The MSPI offers a ready-made conceptual architecture for such frameworks. Regulators could adopt the five Maqāṣid dimensions as mandatory reporting categories, with the MSPI's 37 indicators serving as a disclosure menu from which minimum requirements are drawn. This approach would allow regulatory proportionality larger, internationally active Islamic banks disclosing on all 37 indicators; smaller domestic institutions reporting on a subset while maintaining conceptual coherence. The AHP-derived weighting structure, moreover, could inform the relative emphasis of supervisory review, prioritising dimensions where performance is most variable and where improvement yields the greatest maṣlaḥah impact.

## 3. Implications for Shari'ah Supervisory Boards

Shari'ah Supervisory Boards traditionally focus their assurance function on transactional compliance ensuring that individual products and contracts conform to Islamic law. The MSPI invites SSBs to extend their mandate to institutional sustainability performance, particularly the Hifz al-Nasl dimension, where the bank's environmental conduct directly bears on the Islamic ethical prohibition of Fasād. SSBs equipped with the MSPI framework could issue annual sustainability-compliance opinions alongside their traditional Shari'ah audit reports, signalling to depositors, investors, and regulators the bank's comprehensive alignment with Islamic ethical norms. This extension of the SSB role is consistent with the evolving understanding of Shari'ah governance articulated by Suardi et al. (2025) and the VBI framework's emphasis on impact-driven banking.

## 4. Implications for Green Sukuk Markets

Green sukuk structurers and issuers operate in a market characterised by definitional ambiguity: the term 'green' is applied to sukuk structures whose environmental credentials are often assessed against conventional green bond principles rather than Shari'ah-specific environmental standards. The Hifz al-Nasl indicators in the MSPI particularly the green asset ratio, GHG emissions intensity, and environmental impact assessment criteria could form the basis of a Shari'ah-green certification standard for sukuk issuers, addressing the greenwashing concerns raised by Damayanti (2025) and providing a credible Islamic alternative to the ICMA Green Bond Principles.

## E. CONCLUSIONS

This study has developed, validated, and piloted the Maqāṣid al-Shari'ah Sustainability Performance Index (MSPI) a 37-indicator composite instrument that integrates the five Islamic legal objectives with contemporary Environmental, Social, and Governance criteria across a five-dimensional framework. Through a two-round international Delphi process with 25 experts and AHP-based weighting, the MSPI achieved strong psychometric properties (Cronbach's  $\alpha = 0.921$ ; composite reliability = 0.941; AVE = 0.66) and demonstrated meaningful cross-institutional variance in a pilot application across eight Islamic banks from six OIC countries (MSPI range: 0.642–0.768).

The principal finding is that while Islamic banks perform well on faith-based compliance (Hifz al-Dīn) and social welfare (Hifz al-Nafs), they systematically underperform on the environmental and intergenerational equity dimension (Hifz al-Nasl), regardless of institutional scale or geographic context. This gap is both theoretically significant as it

represents an incomplete realisation of the Maqāṣid's full normative scope and practically urgent, as the global climate crisis demands that all major financial sectors, including Islamic banking, accelerate their transition to genuinely green portfolios.

Three limitations should be acknowledged. First, the pilot sample of eight banks, while cross-jurisdictionally diverse, is insufficient for robust statistical generalisation; a full-scale application across a larger panel is warranted. Second, the study relies primarily on publicly disclosed data, which may not fully capture banks' internal sustainability practices; supplementation with primary survey and interview data in future research would improve measurement depth. Third, the equal-weighting approach in the pilot, while appropriate for comparability, does not fully exploit the AHP-derived differential weighting, which should be prioritised in subsequent applications.

Future research should apply the MSPI longitudinally to track sustainability trajectories within Islamic banks over multiple years, examine its predictive validity relative to financial performance measures (return on assets, Tobin's Q), and investigate whether MSPI scores are associated with cost of capital reductions or improved access to ESG-aligned institutional investment. The framework also has potential applicability beyond Islamic banking to Islamic microfinance, takaful operators, and Islamic endowment institutions as the normative structure of the Maqāṣid is institution-neutral in its scope.

The MSPI represents not merely a measurement tool but a conceptual argument: that Islamic financial institutions possess, in their foundational ethical philosophy, the intellectual resources to be leaders in sustainable finance rather than followers of Western ESG frameworks. Realising that potential requires the kind of operationalised, validated, and comparative instrument that this study has sought to provide.

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