International Journal of Accounting and Economics Studies, 12 (7) (2025) 487-498

International Journal of Accounting and Economics Studies

Website: www.sciencepubco.com/index.php/IJAES
https://doi.org/10.14419/eee8ba50
Research paper

Economic, Social, Environmental: Exploring Sustainability Performance and Sharia Compliance of Islamic Financial Institutions in Indonesia

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Received: September 20, 2025, Accepted: November 3, 2025, Published: November 16, 2025

Abstract

This study analyzes sustainability in Islamic financial institutions by integrating economic, social, and environmental aspects with sharia compliance. Using an interpretative phenomenological approach, the research explores participants' experiences to gain a deeper understanding of how sustainability can be realized. The findings highlight that sustainability in Islamic financial institutions is built upon the synergy of these three dimensions. From the economic perspective, the focus lies on environmentally friendly financing and strengthening local economies. The social aspect emphasizes combining commercial and social finance while supporting MSMEs. Meanwhile, the environmental aspect underscores the need for regulations and the adoption of green technology. The originality of this study lies in offering a solution framework that Islamic financial institutions can adopt to implement sustainability. This framework is derived from the insights of practitioners, academics, and regulators, whose experiences encompass both sustainability and Sharia compliance. Theoretically, the study contributes new perspectives on sustainability within Islamic financial institutions. Practically, it provides a framework of solutions for institutions, regulators, and stakeholders to ensure long-term survival and competitiveness. By aligning economic, social, environmental, and Sharia principles, Islamic financial institutions can achieve sustainable growth and remain resilient in a dynamic financial landscape.

Keywords: *Islamic Financial Institution; Sharia Compliance; Sustainability.*

1. Introduction

The concept of sustainability has become a hot topic of discussion because it is related to future balance and survival in the future (Brown et al., 1987). The presence of this concept is a response to emerging global challenges and problems in economic, social, and environmental fields (Chambers & Conway, 1992; Portney, 2015). Economic activities that do not focus on environmental aspects can cause degradation. Such degradation is ultimately detrimental to society and the economy (F. Ahmed et al., 2022).. Similarly, social inequality can hinder economic development (Aiyar & Ebeke, 2020) and weaken people's capacity to respond to environmental challenges (Martin et al., 2020). This concept designs growth by considering the economic, social, and environmental aspects. These three aspects are expected to create an inclusive and just society. This is intended for the survival of the current and future generations (Ruggerio, 2021).

Global challenges in the three aspects of economy, society, and environment are reflected in various current problems. For example, from an economic aspect, during the pandemic, the world experienced an unprecedented crisis, namely, global GDP decreased by a range of 1.3% to 5.8% in 2020 (Aktar et al., 2021). Currently, there is a sharp increase in the price of goods, especially energy and food. As a result, inflation in emerging market countries and developing countries in Europe and Central Asia will increase to 15.9% by the end of 2022. This is the highest inflation rate in more than 20 years and is the highest among all the developing regions in the world. (World Bank, 2023). The consequences of such high inflation can also be seen from the social aspect, where there is an increase in the poverty rate. However, it is projected that the number of extremely poor people (those living on less than $1.90/day) will remain above 600 million by 2030. This results in an extreme global poverty rate of 7.4% (Lakner et al., 2022). However, the world is experiencing serious environmental problems. As of May 2023, the CO_2 PPM (per million) is 420.00, and the global temperature rise is 1.15 °C compared to pre-industrial levels (Robinson, 2023). High CO_2 levels lead to poor air quality. The increase in temperature has resulted in global warming, sea level rise, and significant climate change. Therefore, by adopting the concept of sustainability, economic, social, and environmental problems are expected to be addressed simultaneously (Zhao et al., 2022).

The United Nations has created a sustainable development framework. This framework is called the Sustainable Development Goals (SDGs). The UN's sustainable development goals advocate strong participation from the private sector and government. This can be applied in business operations and reporting by integrating the economic, social, and environmental aspects (A. A. Jan et al., 2021). An international organization called the Global Reporting Initiative (GRI) was born. The GRI provides standards that can be used by organizations or companies in sustainable reporting practices. This report allows organizations, companies, and stakeholders to take actions that create economic, social, and environmental benefits for everyone. (Milne & Gray, 2013). Another aspect that needs to be considered in realizing sustainability in Islamic financial institutions is compliance with sharia. Sharia compliance reflects Islamic financial institutions' commitment to comply with Sharia principles in their business operations. Through Sharia compliance, Islamic financial institutions will gain the trust of the public, investors, and stakeholders. This is expected to encourage Islamic financial institutions to achieve sustainability (Ab Ghani et al., 2023).

Several previous studies have analyzed sustainability in Islamic financial institutions. However, most of these studies focused only on sustainability based on aspects of the company's financial performance. (Fersi & Boujelbéne, 2016; A. Jan et al., 2018, 2019; Khattak, 2021; G. W. Zheng et al., 2021). These studies provide an overview of how financial performance affects the sustainability of Islamic financial institutions. In addition, some studies specifically explore corporate sustainability and relate it to sustainability goals (SDGs) and corporate governance (A. A. Jan et al., 2021).. However, this study used the attributes of the Sharia board and ownership structure. These attributes are used to examine the impact of corporate sustainability on economic, social, and environmental aspects. In contrast to the previous studies, this study provides novelty by offering the perspectives of practitioners, academics, and regulators. This is still rarely done by previous researchers examining corporate sustainability in terms of economic, social, and environmental aspects. In addition, this study integrates the above three aspects with Sharia compliance. Sharia compliance is an important aspect of Islamic financial institutions in gaining public trust, investors, and stakeholders for the sustainability of a company.

