T.R.
ISTANBUL SABAHATTIN ZAIM UNIVERSITY
GRADUATE EDUCATION INSTITUTE
DEPARTMENT OF ISLAMIC ECONOMICS AND FINANCE

THE IMPACT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE ON FINANCIAL PERFORMANCE OF BANKING SECTOR: SELECTED ISLAMIC BANKS

Ph.D. DISSERTATION

Marwa Al FARES

Istanbul
June, 2025

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APPROVAL PAGE

This study has been approved to partially fulfil the requirements for Ph.D. Degree in Islamic Economics and Finance.

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DECLARATION OF SCIENTIFIC ETHICS AND ORIGINALITY

This is to certify that this Ph.D. thesis dissertation titled “THE IMPACT OF ENVIRONMENTAL SOCIAL AND GOVERNANCE PERFORMANCE ON FINANCIAL PERFORMANCE OF BANKING SECTOR: SELECTED ISLAMIC BANKS” is my own work, and when wrote it, I did so in accordance with academic and scientific standards. I have gathered and utilised all data and material in accordance with scientific ethics and Istanbul Sabahattin Zaim University's thesis writing rules. I have properly cited all direct and indirect quotations as well as all sources I used in this work in both the text and bibliography.

Marwa Al FARES

Istanbul, June 2025

ACKNOWLEDGEMENT

First and foremost, I would like to express my deepest gratitude to my Professor Dr. Mehmet BULUT, whose invaluable guidance, unwavering support, and insightful feedback have been instrumental throughout my PhD journey. Your mentorship has not only enriched my academic work but has also inspired me to strive for excellence. I extend my heartfelt appreciation to my thesis committee members, Prof. Turan EROL And Dr. Zeyneb HAFSA, for their constructive criticism, encouragement, and valuable suggestions that have helped shape this research.

A special thanks to Istanbul Sabahattin Zaim University's and the faculty members of Islamic economic and finance for providing me with a stimulating academic environment, as well as access to resources that have been essential in completing this work. I am also deeply grateful to my colleagues and fellow researchers for their collaboration, discussions, and unwavering support throughout this academic journey. Your camaraderie has made this experience both fulfilling and enjoyable.

Beyond academia, I am profoundly thankful to my family for their unconditional love, patience, and encouragement. My parents have been my pillars of strength, always believing in my potential and supporting me through every challenge. My heartfelt appreciation also goes to My husband Dr. Omar Kachkar for his understanding, sacrifices, and constant motivation.

Finally, I extend my gratitude to all those who, in one way or another, have contributed to the successful completion of this thesis. Your support and encouragement have been invaluable, and I am truly grateful for each and every one of you.

Marwa Al Fares

Istanbul, June 2025

ABSTRACT

THE IMPACT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE ON FINANCIAL PERFORMANCE OF ISLAMIC BANKING SECTOR: SELECTED ISLAMIC BANKS

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Ph.D. Dissertation, Department of Islamic Economics and Finance

Supervisor: Prof. Dr. Mehmet BULUT

June- 2025, 214 +xiii Pages

In recent years, scholarly interest in the relationship between Environmental, Social, and Governance (ESG) scores and financial performance has grown. However, the Islamic banking sector has received limited attention in this context. This study aims to address this gap by examining the impact of ESG scores on the financial performance of Islamic banks worldwide, with a particular focus on Southeast Asia and the MENA region. The research uses return on assets (ROA) and return on equity (ROE) as key financial performance indicators, while ESG scores are disaggregated into distinct independent variables to assess their individual effects. The Refinitiv Eikon Thomson Reuters database provided the data, which were then subjected to panel data analysis on an annual basis. The findings show that ESG scores exert a positive and statistically significant influence on ROA, underscoring the strong correlation between ESG practices and long-term asset efficiency. In contrast, ESG scores do not significantly impact ROE, highlighting the challenges of aligning sustainability initiatives with short-term profitability. Further analysis indicates that environmental performance does not significantly affect financial performance, while social performance demonstrates mixed results, occasionally showing significant but inconsistent effects on long-term performance (ROA). Notably, governance emerges as the most influential ESG component, driving long-term efficiency and risk mitigation. The findings have important implications for investors, policymakers, and other stakeholders in the banking industry, particularly in the MENA and Southeast Asian regions. This study emphasises the importance of prioritising governance enhancements, such as improving decision-making transparency and strengthening compliance procedures, as these measures consistently contribute to increased ROA. Overall, the results highlight the critical role of robust governance frameworks in fostering sustainable financial performance in Islamic banking.

Key terms: ESG Scores, Financial Performance, Islamic banks, Sustainability Impact.

ÖZET

ÇEVRESEL, SOSYAL VE YÖNETİŞİM PERFORMANSININ BANKACILIK SEKTÖRÜNÜN FİNANSAL PERFORMANSI ÜZERİNDEKİ ETKİSİ: SEÇİLMİŞ İSLAMİ BANKALAR

Marwa Al FARES

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Tez Danışmanı: Prof. Dr. Mehmet BULUT

Haziran 2025 – 214 +xiii Sayfa

Son yıllarda, ESG skorları ile finansal performans arasındaki ilişkiye yönelik akademik ilgi artmaktadır; ancak İslami bankacılık sektörü bu bağlamda sınırlı düzeyde incelenmiştir. Bu çalışma, ESG skorlarının İslami bankaların finansal performansı üzerindeki etkisini küresel ölçekte, özellikle Güneydoğu Asya ve MENA bölgesine odaklanarak incelemektedir. Araştırmada, temel finansal göstergeler olarak varlık getirisi (ROA) ve özkaynak getirisi (ROE) kullanılmış, ESG bileşenleri bağımsız değişkenler olarak analiz edilmiştir. Veriler Refinitiv Eikon Thomson Reuters veri tabanından alınarak panel veri analizi uygulanmıştır. Bulgular, ESG skorlarının ROA üzerinde pozitif ve anlamlı bir etkisi olduğunu, ESG uygulamaları ile uzun vadeli varlık verimliliği arasında güçlü bir ilişki bulunduğunu göstermektedir. Buna karşılık, ESG skorlarının ROE üzerinde anlamlı etkisi bulunmamış, bu da sürdürülebilirlik uygulamalarının kısa vadeli kârlılıkla uyumunun sınırlı olduğunu ortaya koymuştur. Çevresel performansın etkisi anlamsız bulunurken, sosyal performansın ROA üzerinde zaman zaman tutarsız etkiler yarattığı görülmüştür. En dikkat çekici bulgu ise yönetişimin en etkili ESG bileşeni olmasıdır; yönetişim, verimliliği artırmakta ve riskleri azaltmaktadır. Bu sonuçlar, MENA ve Güneydoğu Asya'daki karar vericiler için yönetişim uygulamalarının güçlendirilmesine öncelik verilmesi gerektiğini göstermektedir. Genel olarak, sağlam yönetişim çerçeveleri İslami bankacılıkta sürdürülebilir finansal performans için kritik önemdedir.

Anahtar Sözcükler: ESG Skorlar, Finansal Performans, İslami bankalar, Sürdürülebilirlik Etkisi

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LIST OF ABBREVIATIONS

ESG:	Environment social and governance
WCED:	World Commission on Environment and Development
AAOIFI:	Accounting and Auditing Organization for Islami Financial Institutions
UNDP:	United Nations Development Program
IBs:	Islamic banks
CSR	Corporate Social Responsibility
CS	Corporate Sustainability
BFP:	Banks financial performance

CB:	Conventional banks
CSR:	Corporate social responsibilities
CFP:	Corporate Financial performance
IFSB:	Islamic Financial Services Board
CIBAFI:	General counsel for Islamic banks and financial institutions
UNGA	United Nations General Assembly

CHAPTER I

INTRODUCTION

1.1. Background of the Study

1.1.1 Sustainability and Financial Sector

In recent years, sustainability has become a prominent topic of interest within the social sciences disciplines. This interest has been visualized in the 17 Sustainable Development Goals of the UN 2030 Agenda. Climate change effects are no longer a future debate. We are witnessing the dramatic consequences of climate change in our life on a daily basis. These consequences are happening in the form of more floods, droughts and extreme weather. In addition, the biodiversity problem, poverty, exploitative production and over consumption have led to catastrophic environmental, financial, and socioeconomic impacts. The report on the state of global climate issued this year, 2024, by the World Meteorological Organization, draws a very gloomy picture of the future of our globe. The year 2023 was the hottest on record, with global temperatures rising by 1.45 ± 0.12°C above pre-industrial levels. Ocean heat content reached its highest point in 65 years of observations, and global sea levels hit a new peak. Over the last decade (2014–2023), the rate of sea-level rise more than doubled compared to the first decade of satellite records (1993–2002). Swiss glaciers lost roughly 10% of their remaining ice volume in just two years. Floods caused by intense rainfall from Mediterranean Cyclone Daniel devastated areas in Greece, Bulgaria, Türkiye, and Libya, with Libya seeing particularly severe loss of life. Additionally, in 2023, food security, displacement, and the welfare of vulnerable populations were significantly impacted by increasing climate and weather hazards worldwide (the World Meteorological Organization, 2024).

In order to encounter global sustainability issues, a new paradigm of the planet management is urgently needed. Several initiatives have been implemented in the past few decades to tackle the challenges of sustainability and discuss a potential solution for this pressing case.

The United Nations Climate Change Conference (COP26) in November 2021 sought to discuss urgent action to combat the climate crisis. The Millennium Development Goals

(MDGs) in 2000 have set up convenient wages and fair working conditions. Later on, the Sustainable Development Goals (SDGs) in 2015 by the United Nations (UN), have addressed the irresponsible behavior of individuals, firms, and corporations which have resulted in disastrous consequences to natural life. Many countries have adopted these goals and integrated them into their national public policy (Guide, 2022).

Financing the UN SDGs will require an unprecedented mobilization of billions of financial resources to support their implementation. The UN has issued a report this year, 2024, on the financing the sustainable development of the 2030 SDGs. According to the report, achieving the extensive transitions necessary to prevent catastrophic climate change will demand investments on an unprecedented scale. Multiple efforts have been made to assess the financing and investment gaps for the Sustainable Development Goals (SDGs). Although estimates vary, the financing gaps are consistently massive, particularly for developing nations, ranging from $2.5 trillion to $4 trillion per year. These gaps, already substantial before 2020, have widened dramatically since then. OECD Global Outlook has reported a 56% increase in the financing gap for developing countries (UN Report, 2024).

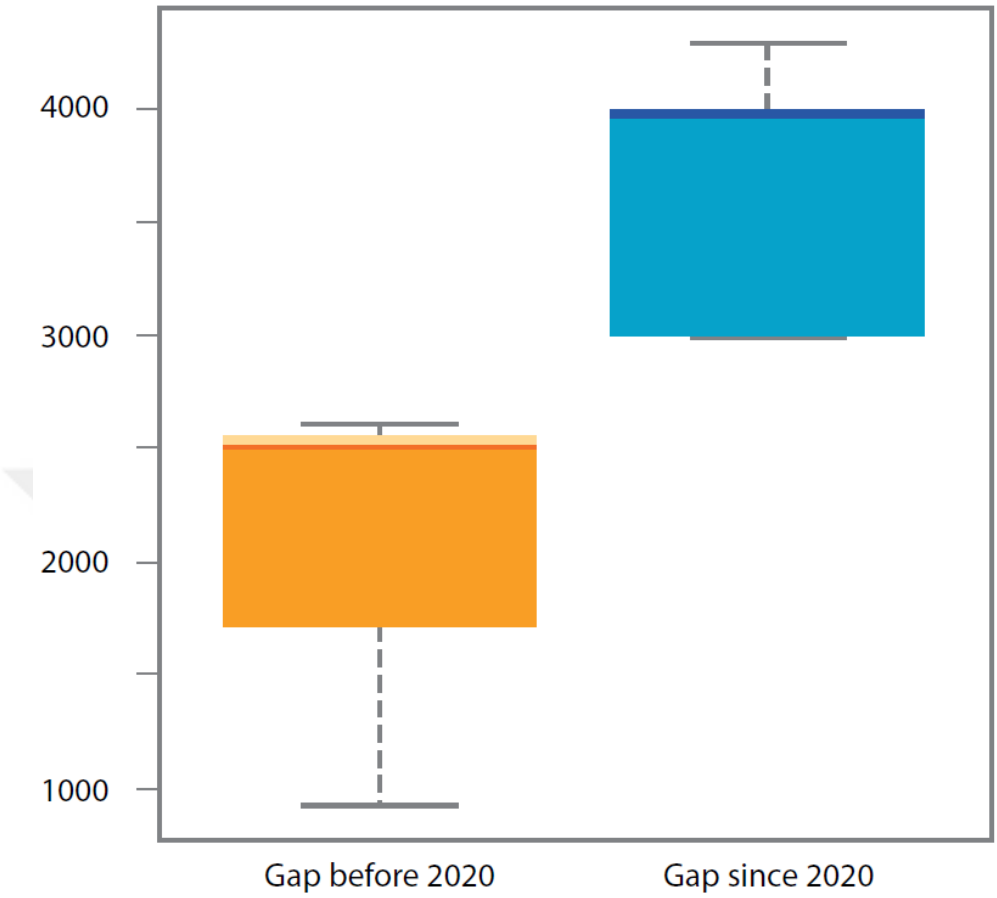


Figure 1.1: Estimates of Annual SDG Financing Gaps in Developing Countries (billions of USD)

Source: UN Report, 2024

The McKinsey Global Institute (2016) estimates that approximately $3.7 trillion will be required annually until 2035 to fund critical infrastructure—including transportation systems, utilities, and telecommunications—essential for sustaining economic growth in line with global GDP projections. This amount could rise by an additional $1 trillion each year if efforts to achieve the United Nations' Sustainable Development Goals are considered (Woetzel et al., 2017).

In contrast, to the rising financial needs, numerous countries are grappling with strict fiscal limitations and heightened risks of debt distress. The median debt service burden for least developed countries (LDCs) surged from 3.1% of revenue in 2010 to 12% in 2023, marking the highest level since 2000. Additionally, 40% of the global population lives in nations where governments allocate more funds to interest payments than to essential

services like education or healthcare. The continued expansion of the private sector—critical driver for promoting long-term sustainable development—has become even more significant in today's global context (UN Report, 2024). In light of these developments, it is imperative that governments undertake decisive and proactive measures to address the emerging challenges.

Financial institutions have a fundamental role in the global economy due to their size and their ability to extend finance to industries with critical social and environmental impacts, Banks' response to sustainability challenges was slow compared to other sectors (Jeucken,2001). Banks and financial institutions through implementing some more sustainable citeria in their business can make a real difference towards achieving the UN SDGs. As such banks have started increasingly to disclose social and environmental information due to stakeholder pressure to improve their performance and preserve their position in society (Gray et al.,1995; Darrell & Schwartz,1997). Governance and Accountability Institute Research (2020) reported that sustainability reporting amongst S&P 500 companies has inclined from 20% in 2011 to 75% in 2014 and to 90% in 2019. Moreover, the international surveys of environmental reporting display that between the 250 top companies in the world, 45% issue separate environmental reports in 2002 and it has been increased to reach 90% and95% for the years between 2011 and 2017 (KPMG,2017).

The financial sector should be the efforts leader to accomplish global sustainability. Banks, as financial intermediaries play a central role in the global sustainability-support performance. This is because a considerable volume of business activities is financed through banks. Likewise, banks can significantly impact the global trend in investment activities via supporting sustainability-friendly business activities (Rajput et al., 2013), (Guide, 2022).

Despite the fact that the financial sector has been always a tool for development and prosperity throughout history, the financial sector recently has suffered from persistent and intensive misorientation of the financial sector functions. In other words, the financial sector has missed its primary function which is supporting and facilitating real economic activity, thus, the confusion of its support and service functions with wealth creation

functions has led to a financialization problem which means the growth of the financial sector, the increase its power over the real economy, and the reduction of all of society to the realm of finance. Thus, the financial sector has become an instrument for wealth creation, a quick and easy way of earning money, rather than facilitating real economic activity, to be more specific, assigning incorrect tasks to the financial sector has led to resources and capital diversion from the real economy to the financial sector. Therefore, the financial sector has rapidly grown and expanded through virtual and speculation products at the expense of the real economy. This has caused a financial disintermediation and disconnection between the financial sector and the real economy (Kahf, 2013).

Economy highlights broader concerns of unsustainability. In 2019, global GDP accounted for a mere 8.3% of total financial assets, underscoring the immense strain placed on the world's resources (Guide, 2022). This imbalance reveals not only the over-reliance on financial instruments and markets compared to tangible economic activities but also the growing risk of resource depletion and environmental degradation. As financial assets expand disproportionately, the pressure on ecosystems and natural capital intensifies, amplifying concerns about long-term economic and environmental sustainability. Furthermore, banks and financial institutions have negatively contributed to multiplying and aggravating the problem through their lending methods which have increased the demand for resources that have exceeded a reasonable level. Thus, that has accelerated the environmental crisis and exhausted the global resources, moreover the current financial system does not provide an equal access to resources for all, especially the poor and needy which considered injustice. Therefore, a new reforming paradigm should be implemented as a rescuing plan which should involve the true implementation of SDGs (Guide, 2022).

The ESG term was first mentioned in a 2004 United Nations report titled "Who Cares Wins" (Dan, 2022), Investment in ESG has grown significantly, largely driven by the long-standing influence of Socially Responsible Investment (SRI) initiatives. Some argues that SRI concept is more related to ethical and moral standards and is mostly used for negative screening, such as not investing in alcohol, tobacco, or weapons, while the ESG factors is more financial relevance. ESG investing is globally known as incorporation

of environmental, social and governance (ESG) factors into investment processes and decision-making (kell, 2018).

According to Kotsantoniset et al., (2016), growing worries about the sustainability of the environment and society, dating back to the early 1990s, have led to a change in business paradigms in developed countries. This transition in corporate paradigms has been provoked by issues such as greenhouse gas emissions, energy usage, worker rights, workforce diversity, and gender equality. These aspects were collectively referred to as environmental, social, and governance (ESG) practices in corporate policies. Later on, some pioneer companies had a head start in integrating ESG practices into their business models and adopting special policies and regulations to tackle sustainability issues (Vitell & Hidalgo, 2006). Recently, ESG practices have gained widespread supported by civil society and institutional actors; additionally, they have become widely adopted and implemented across industries and countries. However, there is still a noteworthy variation in the extent to which firms adhere to ESG practices, and there are still a significant number of companies that lag behind (Gerard,2019).