This research differs from Chambers and& Conway (1992), who explored and elaborated on the concept of sustainable living. This study explores the concept of sustainability in Islamic financial institutions in Indonesia. Jan et al (2018) conducted research by developing a sustainability measurement framework for the Islamic banking industry in Malaysia. The Maqasid Al-Shariah theory is used to fill the gaps in the measurement of sustainability practices. It also has a positive impact on Islamic banks' financial performance. This research creates a sustainability model or framework for Islamic financial institutions that is not limited to banking alone, but also includes insurance institutions, banks, and Islamic microfinance institutions. Furthermore, Jan et al (2019) analyzed and evaluated the impact of sustainability practices on the financial performance of Islamic banks in Malaysia. It is analyzed from the perspective of management, shareholders, and the market. The goal was to create a single Islamic financial index that combines management, shareholders, and market performance. While the scope of this research is broader, not only Islamic banking but also other Islamic financial institutions, it also explores various perspectives and experiences from various stakeholders, ranging from practitioners, academics, and related regulators.

Khattak (2021) investigated the impact of sustainability performance on bank financial performance in Muslim countries and the role of institutions in moderating this relationship. This study analyzes sustainability in more complex financial institutions, not only limited to banking but also to other Islamic financial institutions, such as insurance and microfinance institutions. Zheng et al (2021) analyzed the factors affecting sustainability in financial institutions in Bangladesh, focusing on the role of green financing. This study comprehensively analyzes how sustainability in Islamic financial institutions in Indonesia considers the opinions of experts, such as practitioners, academics, and regulators. The different analytical methods and regional contexts used in previous studies also allow for different findings.

This research contributes to the knowledge on the sustainability of Islamic financial institutions in terms of economic, social, and environmental aspects, as well as sharia compliance. This differs from previous studies that mostly discuss financial performance and governance. In addition, this study provides possible solutions based on practitioners' experiences regarding the sustainability of Islamic financial institutions. Implications such as these have rarely been offered in previous studies.

2. Literature Review

2.1. Sustainability concept

The concept of sustainability was first articulated by Hans Carl von Carlowitz in his 1713 work on silviculture, where he introduced the first comprehensive formulation of a forestry system designed to be "sustainable," i.e., maintained indefinitely rather than exploited until collapse (Vogt & Weber, 2019). Carlowitz thus used the term sustainable in the sense of maintenance or continuance, in contrast to neglect. Ehrenfeld provides a simpler definition of sustainability as "the likelihood that humans and other life forms will thrive on Earth forever" (Rosen, 2018).

However, while early definitions often emphasise ecological or environmental continuity, contemporary scholarship recognises sustainability as a multidimensional concept that cannot be defined solely from an environmental perspective. Conceptually, sustainability is frequently defined by its three pillars: economic, social, and environmental (Herremans & Reid, 2018; Herremans & Reid, 2002). In this framework, economic sustainability refers to a production system able to satisfy consumption needs without compromising the capacity of future generations, and such a system is constrained by environmental limits, which restrict unsustainable resource use (Basiago, 1998).

More recent research emphasises that the "pillars" model is evolving, and scholars argue for stronger inter-connections, dynamic feedbacks, and context-specific manifestations of sustainability (e.g., McGuire et al., 2023). The social aspect emphasises long-term development and implementation of business policies, activities, and practices that generate positive social impact (Stahl et al., 2020). Some of the key social components are community empowerment, social justice, and community welfare (Bennett et al., 2019; Bennett et al., 2020). This dimension emphasises that organisations, institutions, or companies should increase the capacity and independence of local communities—typically achieved through social programs such as scholarships, blood donations, workshops, and other initiatives.

The environmental dimension is critical for ensuring both current and future survival: it emphasises maintaining balance between human activities and the Earth's ecosystem, involving wise and responsible use of natural resources so that present-generation needs are met without sacrificing those of future generations. In the context of organisational or corporate business activities, environmental sustainability pertains to waste management, pollution reduction, and contributions to natural-resource conservation.

Finally, a growing body of literature highlights that sustainability must be placed in a global, cross-regional context—recognising diverse institutional settings, regulatory regimes, and cultural norms (e.g., Askari & Parsa, 2024). This global perspective is crucial for comparative studies and for understanding how sustainability manifests differently across regions and economies.

2.2. Sustainability in Islamic financial institutions

Islamic financial institutions take several forms, including Islamic banking, Islamic capital markets, zakāt institutions, waqfs, and Islamic microfinance institutions. Sustainability in these institutions comprises practices that support economic growth and overall community welfare in line with Sharia principles. Islamic financial institutions must consider several factors to achieve sustainability. Among these is compliance with Sharia principles: operations, products, and services must conform to rules such as the prohibition of usury (ribā), excessive uncertainty (gharar), transparency, and fairness. Furthermore, Islamic financial institutions can contribute to local economic development through appropriate financing. Sustainability in these institutions also involves social responsibility and philanthropic activity—such as allocating a portion of profits for charitable purposes and supporting community-empowerment programmes.

Several studies have analysed sustainability in Islamic financial institutions, often focusing on their financial performance. For example, Jan et al. (2018) proposed a performance framework to measure sustainability practices in the Malaysian Islamic banking industry; their framework transforms the Global Reporting Initiative (GRI) measurement framework based on Islamic principles and found a positive theoretical relationship between sustainability practices and financial performance. Jan et al. (2019) revealed that sustainability practices are positively and significantly related to the financial performance of Islamic banks, thereby adding financial value for management, shareholders, and market financial-performance indicators. Fersi and Boujelbéne (2016) examined the determinants of sustainability performance in both conventional and Islamic microfinance institutions: their sample included 333 microfinance institutions, and they found that in Islamic microfinance, sustainability—as measured by operational policies—affects social performance, whereas conventional microfinance is driven more by financial performance (ROA). Jan et al. (2021) specifically considered sustainability with economic, social, and environmental aspects in Islamic financial institutions; their study provides a performance framework for Islamic corporate governance and sustainability performance, developing six proportions that foster responsible decision-making to improve sustainability performance. Nevertheless, as recent studies show (e.g., Adirestuty et al., 2025; Puspitasari et al., 2025), the field remains under-explored, especially in terms of cross-regional (Middle East and Europe) contexts, and longitudinal evidence over 2023–2025 is still emerging. For example, research on sustainability-linked financing in Islamic fintech in Indonesia recently indicates the growing importance of digital innovation, green banking, knowledge management, and Sharia compliance in achieving sustainable business models (Nurcahyo et al., 2025). Additionally, a content-analysis study on Islamic banks' social disclosure in Indonesia (2021–2023) found alignment with GRI 401–419 indicators and SDGs 4, 5, 10, 11, 16, 17—but emphasised that many disclosures remain symbolic rather than substantive (Yusuf Fadhillah & Shauki, 2025). Hence, there is a clear gap in international comparative studies of sustainability practices in Islamic finance across different jurisdictions (for instance, the Middle East vs. Southeast Asia vs. Europe), as well as a need for more critical synthesis of how these practices differ by region, regulatory regime, and institutional maturity. This gap underscores the importance of the present study, which seeks to examine not only local dynamics but also global applicability and comparative dimensions of sustainability in Islamic finance.