An increasing number of researchers and economists are engaged in an ongoing discussion about how ESG practices influence corporate profitability. While some argue that these practices could influence financial profitability, others remain uncertain about the extent and nature of this effect (see Avramov et al., 2021; Gillan et al., 2021). Additionally, the difficulty of measuring ESG performance arises from the presence of various and different approaches, which in turn leads to contradicting results and makes the debate more complicated (Friede, Busch, & Bassen, 2015; Gillan, Koch, & Starks, 2021). Furthermore, all the previous empirical research depends on ESG ratings issued by institutional agencies, although these agencies are regarded as trustworthy measures. These ratings can be misleading because they're based in part on information provided by the companies themselves, who may have an incentive to withhold complete transparency and only provide information on their best-performing areas. Furthermore, comparable information on the environmental element of ESG practices is scarce, raising questions about the factors impacting disclosure, Tamimi & Sebastianelli (2017); McBrayer (2018).

Starting around fifty years ago, Islamic banks have emerged as potential player in financial markets. Islamic banking has its uniqueness in conducting its business activities based on Sharia which employs the rules set by the Qur'an and Sunnah to provide ethical, moral, balanced, real, and justice products and services. They already have a lot in common with the key objectives of sustainability with a well-established set of criteria that must be observed not only to be in line with sustainability goals but also as part and parcel of their being Shariah compliant and Shariah objectives-oriented (Haq & Wahab, 2019).

In the South-East Asian region, only about 26% of IBs reported on their sustainability-related activities and commitments, as highlighted by Meutia and Febrianti (2017). Furthermore, studies conducted by Nobanee and Ellili (2016) revealed that Islamic banks in the United Arab Emirates demonstrated a lower level of sustainability disclosure when compared to their conventional banking counterparts. Complementary research analyzing 91 Islamic banks operating across 13 countries found that these institutions generally gave limited attention to sustainability reporting and standards (Mallin et al., 2014).

Similarly, Demirgüç and Huizinga (2001) examined 14 Islamic banks from 14 different countries and found that their sustainability initiatives and disclosure practices were generally inadequate. Supporting these findings, Hassan and Syafri Harahap (2010) discovered that in seven Muslim-majority nations, Islamic banks did not prioritize sustainability regulations or transparency in their reporting.

With regard to sustainability integration, Islamic financial institutions typically adopt one of two conceptual frameworks: the institutional model or the welfare-oriented approach. According to Mansour et al. (2015), the institutional model focuses on generating long-term wealth and value for the bank’s various stakeholders. In contrast, the welfare-based approach seeks to enhance social well-being in accordance with the principles of Maqasid Al-Shariah, which underscores ethical and socially responsible behaviours. These perspectives support the argument that sustainability is inherently embedded in and inseparable from the foundational philosophy of Islamic banking.

Over the last four decades, the Islamic financial sector has witnessed substantial expansion, as reported by Salam Gateway. It has emerged as one of the most rapidly growing components of the global financial landscape. The Islamic finance industry,

valued at approximately USD 2.2 trillion, was projected to grow at a rate of 10% to 12% during 2021 and 2022. This growth has been driven by a modest economic recovery in key Islamic finance regions, along with increased issuance of Islamic bonds (sukuk). According to Jan et al. (2021), Iran, Saudi Arabia, Malaysia, the United Arab Emirates, Kuwait, and Qatar collectively account for nearly 85% of the world's Islamic banking assets. Following them are countries like Bangladesh, Pakistan, Indonesia, and Turkey, which make up the second tier in terms of Islamic banking development. In contrast, nations such as Brunei, Egypt, Oman, Bahrain, and Sudan represent the smallest share of the global Islamic banking sector.

From 2008 to 2017, Jan et al., (2019) examined the relationship between sustainability practices and financial performance from an Islamic perspective in Malaysia. The findings showed that there was a strong positive correlation between sustainability practices and Islamic banks' financial performance. Moreover, the limited adoption of sustainability reporting and practices within the Islamic banking sector may be largely attributed to the lack of comprehensive literature on sustainability in this field, along with the absence of robust frameworks to assess such activities.

The valid question to be asked in this context is best articulated as follows, "what is the state of performance of Islamic banks in regard to sustainability compared to counterpart conventional banks?". In other words, how can the sustainability stakeholders, including shareholders, investors and regulators, can ensure that Islamic banks are adequately supporting sustainability in their business activities? And to what extent adhering to sustainability practices will enhance the financial performance of banks. To answer this question, this research aims to assess the sustainability performance of Islamic banks. After that, the research will examine the relationship between ESG scores and the financial performance of Islamic banks. Assessment will be conducted by using primary source of data from Eikon data base on the ESG scores. Banks financial performance as measured by ROA and ROE. Besides, the existing literature published in financial reports and special sustainability reports and ESG reports will be extensively reviewed. Research variables will include key sustainability indicators as highlighted in the table 1.1 below.

Table 1.1: Examples of Key Sustainability Indicators

Examples of key sustainability indicators	
Social	**Environmental**
Education	Renewable energy
Health	Green projects
Vulnerable groups	Clean transportation
Young Human Resource	Water and waste management
Community development projects	Sustainable energy infrastructure
Women's economic empowerment	Water and sanitation projects
Waqf projects	Carbon Footprints and Climate Change
Zakah contributions	Biodiversity Nature
Sadaqah	Pollution reduction projects
Qard Hasan	Deforestation
Promote financial inclusion for vulnerable groups	Hydroelectric Transportation

Source: Developed By the Author from Several References

1.2. Statement of the Problem

The increasing importance of Environmental, Social, and Governance (ESG) performance in the financial sector has prompted inquiries into its effect on the financial results of banks, especially within the context of Islamic banking, which operates according to Shariah principles. Islamic banks, with their ethical framework, inherently align with various ESG values, such as social responsibility and governance. Although ESG principles naturally align with Islamic banking values, their incorporation into the industry and influence on financial performance have not been thoroughly investigated. This research seeks to address that gap by examining how ESG scores correlate with the financial outcomes of selected Islamic banks.

Despite the global momentum toward sustainable finance, many financial institutions face challenges in quantifying the financial benefits of strong ESG performance. For Islamic banks, understanding how ESG factors influence profitability and financial health is essential, especially as they navigate a growing demand for ethical and sustainable banking practices. By investigating the extent to which ESG scores correlate with financial metrics, this study aims to provide valuable insights for policymakers, regulators, and bank management. This research could reveal whether Islamic banks, which inherently follow socially responsible practices, gain competitive advantages in terms of financial performance through robust ESG adherence, or if there are gaps that need to be addressed to enhance both ESG outcomes and profitability.

1.3. Research Main Objective

The primary aim of this research is to explore how Environmental, Social, and Governance (ESG) scores influence the financial performance of Islamic banks. By analyzing the relationships between ESG metrics and financial outcomes, this study seeks to offer insights into whether sustainability practices impact profitability and growth in Islamic financial institutions.

1.3.1. Sub-Objectives of the Study

This research seeks to achieve the following specific objectives:

1. To evaluate the effect of environmental performance on the financial outcomes of Islamic banks.
2. To investigate the influence of social performance on the financial performance of Islamic banks.
3. To analyse the impact of governance performance on the financial success of Islamic banks.
4. To compare ESG scores across selected regions, focusing on differences between banks in Southeast Asia and the MENA region (inter-region ESG scores).

V. To assess whether the influence of ESG scores on financial performance differs across regions, specifically comparing Southeast Asia and MENA (inter-region ESG impact).

1.4. Research Main Question

The central research question is: "How do ESG scores affect the financial performance of Islamic banks?"

1.4.1. Research Sub-Questions

This study also aims to address the following sub-questions:

I. How does the environmental performance of Islamic banks affect their financial performance?

II. What is the relationship between social performance and financial performance in Islamic banks?

III. How does governance performance impact the financial outcomes of Islamic banks?

IV. Are there regional differences in ESG scores among Islamic banks in Southeast Asia and the MENA region?

V. Do regional differences exist in how ESG performance influences financial outcomes in Islamic banks across Southeast Asia and MENA?

Through these research objectives and questions, the study will provide a detailed examination of how ESG practices vary across regions and their subsequent impact on the financial health of Islamic banks. This will offer a deeper understanding of both sustainability practices and regional dynamics within the Islamic banking sector.

1.5. The Significance of Research Topic and Contribution

The importance of this research stems from the significance of the underlying topic that tries to contribute to the ongoing discussions and global efforts on sustainability, which has become a focal point for both academics and practitioners, particularly in light of the United Nations' 2030 Sustainable Development Goals (SDGs). These goals, adopted in 2015, have sparked a paradigm shift in how financial institutions, including Islamic banks, incorporate environmental, social, and governance (ESG) factors into their operations.

In the context of Islamic finance, sustainability is not merely a modern trend but an inherent part of Shariah principles, which emphasize ethical, social, and environmental responsibility. Islamic finance has always prioritized the financing of activities that align

with Shariah's objectives (Maqasid al-Shariah), which promote justice, fairness, and the well-being of society. The exclusion of non-ethical or environmentally harmful businesses from Islamic financing further highlights the natural synergy between ESG principles and the fundamental tenets of Islamic finance.

This research makes a significant contribution by investigating the ESG performance of Islamic banks, a topic that remains underexplored despite its growing relevance. By analyzing the link between ESG performance and financial outcomes, this study will offer important insights into whether sustainable and ethical practices positively impact the financial success of Islamic banks. Additionally, it will highlight the potential for Islamic banks to take a leading role in the realm of sustainable finance, given their intrinsic alignment with many ESG principles. Moreover, the findings will be vital for policymakers, bank executives, and investors who aim to strengthen both sustainability efforts and financial returns within the Islamic finance sector. This research could also open doors to the development of targeted strategies that promote long-term financial health through responsible business practices.

1.6. Scope of the Study

Investigating the impact of ESG scores on financial performance of Islamic banks is the central point of this research. This means that the following areas of research will be excluded.

- Sustainability performance in other Islamic financial institutions such as takaful companies, utility sector and investment funds
- The impact of ESG scores on banks efficiency
- The impact of ESG scores on banks stability
- The impact of ESG scores on banks' efficiency and banks’ technical efficiency.
- The impact of ESG scores on conventional banks

1.7. Limitation of the Study

The study focuses specifically on the relationship between ESG scores and the financial performance of Islamic banks, leading to several limitations in scope. First, the research

excludes an examination of sustainability performance in other Islamic financial institutions, such as Takaful companies, the utility sector, and investment funds. This limits the study's findings to Islamic banks and prevents generalization to the broader Islamic financial industry.

Additionally, the study does not explore the impact of ESG scores on bank efficiency or bank stability, which are critical aspects of financial performance. These exclusions mean the research will not provide insights into how ESG factors influence operational or technical efficiency, leaving potential gaps in understanding how ESG initiatives affect a bank's overall efficiency metrics. The research also omits a comparative analysis with conventional banks, restricting the findings to Islamic banks and missing a broader context for evaluating ESG impacts across different banking models.

Lastly, a key limitation in this study is the availability of ESG data for Islamic banks. Inconsistent reporting frameworks, lack of transparency, and limited historical data restrict the study's ability to analyze a comprehensive dataset, potentially affecting the accuracy, depth, and generalizability of the findings on ESG and financial performance.

1.8. Organization of the Study

This research study is structured into five chapters. Chapter one outlines the background of the study, defines the research problem, and states the objectives, purpose, research questions, significance, scope, limitations, and assumptions. Chapter two includes a theoretical and empirical review, presents the conceptual framework, identifies knowledge gaps, and summarizes the literature review. Chapter three details the research methodology, including the research design, target population, sampling approach, sample size, research instruments, pilot study, data collection methods, data analysis, and ethical considerations. Chapter four presents several conceptual and theoretical frameworks which this study relies on. While chapter five discussed the data analysis and the methods which have been used to obtain the research findings and its implications, chapter five concludes with a summary, recommendations, and proposals for extra future study.

CHAPTER II

REVIEW OF THE RELATED LITERATURE

Introduction

This chapter surveys the existing literature on the main concepts of this research topics. This includes the recent debates and discussions pertaining to issues such as sustainability, corporate sustainability, circular economy, sustainability from an Islamic perspective and ESG. This chapter ends with the discussion of the recent works and literature on the relationship between ESG performance and financial performance**.**

2.1. Overview of Sustainability

2.1.1. What Is Sustainability?

The term "sustainability" is still ambiguous and complex, with numerous interpretations in use. Sustainability is generally defined as the “ability to last for a longer period of time." Sustainability can be described as "the quality of being able to continue over a period of time" or as "the ability to continue for a long time while causing little or no damage to the environment," according to the Cambridge Dictionary, (2017). The concern of the depletion of natural resources and global warming was the main motive and driver for the UN to take effective measures to tackle this problem. The UN entrusted a group of scientists and experts to explore these issues and the relationship between social, economic, and environmental problems. Since the 1980s, the debate on sustainability issues started to develop Sustainability as an important concept in researchers’ papers and research (Scoones, 2007). Nowadays, sustainability has occupied the top priorities of governments agendas for politics, economics, and education. (Neumann, Martinez, & Martinez, 2021).

The term "sustainability" was initially introduced in the 1987 Brundtland report by the (WCED), where it was described as the harmonious integration of economic growth, environmental protection, and social equality. In the business context, sustainability refers to how companies manage economic, environmental, and social risks. As a result, sustainability can be categorized into three key dimensions: economic, environmental, and social sustainability. Economic sustainability focuses on factors such as cash flow,

income, expenses, taxes, employment, and business diversity (Hall et al., 2011). It can be understood as a company's financial and economic success through effective stakeholder management (Jan et al., 2019). Moreover, Environmental sustainability denotes responsible actions to conserve natural resources and protect global ecosystems which will influence their viability and preserve health and well-being, for current and future generations. (Hall et al., 2011). Another study has concluded that environmental sustainability is "meeting the resource and services needs of current and future generations without compromising the health of the ecosystems that provide them" (Morelli, 2011).

The Brundtland Report describes sustainable development as a form of progress that satisfies current needs without hindering future generations from fulfilling their own requirements (UNGA, 1987, p. 54). The report was the cornerstone and the basis for the 1992 Rio Summit, which considers another substantial occasion that led to the creation of the UN Commission on Sustainable Development.

As mentioned earlier, the environment is one of the key components of sustainability and the many environmental issues that are constantly emerging such as climate change, Li et al. (2018), carbon emissions, and land, water, and air pollution, global warming Sun et al. (2018), and rising energy prices have attracted global interest (Gopalakrishnan et al., 2012).

Social sustainability refers to community and it involves the tools by which can ensure people's quality of life, the education, equity, fair access to social resources, health and well-being, without destructive the environment by exploiting the natural resources (Hall et al., 2011). Socially responsible companies are those that integrate social, ethical, and environmental considerations into their strategies and planning. They recognize the impact their business activities have in these areas, thereby enhancing the quality of life for the majority of their stakeholders (Jan et al., 2019). In 2015, all United Nations Member States adopted the Sustainable Development Goals (SDGs) to tackle global and environmental challenges with a target to achieve them by 2030. Investment in the sustainable and responsible investing (SRI) sector is projected to reach a substantial $53 trillion by 2025, it's becoming increasingly essential for financial professionals to integrate ESG knowledge into their work (Emerick, 2023).

The concept of "sustainability" remains complex and multifaceted, with scholars identifying close to 300 different interpretations of the term (Correia, 2019). Latest studies and discussions typically frame sustainability around three core dimensions: economic, social, and environmental (Presley & Meade, 2018). These dimensions encompass various principles, methodologies, systems, subsystems, and policies within each respective domain (Glavič & Lukman, 2007). Regarding sustainable development (SD), the United Nations publications repeatedly emphasize that SD requires a balanced integration of economic advancement, social well-being, and environmental preservation, highlighting the deep interconnection among these dimensions (Traer, 2020).

The economic aspect of sustainability emphasizes an organization's financial performance, profitability, and its contributions to the broader economy. In addition to these core elements, sustainability also involves long-term strategic planning and resource management aimed at ensuring resilience and adaptability in the face of future challenges, further reinforcing its relevance in today's globalized and resource-constrained world.

The social dimension takes into account how a company affects the community, particularly the security and welfare of its workers. According to Alhaddi, (2015), the organization's dedication to tackling ecological issues, reducing environmental effects, and managing limited global resources in order to save future generations is reflected in the environmental dimension. This idea, sometimes known as the Triple Bottom Line (TBL) model, encourages businesses to take People, Planet, and Profit into account when making sustainability decisions. It broadens the conventional emphasis on economic sustainability to also include social and environmental considerations (Alhaddi, 2015; Correia, 2019).

Despite its importance, the research on the three pillars of sustainability is inconsistent, with the majority of studies prioritizing environmental considerations over social and economic ones (Alhaddi, 2015). According to Correia (2019), research frequently prioritizes the environment, viewing the planet's resources and limitations as fundamental. Sheth, Sethia, and Srinivas (2011) offer a fresh viewpoint on the environmental dimension by emphasizing the important role that consumption plays in environmental effect and connecting it to consumer behaviour. In accordance with the suggestions made by Sheth,

Sethia, and Srinivas (2011), This research employs a holistic methodology by utilizing the TBL model and investigating how consumption shapes environmental effects.

2.2. Sustainability: Theoretical Background

The main goal of developing theories of sustainability is to close the gap between theory and practice. Stated differently, building useful models that tackle actual sustainability issues is frequently regarded as more important than coming up with broad sustainability theories (Grunwald, 2015). Grunwald (2015) supports Jahn's (2015) argument that sustainability is best viewed as a dynamic process rather than a static term. There is also an interplay among the sustainability pillars, so modifications to one will have an impact on the others.

Ekardt (2015) highlights a number of important components in his argument for an integrated view of sustainability. The first step is to define sustainability precisely. Secondly, it is necessary to comprehend and examine the current state of sustainable development. Third, the causes of successful or unsuccessful adoption of sustainable practices should be determined through causal analysis. Fourth, the reasons for sustainable development initiatives need to be made clear. Lastly, a well-defined strategy for carrying out and putting into practice activities to accomplish sustainability goals should be in place.

Table 2.2 provides a summary of the main theories related to sustainability, which will be discussed in detail in Chapter IV.

Table 2.2: Sustainability Theories in Literature

Theory	Main author(s)	Theory's main proposal	Relevancy with study purposes
Stakeholders' theory	Bendheim, Waddock, & Graves, 1998, Gibson, 2012 Wolf, 2013	To categorize the environment as one of organization's main stakeholders	To understand the strategic importance of sustainability within the plans of fashion brands
Theory of artificial entity	Lozano, Carpenter, & Huisingh, 2015	Limited manger power in	Not used

		affecting sustainability	
Theory of aggregate entity	Lozano, Carpenter, & Huisingh, 2015	Possible contradiction between sustainability goals and shareholders goals	Not used
Theory of real entity	Lozano, Carpenter, & Huisingh, 2015	Role of legal responsibilities in empowering mangers' power towards achieving sustainability goals	Not used
Contractual and agency theory	Lozano, Carpenter, & Huisingh, 2015	To include transaction cost in sustainability decisions	To analyze economic motivation and challenges behind transition into sustainability
Evolutionary theory	Lozano, Carpenter, & Huisingh, 2015	Proposing the sustainability-oriented organization will drive others out of the market	Not used
RBV	Lozano, Carpenter, & Huisingh, 2015	Approaching sustainability measures as a company internal strength	Not used
Corporate and social responsibility	Bowen, 1953	Proposing that companies' main goals should be focused on serving the	Understanding motivations and pressure coming from society

		society it operates within rather than achieving profit as the main goal	
Circular economy	Korhonen, Honkasalo, & Seppälä, 2018). Shirvanimoghaddam, Motamed, Ramakrishna, & Naebe (2020)	The model aims to optimize product utilization by extending the duration that various resources remain within the cycle.	To understand the macroeconomic mechanisms behind sustainability process and linking it to fashion brands strategies
CCS	Seth et al., 2011	Suggesting that companies moving to sustainability are customer-driven	To analyze the role that customers play in pushing brands to apply sustainability measures

Source: Developed By Author from Multiple Sources

2.3. Sustainability Dimensions

Although sustainability has occupied an important part of previous academic research, few studies are conducted in the financial sector, in general, and in the banking sector, in particular (Carnevale & Mazzuca, 2014; Sethi et al., 2017). (Moufty et al., 2022) have categorized sustainability into two categories, environmental and social. Each category consists of direct impact (operation impact) and indirect impact (product and service impact). This multi-dimensional measure has a significant role to explore different dimensions of sustainability disclosure activities. It is important to note that, outside the banking sector, most prior empirical studies on sustainability have primarily focused on a single dimension, often the environmental aspect (e.g., Chen & Metcalf, 1980).

Additionally, many studies have relied on third-party evaluations or reputation indices (e.g., McWilliams & Siegel, 2001; Preston & O'Bannon, 1997).

1.1.3 Sustainability from Islamic Perspective

According to Islamic ontological and epistemological concepts, the Islamic banking system is founded on ideas of social virtue, good governance, responsibility for the environment, and ethical actions on the part of both people and organizations (Asutay, 2013; Biancone, 2017). Shariah principles—often described as Maqasid al-Shariah, or the objectives of Islamic law—serve as the foundational guidelines that shape and regulate the entire framework of Islamic banking and financial practices (Jan & Marimuthu, 2015; Secinaro, 2017). These principles are underpinned by two central concepts that set Islamic banking apart from conventional financial systems: the emphasis on profit-and-loss sharing arrangements and the strict prohibition of interest (riba) and other activities deemed impermissible under Islamic law. As outlined by Saeed et al. (2020), these ideas represent the core values of Islamic finance. According to Akhtar (2008), Islamic finance has been widely recognized in academic literature as an alternative yet parallel financial system that provides a richer understanding and broader perspective on traditional finance models. Therefore, the sustained development and future growth of the Islamic finance industry are significantly influenced by how well it integrates with, contributes to, and draws insights from conventional finance practices, without losing its unique identity.

Despite its religious and ethical foundations, Islamic finance adapts to and aligns with international financial regulations and supervisory standards. This adaptability is managed with a clear commitment to preserving the unique structure of Islamic financial instruments and addressing the specific risks they involve. For that reason, promoting sustainability becomes a critical pillar in strengthening the sector and securing its long-term success. The distinct features of Islamic finance allow it to approach sustainability with a balanced blend of flexibility and compliance, ensuring that Shariah principles are never compromised in the process.

Sustainability, as defined by Keeble (1988), involves the harmonious integration of social equity, environmental preservation, and economic growth. In a more contemporary context, sustainability encompasses how organizations identify, manage, and mitigate the

risks that arise from their financial, social, and environmental responsibilities, as well as how they capitalize on emerging opportunities. Accordingly, sustainability is broadly structured around three key dimensions—namely the social, environmental, and economic pillars—that collectively contribute to the long-term resilience and ethical orientation of any business, including those operating within the Islamic financial system.

Sustaibanility is not a strange concept to Islamic finance. Ensuring the achievement of sustainable environmental and social goals for Islamic Financial Institutions (IFIs) is not merely recommended (Mandoob) by Shari'ah, but can, in some cases, become obligatory (Wajib). This parallels how contributing to or participating in activities that cause environmental and social harm is strongly discouraged and can even be considered impermissible (Makrooh or Haram). Shari'ah principles that guide IFIs emphasize that preventing harm takes precedence over pursuing benefits, and harm should not be addressed by causing greater harm. The extent of these obligations for IFIs is determined by the probability of harm occurring or having already occurred. In the context of sustainability, the relevant standards and criteria for assessing harm or its likelihood are established by the country's competent authorities (CBUAE, 2023).

Establishing balance (*mizan*) is the one of the fundamental elements in Islamic paradigm which emphasizes the importance of a balanced universe and earth, with human beings responsible for maintaining this balance. The "*mizan*" concept refers to how all parties involved in building a sustainable world—including the economy. All aspects of creation, including the physical world, animals, and environment, are in harmony. All entities and creation in this universe must be given equal opportunity for growth and development as the *mizan* or their nature (*fitra*) requires. Humans as vicegerents or khalifahs have the duty to prevent disruption of this balance and maintain coexistence. Islamic banks also have a role in restoring balance according to this paradigm (Guide, 2022).

Therefore Sustainable development within the Islamic framework can be defined as follows: "Recognising the complementarity nature of all the stakeholders to reach unity (tawhid) within the balance (*mizan*), which requires the recognition and provision of an opportunity space for the given (*fitra*) development path for each stakeholder to reach their perfection, where the growth of each stakeholder has to be in harmony with other

stakeholders' leading to inter-and-intra generational justice (*adalah*) through the actualization of equilibrium- based (*ihsani*) governance". This definition aligns with the Five Principles of Sustainability mentioned in the Guide, (2022).

2.4. The Role of Islamic Banks to Achieve Sustainability

In order to achieve sustainability, Islamic banks must be aware about the impact of their business activities by adopting a proactive approach to incorporating sustainability goals. This entails recognizing, implementing, and evaluating sustainability objectives. Moreover, Islamic banks by implementing "*Maqasid* Al-Shariah" which refers to the objectives of Shariah in Islamic jurisprudence, and which consider the spirit of Islamic finance, will enhance the sustainability policy adopted by Islamic Banks. Since *Maqasid* Al-Shariah considered a significant methodological tool to achieve ethical, moral, balanced, real, and justice products and services. *Maqasid* Al-Shariah is based on the rules set by the Quran and Sunnah have a lot in common with the key objectives of sustainability. Al-Ghazali has interpreted *Maqasid* Al-Shariah as human welfare However, based on the Islamic sustainability definition mentioned earlier, it should indeed be understood as the welfare of all stakeholders. This interpretation aligns with the "*mizan*-based" worldview, which emphasizes balance and equity, and should be reflected in the outcomes of any actions (Guide, 2022).

Deeply understanding *Maqasid* Al-Shariah structure which is sorted based on the degree of necessity will show the degree of similarity with the key objectives of sustainability, *Maqasid* can be categorized into three hierarchical levels: Necessities (*daruriyyat*): These are the core elements that require protection and promotion. Al-Ghazali has interpreted these necessities which are essential for sustaining life and achieving salvation (Falah), both in this world and the afterlife. They encompass safeguarding faith, life, wealth, intellect, and offspring. Complements (*hajiyyat*): Complements consist of elements that supplement and ease the essential necessities, making life more comfortable. beautification (*tahsiniyyat*): beautification encompass factors that enhance and contribute to overall improvement and the attainment of balance, often referred to as "*mizan*."

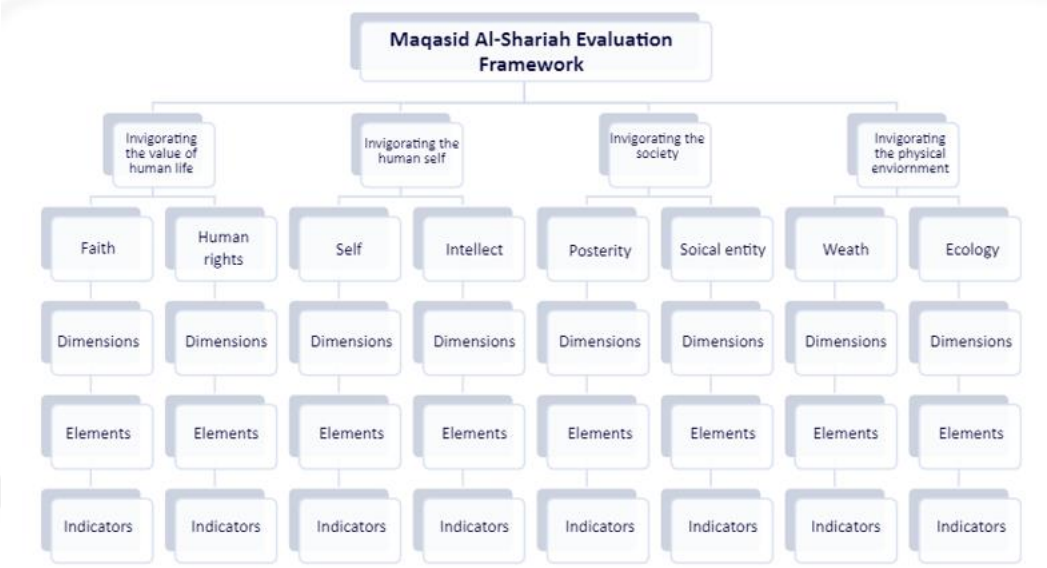


Figure 2.2: Maqasid Al-Shariah Evaluation Framework

Source: Mergaliyev, Asutay, Avdukic & Karbhari (2021); Asutay& Harningtyas ,2015

The following example will give clear understanding to the framework in previous figure:

‘‘Example 1: *Maqasid* Objective 1: Invigorating the value of human life

Corollary 1: Faith

Dimension 1: Removing negative elements that make unfair transactions.

Element 1: Non-*ribawi* product

Indicator 1: Expanding the use of risk-sharing financial products.

Example 2: *Maqasid* Objective 4: Invigorating the physical environment

Corollary 2: Ecology

Dimension 1: Preventing the financing of projects that cause environmental risks.

Element 1: screening for financing using an environmental impact screen method.

Indicator 1: Reporting for the Environmental screen that demonstrates compliance with environmental impact.

The framework for evaluating *Maqasid* Al-Shariah, as depicted in Figure 2.2 offers a structured approach for implementing ESG (Environmental, Social, and Governance) principles, including SDGs, within the context of Islamic banking. This framework, based

on Najjar's *Maqasid* model, can be adapted to express sustainability goals and ESG criteria. By establishing a connection between the methodology outlined in Figure 2.2 and the principles of ESG, an operational framework is developed for Islamic banks and financial institutions to align with Islamic values while adhering to ESG standards.

Table 2.3 introduces a reconfigured *Maqasid* Al-Shariah Framework that integrates ESG considerations in line with Figure 2.2. In this table, *Maqasid* objectives are categorized as 'Human Life,' 'Economic,' 'Environmental,' 'Societal,' and 'Governance' Goals. Additionally, 'Faith,' although not a core component of ESG or the SDGs, is incorporated into this framework as a primary *Maqasid* goal, intended to be informed by traditional *Maqasid* objectives. This integration is presented in the first column.

Table 2.3:Reconfiguring the ESG Augmented Maqasid Al-Shariah Framework

Faith (*Maqasid Goal* 1 [Corollary 1])	Human Life (*Maqasid Goal* 1 [Corollary 2] & 2)	Economic and financial (*Maqasid Goal* 4, Corollary 1)	Environmental (*Maqasid Goal* 4, Corollary 2)	Societal (*Maqasid Goal* 3)	Governance (*Maqasid Goal* 1 [Corollary 2] and 3 [Corollary 2])
Substantiative: • Sustaining Mizan • Actualising Khalifah Role **Prohibitions:** • Riba, Ghara, Maysir, Sinful Industries, Investments, Income and Financing **Mandatory**: • Zakat **Voluntary:** • Waqf Charity	• Human well-being • Health Provisioning • Education and Development • Training for Skill and Capacity Development • Research and Development • Financial Planning Related Skill Development • Human Rights • Consumer Protection	• Responsible Investment Strategies • Impact Investment Strategies • Productive and Real Economy Oriented Financing Strategies • Anti-poverty Programmes • Fair Pricing of Islamic Banking Products and Services • Integrated Islamic Financing Services Provision	• Climate • Environmental Protection Invigoration of Environment Through Proactive Strategies • Green Financing Strategies • Sustainable Use of Resources	• Harmonious Relationship between Stakeholders • Social Responsibility Programmes • Social Capital Development • Social Capacity Development • Diversity Human Rights • Consumer Protection • Animal Welfare	• Ihsani Governance • Disclosure and Transparency • Preventing Unethical Practices such as Fraud, Embezzlement and Conflicts of Interest • Defining Responsibilities for Members and Governance Bodies • Independence and Confidentiality of Information • Managerial Structure • Employee Relations • Employee Compensation and Rights • Executive Compensation • Sustainability Disclosure

Source: CIBAFI Guide, 2022

Together, figure 2.2 and table 2.3 can provide Islamic banks with a comprehensive Maqasid Al-Shariah-based ESG evaluation guide.

Islamic banks have also a vital role to play in achieving sustainable development and the UN SDGs. Especially, taking into consideration that the majority of Islamic banks are operating within Muslim-majority countries that are mostly developing countries. In November last year, the Central Bank of the United Arab Emirates (CBUAE) released the Higher Shari'ah Authority (HSA) Resolution No. 136/8/2023 on the Guiding Principles for Islamic Sustainable Finance. These principles are applicable to all financial institutions that conduct some or all of their operations in accordance with Islamic Shari'ah principles. The HSA has issued 10 key guidelines that could assist Islamic Financial Institutions in setting their strategies and plans for Islamic sustainable finance, these guidelines are summarized as follows:

1. A Sustainability steering committee has been established by the UAE Banks Federation (UBF) to set practical and strategic foundations for Islamic sustainable finance, aiming to create a unified framework and vision for sustainability initiatives among Islamic Financial Institutions (IFIs).
2. Islamic financial institutions (IFIs) and Islamic windows are encouraged to create dedicated sustainable business lines, such as sustainable financing and Sukuk issuances (including green Sukuk), to improve the monitoring and development of sustainability efforts without impacting their existing activities.
3. Sustainability investment accounts should be established, where funds are invested in sustainable ventures. These funds will be managed in independent, segregated pools to ensure transparency and build trust with account holders.
4. Each Islamic financial institution should have a long-term growth plan (e.g., a five-year plan) focused on Islamic sustainable finance.
5. IFIs must enhance their decision-making and financing strategies by adopting Shari’ah legal principles, particularly those relevant to sustainability.
6. IFIs should emphasize their sustainability initiatives, including the distribution of Zakat and charity funds, aligning them with sustainable development goals.
7. Transparency and clarity in transactions, including sustainable Islamic finance, is essential. IFIs should adopt leading sustainability standards and disclose them to their clients.

8. The internal environment of IFIs must reflect Shari'ah values and promote sustainability across operations, organizational structures, and human resources.
9. IFIs must work on spreading awareness about Islamic and sustainable finance and enhancing skills and capabilities in these areas.
10. Shari'ah compliance in products and services remains the highest priority for IFIs, enabling them to achieve other objectives through this commitment. (CBUAE/BIS/2023/5885, 2023)

2.5. CIBAFI Sustainability Guide for Islamic Financial Institutions

Among the existing literature, some institutional reports and guidelines have already been published, CIBAFI Sustainability Guide for Islamic financial institutions. CIBAFI has formed Sustainability Working Group (SWG) to invent the CIBAFI Sustainability Guide for Islamic financial institutions, CIBAFI developed its Sustainability Guide in response to the growing awareness within the global financial sector of the significance of sustainability and responsible finance. This guide provides a tailored framework for Islamic financial institutions (IFIs) to incorporate Environmental, Social, and Governance (ESG) considerations into their strategic and operational models. It acknowledges the unique ethical foundation of Islamic finance—one that inherently promotes fairness, transparency, and social responsibility—and aligns it with global sustainability efforts, particularly the united nations sustainable development goals (SDGs) (CIBAFI, 2020).

A core feature of the guide is its structured approach to integrating ESG principles with the values of Islamic finance. Rather than adopting a one-size-fits-all model, CIBAFI advocates for a phased and scalable ESG integration strategy. The guide recognizes that IFIs differ in terms of capacity, regulatory environments, and market maturity. As such, it encourages institutions to begin with ESG awareness and basic integration, gradually moving toward full implementation and impact measurement (CIBAFI, 2020). This staged approach aligns with both Islamic values and contemporary expectations of risk management and stakeholder accountability.

Importantly, CIBAFI connects the adoption of ESG practices with long-term financial performance. It underscores that ESG is not simply a compliance requirement but a strategic tool to enhance value creation, strengthen risk mitigation, and promote market

differentiation. Islamic banks, for instance, can leverage their Shariah-compliant nature to emphasize sustainability in sectors such as green financing, social housing, and ethical investing. Through such initiatives, they not only fulfill religious and moral obligations but also attract stakeholders who are increasingly ESG-conscious (El-Komi & Croson, 2013; Khan et al., 2022).

The aforementioned Guide involves five principles which has embraced *Maqasid* Al-Shariah (objectives of Shariah) as a foundation for the guide principles. The main aim for these principles is to support sustainable development in the Islamic banking industry by prompt Islamic banks to integrate sustainability into their business activities and business financing, taking into the account environmental, social, and economic objectives. The Guide also includes recommendations for implementing and assessing the principles of sustainability. So, the key purpose of this guide is providing Islamic banks with the necessary guidelines to ensure that the principles to be merged into their business plans and activities(Guide, 2022).

This guide has five main principles as illustrated in the figure below.