2.3. Sharia compliance in Islamic financial institutions

In Islamic financial institutions, the concept of "Sharia compliance" (also referred to as "Shariah compliance") refers to the conformity of financial operations and products with the principles of Islamic law (Sharia). According to Milenia et al. (2022), Islamic banks, insurance companies (Takaful), and non-bank Islamic financial institutions must ensure that all their operations abide by Sharia principles. One of the central principles is the prohibition of usury (ribā), which is considered unethical in Islamic finance (Muryanto, 2022). Accordingly, Islamic financial institutions must offer goods and services free from prohibited interest. They should also refrain from investing in businesses deemed haram under Sharia, such as gambling, liquor, and industries harmful to the environment or public health (Tanin et al., 2023). All financial contracts must comply with Islamic contract law: they must be fair and uphold the Islamic principle of justice. Alam et al. (2022) emphasise that Sharia compliance reflects a commitment to conduct business in accordance with Islamic values and principles, ensuring that fairness and sustainability are top priorities in all operations. Recent empirical work (e.g., Puspita et al., 2025) indicates that stronger Sharia compliance is associated with more robust organisational identity in Islamic banking, thereby contributing to both financial and non-financial performance.

2.4. The relationship between sustainability performance and shariah compliance

Sustainability performance and Sharia compliance within Islamic finance exhibit a strong synergy: the principles of sustainability align closely with Sharia values, emphasising social justice, responsibility, and inter-generational equity (Jan et al., 2021). Islamic financial institutions that implement robust Environmental, Social, and Governance (ESG) standards and Sharia-compliant practices are increasingly trusted by stakeholders and attract investors who value ethical and sustainable approaches. However, comparative and recent region-based evidence remains relatively scarce, especially for the years 2023–2025 and across Middle-East, European, and Southeast-Asian jurisdictions. Sharia compliance is not only about financial rules (e.g., prohibition of ribā, gharar, maysir) but also encourages social values that promote institutional engagement in sustainability and community well-being (Jan et al., 2019; Mansur et al., 2021). Empirical research confirms a positive relationship between sustainability performance and Sharia compliance: for instance, Hambali & Adhariani (2023) found that Sharia-compliant companies often exhibit higher sustainability performance, especially in social and environmental dimensions, owing to their commitment to Islamic ethical principles. Moreover, a study by Ho & Mohd-Raff (2019) demonstrated that companies adhering to both Sharia and sustainability principles enjoy more stable performance compared to those focused solely on short-term profits. Nevertheless, as recent reviews show (e.g., Dewi, 2025), the dynamic interplay between sustainability performance and Sharia compliance in Islamic finance under conditions of economic instability warrants further research.

Hence, the present study fills a timely gap by critically synthesising evidence across different regions and identifying specific gaps — for instance, the under-studied link between sustainability-linked financing in Islamic fintech and Sharia compliance in non-Middle-East jurisdictions — thereby contributing to both theory and practice in Islamic finance sustainability.

3. Methodology

3.1. Research design

This study adopted an interpretative phenomenological analysis (IPA) approach to explore in depth how sustainability is understood and implemented within Islamic financial institutions. The interpretative phenomenological method is designed to capture the lived experiences of individuals who have directly encountered a specific phenomenon, allowing the researcher to uncover the meaning structures underlying participants' perspectives (Creswell, 2007; Smith et al., 2009). This design was considered appropriate because sustainability and Sharia compliance are complex, context-bound concepts that require rich, experiential insights rather than surface-level description.

The researchers adopted a constructivist epistemological stance, assuming that knowledge of sustainability practices emerges through participants' subjective meanings and interpretations. Accordingly, the focus was not on producing generalizable outcomes but on obtaining an in-depth understanding of participants' experiences and reflections.

This research, therefore, aimed to examine the integration of sustainability principles—based on the Sustainable Development Goals (SDGs) and Global Reporting Initiative (GRI) standards—within Islamic financial institutions, and how these align with Sharia compliance frameworks.

3.2. Data collection

In phenomenological inquiry, data are typically obtained through in-depth, semi-structured interviews that allow participants to express their experiences in their own words (Creswell, 2007). In this study, data were collected through multiple qualitative techniques, including in-depth interviews, non-participant observation, documentation review, and literature analysis, to ensure data triangulation and enhance interpretive rigor.

Participants were selected using purposive sampling. The inclusion criteria required that each participant (a) possess at least five years of professional or academic experience in Islamic finance; (b) have direct involvement with sustainability initiatives, Sharia compliance, or regulatory supervision; and (c) be willing to share in-depth reflections on these issues. This selection ensured information-rich cases capable of illuminating the central research phenomenon (Patton, 2015).

Eleven participants were recruited, consisting of practitioners, academics, and regulators across major Indonesian cities (Jakarta, Surabaya, Bogor, and Yogyakarta). Sampling continued until data saturation was achieved—that is, when no new themes or insights emerged from subsequent interviews (Guest et al., 2020).

Each interview lasted between 60 and 120 minutes and followed a semi-structured guide divided into two parts: (1) demographic questions and (2) open-ended questions related to sustainability implementation and Sharia compliance. The guide was developed based on prior empirical studies (Jan et al., 2018; Jan et al., 2019; Jan et al., 2021) and adapted to the Indonesian Islamic finance context. All interviews were conducted privately, either in person or through focus group discussions when appropriate, and were audio-recorded with consent.

Additional data were collected through non-participant observation during site visits to participants' institutions, enabling the researchers to verify sustainability-related practices such as the use of green technology or environmentally responsible financing. Documentary data, including publicly available sustainability reports, were also analysed to triangulate findings with reported practices and performance indicators across economic, social, and environmental dimensions.