Figure 2.3: CIBAFI Sustainability Principles
Source: CIBAFI Guide, 2022

Research suggests that ESG integration has a measurable effect on the financial performance of Islamic financial institutions. Several studies have indicated that institutions with stronger ESG scores often enjoy lower capital costs, enhanced brand loyalty, and greater operational efficiency (Friede, Busch, & Bassen, 2015). The CIBAFI guide reinforces this by offering a set of performance indicators that institutions can use

to assess their ESG activities' impact. For example, under the environmental pillar, metrics such as energy efficiency and climate risk exposure are included, while the social dimension evaluates community investment and employee welfare. Governance metrics involve transparency, board effectiveness, and compliance with Islamic ethical standards (CIBAFI, 2020).

The link between ESG and financial performance is also supported by practical case examples highlighted in the guide. Some IFIs that adopted early ESG practices have reported improvements in loan portfolio quality, increased investor interest, and broader access to sustainability-linked financing. For instance, banks that incorporated ESG criteria into their credit evaluation processes experienced lower default rates and improved stakeholder confidence (Kammer et al., 2020). These outcomes underscore how ESG is not only ethically aligned with Islamic finance but also materially beneficial to financial performance.

Moreover, the guide emphasizes the role of governance in ESG integration. Islamic financial institutions, by virtue of their Shariah supervisory boards and commitment to ethical standards, are well-positioned to lead in ESG governance. Strong internal governance enhances transparency and accountability, thus boosting investor trust and market competitiveness. CIBAFI recommends enhancing board diversity, adopting anti-corruption policies, and ensuring alignment between executive incentives and sustainability outcomes (CIBAFI, 2020). These measures contribute to long-term resilience and strategic clarity.

From a regulatory standpoint, the guide urges policymakers and standard-setting bodies to develop coherent ESG guidelines tailored to Islamic finance. It highlights the importance of aligning local regulations with international sustainability frameworks such as the Principles for Responsible Banking (PRB) and the Task Force on Climate-Related Financial Disclosures (TCFD). By advocating for policy support, the guide fosters a conducive environment for ESG-driven innovation and growth in Islamic finance (Kammer et al., 2020).

In summary, the CIBAFI Sustainability Guide serves as a crucial roadmap for Islamic financial institutions seeking to integrate ESG into their core operations. It affirms that

ESG is not just a theoretical construct but a practical avenue to enhance financial performance while fulfilling ethical responsibilities. As ESG continues to shape the global financial landscape, Islamic banks are uniquely positioned to demonstrate leadership by aligning Islamic principles with sustainability and stakeholder value creation.

2.6. ESG and Other Related Terms CSR, CS

Most of the previous academic research on disclosing non-financial information is based on CRS, while ESG research is in its early stages. ESG is a broad extension of CSR, which is a type of corporate self-regulation that urges stakeholders to commit to their social responsibilities, which can impact on the environment positively (Mackey et al. 2007). Malik (2015) argues that providing a precise definition of CSR is still difficult. According to Sheehy (2015), CSR can be defined as ‘universal private business self-regulation that intends to achieve philanthropic, activist, or charitable goals. Sheehy also added that CSR is a significant responsibility that impacts various aspects such as legal, financial, political, and investment. Sheehy also describes it as the worldwide monitoring of private corporations and sets ethical objectives (Carroll's ,1991). The best description of CSR is ‘internal organizational policy or a corporate ethic strategy’, like what is currently known as Environmental, Social, Governance ESG (Sheehy ,2015). Additionally, Carroll (1991) reported that CSR framework has four dimensions: economic, legal, ethical, and charitable responsibility. Therefore, corporate social responsibility (CSR) refers to any initiative undertaken by a company that addresses environmental concerns, social progress, or employee welfare (Kim et al., 2018). These activities may include initiatives to reduce carbon emissions, support for local communities, ethical business practices, philanthropic contributions, and efforts to promote diversity and inclusion within the company. Through these actions, companies aim to contribute positively to society, while also improving their own reputation and bottom line. As the importance of sustainability and social responsibility continues to grow, more and more companies are recognizing the need to integrate CSR into their operations in order to remain competitive and relevant in today's market. Alareeni, (2018) argues that Corporate Social Responsibility (CSR) and corporate governance (CG) began in the 1970s in the context of large public businesses in industrialized nations, marking the beginning of a wave of sustainable business and sustainable investments. This was accompanied by the need to include vital qualitative

indicators to describe companies' capabilities and place them on the worldwide financial markets as well as the expanding trend of international reporting standards and the initiatives to standardize financial reports (Nasrallah & El Khoury, 2022). Therefore, currently, all corporates have integrated environmental sustainability practices into their strategic planning to ensure their continued existence and success (Zeng et al., 2018). Various aspects of corporate social responsibility (CSR) in banking have been the focus of many previous research. They include the impact of Sharia supervisory boards on the implementation of CSR, the financial performance of banks before and after the adoption of CSR policies, compliance of CSR initiatives with Islamic finance principles, and comparative analyzes between conventional and Islamic banks.

2.7. ESG Historical Background

ESG, a non-financial corporate evaluation system that covers environmental, social, and governance issues, was first introduced in the UN PRI report in 2006. This system contains three indicators - corporate environmental impact (E), fulfilment of social responsibility (S), and corporate governance structure (G) - that are used in investment decisions. ESG investments have three accountability levels that show how a company affects the long-term growth of all individuals.

ESG performance has three dimensions: Environmental, Social, and Governance, (1) Environmental performance implies the implementation of policies and investments that are environmentally friendly. (2) Social performance pertains to the social policies of a business towards its internal and external stakeholders. (3) Governance performance refers to the adoption of actual corporate governance practices (Husted and Sousa-Filho ,2017). ESG indicators denote the performance of a company across the three dimensions. Leading global ESG rating organizations include MSCI, Bloomberg, and FTSE. They all employ qualitative and quantitative analyses, but their criteria and selection of indicators are distinct (Widyawati, 2020).

Galbreath (2013) reported that ESG is the main measure to evaluate a firm's non-financial performance, ESG can also indicate the effectiveness of the firm's management. However, studies on the relationship between ESG scores and financial performance are lacking in specific industries like mining or hospitality (Barnett, 2007; Soana, 2011). Each company

has its own unique strategies that reflect ESG performance, and these strategies can positively influence financial performance by improving the company's reputation for ethical business practices towards society and the environment (Padgett & Galan, 2010). Roblek et al. (2020), argues that ESG can make value for a company by “boosting revenue growth, reducing costs, limiting regulatory and legal issues, improving employee productivity, and optimizing capital expenditures and investments”. Frynas (2005) has discussed some of the obstacles to implementing ESG activities, Frynas claimed that overemphasis on managerial and technical matters may affect the enforcement of ESG activities. Khemir et al., (2019) proposed that involving all stakeholders can improve ESG efforts. Ashrafi et al (2020) suggested that firms should integrate ecological and social factors into their central business strategy to attain sustainable development goals ultimately leading to a competitive edge. There is no universal model for achieving sustainability across all organizations.

Although they are not the same concepts, some scholars believe that CSR and CS are closely related, while others advocate for integrating both under a unified framework of sustainable business strategies (Ille, 2021). Recent studies increasingly treat them as interrelated, often applying similar assumptions and metrics (Bansal & Song, 2017).

As stated by Ille (2021), there is a long debate among scholars about whether CSR and CS are entirely synonymous or not. While some argue they are distinct, others believe they should be integrated into companies' sustainable strategies. However, recent research, as noted by Bansal and Song (2017), has increasingly combined the two terms, using similar measurements and assumptions. As Ashrafi et al. (2020) explain, contemporary concepts of CSR and CS emphasize not only profit but also social and environmental responsibility. Ashrafi et al. (2020) developed Figure 2.4, which shows the development of CSR and CS as well as the academics who have helped to clarify these ideas. Despite theoretical disagreements, integrating CSR and CS viewpoints into business choices can foster mutual benefit for stakeholders, interior as well as exterior. (Ashrafi et al., 2020). As a result, in some studies, researchers have used the word "ESG" in place of both CSR and CS, as in Surenjargal (2022).

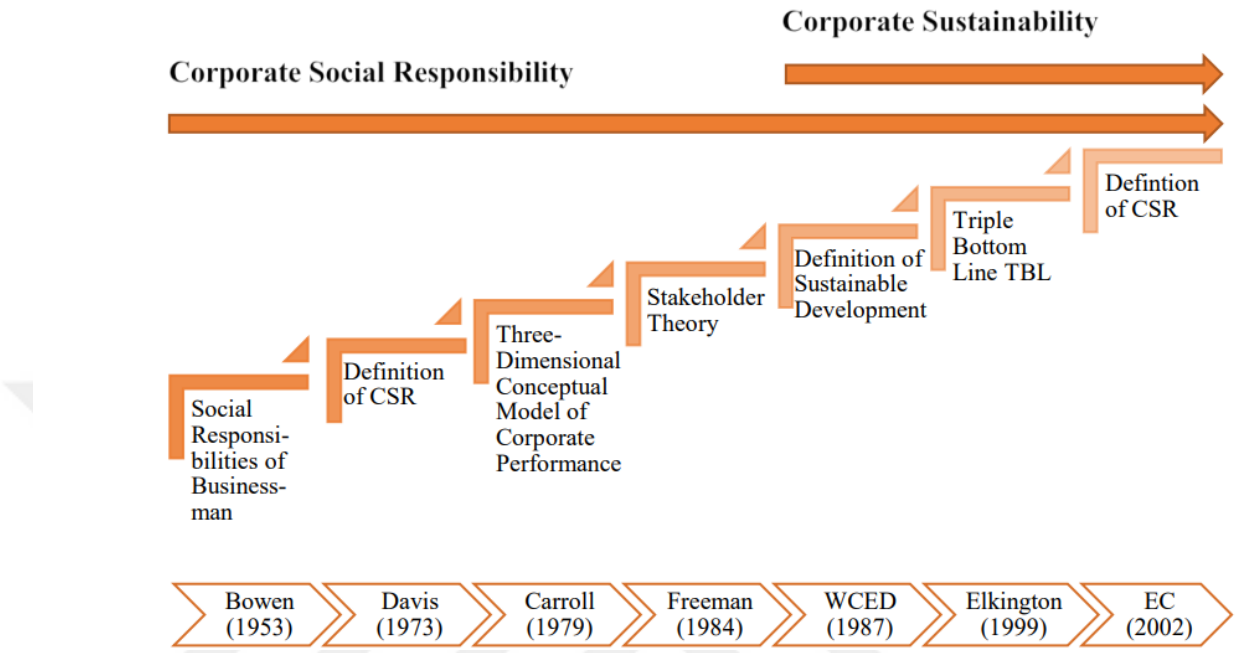


Figure 2.4: Development Timeline for the CS and CSR Frameworks

Source: Ashrafi et al, 2020

2.8. ESG scores and financial performance

Various studies and papers dealt with the impact of sustainability, in particular the impact of ESG scores on many aspects, such as the impact of ESG scores on companies' performance, including those operating in the utility sector, the impact of ESG scores on the banks' performance (conventional and Islamic), banks' financial performance, banks' financial stability banks' efficiency and banks' technical efficiency have been highlighted in many studies for many regions and various time periods.

Studies examining the link between ESG scores and financial performance have yielded inconsistent and sometimes contradictory results. According to some research, a company's financial results may be positively, negatively, or neutrally impacted by socially conscious behaviour. For example, Wan Ahamed et al. (2014) discovered that better financial performance is a result of socially conscious behaviours. In contrast, Cerciello et al. (2023) contended that, in accordance with the trade-off theory, following ESG norms may result in higher expenses and lower profitability, which would have a

detrimental effect on financial performance. Furthermore, other research, as that done by ŞEKER and GÜNGÖR (2022), indicates that a company's profitability is not much impacted by its social responsibility.

ŞEKER & GÜNGÖR (2022) analysed the ESG performance of utility companies using data from 325 firms listed on ASSET4 between 2010 and 2019 as part of a study that looked at the relationship between ESG performance and financial results. Their findings demonstrated that financial performance was unaffected by ESG performance.

On the other hand, Lee & Isa (2023) used panel regression models to examine Malaysian Shariah-compliant businesses between 2010 and 2017 and discovered a favourable correlation between ESG practices and profit. Additionally, their analysis indicated that the relationship between ESG performance and financial success can be strengthened by implementing a dual ESG–Shariah screening method.

Nofianti, (2019) conducted research to measure and investigate the sustainability performance of the Islamic banks in Indonesia the study used Practice Theory to detect the indicator of sustainability performance from an Islamic perspective, by applying qualitative and quantitative methods and the Analytical Hierarchy Process (AHP) approach. The study has found that the sustainability performance of Indonesian Islamic Banks is improved, and the main priority is given to the environmental dimension compared to social and economic dimensions (Nofianti,2019).

An important study conducted by Alam et al. (2022) have analyzed the impact of ESG activities on banks' technical efficiency for conventional and Islamic banks. The study found a positive impact on banks' efficiency of conventional banks but not for Islamic banks.

El Khoury et al. (2023b) have studied the relationship between ESG disclosure on the on hand and banks profitability and size on the other hand in the banking sector of MENA region. Panel regression has been used to analyze the data. Findings have suggested that banks' profitability and ESG disclosure are negatively correlated, while the banks' ESG disclosure, and size are positively correlated.

Jawad & Abdulla. (2022). Have compared the ESG scores in MENA's Islamic and conventional banks. this paper has examined the difference in ESG scores of conventional

and Islamic banks in the MENA region during the period 2012-2021. Findings illustrated that conventional banks have more sustainability practices compared to Islamic banks, and there is a negative relationship between Islamic finance and sustainability.

Paltrinieri et al. (2020) have investigated the relationship between IFDI and ESG scores to understand whether and to what extent the development of Islamic financial markets affects banks' sustainability strategies. The sample covered 224 banks in the period 2014–2017. Findings disclosed a positive correlation between the IFDI indicator and ESG scores, which mostly revolve around the social dimensions.

Paltrinieri et al. (2020) have investigated the relationship between the Islamic Financial Development Index (IFDI) and ESG performance to assess how the growth of Islamic financial markets influences banks' sustainability approaches. Their study, which analyzed 224 banks from 2014 to 2017, revealed a positive association between IFDI and ESG scores, particularly in social dimensions.

Daszyńska-Żygadło et al. (2021) investigated the relationship between corporate social performance (CSP) and corporate financial performance (CFP) in a global sample of banks from 2009 to 2016. Using regression analysis and ESG scores from the Refinitiv database as a proxy for CSP, the study found a negative association between both environmental and social performance and CFP, while governance performance showed a partially positive link to CFP.

The impact of ESG on the firm performance of 222 select Indian firms has been highlighted in Maji and Lohia (2023) study. The findings show that governance and social parameters receive more attention in Indian firms than environmental ones. which implies that ESG performance and firm performance are positively correlated.

Bătae et al. (2020) focused on different categories of European banks in order to provide a fresh dimension to their investigation of the connection between ESG and financial performance. They looked at three things: functional currencies, European geographical regions, and a cluster analysis based on population and GDP.

El Khoury et al. (2023a) analyzed how ESG factors influence bank financial performance across the Middle East region, North Africa region, and Turkey (MENAT) region from 2007 to 2019.They discovered that the environmental pillar had a convex relationship with

market returns, while the governance pillar had a concave relationship with accounting performance.

Similarly, Cankaya & Simsek, (2021) also look into the connection between G8 banks' financial performance and their ESG scores. The findings showed that while the social score has a positive and significant link with the environmental and governance scores, the two scores have a negative and significant relationship.

Ji et al. (2023) incorporated banks' market share as a new variable to evaluate the efficiency of 20 listed Chinese banks from 2016 to 2020, according to their findings, state-owned commercial banks (SOCBs) outperformed joint-stock commercial banks (JSCBs) in terms of profitability, while SOCBs were the most successful in terms of sustainability and the market, and SOCBs had the best ESG performance.

According to a study by Tóth et al. (2021) that examined 243 European banks, financial stability is positively impacted by ESG performance.

Dragomir et al. (2022) examined how ESG performance affected financial performance in 333 banks in 53 countries during the COVID-19 pandemic. They discovered that while strong social practices in 2020 increased profitability in 2021, higher environmental performance in 2019 had a negative correlation with return on equity in 2020.

Bătae et al. (2021) looked at the relationship between the ten ESG aspects and the financial performance of 39 European banks after 2008. They found that while improved corporate governance had a negative impact on financial performance, emission reduction improved it.

Alafi, (2023) investigated the connection between strategic success and ESG standards in Islamic banks in Jordan. The study, which used a sample of 108 managers, discovered that the governance pillars—specific strategy, implementation, motivational culture, and ongoing innovation—had a major effect on strategic success. Alafi's investigation focused on analysing the fundamental parameters that constitute ESG. (ESG) and its connection to the combined dimensions of Strategic Success, which includes Specific Strategy, Specific Implementation, Motivational Culture, and Continuous Innovation. The study involved a random sample of managers working in Jordanian Islamic banks, totaling 108 individuals. The study found that Jordanian Islamic banks had a high level of

implementation of governance pillars and Strategic Success. In addition, all governance pillars (Environmental, Social, and Governance) had a statistically significant impact on Strategic Success.

The study of Önder (2018) has checked whether institutional sustainability in Turkey has an impact on the profitability of the company. A multiple linear regression analysis was carried out using the data of 33 companies, which have sustainability reports according to the Global Reporting Initiative (GRI) and are included in the Istanbul Stock Exchange (BIST). Return on assets (ROA) has been used to measure the profitability of the business organization. In addition, sustainability was measured by five different variables, overall sustainability rating, community employees, and environmental and governance performance rating. The result has suggested that the impact of sustainability applications in Turkey on profitability is statistically significant and positive. It was found that this effect of sustainability resulted from the environmental applications of the business organization and environmental factors positively affected business organization profitability.

Lastly, Jan et al. (2019) proposed a framework for evaluating sustainability in Islamic banking and also looked at the relationship between sustainability practices and financial performance. The study used a weighted content analysis technique to scan the annual reports of Islamic banks. The findings show a significant positive relationship between the financial performance metrics of Islamic banks and sustainability parameters. Furthermore, the results usually imply that advancements in sustainable standards will provide financial benefit to the global Islamic banking sector's managers, investors (shareholders), and market metrics of financial performance.

The green credit policy has been applied and implement by the China government in 2006 has, this policy requires from the banks to incorporate sustainability considerations into their lending and investment operations. This policy will push the financial sector to finance the transformation into a greener economy (Weber, 2018). Weber study has test whether the green credit policy makes Chinese banks greener and has a positive effect on the financial sustainability of the banks the study has employed the institutional theory. The findings demonstrate a significant relationship among financial metrics and

sustainability performance among Chinese banks, with green credit policies affecting both dimensions. Furthermore, the study has found that institutional pressure can increase both financial and sustainability performance in the financial sector.

Moufty et al. (2022) took a look at sustainability disclosure in the banking industry in the US and the EU. The study used ESG scores to reflect the sustainability dimension and examined a sample of 67 US and EU banks between 2013 and 2021. Sustainability disclosures in both regions were evaluated by reviewing 483 report-year observations using content analysis. Comparing EU banks to their US counterparts, the results showed that the former published more information about sustainability. Prioritising the direct social impact of their operations on the communities they serve was a priority for both US and EU banks. This was followed by the indirect environmental impact of their offering. Additionally, the study showed that EU banks outperformed US banks in three areas: direct social impact, direct environmental impact, and indirect social impact. However, US banks led in indirect environmental sustainability. The study also proposed a sustainability index.

Another study has been conducted on all banks in Portugal and other relevant institutions was concerned on the calculation of a green banking performance index. The calculation shows that the 5 most representative banks are very concerned with environmental issues and the and the others show a medium level of concern regarding environmental issues (Manuel Morais Pereira & António Candeias Bonito Filipe, 2021).

2.8.1 Summary of Previous Studies Regarding ESG Performance and Financial Performance

Table 2.4 sums up the fundamental information of previous and most relevant studies to research objectives. This table covers results information, sample, and method, from studies that examined the relationship between Islamic banks ESG activities and their financial performance.

Table 2.4: Studies in Previous Literature

DATE	AUTHORS	TITLE	AIM OF THE STUDY	METHODOLOGY	RESULTS
2022	ŞEKER, Yasin GÜNGÖR, Nevzat	DOES ESG PERFORMANCE IMPACT FINANCIAL PERFORMANCE? EVIDENCE FROM THE UTILITIES SECTOR	This research seeks to empirically examine how environmental, social, and governance (ESG) performance influences the financial outcomes of firms within the utilities sector	325 utility businesses from throughout the world that were listed on ASSET4 between 2010 and 2019 provided data for the study. The study's financial performance factors and ESG performance data were sourced from Refinitiv's Thomson Reuters ASSET4, EIKON, and Datastream databases.	The findings of the regression show that there is no relationship between ESG performance and financial performance.
2022	Lee, Siew Peng Isa, Mansor	Environmental, social and governance (ESG) practices and financial performance of Shariah-compliant companies in Malaysia	This study aims to examine the impact of environmental, social and governance (ESG) practices on the financial performance of Malaysian Shariah-compliant companies over the period 2010–2017.	Panel regression models are used for this study to test the effect of ESG practices on the performance and the interaction variables to examine the impact of double ESG – Shariah screening on	This study finds a positive relationship between ESG practices and financial performance, suggesting that ESG practices can enhance firm value.

				firms' performance.	
2022	Alam, Ahmed W. Banna, Hasanul Hassan, M. Kabir	ESG ACTIVITIES AND BANK EFFICIENCY: ARE ISLAMIC BANKS BETTER?	The paper investigates the differential impact of ESG activities on banks' technical efficiency for conventional and Islamic banks	Data Envelopment Analysis (DEA) technique to determine the efficiency scores of the banks. Based on a sample of 14 conventional and 11 Islamic banks from 4 countries over the period 2011 - 2019,	The study found a positive impact on banks' efficiency of conventional banks but not for Islamic banks.
2022	Jawad, Ahmed Abdulla, Yomna	ESG scores in MENA banks	The paper examines the difference in the ESG scores of conventional and Islamic banks in the MENA region during the period 2012-2021.	The authors employ panel regression analysis to examine how both firm-level and country-level factors influence the overall ESG score, as well as its individual components.	The results indicated that conventional banks tend to engage in more sustainability practices than Islamic banks, and a negative correlation was observed between Islamic finance and sustainability performance.
2020	Paltrinieri, Andrea Dreassi, Alberto Migliavacca, Milena Piserà, Stefano	ISLAMIC FINANCE DEVELOPMENT AND BANKING ESG SCORES: EVIDENCE FROM A CROSS-COUNTRY ANALYSIS	This study examines the extent to which the growth of Islamic financial markets is associated with the sustainability strategies adopted by banks.	Different methodologies have been used to analyze the CSP-CFP relationship. According to a comprehensive review of up-to-date studies in the field	The findings revealed a positive relationship between the IFDI index and ESG scores, with the strongest associations observed in the social dimension of sustainability.

2023	Alafi, Khaled Khalaf	The Impact of ESG on Strategic Success in Jordanian Islamic Banks	The study aimed to identify the criteria of ESG with its dimensions (Environmental, Social, and Governance) in Strategic Success with its combined dimensions (Specific Strategy, Specific Implementation, Motivational Culture, and Continuous Innovation).	The random sample consists of managers that working in Jordanian Islamic banks with a total of (108) individuals. The study adopted the questionnaire as the study tool and was distributed to the respondents.	The study concluded that there is a high level of implementation of governance pillars and Strategic Success in Jordanian Islamic banks, and that there is a statistically significant impact of all governance pillars represented by (Environmental, Social, and Governance) on Strategic Success
2021	Daszyńska-żygadło, Karolina Słoński, Tomasz Dziadkowiec, Anna	CORPORATE SOCIAL PERFORMANCE AND FINANCIAL PERFORMANCE RELATIONSHIP IN BANKS: SUB-INDUSTRY AND CROSS-CULTURAL PERSPECTIVE	The purpose of this study is to examine the impact of corporate social performance (CSP) on the market value and profitability of firms within the banking sector, specifically focusing on the Banking Services and Investment Banking & Investment Services sub-sectors.	A regression analysis was conducted using a distinctive dataset that effectively reflects the contextual nature of corporate social performance (CSP), assessed through indicators related to corporate governance, environmental, and social factors. The study employs ESG scores from the Refinitiv database as a proxy for CSP,	The findings indicate that both environmental and social performance negatively influence the corporate financial performance (CFP) of banks, while there is partial evidence supporting a positive effect of governance performance on CFP.

				covering banks worldwide over the 2009–2016 period.	
2022	Maji, Santi Gopal Lohia, Prachi	Environmental, social and governance (ESG) performance and firm performance in India	This study seeks to examine how environmental, social, and governance (ESG) performance influences the financial performance of selected Indian firms.	This cross-sectional study analyzes data from 222 Indian firms, using CRISIL ESG scores and financial information from the ACE Equity database, with firm performance measured through both accounting and market indicators.	The results indicate that better ESG performance is generally associated with improved firm performance. However, the strength of this relationship differs across performance levels, with more pronounced positive effects evident among firms positioned in the higher performance ranges, as shown by the quantile regression analysis.
2023	Ji, Li Sun, Yanan Liu, Jiawei	ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) AND MARKET EFFICIENCY OF CHINA'S COMMERCIAL BANKS UNDER MARKET COMPETITION	This study treats banks' market share as an external or predetermined factor.	This study assesses the efficiency of 20 listed Chinese banks from 2016 to 2020 using a meta-dynamic two-stage SBM DEA model with exogenous variables, incorporating green credit, social contributions, executive pay, and ESG scores.	The results show that (1) incorporating market share as an exogenous variable enhances the accuracy of efficiency estimates, and (2) UCBs are the most efficient, followed by JSCBs, with SOCBs being the least efficient.
2020	Marina, Oana Dan, Voicu	ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG),	This study presents a statistical comparison of variables used to	Data from 108 European banks in 2018 were sourced from Thomson	This study expands Thomson Reuters' European bank classifications and compares ESG and

	Feleagă, Liliana	AND FINANCIAL PERFORMANCE OF EUROPEAN BANKS	assess both ESG performance and financial outcomes of European banks, categorized according to three classifications developed by the researchers.	Reuters Eikon, World Bank, and EuroVoc. Cluster analysis, group tests, and ANOVA were used to assess GDP per capita, population, and performance.	financial performance to identify regions with the highest and lowest scores, controversies, and audit fees.
2023	Khoury, R El Nasrallah, N Alareeni, B	ESG and financial performance of banks in the MENAT region: concavity – convexity patterns	This research explores how Environmental, Social, and Governance (ESG) factors influence bank performance in the MENAT (Middle East, North Africa, and Turkey) region.	The study applies panel regression on data from 46 listed banks (2007–2019), using ROA, ROE, Tobin's Q, and stock returns to measure performance, based on data from Refinitiv Eikon and the World Bank.	The findings indicate a non-linear relationship between ESG and financial performance, suggesting that ESG investments are advantageous up to a certain threshold. Notably, financial development indicators show significant effects, while the individual ESG components display varying patterns.
2021	Simsek, Oguz Cankaya, Serkan	EXAMINING THE RELATIONSHIP BETWEEN ESG SCORES AND FINANCIAL PERFORMANCE IN BANKS: EVIDENCE FROM G-8	The reaserched aimed to examine the relationship between the ESG scores and financial performances of all banks operating in the stock markets of G-8 countries (Italy, France, Japan, Canada, Russia, the United Kingdom	Financial performance was measured using ROA and ROE, while ESG scores were treated as separate independent variables. The debt-to-equity ratio was also included. Annual data from Thomson Reuters were	The analysis shows that, based on both ROA and ROE models, environmental scores have a significant negative impact, while social scores have a significant positive impact. Governance scores negatively affect both, but their relationship is not statistically

		COUNTRIES	and the United States)	analyzed using panel data methods.	significant in either model.
2021	Lippai-makra, Edit	The Contribution of ESG Information to the Financial Stability of European Banks	This study examines the relationship between financial stability (proxied by non-performing loans) and ESG. performance (utilizing the ESG score from Refinitiv Eikon).	We use panel vectors autoregressive. procedures on a sample of listed credit institutions (243 banks) in the European Union (EU) and the European Free Trade Association (EFTA) countries. Accounting and market data of the European credit institutions were gathered from the Refinitiv Eikon financial database.	results indicate that ESG performance significantly reduced the amount of non-performing loans, so financially more stable banks have higher ESG ratios. The risk- reducing effect of regulatory capital was also supported by their model.
2022	Dragomir, Voicu Dan Batae, Oana Marina Ionescu, Bogdan Stefan	THE INFLUENCE OF ESG FACTORS ON FINANCIAL PERFORMANCE IN	This research explores how ESG performance influences the financial outcomes of 333 banks from 53 countries across		The results show that strong environmental performance in 2019 was linked to lower ROE in 2020, while social responsibility spending in 2020 positively influenced profitability in 2021.

	Ionescu-Feleaga, Liliana	THE BANKING SECTOR DURING THE COVID-19 PANDEMIC	Europe, the Americas, and Asia, focusing on the years surrounding the Covid-19 pandemic (2019–2021).		For East Asian banks, better governance in the previous year boosted stock returns and EPS, whereas environmental efforts in 2020 were associated with reduced EPS in 2021. These findings offer key insights for banks and investors.
2021	Dragomir, Voicu Dan Feleaga, Liliana Batae, Oana Marina	THE RELATIONSHIP BETWEEN ENVIRONMENTAL, SOCIAL, AND FINANCIAL PERFORMANCE IN THE BANKING SECTOR: A EUROPEAN STUDY	The study investigated how each of the ten elements within the environmental, social, and governance (ESG) pillars correlates with the financial performance of banks over the ten-year period following the 2008 financial crisis.	Data for 39 European banks was gathered from the Refinitiv database, covering the period from 2010 to 2019.	The findings reveal that lower emissions and waste are positively associated with financial performance, whereas product responsibility, CSR activities, and governance quality show negative correlations. These results carry important theoretical implications.

Source: Developed by the Author

2.9. Main Indicators for Measuring Banks' Financial Performance

Empirical research on Corporate Financial Performance (CFP) generally utilizes two primary types of indicators. Each set reflects different dimensions of a firm's financial well-being, offering a more comprehensive understanding when considered together. The two types include:

Accounting-Based Indicators: Firms often evaluate financial performance using accounting-based indicators, which are calculated from standardized financial statements. These metrics—including profitability ratios (ROA, ROE, EPS), liquidity ratios (current ratio), leverage ratios (debt-to-equity), and efficiency ratios (asset turnover)—offer a retrospective, quantitative view of a company's fiscal health (Surenjargal, 2022). Such

data is particularly useful for assessing how managerial decisions impact earnings and operational efficiency (Cochran & Wood, 1984).

Among these, ROE (Return on Equity) has emerged as a critical benchmark in performance studies. Research by Saeidi et al. (2015), Nirino et al. (2020), and Vincent & Yusuf (2020), for instance, highlights ROE's widespread adoption as a proxy for overall firm success, given its ability to distill shareholder value creation into a single comparable figure.

Market-Based Indicators: This stream of indicators focuses on the company's stock market performance and incorporates market-related measures. Market-based indicators capture the perception and evaluation of a company's financial performance by investors and the market. Common market-based indicators used in empirical research include stock returns, market capitalization, price-to-earnings ratio (P/E ratio), and Tobin's Q ratio. These indicators reflect market expectations, investor sentiment, and market valuation of the company's future prospects.

Tobin's Q has become one of the most frequently applied indicators in academic research exploring the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP). For example, studies conducted by Luo and Bhattacharya in 2006, Jo and Harjoto in 2011, and Kim and colleagues in 2018 have all emphasized the relevance of Tobin's Q as a reliable metric in this context. This financial measure is particularly favored for its ability to reflect market-based evaluations of firm value, making it especially useful in analyses of how socially responsible practices influence financial outcomes. Although a number of scholars have employed both accounting-based and market-based indicators in their investigations, Garg (2015) notes that most studies tend to rely on a single performance metric, with Tobin's Q being the most commonly used.

By using both accounting-based and market-based indicators, researchers aim to capture different dimensions of a company's financial performance. Accounting-based indicators provide a retrospective view based on historical financial data, while market-based indicators offer an external perspective based on market dynamics and investor

expectations. Combining these two streams of indicators provides a fuller, more detailed evaluation of a firm's financial performance, as empirical research.

Due to the limitation of time and resources this research will adopt only the former method to measure the bank's financial performance (BFP), leaving the door open for future research to explore the later method.

2.10. Hypotheses Development

This study primarily aims to explore the relationship between Islamic banks' ESG performance—measured through ESG scores—and their financial outcomes. Drawing from the literature reviewed in Chapter 2, the researcher proposes the following hypotheses:

H1: The IBs' ESG scores have a significant positive impact on the financial performance of IBs.

H2: The IBs' E scores have a significant positive impact on financial performance of IBs.

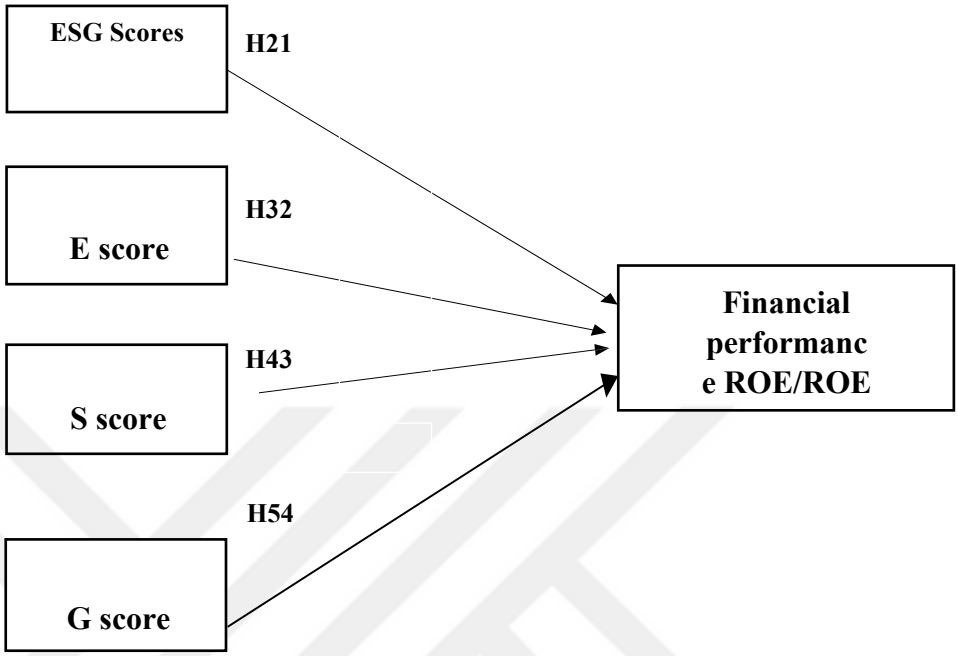
H3: The IBs' S scores have a significant positive impact on financial performance of IBs.

H4: The IBs' G scores have a significant positive impact on financial performance of IBs.

H5: There is a significant difference in the ESG scores of the selected IBs (inter-regional difference), limited to southeast Asia and MENA.

H6: There is a significant difference in impact of ESG scores on the on financial performance of IBs across regions.

2.11. Conceptual Framework



CHAPTER III

RESEARCH METHODOLOGY

3.1. Introduction

This chapter outlines the methodological framework employed to examine the relationship between ESG performance metrics and financial outcomes within a sample of Islamic banking institutions. The subsequent sections provide detailed explanations regarding the nature of the data used, the analytical tools and sample size.

The study focuses on the quantitative relationship between dependent and independent variables. Basias and Pollalis, (2018) explain that quantitative research examines situations with a high likelihood of occurrence when the causes and explanations for that likelihood are found within the situation itself. Additionally, quantitative research is employed because the study's objectives involve cause-and-effect responses that are more effectively investigated using statistical analysis and numerical data. Below, the selected variables, their anticipated relationships, and the sources of the collected data are also described.

3.2. Population, Sample Size, and Sampling Technique

3.2.1. Population of the Research

The population of this research is the whole set of Islamic banks which this research investigating in relation to their ESG scores and financial performance. Generally speaking, the population is representative of every group or category that satisfies the study's requirements.

In this case, the population of this study consists of all Islamic banks globally and for whose financial performance information is accessible, together with their ESG performance. Thus, the entire group of Islamic banks that are concerned of ESG performance makes up the population of this research, from which the researcher will draw his sample to conduct the study. Keeping in mind that the specific scope of this

research, such as focusing on a particular geographic area or time period, will influence the definition of population of this study.