3.3. Research participants

The 11 research participants were purposively chosen based on their professional relevance and deep familiarity with the study phenomenon. All were individuals who understood both the operational implementation of sustainability frameworks within Islamic financial institutions and the principles of Sharia compliance. The sample included seven academics with expertise in Islamic economics and finance, three senior practitioners from Islamic banking institutions, and one regulator from a national Sharia financial authority. This composition ensured representativeness across key stakeholder groups influencing sustainability in Islamic finance.

Demographic information, including participants' age, current position, and years of experience, is summarised in Table 1. To preserve anonymity, all names were coded using initials, and identifying details were omitted.

Table 1: Research Participant Information

Name initials	Age	Work Experience	Current occupation
PR	57 years old	Vice president at a financial institution	Director of an Islamic entrepreneurship business
AW	43 years old	Sales and distribution division	Head of department at one of the Islamic financial institutions in Indonesia
RD	36 years old	Credit control staff, section head of human capital	HR compensation and benefits manager
MM	48 years old	Lecturer, researcher, motivator	Professor at one of the universities in Indonesia and Founder of Islamic Finance Consultant
SHE	43 years old	Lecturer, Assistant Sales Manager, Trainer, Member of Sustainability Working Group,	Director of Infrastructure Sharia Ecosystem at the committee on economic and Islamic finance in Indonesia
RAD	48 years old	Lecturer, researcher	Professor at one of the universities in Indonesia
RK	45 years old	Lecturer, researcher	Professor at one of the universities in Indonesia
RU	32 years old	Lecturer, researcher	Lecturer at one of the universities in Indonesia
AA	43 years old	Lecturer, researcher, economist, financial planner	Lecturer and professor at one of the universities in Indonesia
AK	44 years old	Lecturer, researcher	Lecturer at one of the universities in Indonesia
YS	46 years old	General manager, human capital manager, branch manager, recruitment manager, business development and service manager, selection & quality assurance senior office	Head of human resources at one of the Islamic financial institutions in Indonesia

3.4. Data analysis

Phenomenological data analysis began with verbatim transcription of all recorded interviews, followed by repeated readings to immerse the researchers in participants' narratives (Creswell, 2007). This phase facilitated the identification of initial meanings and experiential nuances.

The second step involved horizontalization, whereby each statement relevant to the phenomenon was treated as having equal value before clustering them into emergent meaning units (Creswell, 2007; Moustakas, 1994). Process coding was then applied to categorise participants' responses according to thematic relevance. Irrelevant or redundant statements were removed through reduction, focusing only on data that illuminated the intersection of sustainability and Sharia compliance.

From these coded data, significant statements were synthesised into broader "clusters of meaning," forming the basis for four principal themes: (1) adoption of green technology, (2) regulatory frameworks for sustainability, (3) integration of commercial and social finance, and (4) contributions to local economic development. These themes were subsequently mapped onto the three sustainability pillars—economic, social, and environmental—to enable comprehensive interpretation.

Triangulation was implemented at three levels:

1) Data triangulation—by comparing interview, observation, and documentation data to validate consistency.
2) Investigator triangulation—through cross-checking of coding and interpretations by multiple researchers to reduce subjective bias.
3) Methodological triangulation—by integrating qualitative interviews with document analysis (Denzin, 2012).

To further enhance credibility, member checking was conducted by returning preliminary findings to participants for confirmation and feedback. This step ensured that interpretations accurately reflected participants' intended meanings and reduced misrepresentation.

Through these iterative analytic processes, the study achieved methodological rigor by demonstrating coherence between data sources, transparency in coding procedures, and reflexivity in interpretation—hallmarks of trustworthy phenomenological research (Lincoln & Guba, 1985).

4. Results and Discussion

4.1. The unity that makes up sustainability

The issue of sustainability has been hotly discussed at the global level. The United Nations recommends that both private and government organizations or companies participate in sustainable development. Therefore, institutions and companies must consider their operations and business activities oriented towards the economic, social, and environmental aspects for the sustainability of the company.

Several previous studies have conducted the same analysis regarding the concept of sustainability as conducted by Jan et al (2018) by developing a sustainability measurement framework for the Islamic banking industry in Malaysia using the Maqasid Al-Shariah theory. Jan et al (2019) analyzed and evaluated the impact of sustainability practices on the financial performance of Islamic banks in Malaysia from the perspective of management, shareholders, and the market. Furthermore, Khattak (2021) investigated the impact of sustainability performance on bank financial performance in Muslim countries as well as the role of institutions in moderating the relationship. Then, with research conducted by Zheng et al (2021), who analyzed the factors that affect sustainability in financial institutions in Bangladesh, focusing on the role of green financing. From these studies, this research comprehensively explores how sustainability practices in Islamic financial institutions in Indonesia are based on the experiences of experts such as practitioners, academics, and regulators. This research presents perspectives from various Islamic financial institutions that have never been conducted by previous studies, which have only focused on Islamic banking institutions.

After analyzing data from various expert perspectives, the author created a series of models that show the unity of the sustainability concept, consisting of economic, social, and environmental aspects.

Sharia compliance and sustainability occupy a part that covers all aspects. The relationship between economic and social aspects in the business process of Islamic financial institutions is reflected by the word "justice," which is also a basic principle of sharia compliance. In the business process, Islamic financial institutions must ensure fair distribution of economic benefits between the parties involved, such as the community, investors, customers, and stakeholders. In terms of financing, Islamic financial institutions prioritize transparency and fairness in the sharing of profits and risks between providers and recipients of funds. In addition, equitable economic and social relationships can be found through a fair proportion of financing for large businesses and MSMEs. In addition, Islamic financial institutions must distribute benefits to the community to obtain profits. Thus, Islamic financial institutions are able to create a business environment that is in accordance with Sharia compliance, sustainability, and oriented towards the interests of the community.

The relationship between economic and environmental aspects in the business process of Islamic financial institutions is reflected in the word "balance," which is also a sharia compliance value. In carrying out their economic activities, Islamic financial institutions are committed to achieving a harmonious balance between economic growth and environmental sustainability. The basic principles of Islamic economics, especially the principle of balance, emphasize the importance of maintaining harmony between economic activities and environmental preservation. Islamic financial institutions, as part of institutions that adhere to the principles of Sharia compliance, are directed to carry out business activities that are not only economically profitable but also pay attention to their impact on the environment. For example, Islamic financial institutions balance the financing of the green and non-green sectors. Additionally, Islamic financial institutions must minimize the negative impact of their business operations on the environment. By ensuring this balance, Islamic financial institutions can take on the role of agents of sustainable development, reducing negative impacts on the environment, while still contributing to balanced economic growth.

The relationship between the social and environmental aspects in the business processes of Islamic financial institutions reflects a commitment to holistic responsibility. In this context, social responsibility leads to efforts by Islamic financial institutions to have a positive impact on society, especially through economic empowerment and inclusive financial access. Environmental responsibility refers to business policies and practices that respect and maintain the sustainability of nature by minimizing negative impacts on ecosystems. The principle of Sharia compliance instructs Islamic financial institutions to ensure that every business activity complies with Sharia ethical values and norms, including in terms of social and environmental responsibility. In the basic principles of Islamic economics, responsibility is not only limited to fulfilling financial obligations but also takes into account the social and environmental impacts of every business decision. Thus, Islamic financial institutions, by applying the principle of responsibility, can play a proactive role in building a sustainable society and preserving the environment.

For more details on the three aspects of sustainability, the following section details each aspect of sustainability in Islamic financial institutions and their compliance with Sharia. The following is a map of the results of the implementation that must be done by considering economic, social, and environmental aspects.

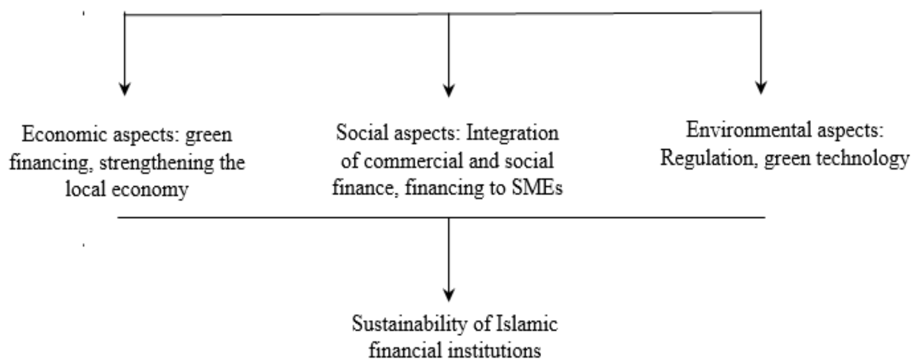

Fig. 1: Implementation of Sustainability in Islamic Financial Institutions.

The results of the mapping based on economic, social, and environmental aspects, as well as Sharia compliance, which refers to interviews conducted with practitioners, will be described in detail as follows.

4.2. Economic aspects

The economic aspect is one of the three aspects emphasized in the concept of sustainability. Economics cannot be separated from human activity. In the context of Islamic financial institutions, the economic aspect of sustainability can include economic benefits in the form of profits obtained by Islamic financial institutions. In addition, it can include the economic benefits of the community in the presence of Islamic financial institutions. To achieve sustainability, Islamic financial institutions can strengthen the economic aspect by providing financing to companies for projects that care about the environment. To achieve sustainability, Islamic financial institutions that provide financing, such as banks, can channel their funds to companies committed to building green and sustainable projects. If economic activities are carried out without considering the environmental impact, this will result in the cessation of economic activity. One of the interviewees stated this with the following expression:

Financial institutions provide financing to companies that are running sustainable activities that care for the environment, care for the community, well, like that, basically it's something that should be, it should be. If economic activities do not consider their impact on the environment, one day they will stop themselves. (Interview 2, AW).

Referring to AW's interview quote, Islamic financial institutions should provide full financing for projects that care for the environment. Based on this opinion, it implies that if the economic activities are not oriented towards environmental sustainability, it will cause the economy to stop. As can be seen in this case, during the pandemic. Before the pandemic, many people focused only on increasing economic growth. However, when the pandemic broke out, the world began to realize that it was not only the economic aspects that needed to be improved, but also the balance with the environment that needed to be maintained. Because a lack of attention to the environment causes disease outbreaks, the final impact is the cessation of economic activity.

As mentioned earlier, the economic aspect can be realized through efforts to provide benefits to the community that have an impact on local economic growth. Another interview mentioned that efforts made by Islamic financial institutions for corporate sustainability through economic aspects can be realized through investment and funding that can increase local economic growth. For example, Islamic financial institutions engaged in financing can channel their investments and funds to micro, small, and medium enterprises owned by the community in the company's environment. Providing financing to MSMEs can increase local economic growth. Activating MSMEs with the help of funds injected by Islamic financial institutions will trigger local economic growth. This is conveyed by the interview in the following quote.

The main consideration when making an investment or creating a financing product is that it can really lift local economic growth and provide money for the local community (Interview 3, RD).

Referring to the opinion expressed by the interview, RD indicates that for the sustainability of financial institutions, companies provide financing or funding that is beneficial for local economic growth. With the financing and investment provided by Islamic financial institutions to large companies and MSMEs, Islamic financial institutions have contributed to local economic growth and are beneficial for the sustainability of these institutions.

On the other hand, some documents corroborate the opinions of the interviewees regarding the necessity of financial institutions to provide green financing and distribution of financing to MSMEs to increase local economic growth. Bank Syariah Indonesia implemented green financing and distributed MSME financing.

Based on data obtained from the Bank Syariah Indonesia's sustainability report, they channeled 51.15 trillion in green financing. This is a positive step, and it should be for Islamic financial institutions to provide green financing, as stated by interviewee AW. However, the amount of green financing provided is still very small, or equivalent to 4.03 percent of the total financing disbursed, worth 207.7 trillion. This means that Bank Syariah Indonesia still provides more financing to the non-green sector and does not provide maximum support for green projects. In addition, Bank Syariah Indonesia, through its sustainability report, also shows that they have channeled financing to MSMEs amounting to 41.91 trillion. This indicates that Bank Syariah Indonesia has contributed to the advancement of the local economy through the financing provided to MSMEs. This is in line with the statement expressed by interview RD, by contributing to providing green or environmentally friendly funding and financing to MSMEs, indicating that these financial institutions have fulfilled the economic aspects of the concept of sustainability as outlined in the Sustainable Development Goals and GRI standards.