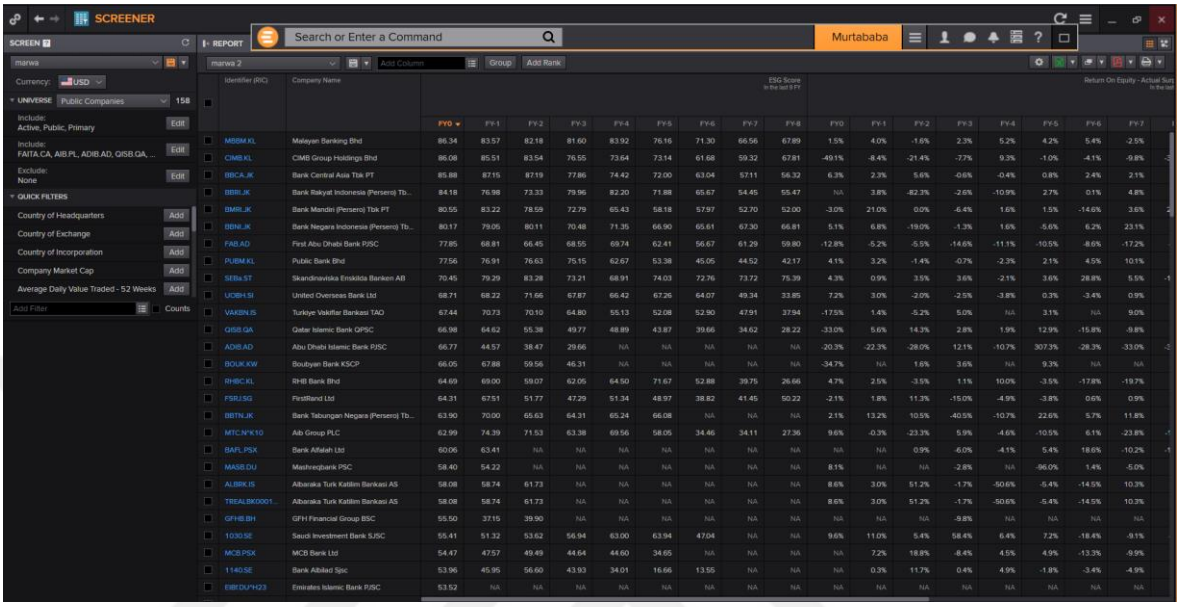


Figure 3.5: Population of the Study Before Filtration Prosses Total 150 Approximately

Source: Refinitiv Database ,2023

3.2.2 Sample Size

In this study, a sample of Islamic banks was selected carefully from various countries. The Refinitiv Eikon Thomson Reuters database's data accessibility was the main factor used in the selection process. Under this filtration prosses several stages can be identified. Firstly, picking the whole potential Islamic banks and then checking the availability of ESG scores on the Refinitiv database. Finally, identifying the full-fledged Islamic banks only. The selected countries offer a diverse setting for examining the impact of Environmental, Social, and Governance (ESG) scores on financial performance, as they are home to prominent Islamic financial institutions. The sample of this research are selected from the Thomson Reuters Eikon database (solutions.refinitiv.com/eikon). Accordingly, 31 Islamic banks have been selected from 11 countries. These banks have been selected due to the availability of data. Many countries have been excluded due to the unavailability of data such as Malaysia and Nigeria. Some other banks have also been excluded due to the unavailability of ESG scores such as Al Arafah Islami Bank Ltd, AL Rayan Bank PLC, Bank Islam Malaysia Bhd, CIMB Islamic Bank Bhd and Jaiz Bank

PLC. Moreover, several banks have been removed from the final list for not meeting the criteria of being full fledge Islamic banks such as Affin Bank Bhd, Sohar International Bank SAOG, Ahli Bank SAOG, Bank Rakyat Indonesia (Persero) Tbk PT and Bank Dhofar SAOG.

Table 3.5: Present Full List of Islamic Banks Subjected to the Analysis in This Research

No.	Country	Banks
1	Saudi Arabia	Bank Aljazira SJSC Bank Albilad Sjsc Al Rajhi Banking & Investment Corporation SJSC Alinma Bank SJSC
2	United Arab Emirates	Emirates NBD Bank PJSC Dubai Islamic Bank PJSC Ajman Bank PJSC Sharjah Islamic Bank PJSC Abu Dhabi Islamic Bank PJSC Mashreqbank PSC
3	Qatar	Qatar Islamic Bank QPSC Masraf Al Rayan QPSC Qatar International Islamic Bank QPSC Lesha Bank LLC
4	Oman	Bank Muscat SAOG Bank Nizwa SAOG
5	Kuwait	Kuwait Finance House KSCP Kuwait International Bank KSCP Boubyan Bank KSCP
6	Indonesia	Bank BTPN Syariah Tbk PT Bank Panin Dubai Syariah Tbk PT
7	Jordan	Jordan Islamic Bank Co PLC Safwa Islamic Bank PSC
8	Bahrain	Khaleeji Commercial Bank BSC Al Salam Bank BSC Ithmaar Holding BSC

9	Egypt	Al Baraka Bank Egypt SAE
10	Turkey	Albaraka Turk Katilim Bankasi AS
11	Pakistan	Habib Bank Ltd Meezan Bank Ltd Bank Alfalah Ltd

Source: Developed By the Author

3.2.3. Sampling techniques

This research will employ a purposive sampling method as part of its research methodology to gather data pertaining to (ESG) performance of IBs. With this approach, specific banks are deliberately chosen from the pool of Islamic banks that are accessible, available, and possess clear and comprehensive data via the Thomson Reuters Eikon platform. The use of purposive sampling ensures the collection of robust and relevant data, enabling a thorough examination of ESG indicators among Islamic banks, particularly in light of the data limitations and availability constraints inherent to the selected platform.

Essentially, the purposeful sampling approach—also referred to as—"fit for purpose" is used to select the population in accordance with specific characteristics that determined already by the researcher (May and Williams, 2001). In this research the selection process will prioritize the banks with easily available and complete ESG data on the platform. To guarantee diverse and relevant representation of Islamic banks, the sampling procedure will be guided by a several variables such bank size, geographic representation, and consistency in ESG reporting. This method enables a targeted population which is corresponds with the research explicit objective while evaluating ESG performance in the Islamic banking industry.

Regional Observation: ESG Disclosure in Islamic Banks

Interestingly, the analysis of the sample reveals a notable disparity in sustainability disclosure practices among Islamic banks, particularly when comparing Malaysia to its

GCC counterparts. Despite Malaysia's well-established reputation as a global pioneer and thought leader in Islamic finance—with a highly developed regulatory infrastructure, active Sukuk market, and supportive government initiatives—Malaysian Islamic banks in this study appear to lag behind in terms of comprehensive ESG or sustainability reporting.

This contrast becomes even more striking when considering that banks from the Gulf Cooperation Council (GCC) countries—such as Saudi Arabia, the UAE, and Qatar—demonstrate higher levels of sustainability disclosure and ESG transparency. These banks often publish detailed sustainability or integrated reports, aligning with both global ESG standards and regionally driven ethical mandates.

This apparent gap suggests that leadership in Islamic finance does not necessarily translate into leadership in ESG disclosure. It may reflect a difference in regulatory emphasis, market expectations, or institutional priorities. While Malaysia has led innovations in Shariah-compliant financial instruments and governance frameworks, GCC banks appear to be more proactive in aligning with global ESG trends, possibly due to increased international investor scrutiny and sovereign-level sustainability agendas (e.g., Vision 2030 in Saudi Arabia or the UAE's green finance push).

This observation underscores the need for greater policy attention and harmonization in ESG disclosure across Islamic finance markets. For Malaysia to maintain its leading position, enhancing sustainability transparency should become a core component of its Islamic finance strategy moving forward.

3.3. Collection Of Data and Data Collection Tools

3.3.1. Collection of Data

The ESG scores and financial performance of the selected Islamic banks have been downloaded from Eikon Thomson Reuters database, many Islamic banks were excluded from the list due to unavailability of data on Eikon database between 2018-2024. for example, some banks have ESG scores for only last three years which considered not sufficient to provide strong result at the end.

3.3.2. Main Databases and ESG Scores Providers

Recently, several databases and ESG (Environmental, Social, and Governance) rating providers have been developed to offer ESG scores and data to different stakeholders such as investors and companies. Some of the main databases and ESG score providers include: Refinitiv (formerly Thomson Reuters Eikon), Bloomberg ESG database, MSCI ESG Research, ISS ESG, and RobecoSAM (now part of S&P Global). The following section will cover only the two main ESG data Providers: Refinitiv and Bloomberg ESG database.

3.3.3. Data Collection Tools

The Refinitiv Eikon Thomson Reuters database (ES) score and Governance (G) disclosure scores were used in this study to identify independent factors. When assessing CSR and corporate sustainability (CS), Empirical research, including Daniel's (2018) work, demonstrates that scholars predominantly rely on three key metrics: ASSET4 for ESG data, the BCC industry index for sector comparisons, and the MSCI index for broader market analysis.

Refinitiv's ESG score was selected for this study based on how well it aligns with the research objectives. Despite their differing methodologies, several academics—Dorfleitner, Halbritter, and Nguyen (2015)—propose that ESG ratings from Thomson Reuters, MSCI, and Bloomberg are suitable alternatives for measuring CSR. As mentioned before in this research, Refinitiv obtains sustainability information right from companies via a variety of channels, including official company websites, annual reports, corporate governance reports, sustainability reports, and additional data. Using this core data, Refinitiv Intelligence then determines which sustainability issues are most important for each sub-industry.

3.3.3.1. Bloomberg ESG Database

Bloomberg was initiated in 2009 following the acquisition of New Energy Finance. Bloomberg is a prominent database that offers ESG data and verity of valuable tools like access to company-specific data, stock screening capabilities, portfolio analysis, and assessments of the environmental impact of companies worldwide, including ESG scores and indices, through its terminal service. It offers ESG analytics and financial data to professionals from over 10,000 companies worldwide in the financial industry (IRIS

carbon, 2023). Bloomberg's vast ESG database enables organizations with the holistic information needed to make wiser decisions. Bloomberg provides ratings and reports from well-known ESG data providers as third-party information data providers such as MSCI, Sustainalytics, and SAM Ratings A study conducted by Morgan Stanley revealed that organizations whose adopted robust ESG policies tend to outperform those with poorer or nonexistent ESG practices (Emerick, 2023).

One of Bloomberg's prominent services is to assess publicly listed companies on an annual basis. ESG data are collected from several sources, such as corporate social responsibility (CSR) reports, sustainability reports, annual reports, websites, and direct company communication. The gathered data and information are carefully reviewed and standardized, covering 120 ESG indicators. These indicators cover a wide range of factors, such as carbon emissions, environmental impact, social responsibility, diversity, governance, and more, from pollution and renewable energy to human rights and executive compensation. Consequently, companies that opt not to reveal their data face rating penalties. The rating system employs a scale from 0 to 100, incorporating scores from reputable third-party rating agencies like RobecoSam, Sustainalytics, the ISS Quality Score, and the CDP Climate Disclosure Score. Bloomberg offers a historical overview of a company's ESG performance in comparison to its peers. It's worth noting that Bloomberg ESG Ratings primarily focus on mid-to-large-cap companies with a market capitalization above $2 billion (IRIS carbon, 2023). In addition, through the Bloomberg platform, professionals can effectively access ESG data for more than 3 million companies from over 130 countries (Emerick, 2023).

Bloomberg launched its own ESG score product in 2020. which includes environmental and social scores for 252 oil and gas companies, as well as board composition scores for over 4,300 companies in various industries. To produce complete ESG and climate-linked investment indexes, Bloomberg's in-house ESG data is combination of data from Bloomberg with data from other providers to develop comprehensive ESG and climate-linked investment indexes. Bloomberg analysts assured that their approach covers at least 80% of a company's operations and workforce by standardizing company reported ESG data. They use a combination of internal and external data to create ESG scores and

collaborate with various partners to create customized investment products (Alemanno, Zinnbauer and Stewart, 2023).

Ultimately, this platform enables financial professionals to make informed investment decisions by considering ESG factors alongside traditional financial metrics, promoting more sustainable and responsible investment practices.

Table 3.6: Variables that Define the ESG Pillars Based on Bloomberg Database

Environmental (E)	*Social (S)*	*Governance Disclosure (G)*
Air quality	Community rights & relations	Remuneration
Climate exposure	Ethics & compliance	Independency
Ecological impact	Labor & employment practices	Audit
Energy management	Occupational health & safety management	Shareholder rights
Environmental supply chain management	Operational risk management	Diversity
GHG emissions management	Product quality management	Entrenchment
Sustainable product	Social supply chain management	Overboarding
Waste management		
Water management		

Source: Bloomberg Terminal, Last Accessed in, 2021

3.3.3.2. Refinitiv (formerly Thomson Reuters Eikon)

Refinitiv (formerly Thomson Reuters Eikon): Refinitiv provides ESG data and scores that cover a wide range of companies and industries. Refinitiv ESG scores are based on data reported by companies. Refinitiv was formerly the financial and risk business division of Thomson Reuters. In 2018, Thomson Reuters sold a 55% majority stake in this division to a consortium. As a result of this sale, the division was separated from Thomson Reuters and rebranded as Refinitiv. Therefore, while they were once part of the same company, they are now distinct entities. Thomson Reuters continues to operate as a separate company focusing on its legal, tax, and news businesses, while Refinitiv specializes in financial data and analytics.

Refinitiv database, which dates to 2002, is regarded as one of the most comprehensive ESG databases in the industry, covering over 85% of the global market cap, it has more than 630 different ESG metrics. Refinitiv's ESG ratings are designed to evaluate and benchmark a corporation's environmental, social, and governance performance in comparison to its peers.

The evaluation contains ten primary categories, such as emissions, environmental innovation, human rights, shareholder engagement. Additionally, Refinitiv provide ESG combined (ESGC) score, which discounted significant ESG controversies affecting the companies which Refinitiv evaluate. Globally, Refinitiv ratings are accessible for over 12,500 public and private companies, with time series data dating back to 2002.

ESG scores from Refinitiv assess a company's ESG relative performance in regard to its sector (for environmental and social elements) and its country of incorporation (for governance). Refinitiv has develop an approach for ESG scoring encompassed several key calculation principles, as listed below.

a. Inclusion of distinct weightings for ESG significance (materiality).
b. Encouragement of transparency.
c. Integration of ESG controversy overlays.
d. Industry and country benchmarks at the scoring level of data points.

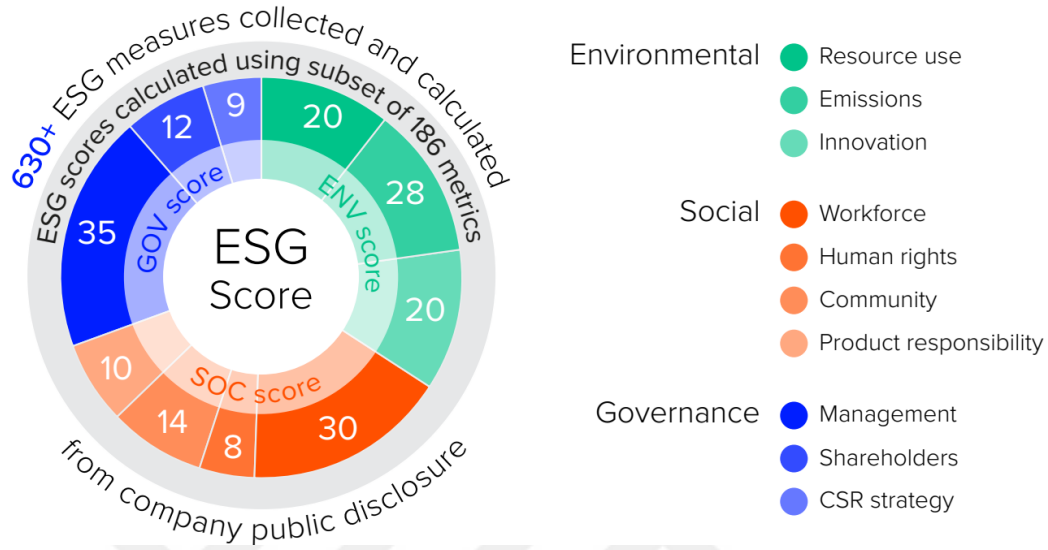


Figure 3.6: ESG Score Structure

Source: Refinitiv Environmental, Social and Governance Scores from Refinitiv, 2022

The previous figure 3.6 demonstrates that more than 630 ESG metrics at the company level are collected and calculated by Refinitiv. Nevertheless, they concentrate on a particular collection of 186 metrics that are most pertinent and comparable within each sector. Together, these 186 metrics fall into 10 areas that make up the company's overall ESG score. This score shows how well the firm is doing in terms of corporate governance, social responsibility, and the environment. It is based on data that the company has made available. The three pillar scores—environmental performance, social performance, and corporate governance—are then produced by combining all of these category scores. While the weights for governance are the same across all industries, the environmental and social scores can vary based on the industry. The final ESG score of the business is calculated by converting these weights into percentages between 0 and 100.

Table 3.7 below provides a thorough summary of the ESG themes covered by each category and the relevant data points evaluated as stand-ins for the ESG magnitude by industrial group.

Table 3.7: Summary of the ESG Themes Covered by Each Category and the Relevant Data Points Evaluated as Stand-Ins for the ESG Magnitude by Industrial Group

Pillars	Catagories	Themes	Data points	Weight method
Environmental	Emmission	Emissions	TR.AnalyticCO2	Quant industry median
		Waste	TR.AnalyticTotalWaste	Quant industry median
		Biodiversity*		
		Environmental management systems*		
	Innovation	Product innovation	TR.EnvProducts	Transparency weights
		Green revenues, research and development (R&D) and capital expenditures (CapEx)	TR.AnalyticEnvRD	Quant industry median
	Resource use	Water	TR.AnalyticWaterUse	Quant industry median
		Energy	TR.AnalyticEnergyUse	Quant industry median
		Sustainable packaging*		
		Environmental supply chain*		
Social	Community	Equally important to all industry groups, hence a median weight of five is assigned to all		Equally important to all industry groups
	Human rights	Human rights	TR.PolicyHumanRights	Transparency weights
	Product responsibility	Responsible marketing	TR.PolicyResponsibleMarketing	Transparency weights
		Product quality	TR.ProductQualityMonitoring	Transparency weights
		Data privacy	TR.PolicyDataPrivacy	Transparency weights
	Workforce	Diversity and inclusion	TR.WomenEmployees	Quant industry median
		Career development and training	TR.AvgTrainingHours	Transparency weights
		Working conditions	TR.TradeUnionRep	Quant industry median
		Health and safety	TR.AnalyticLostDays	Transparency weights
Governance	CSR strategy	CSR strategy	Data points in governance category and governance pillar	Count of data points in each governance category/all data points in governance pillar
		ESG reporting and transparency		
	Management	Structure (independence, diversity, committees)	Data points in governance category and governance pillar	Count of data points in each governance category/all data points in governance pillar
		Compensation		
	Shareholders	Shareholder rights	Data points in governance category and governance pillar	Count of data points in each governance category/all data points in governance pillar
		Takeover defenses		

Source: Refinitiv, Environmental, Social and Governance Scores from Refinitiv, 2022

3.4. Data Collection Method

The data collection method for this research has been structured as a combination of quantitative and qualitative approaches, both methods will be explained in the following section.