Meanwhile, there are Islamic financial institutions in the field of insurance, namely, Takaful. Takaful is not an Islamic financial institution that provides financial support. Therefore, to encourage sustainable finance, Takaful places investments in Sharia green financial instruments that support renewable energy projects. The investment instrument was a green sukuk with an investment of 5 billion. This can be seen in the realization report of Takaful's Sustainable Finance Action Plan in 2022.

4.3. Social aspects

To carry out business activities, Islamic financial institutions are required to pay attention to the surrounding community. Thus, the benefits obtained are not only felt by the company, but the community adjacent to the company also feels the benefits of the company's presence. The social aspect of sustainability in Islamic financial institutions includes efforts to ensure that business activities provide positive and inclusive benefits to society. Commercial and social integration can be achieved through financial products or institutions. This integration can strengthen and expand the benefits felt by the community. Based on the interviews conducted, one of the participants conveyed the solution to the social aspect, that Islamic financial institutions can integrate commercial finance with social finance. This is the following quote.

So maybe Islamic financial models can be developed that integrate commercial with social. I think some products already integrate commercial and social finance, such as cash waqf-linked sukuk. This is a very good innovation, but maybe the implementation still needs to be followed by improvement in community literacy. Because the value is not too large, the problem of literacy or the product may not be attractive. This model can be developed and already embedded in the Islamic economic and financial system. (Interview 2, AW).

Interviews 4, 5, and 6 also proposed the same solution for combining commercial funds with social funds. This can be seen in one of the investment vehicles that combines commercial financing with social financing, specifically waqf shares, as stated below.

We see from what has been developed by Islamic financial institutions at this time, for example, from the capital market, from the capital market he has shown from the social side, for example, waqf shares, now waqf shares that are then wrapped in PSAK 112.

The instruments that exist in Indonesia have also covered some of them, such as cash waqf-linked sukuk, which has already covered social; if the cash waqf sukuk is invested in green sukuk, it can be green again.

(Interview 5, SEH)

Waqf shares are also financial instruments with the most social dimensions for society. T

This is expressed in Participant 6.

People can donate shares to capital markets. It is more sustainable, and its social benefits are also great.

(Interview 6, RAD)

Referring to the results of the interviews conducted, regarding the efforts that can be made from the social aspect of sustainability, is to integrate commercial finance with better social finance. Indeed, thus far, this integration has been carried out, but there is still little interest. This integration process can be improved by developing its features, accompanied by community literacy.

On the other hand, Bank Syariah Indonesia has integrated commercial and social through its institution. This program is called BSI Maslahat. BSI Maslahat is a partner of Bank Syariah Indonesia in optimizing the potential and collection of ZISWAF funds, social donations, and CSR. Achievements were achieved by integrating commercial and social finance through Bank Syariah, Indonesia.

Based on the data above, the integration of commercial and social finance carried out by Bank Syariah Indonesia has been able to have a considerable impact. Through this integration, BSI has channeled funds amounting to 187.57 billion to beneficiaries with 22 programs, 145,962 beneficiaries, and more than a thousand institutions that receive benefits. Through the integration of commercial finance with social finance, the benefits felt by the community will become wider. Through this integration, Islamic financial institutions can allocate their resources to projects that provide social benefits, such as education, health, and poverty. This integration can help to alleviate poverty and reduce social inequality. It also allows access to finance for small entrepreneurs, poor communities, and other sectors in which traditional finance cannot provide support.

4.4. Environmental aspects

The environment is also an aspect that is no less important than the social and economic aspects. Efforts that can be made in the environmental aspect to achieve the concept of sustainability are to ensure that business activities carried out by Islamic financial institutions do not damage the environment and can even contribute to the preservation of natural resources. If a company is too focused on profit orientation and does not pay attention to the environment, there will be many other aspects that will reduce its profit. This is expressed by informant 7 in the following quote.

When we talk about financial theory and practice, in general, the main thing is profit, but then we realize that if we focus too much on profit, there will be many other aspects that will reduce the profit itself. (Interview 7, RK).

Business activities that do not focus on environmental aspects will ultimately have an impact on reducing profits. In the long run, a company may not be looked at. This is shown in the following excerpt:

In the future, sectors that are not environmentally friendly will automatically disappear and be included in the risk calculation element in the asset. (Interview 8, RU).

To reduce this impact, financial institutions are encouraged to care about the environment. This is the context of financial institutions as companies. However, in the context of channeling funds, what is more important is how it provides investment. This is expressed in the following interview excerpt:

They ensure that their business operations do not damage the environment, but I think that it is a general thing. What is more important in this context is that these are financial institutions. How do they make their investment and financing choices? How do they ensure that the investment is beneficial and does not damage the environment?

(Interview 10, AK).

This is corroborated by the opinion expressed in Interview 9 about how Islamic financial institutions provide financing to companies that do not damage the environment. This is contained in the following interview excerpt.

What if Islamic financial institutions do not finance the economic sectors that damage the environment, such as throwing their waste into the sea without being processed first? Waste is dangerous because it has an impact on sustainability, and in the end, it will cause dead fish, and so on. (Interview 9, AA).

When running their business operations, Islamic financial institutions can also utilize and adopt environmentally friendly technologies. For example, the use of EVs for employee accommodation utilizes solar panel technology for room lighting. In addition, they can conduct emission tests on vehicles so as not to contribute to or emit air pollution that is harmful to health. This is conveyed by the research participants in the following quote:

When I was at BSM, we had already started conducting studies in several branch offices, where the offices above them wanted to be built with solar panels. At that time, we talked to a provider from Germany, who would install the system. A solar electricity system was installed above the installed branch. Therefore, we only paid for the electricity used during the operation. We have reached this point (Interview 1, PR).

The opinion of interview PR is also in line with the opinion expressed by interview RD that, for better environmental benefits, Islamic financial institutions can use environmentally friendly technology. Reducing negative impacts on the environment can also be achieved in the administration of company operations. This was done by the Takaful Islamic insurance institutions. To achieve sustainability, Takaful implemented an administrative process that reduced the environmental impact by reducing the use of paper. This is revealed by the following interview excerpt.

Our company is concerned about sustainability, and we have started implementing it with simple practices. Starting from business operations, for example, reducing the use of paper and saving electricity... (Interview 11, ST).

The participants' opinions were corroborated by the realization report of Takaful's Sustainable Finance Action Plan in 2021. Based on the sustainability report, it appears that the campaign to reduce the use of paper in Takaful financial institutions showed quite good results. In 2020, 240 reams of paper were used. In 2021, only 180 reams of paper will be used. The campaign showed that Takaful institutions have implemented aspects of environmental benefits for sustainability. The campaign has shown positive results and succeeded in reducing the negative impact of excessive paper use on the environment.

Thus, the adverse effects caused by the company were not significant. On the other hand, practitioners also provide advice to strengthen regulations that care about the environment. This is because policies and regulations are also important to encourage sustainability initiatives. Government support can encourage Islamic financial institutions to be more aware of sustainability initiatives and reporting. The importance of this regulation was also conveyed by interviewee AW; it is even necessary for the Sharia council institution to make a fatwa. This can be found in the following quote.

I think there is nothing wrong with the National Sharia Council issuing a fatwa related to sustainable finance, especially if we see how environmental damage has affected people's benefits. (Interview 2, AW).

The results of interviews conducted with practitioners and academics indicate the importance of the government and related institutions that have the authority to issue policies. Therefore, these policies must be environmentally oriented. It was also mentioned that it is time for the National Sharia Council to issue a fatwa for Islamic financial institutions to provide financing and funding for sustainable projects. This is because projects that do not pay attention to the environment can result in environmental damage. Ultimately, this environmental damage impacts people's benefits. Natural disasters, such as floods and landslides, arise due to environmental damage from human actions and corporate projects that are not environmentally oriented.

4.5. Discussion

The sustainability initiative launched by the United Nations targets the participation of all elements of civil society, as well as governments, organizations, and companies. From an economic perspective, Islamic financial institutions need to provide financing for environmentally friendly projects. Islamic financial institutions include banking, capital markets, pawnshops, zakat institutions, waqf, and Baitul Maal. Islamic financial institutions, which are developing rapidly, are banking institutions. Banking institutions also provide considerable financing to companies and MSMEs. Therefore, Islamic banks and other institutions with the capacity to provide financing should be able to select companies or MSMEs that apply for financing. Financing can be provided to green projects without damaging the environment. So far, sustainable initiatives have touched on several aspects, but financing has not been optimal. Thus, sustainable development can be carried out while companies whose projects damage the environment are still financed by financial institutions. Thus, if some companies or MSMEs propose project financing that tends to damage the environment, Islamic financial institutions can review or even do not need to provide financing.

Through the financing provided, Islamic financial institutions can contribute to sustainable economic growth, as stated by the UN SDGs. In addition, providing financing that concentrates on economic and environmental benefits is in accordance with the standards issued by the GRI. This is in line and consistent with research (Ma et al., 2023; Quang Ngo et al., 2021; Sadiq et al., 2022; Zhou et al., 2020). mentioned that green financing is positively correlated with economic growth and has a positive impact on environmental preservation. In addition, this research is also consistent with research conducted by A. Jan et al. (2018, 2019) that by paying attention to economic aspects through its finances, the company or financial institution will be more sustainable in the future.

From a social perspective, this study formulates a solution so that Islamic financial institutions can integrate commercial finance with social finance. Although commercial and social finance have different characteristics, integrating them can have a positive impact on achieving the goals of sustainability and inclusiveness. Integrating commercial finance with social finance will increase its positive impact on society and the environment. For example, when Islamic financial institutions provide financing to companies focusing on sustainable projects or social initiatives, commercial finance becomes a positive force in promoting sustainable development. This integration benefits and supports financial inclusion by providing access to groups previously ignored by the traditional financial system. In this way, it can provide access to capital for businesses or projects that aim to create positive changes in society.

The importance of the integration of commercial finance with social finance, which can have a positive impact and even has the potential to reduce poverty, is consistent with research conducted by Siswantoro (2022). The integration of commercial finance with social finance can support various human and economic needs (Maulina et al., 2023; Priantina et al., 2023; Winarsih et al., 2019). In addition, the successful integration of commercial finance with social finance through cash waqf-linked sukuk is illustrated in the results of research conducted by Cahyono & Hidayat (2022; Iskandar et al., 2021; Ubaidillah et al., 2021) that these financial instruments can help the community in achieving fair and sustainable economic growth.

In addition, this integration can strengthen corporate social responsibility. A company can utilize its financial strength to create positive changes in society and create a good reputation, meeting the expectations of customers and stakeholders. (Ascarya & Suharto, 2021). Through this integration, companies can comply with SGDs' sustainability standards and GRI standards more easily. This can increase transparency and accountability in corporate sustainability. The integration of commercial and social finance creates synergies between economic and social benefits. Such synergies can create business models that are more sustainable and responsive to society's needs.

From an environmental perspective, academics recommend adopting technology and being environmentally friendly in Islamic financial institutions' business operations. Adopting environmentally friendly technology will reduce the adverse impact on the environment of business operations. (Cheng et al., 2021). Green technology also helps Islamic financial institutions reduce their carbon footprint. By implementing more energy-efficient systems and processes, such as cloud computing technology, virtualization, and smart energy management, Islamic financial institutions can contribute to global efforts to reduce the negative impacts on the environment. Utilizing green technology can improve the operational efficiency of Islamic financial institutions. Process automation, digitization, and the use of technology to improve productivity can help reduce resource wastage and minimize unnecessary environmental impacts. (Chen et al., 2020).