Quantitative data collection is defined as acquiring numerical data suitable for analysis through statistical techniques. Usually, this approach is employed in several research methodologies, such as experiments and surveys, to quantify variables and discover the correlation between them. The obtained data through quantitative methods normally

appears in the form of numeric values, such as response frequencies, means, and standard deviations, and can be analysed using statistical software (Taheri et al., n.d.).

Quantitative information on Islamic banks' ESG performance such as ESG scores is frequently gathered for this study from financial data sources or specialized rating agencies. Similarly, quantitative financial performance metrics is obtained from financial data providers this data includes key performance indicators such as return on asset, return on equity, Tobin's Q and profitability ratios, this financial information is crucial for assessing the overall financial health of the Islamic banks.

In qualitative data collection, non-numeric data—words, pictures, and observations—are gathered in order to understand people's attitudes, behaviours, beliefs, and motives in a particular setting. This approach is usually adopted in qualitative research to understand and examine social phenomena deeply through an investigation of individuals' perspectives, points of view, experiences, and stories. It’s important to note that understanding the difference between numerical and categorical data is crucial for statistical analysis because numerical data consists of quantifiable amounts, whereas categorical data consists of distinct groups or labels (IJSRM4-9, n.d.).

In this research, this approach is used to analyze documents by reviewing annual reports, sustainability reports, and other relevant documents from Islamic banks. These documents can provide qualitative information on the banks' strategic approaches to ESG and any initiatives they have undertaken. In addition, this research has used database research through Eikon Thomson Reuters database, as mentioned before Eikon Thomson Reuters has been utilized for retrieving comprehensive data such as ESG scores and financial data, including other economic indicators relevant to the Islamic banks under study.



Figure 3.7: Methods for Gathering Qualitative Data: Definition and Procedure

Source: Adi Bhat, QuestionPro



Figure 3.8: The Top 5 Techniques for Collecting Quantitative Data

Source: Adi Bhat, QuestionPro

Moreover, this research required gathering data over multiple time periods (Longitudinal Data) to conduct a time-series analysis. This will allow the researcher to examine trends and patterns in both ESG scores and financial performance over time.

By combining quantitative metrics with qualitative insights, the data collection method aims to provide a comprehensive understanding of how ESG practices relate to the financial performance of Islamic banks.

3.5. Research Variables Measurement

3.5.1. Dependent Variable

Financial performance (ROA, Tobins Q and ROE as determinants of banks financial performance)

An assessment of a bank's financial performance requires an in-depth analysis of numerous financial measures and metrics that offer information on profitability, efficiency, liquidity, and general state of the bank's finances. The following metrics can be considered as key financial performance indicators for banks, Profitability, Asset Quality, and Liquidity:

3.5.1.1. Profitability Analysis

In the current literature, the profitability of a bank can be measured in numerous ways. The first is the ratio of net interest margin (NIM), which measures the difference between the interest income generated and the interest paid out relative to the bank's interest-earning assets. Thus, NIM = the interest income−interest expense average earning assets (Lartey et al., 2013). Also, NIM is the ratio of net interest income to interest-bearing assets (Beck et al., 1999). Also, the return on assets (ROA) is used to indicate how efficiently a bank is using its assets to generate profit. ROA, as measured by the ratio of net profits to total assets, is also used for robustness in this study. (ROA=Net Income Total Assets) (ROA=Total Assets Net Income) Moreover, the return on equity (ROE) measures profitability relative to shareholders' equity. (ROE=Net Income Shareholders' Equity), (ROE=Shareholders' Equity Net Income).

3.5.1.2. Asset Quality

Credit risk can be measured by non-performing loans (NPL), or the ratio of non-performing loans to total gross loans. Low profitability has been linked in several studies to greater exposure to credit risk. However, according to other research, banks that hold riskier assets could need to make a bigger profit to offset the increased default risk(Le & Ngo, 2020). To sum up, Non-Performing Loans (NPL) Ratio: Assesses the quality of the bank's loan portfolio, The Non-Performing Loan (NPL) Ratio is calculated as the proportion of non-performing loans to total loans, expressed as NPL Ratio=Non-

Performing Loans Total Loans, or alternatively (NPL Ratio=Total Loans/Non-Performing Loans). Similarly, the Loan Loss Provision Ratio evaluates the sufficiency of a bank's reserves to cover potential loan losses. It is determined by (Loan Loss Provision Ratio=Loan Loss Provisions/Total Loans), or (Loan Loss Provision Ratio=Total Loans/Loan Loss Provisions).

3.5.1.3. Liquidity

The relationship between total loans and total deposits, represented as a percentage, is known as the LDR. The LDR provides information about how much of a bank's liabilities can be converted into assets. Additionally, it shows how much money or profit a bank can make (Rengasamy, 2014). It makes sense that when deposits (liabilities) increase, so do the resulting assets (loans). However, the economy and a few other financial factors have a role in this. An effective measure for evaluating banks' funding performance is the LDR. It is primarily used to assess a bank's liquidity position and offers information on the risk level, money utilization, and intermediation operations of banks (Rengasamy, 2014). The total loan value is known as the LDR. The Loan-to-Deposit Ratio (LDR) assesses a bank's liquidity by comparing its total loans to its total deposits, expressed as (LDR=Total Loans/Total Deposits), (LDR=Total Deposits/Total Loans. The Liquidity Coverage Ratio (LCR), on the other hand, evaluates the bank's capacity to fulfill its short-term financial obligations.

a) Return on Equity (ROE)

Return on Equity (ROE) serves as a key financial indicator used to evaluate a bank's performance by measuring the relationship between its net income and shareholders' equity. As noted by Bashir (2003) and Hassan and Bashir (2005), ROE reflects how efficiently a bank's management utilizes shareholders' resources to achieve profitability. Moreover, ROE is a significant measure of a bank's financial health, as it demonstrates the institution's ability to derive net income, including earnings from non-traditional services (Hassan & Bashir, 2005). Usually, a higher ROE indicates rises company performance (So, 2021). It’s widely used as an accounting-based measure for financial performance which is computed by calculating the proportion between shareholders’ equity and the company’s net income, which refers to the profit remaining after all interest

payments and taxes have been deducted from total earnings. An article by McKinsey & Company (Hazan et al., 2021). discusses how traditional financial metrics, such as Return on Equity (ROE), often emphasize immediate profitability and may overlook intangible assets like sustainability initiatives. The article highlights that intangible investments are crucial for long-term business success and that relying solely on conventional metrics can lead to underinvestment in these areas. This underscores the importance of incorporating evaluations of intangible assets to achieve enduring growth and stability. The calculation of ROE allows an assessment of how a company's management finances its day-to-day business activities utilizing shareholder equity and how management decisions impact the growth of the company (So, 2021). To mitigate skewness, the natural logarithm of ROE was calculated, with one added to each value beforehand to account for negative values (Vincent & Yusuff, 2020).

Table 3.8: Return on Equity -Actual Surprise in the Last 9 Financial Years for the Selected Islamic Banks in This Study

Identifier (RIC)	Company Name	Return On Equity - Actual Surprise In the last 9 FY								
		FY 0	FY-1	FY-2	FY-3	FY-4	FY-5	FY-6	FY-7	FY-8
ADIB.AD	Abu Dhabi Islamic Bank PJSC	20.1 %	15.4 %	10.5 %	6.9 %	19.6 %	17.4 %	77.4 %	13.0 %	13.5 %
AJBNK.DU	Ajman Bank PJSC		6.3%			3.4 %		6.4 %		10.5 %
SAUD.CA	Al Baraka Bank Egypt SAE	25.6 %	25.8 %			29.1 %		32.6 %	29.6 %	18.8 %
1120.SE	Al Rajhi Banking and	19.4 %	20.2 %	23.5 %	19.4 %	20.4 %	19.7 %	17.0 %	16.5 %	16.1 %

	Investment Corporation SJSC									
SALAM.BH	**Al Salam Bank BSC**			7.4%						
ALBRK.IS	**Albaraka Turk Katilim Bankasi AS**	31.9%	21.4%	2.4%	6.5%	1.8%	4.6%	10.0%	9.9%	15.6%
1150.SE	**Alinma Bank SJSC**		11.5%	9.8%	8.4%	11.6%	12.1%	10.1%	8.0%	8.1%
1140.SE	**Bank Albilad SJSC**	16.5%	16.4%	14.8%	14.9%	16.1%	14.4%	12.8%	11.8%	12.8%
BAFL.PSX	**Bank Alfalah Ltd**		112.1%		11.9%	16.5%	16.1%	15.5%	17.4%	15.1%
1020_r.SE^D18	**Bank Aljazira SJSC**		8.7%	8.0%	0.3%	8.7%	10.0%	2.5%	11.2%	19.0%
BTPS.JK	**Bank BTPN Syariah Tbk PT**	12.6%	23.0%	22.6%	16.1%	29.8%	30.9%			
BKMB.OM	**Bank Muscat SAOG**		10.7%	9.6%	8.6%	10.1%	10.3%	10.9%	12.0%	13.0%
BKNZ.OM	**Bank Nizwa SAOG**				7.2%					
PNBS.JK	**Bank Panin Dubai**									

	Syariah Tbk PT									
BOUK.KW	**Boubyan Bank KSCP**	8.9 %	6.7%		6.3 %	12.7 %		13.2 %		
DISB.DU	**Dubai Islamic Bank Public JSC**	16.3 %	17.0 %	11.8 %	9.1 %	17.6 %	19.7 %	18.7 %	16.0 %	19.8 %
ENBD_r19f.DU	**Emirates NBD Bank PJSC**	20.6 %	15.8 %	11.1 %	8.4 %	19.9 %	16.3 %	14.7 %	15.2 %	14.6 %
HBL.PSX	**Habib Bank Ltd**	18.3 %	12.1 %	13.0 %	12.8 %	7.4 %	6.3 %	4.4 %	19.4 %	23.0 %
ITHMR.BH	**Ithmaar Holding BSC**									
JOIB.AM	**Jordan Islamic Bank Co PLC**									
KHALEEJI.BH	**Khaleeji Bank BSC**									
KFH.KW	**Kuwait Finance House KSCP**	11.0 %	9.8%	12.6 %	7.4 %	12.7 %	12.1 %	10.0 %	9.2 %	8.3 %
KIBK.KW	**Kuwait International Bank KSCP**	4.8 %	3.9%		-1.9 %	6.2 %				
QFBQf.QA^J22	**Lesha Bank**									

	Public LLC									
MASB.DU	**Mashreq bank PSC**	31.9 %	17.3 %			9.9 %		0.5 %	10.6 %	14.2 %
MARK.QA	**Masraf Al Rayan QPSC**	6.2 %	5.8%	10.3 %	17.5 %	18.1 %	16.1 %	15.7 %	16.8 %	17.7 %
AMZN.PSX	**Meezan Bank Ltd**	55.8 %	43.4 %	35.0 %	33.5 %	29.9 %	22.4 %	20.2 %		
QIIBf.QA^J22	**Qatar International Islamic Bank QPSC**	14.9 %	14.3 %	16.7 %	15.3 %		15.2 %	14.5 %		
QISB.QA	**Qatar Islamic Bank QPSC**	11.6 %	11.9 %	18.2 %	18.6 %	18.8 %	16.6 %	16.3 %	12.8 %	14.0 %
IDDNF.PK^H09	**Safwa Islamic Bank PSC**						14.7 %	14.2 %	2.0 %	1.7 %
SIB.AD	**Sharjah Islamic Bank PJSC**		11.2 %	6.7 %		8.5 %		9.2 %		8.8 %

Source: Refinitiv Eikon Database, 2024

b) Return on Asset (ROA)

Return on assets (ROA) is a financial metric that indicates a bank's profitability relative to its total assets. As noted by Bashir (2003) and Hassan and Bashir (2005), ROA reflects the capacity of bank managers to effectively utilize the bank's financial resources to generate profits. Many banking regulators consider return on assets to be the most reliable financial indicator for assessing a bank's performance. Additionally, since ROA closely

approximates net income, it is widely employed in studies focused on structural performance (Hassan & Bashir, 2005). Several researchers claim that return on assets ROA, when analyzed over extended periods, can reflect the effectiveness of strategic investments in creating long-term financial value. Fairfield & Yohn, (2001) illustrate how ROA, when decomposed into its components and assessed over time, provides insights into long-term profitability trends and strategic efficiency. Moreover, McKinsey & Company report (Dobbs & Koller ,2005). highlights how metrics like ROA, when analyzed over extended periods, demonstrate the effectiveness of strategic investments in creating long-term financial value.

Table 3.9: Return on Assets – Actual in the Last 9 Financial Years for The Selected Banks in This Study

Identifier (RIC)	Company Name	Return on Assets – Actual in the Last 8 FY								
		FY0	FY -1	FY-2	FY-3	FY-4	FY-5	FY-6	FY-7	FY-8
ADIB.AD	Abu Dhabi Islamic Bank PJSC	2.8%	2.2 %	1.6 %	1.0 %	2.1 %	2.0 %	9.8 %	1.6 %	1.7 %
AJBNK.DU	Ajman Bank PJSC		0.5 %			0.4 %		0.7 %		1.0 %
SAUD.CA	Al Baraka Bank Egypt SAE	2.4%	2.0 %			1.6 %	1.8 %	1.6 %	1.4 %	1.0 %
1120.SE	Al Rajhi Banking and Investment Corporation SJSC	2.1%	2.5 %	2.7 %	2.5 %	2.7 %	2.9 %	2.7 %	2.5 %	2.3 %

SALAM.BH	**Al Salam Bank BSC**									
ALBRK.IS	**Albaraka Turk Katilim Bankasi AS**	1.8%	1.1%	0.1%	0.4%	0.1%	0.3%	0.7%	0.7%	1.2%
1150.SE	**Alinma Bank SJSC**	2.2%	1.9%	1.6%	1.4%	2.0%	2.1%	1.8%	0.8%	1.7%
1140.SE	**Bank Albilad SJSC**	1.7%	1.7%	1.6%	1.6%	1.7%	1.6%	1.6%	1.5%	1.6%
BAFL.PSX	**Bank Alfalah Ltd**		0.9%		0.9%	1.3%	1.1%	0.9%	0.9%	0.9%
1020_r.SE^D18	**Bank Aljazira SJSC**	0.8%	1.0%	1.0%	0.0%	1.2%	1.4%	1.3%	1.4%	2.0%
BTPS.JK	**Bank BTPN Syariah Tbk PT**	5.1%	9.0%	8.4%	7.2%	10.2%	9.1%			
BKMB.OM	**Bank Muscat SAOG**	1.6%	1.6%	1.5%	1.3%	1.5%	1.5%	1.6%	1.5%	1.6%
BKNZ.OM	**Bank Nizwa SAOG**				1.0%					
PNBS.JK	**Bank Panin Dubai Syariah Tbk PT**									

BOUK.KW	**Boubyan Bank KSCP**	0.9%	0.8%	0.7%	0.6%	1.3%	1.4%	1.3%		
DISB.DU	**Dubai Islamic Bank Public JSC**	2.3%	1.9%	1.5%	1.3%	2.2%	2.3%	2.3%	2.2%	2.8%
ENBD_r19f.DU	**Emirates NBD Bank PJSC**	2.6%	1.7%	1.3%	1.0%	2.5%	2.1%	1.8%	1.7%	1.9%
HBL.PSX	**Habib Bank Ltd**		0.8%	0.9%	0.9%	0.5%	0.4%	0.3%	1.4%	1.7%
ITHMR.BH	**Ithmaar Holding BSC**					-0.2%				
JOIB.AM	**Jordan Islamic Bank Co PLC**									
KHALEEJI.BH	**Khaleeji Bank BSC**									
KFH.KW	**Kuwait Finance House KSCP**	1.6%	1.2%	1.1%	0.7%	1.4%	1.3%	1.1%	1.0%	0.9%
KIBK.KW	**Kuwait International Bank KSCP**	0.5%	0.4%	0.4%	-0.2%	0.7%	1.0%	0.9%		
QFBQf.QA^J22	**Lesha Bank Public LLC**									

MASB.DU	**Mashreqbank PSC**	15.7%	2.0%		0.8%	1.4%	1.6%	1.7%	1.6%	2.2%
MARK.QA	**Masraf Al Rayan QPSC**	0.9%	0.8%	1.2%	1.9%	2.1%	2.1%		2.4%	2.5%
AMZN.PSX	**Meezan Bank Ltd**		2.0%	1.6%	1.7%	1.5%	1.0%	0.9%		
QIIBf.QA^J22	**Qatar International Islamic Bank QPSC**	2.0%	1.8%	1.6%	1.6%	1.7%	1.8%	1.9%		2.0%
QISB.QA	**Qatar Islamic Bank QPSC**	2.3%	2.1%	1.9%	1.8%	1.9%	1.7%	1.7%	1.6%	1.8%
IDDNF.PK^H09	**Safwa Islamic Bank PSC**						6.2%	6.6%	0.8%	0.6%
SIB.AD	**Sharjah Islamic Bank PJSC**		1.1%			1.2%		1.3%		1.5%

Source: Refinitiv Eikon Database, 2024

Tobin's Q

One popular financial statistic that commonly utilized in previous literature as a variable to assess financial performance is Tobin's Q. It's usually determined by calculating the ratio of a company's asset market value to its asset replacement value (Nasdaq, n.d). It is an essential indicator for a company's growth and investment prospects in relation to its current assets. In the context of Islamic banks and how ESG scores affect financial outcomes, Tobin's Q could offer important insights into how the market values the bank's assets in respect to their replacement cost. A higher Tobin's Q could imply that the market

believes the bank's assets are undervalued, which could be a sign of promising future financial performance and investment opportunities.

3.5.2. Independent Variables

The data used in this research was collected from the Eikon Thompson Reuters database, as referred to earlier, the data was used on an annual basis. The ESG scores of the selected banks have been determined as the time series in the independent variables in this study. 8 years, starting from the year 2017 up to the year 2023 are the time series. It is hoped that this time frame could be expanded to 2025 upon the completion of this study or at least up to 2024. The scores are collected as a combination of ESG scores as well as separately by segment. i.e. E scores, S scores and G scores. Below is a description of the ESG scores used in this research.