The utilization of green technology can improve the efficiency of Islamic financial institutions and can last for a long and sustainable period. This is in accordance with research that states that using green technology, the company will be longer-lasting and last for a long period of time. However, to achieve optimal sustainability, it must be supported by sufficient conditions in all the dimensions. (Fernando et al., 2019; Zhang et al., 2020). Additionally, environmentally oriented companies have a positive correlation with company sustainability. (Jitmaneeroj, 2016; Khan et al., 2016; Manrique & Martí-Ballester, 2017; G. Zheng et al., 2021).. To encourage every business to transform and use environmentally friendly technologies, environmental regulations from the government are required. This is evident from the research conducted by Cai et al. (2020; Hsu et al., 2021) that environmental regulations have a strong and significant incentive impact on green technology innovation in high-pollution industries. Environmentally friendly and socially responsible companies with strong governance policies can improve their economic performance. This is revealed in the research conducted by Dalal & Thaker (2019; Jitmaneeroj, 2016; Weber, 2014).

Sharia compliance plays a key role in the sustainability of Islamic financial institutions. Sharia compliance refers to conformity or adherence of an entity or activity to the principles of Islamic law. Sharia compliance is not just about complying with rules but also encompasses the values and ethics advocated by Islamic teachings. Therefore, Islamic financial institutions need to ensure that their business operations are in accordance with Islamic teachings. In practice, Sharia compliance has a positive impact on the sustainability of a business or company through profitability and improved financial performance. This is evident from research conducted by (Hambali & Adhariani, 2023; Pepis & Jong, 2019).. People looking for financial alternatives that are in accordance with Islamic values tend to choose financial institutions that comply with Sharia aspects. Compliance with Sharia principles will bring trust and satisfaction to the public. (S. Ahmed et al., 2022. People who trust Islamic financial institutions are more loyal to them. (Haron et al., 2020). Loyal customers have a positive impact on a company's sustainability.

Sharia compliance will encourage Islamic financial institutions to develop products and services in accordance with Sharia principles. It must be free from usury, speculation, or gharar, and transparency in financial operations. Sharia compliance can provide a more stable and secure foundation because companies are directed to avoid risks and practices contrary to Islamic principles. This supports long-term sustainability. This is the result of research revealed by Cheong (2021). To improve the compliance of Islamic financial institutions with Sharia principles, the involvement of the Sharia supervisory board must be increased, along with the capability and ability of human resources for reporting. Research conducted by Dahlifah et al. (2020) suggests that supervision by the Sharia Board will increase the Sharia compliance of Islamic financial institutions. In addition, employee expertise in reporting can increase the level of Sharia compliance. (Mukhibad et al., 2023). Islamic financial institutions comply if closely monitored. On the other hand, Islamic financial institutions must focus on improving their compliance. Islamic financial institutions must be open and provide clear information to customers regarding the products and services they provide. Customers know exactly what contracts are used in the transactions. Customers who clearly know about the products and services offered will assess whether the products and services of these financial institutions are in accordance with Islamic teachings. This is consistent with research conducted by Alam et al. (2022) that transparency and clearly disclosed information will be one of the aspects that can improve Sharia compliance, and Sharia disclosure affects the health of the institution. (Khomsatun et al., 2021), which can survive and be sustainable.

5. Conclusion

This solution framework represents the originality of this research, offering a practical roadmap that Islamic financial institutions can adopt to achieve sustainability across economic, social, and environmental dimensions while maintaining full Shariah compliance. The framework is derived from the perspectives of highly experienced practitioners who possess deep expertise in both Islamic finance and sustainability practices. From an economic perspective, Islamic financial institutions (IFIs) can provide green financing for environmentally friendly projects that contribute to sustainable development. From a social perspective, IFIs can integrate commercial and social finance models, such as zakat, waqf, and qard al-hasan, to support inclusive growth and poverty alleviation. Several studies have shown that this integration not only promotes social welfare but also enhances the resilience and competitiveness of the Islamic financial system.

From an environmental standpoint, Islamic financial institutions can adopt green and environmentally friendly technologies in their operations to minimize ecological footprints and optimize resource efficiency. Moreover, digital transformation—through technologies such as fintech, blockchain, and artificial intelligence—can catalyze achieving sustainability objectives in Islamic finance. Blockchain-based platforms can enhance transparency and traceability in Shariah-compliant transactions, reducing the risk of greenwashing and ensuring the integrity of sustainability reporting (Abdullah et al., 2024; Nurhadi et al., 2025). Fintech innovations, including digital crowdfunding and smart contracts, can also facilitate green investment flows, democratize access to financing for sustainable projects, and improve governance accountability (Aysan et al., 2023; Hasan et al., 2024). Artificial intelligence and data analytics can further strengthen environmental, social, and governance (ESG) monitoring systems, enabling IFIs to make data-driven decisions aligned with both Shariah principles and the Sustainable Development Goals (SDGs).

Islamic financial institutions must remain consistent and committed to Shariah principles in their products, services, and operations. Digital transformation, when aligned with Maqasid al-Shariah, has the potential to reinforce ethical governance and operational integrity, ensuring that technological advancement does not compromise Islamic ethical values but rather enhances them (Muneeza & Mustapha, 2024). Compliance with Shariah not only fosters customer trust and loyalty but also ensures the long-term sustainability and competitiveness of Islamic financial institutions.

Theoretically, this study enriches the body of knowledge by offering new insights from practitioners on how sustainability can be operationalized in Islamic financial institutions through digital innovation. Practically, the proposed framework provides actionable guidance for regulators, policymakers, and Islamic financial institutions to enhance sustainability governance in the digital era. Policy reforms should prioritize the integration of digital finance strategies—such as blockchain-enabled reporting systems, green digital sukuk, and Shariah-compliant fintech sandboxes—to facilitate responsible innovation and sustainable growth (Karim et al., 2025). These digital initiatives can align Islamic finance more closely with global sustainability frameworks and strengthen its contribution to climate-resilient development. Ultimately, this research underscores that the synergy between sustainability, Shariah compliance, and digital transformation is pivotal to shaping the future of Islamic finance. By embedding sustainability into their strategic and technological agendas, Islamic financial institutions can enhance their global relevance, attract ethical investors, and foster a more inclusive and resilient financial ecosystem.

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