3.5.2.1. Combined ESG Scores

The combined ESG score offers holistic evaluation of banking institutions' sustainability performance by integrating the three ESG components and considering ESG controversies reported in global media. This method has been applied in previous banking studies, notably by Buallay and colleagues in multiple studies conducted between 2019 and 2020. Such as Fadel, Al-Ajmi and Alajmi. Section 3.3, "Data Collection and Data Collection Tools," details the factors included in each score and the scoring methodology.

a) ESG Investments and Long-Term Benefits:

Investments in ESG (Environmental, Social, and Governance) are frequently linked to risk reduction and sustainable growth. According to a Harvard Business Review report titled "From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance" (Clark, Feiner, & Viehs, 2015), businesses that prioritise ESG factors do better in the long run because they lower regulatory risks and increase operational efficiency and brand loyalty.

b) Integrating ESG Scores into Islamic Banking: Alignment, Challenges, and Opportunities

In recent years, the concept of Environmental, Social, and Governance (ESG) performance has become increasingly integral to assessing institutional sustainability and

long-term financial resilience. While ESG frameworks have gained substantial traction across conventional banking systems, their integration within Islamic banking remains comparatively underexplored. However, growing global interest in ethical finance presents a timely opportunity to assess how ESG dimensions align with the foundational values of Islamic finance. Islamic banking, guided by Shariah principles, inherently emphasizes social justice, risk sharing, and ethical investments. These principles closely mirror ESG concerns—particularly in areas of social equity, governance integrity, and environmental stewardship—offering potential for a synergistic relationship between ESG indicators and Islamic financial institutions.

Despite this theoretical alignment, empirical evidence on the relationship between ESG performance and financial outcomes in Islamic banks is limited. Many Islamic banks are in jurisdictions where ESG reporting remains voluntary or underdeveloped, leading to inconsistent disclosure practices and data limitations. This affects reliability and consistency of of ESG scores across institutions. Moreover, while conventional ESG metrics typically stem from secular frameworks, Islamic banks may approach these themes through a faith-based lens, leading to different prioritizations. For example, social welfare and community development—a key focus in Islamic finance through instruments like zakat (charitable giving) and qard hasan (benevolent loans)—may be underrepresented in standard ESG scoring methodologies (Dusuki & Dar, 2007). Therefore, adapting ESG metrics to better reflect Islamic values could improve their relevance and effectiveness in Islamic financial reporting and assessment.

Furthermore, the governance dimension of ESG has significant overlap with Shariah compliance mechanisms. Governance in Islamic banks includes layers of oversight, such as Shariah boards, which evaluate financial products to ensure alignment with Islamic jurisprudence. While this adds rigor to decision-making, it may also create unique governance challenges that conventional ESG frameworks do not capture, such as managing dual accountability—both to regulatory authorities and religious scholars (Farook et al., 2011). Integrating these dynamics into ESG assessments would enhance the credibility and cultural relevance of ESG scoring systems in Islamic finance.

To remain competitive and transparent in global financial markets, Islamic banks may need to adopt or tailor ESG frameworks that bridge the gap between conventional sustainability standards and Islamic ethical imperatives. Doing so would not only attract socially conscious investors but also support long-term strategic goals such as financial inclusion and resilience in Muslim-majority economies. Policymakers and regulatory bodies in regions with significant Islamic banking presence—such as the MENA region and Southeast Asia—could play a pivotal role by establishing localized ESG disclosure standards that incorporate Islamic ethical values.

In conclusion, aligning ESG scores with the operational and ethical foundations of Islamic banking presents both challenges and opportunities. While current ESG methodologies may require adaptation to fully capture the distinct features of Islamic finance, there is a clear trajectory toward greater integration. By refining ESG assessment tools to account for Islamic values and operational frameworks, stakeholders can enhance transparency, accountability, and sustainability within the Islamic banking sector.

c) Environmental Pillar Score

The environmental score (Environment) is based on three key components: Resource Use, which gauges a company's ability to reduce energy, water, and material consumption while adopting eco-efficient alternatives; Emissions Reduction, which evaluates the company's efforts and commitment to minimizing environmental emissions from its operations; and Innovation, which reflects the company's potential to cut environmental costs by implementing new technologies or developing eco-designed products (Senadheera et al., 2021).

d) Social Pillar Score

The social score (Social) consists of four categories: the Workforce score, which assesses a company's efforts to maintain a safe and healthy work environment, improve job satisfaction, and promote same chances for all employees; Human Rights, which evaluates the company's adherence to basic human rights standards; the Community score, which reflects the company's dedication to ethical business practices and public health initiatives; and Product Responsibility, which measures the company's ability to deliver high-quality products and services (Bruno et al., 2023).

e) Governance Pillar Score

The governance score (Governance) includes three key dimensions: the Management score, which assesses corporate governance practices' efficacy; the Shareholders Score, which emphasises how shareholders are treated fairly and protects against hostile takeovers; and the CSR Strategy score, which reflects a company's efforts to integrate corporate social responsibility initiatives into its daily operations (Ramirez et al., 2022).

Table 3:10: ESG Score in the Last 9 Financial Years for the Selected Islamic Banks in This Study

Identifier (RIC)	Company Name	ESG Score in the Last 9 FY								
		FY0	FY-1	FY-2	FY-3	FY-4	FY-5	FY-6	FY-7	FY-8
ADIB.AD	Abu Dhabi Islamic Bank PJSC	66.98	64.62	55.38	49.77	48.89	43.87	39.66	34.62	28.22
AJBNK.DU	Ajman Bank PJSC	66.77	44.57	38.47	29.66					
SAUD.CA	Al Baraka Bank Egypt SAE	66.05	67.88	59.56	46.31					
1120.SE	Al Rajhi Banking and Investment Corporation SJSC	60.06	63.41							
SALAM.BH	Al Salam Bank BSC	58.40	54.22							

ALBRK.IS	**Albaraka Turk Katilim Bankasi AS**	58.08	58.74	61.73						
1150.SE	**Alinma Bank SJSC**	53.96	45.95	56.60	43.93	34.01	16.66	13.55		
1140.SE	**Bank Albilad SJSC**	51.48	57.15							
BAFL.PSX	**Bank Alfalah Ltd**	51.28	44.06	44.05	34.89	32.29	36.83	36.77	31.21	38.57
1020_r.SE^D18	**Bank Aljazira SJSC**	50.56	48.44	44.09	39.75	35.69	41.81			
BTPS.JK	**Bank BTPN Syariah Tbk PT**	48.98	50.26	50.31	61.43	48.71	61.95	53.54	41.52	39.49
BKMB.OM	**Bank Muscat SAOG**	43.58	38.00							
BKNZ.OM	**Bank Nizwa SAOG**	39.01	28.50							
PNBS.JK	**Bank Panin Dubai Syariah Tbk PT**	34.02	40.67							
BOUK.KW	**Boubyan Bank KSCP**	34.01	30.74	26.06	30.52	41.76	42.56	41.79	33.18	44.70
DISB.DU	**Dubai Islamic**	33.44	34.70	42.17						

	Bank Public JSC									
ENBD_r19f.DU	**Emirates NBD Bank PJSC**	31.28	21.03							
HBL.PSX	**Habib Bank Ltd**	30.26	30.57	25.06						
ITHMR.BH	**Ithmaar Holding BSC**	28.72	24.79	21.39						
JOIB.AM	**Jordan Islamic Bank Co PLC**	27.53	23.70	19.92	21.63	28.89				
KHALEEJI.BH	**Khaleeji Bank BSC**	27.42	24.13	27.26	32.28	32.99	33.21	25.18	28.92	27.01
KFH.KW	**Kuwait Finance House KSCP**	27.08	23.61	24.48	25.05	28.11	29.64	27.42		
KIBK.KW	**Kuwait International Bank KSCP**	27.06	26.29	11.93	12.61	11.44	10.90	10.42	11.79	13.74
QFBQf.QA^J22	**Lesha Bank Public LLC**	23.85	27.33							
MASB.DU	**Mashreqbank PSC**	14.86	11.12	10.42						
MARK.QA	**Masraf Al Rayan QPSC**	14.31	15.86	9.42	5.92	7.74				

AMZN.PSX	**Meezan Bank Ltd**	9.42	10.53	8.69	7.53					
QIIBf.QA^J22	**Qatar International Islamic Bank QPSC**	6.13	8.43							
QISB.QA	**Qatar Islamic Bank QPSC**									
IDDNF.PK^H09	**Safwa Islamic Bank PSC**									
SIB.AD	**Sharjah Islamic Bank PJSC**									

Source: Refinitiv Eikon Database ,2024

3.5.3. Control Variables

Since this research addresses the impact of (ESG) scores of Islamic banks on their financial performance, several control variables can be considered to enhance the robustness of the analysis. Firm Size, Leverage Ratio, Return on Assets (ROA), Liquidity Ratio, Country-Specific Variables and Market Conditions. The selection of the control variables was based on the theoretical framework and the particular context of the study. In addition to the availability and reliability of the data for these variables. The purpose of the selection of these control variables is to control factors that could skew the relationship between financial performance and ESG scores. This will make the analysis of how ESG affects financial outcomes become more accurate as a result.

To manage variables that could forecast ROE and ROA, control variables such as company size, leverage, and liquidity ratio were incorporated in this study. Given that larger firms may benefit from higher economies of scale (Wang & Qian, 2011).

3.5.3.1. Bank Size

Firm size, typically measured by the natural logarithm of total assets, has been a key variable in research exploring the link between (CSP) and Corporate Financial Performance (CFP) (Orlitzky, 2001). According to Waddock and Graves, (1997) the influence of CSR governance and ethical practices on financial performance may vary between small and large firms.

Table 3.11: Bank Size (Total Assets)– Actual (USD) in The Last 9 Financial Years for the Selected Banks in This Study

Identifier (RIC)	Company Name	Total Assets – Actual (USD) in the Last 9 FY								
		FY0	FY-1	FY-2	FY-3	FY-4	FY-5	FY-6	FY-7	FY-8
ADIB.AD	Abu Dhabi Islamic Bank PJSC	52,502.84	45,883.71	37,267.43	34,799.79	34,302.76	34,087.71	33,568.67	33,297.86	32,230.03
AJBNK.DU	Ajman Bank PJSC					6,432.64	6,020.46	5,452.82	4,357.02	3,899.91
SAUD.CA	Al Baraka Bank Egypt SAE	3,253.40	2,854.03	5,234.65	4,806.14	4,675.18	3,504.55	2,851.90	2,666.43	3,690.94
1120.SE	Al Rajhi Banking and Investment Corporation SJSC	215,492.80	203,091.80	166,241.60	124,983.26	102,409.43	97,334.35	91,492.99	90,604.36	84,122.71
SALAM.BH	Al Salam Bank BSC		10,345.60	7,121.44						4,403.74

ALBRK.IS	**Albaraka Turk Katilim Bankasi AS**	7,568.16	7,806.93	7,961.48	9,961.63	8,566.76	7,858.93	9,567.96	9,066.02	10,045.88
1150.SE	**Alinma Bank SJSC**	63,122.34	53,416.89	46,240.54	41,824.94	35,142.19	32,355.55	30,667.18	27,933.21	23,661.26
1140.SE	**Bank Albilad SJSC**	38,160.53	34,523.60	29,548.38	25,524.19	22,944.88	19,636.29	16,854.48	14,373.77	13,657.57
BAFL.PSX	**Bank Alfalah Ltd**		8,222.40		8,678.39	6,936.95	7,274.47	8,966.14	8,777.50	8,628.61
1020_r.SE^D18	**Bank Aljazira SJSC**	34,546.01	30,874.13	27,408.84	24,553.14	23,068.65	19,465.96	18,209.50	17,682.24	16,869.09
BTPS.JK	**Bank BTPN Syariah Tbk PT**	1,371.42	1,392.24	1,293.16	1,175.61	1,081.79	850.23			
BKMB.OM	**Bank Muscat SAOG**	35,486.64	33,270.79	33,958.10	32,353.32	31,942.74	31,946.86	28,962.03	28,106.27	32,621.32
BKNZ.OM	**Bank Nizwa SAOG**					2,688.75		1,811.10		899.06
PNBS.JK	**Bank Panin Dubai Syariah Tbk PT**									
BOUK.KW	**Boubyan Bank KSCP**	27,337.74	25,812.31	24,339.20	21,291.09	17,471.65	14,349.62	13,226.28		10,350.14

DISB.DU	**Dubai Islamic Bank Public JSC**	85,575.05	78,481.23	75,990.19	78,838.07	63,111.42	60,902.35	56,458.18	47,640.84	40,818.43
ENBD_r19f.DU	**Emirates NBD Bank PJSC**	234,934.38	202,020.73	187,179.82	190,069.56	186,048.94	136,229.24	128,090.05	121,975.55	110,700.91
HBL.PSX	**Habib Bank Ltd**	1,310.73	16,716.42	24,461.58	24,185.13	20,989.48	21,800.09	24,283.92	23,946.35	21,196.47
ITHMR.BH	**Ithmaar Holding BSC**				8,138.64	7,860.90				
JOIB.AM	**Jordan Islamic Bank Co PLC**			5,356.73	5,020.82					
KHALEEJI.BH	**Khaleeji Bank BSC**									
KFH.KW	**Kuwait Finance House KSCP**	123,597.50	121,072.36	72,179.86	71,063.24	63,907.65	58,599.43	57,968.14	54,151.28	54,503.89
KIBK.KW	**Kuwait International Bank KSCP**	11,752.91	11,702.11	10,375.53	9,276.80	8,842.02	7,168.21	6,400.67		5,909.70
QFBQf.QA^J22	**Lesha Bank Public LLC**									
MASB.DU	**Mashreqbank PSC**	65,338.18	54,132.18	48,209.34	43,161.41	43,408.57	38,100.47	34,084.30	33,440.49	31,358.33

MARK.QA	**Masraf Al Rayan QPSC**	45,051.59	45,860.56	47,812.91	33,273.32	29,229.81	26,729.18	28,271.03	25,143.04	22,803.14
AMZN.PSX	**Meezan Bank Ltd**	10,819.98	9,285.75	10,863.66	9,622.19	7,338.17	6,767.07	7,112.18		
QIIBf.QA^J22	**Qatar International Islamic Bank QPSC**	16,909.39	15,492.68	16,975.82	16,844.41	15,613.03	13,805.78	12,805.65		11,138.91
QISB.QA	**Qatar Islamic Bank QPSC**	51,919.17	50,549.62	53,011.46	47,900.05	44,782.61	42,087.55	41,306.11	38,407.53	34,886.99
IDDNF.PK^H09	**Safwa Islamic Bank PSC**									
SIB.AD	**Sharjah Islamic Bank PJSC**	17,938.94	16,097.94		14,593.98	12,630.82	12,182.94	10,425.45		8,137.32

Source: Refinitiv Eikon Database, 2024

3.5.3.2. Leverage

Numerous earlier studies exploring the link between ESG performance and financial outcomes have included leverage as a key control variable. It typically represents the proportion of total liabilities—short-term and long-term—to total assets. Leverage is widely recognized as a measure of financial risk; elevated levels may reflect increased capital costs, potentially leading to reduced profitability (as demonstrated in prior research by Wang and Qian, 2011; Kim and colleagues, 2018; and Nirino and co-authors, 2020).

Table 3.12: Leverage Ratio According to Basel 3 in the Last 9 Financial Years For the Selected Banks in This Study

Identifier (RIC)	Company Name	Leverage Ratio (Basel 3) in the Last 8 FY								
		FY0	FY-1	FY-2	FY-3	FY-4	FY-5	FY-6	FY-7	FY-8
ADIB.AD	Abu Dhabi Islamic Bank PJSC									
AJBNK.DU	Ajman Bank PJSC									
SAUD.CA	Al Baraka Bank Egypt SAE	9.26	8.06	6.83	5.96		4.47	4.19		
1120.SE	Al Rajhi Banking and Investment Corporation SJSC									
SALAM.BH	Al Salam Bank BSC									
ALBRK.IS	Albaraka Turk Katilim Bankasi AS	4.40	4.53	3.30	4.60	5.32	6.24	5.02	5.26	5.01
1150.SE	Alinma Bank SJSC									

1140.SE	**Bank Albilad SJSC**									
BAFL.PSX	**Bank Alfalah Ltd**	3.55	3.62	3.71	4.29	5.67	5.68	4.10		
1020_r.SE^D18	**Bank Aljazira SJSC**									
BTPS.JK	**Bank BTPN Syariah Tbk PT**									
BKMB.OM	**Bank Muscat SAOG**	14.40	14.70							
BKNZ.OM	**Bank Nizwa SAOG**									
PNBS.JK	**Bank Panin Dubai Syariah Tbk PT**									
BOUK.KW	**Boubyan Bank KSCP**	10.57	11.30	9.37	9.37					
DISB.DU	**Dubai Islamic Bank Public JSC**									
ENBD_r19f.DU	**Emirates NBD Bank PJSC**	9.91	10.32	9.93						

HBL.PSX	**Habib Bank Ltd**	4.33	4.20	4.38	4.25	4.42	3.82			
ITHMR.BH	**Ithmaar Holding BSC**									
JOIB.AM	**Jordan Islamic Bank Co PLC**	18.78		17.78	18.98	17.34	17.26			
KHALEEJI.BH	**Khaleeji Bank BSC**	13.52	15.41	19.38	20.84	5.40	4.77	19.02	19.92	22.86
KFH.KW	**Kuwait Finance House KSCP**	8.14	8.31	9.72	8.61	9.54				
KIBK.KW	**Kuwait International Bank KSCP**	9.98	8.04	9.16	11.06	11.79	10.48	10.92		
QFBQf.QA^J22	**Lesha Bank Public LLC**									
MASB.DU	**Mashreqbank PSC**									
MARK.QA	**Masraf Al Rayan QPSC**									
AMZN.PSX	**Meezan Bank Ltd**	5.20	4.11		4.01	4.29	4.42	3.99		
QIIBf.QA^J22	**Qatar International Islamic Bank QPSC**									

QISB.QA	**Qatar Islamic Bank QPSC**									
IDDNF.PK^H09	**Safwa Islamic Bank PSC**	14.99	15.35	14.04	16.11	17.79				
SIB.AD	**Sharjah Islamic Bank PJSC**									

Source: Refinitiv Eikon Database, 2024

In addition, Continent dummies are used to analyze how several nations affect a company's performance. The study's causality argument is strengthened by the use of these control variables. To support the study's causation hypothesis, these control variables are used.

3.5.3.3. Bank Liquidity

The term "bank liquidity" refers to a bank's capacity to pay its debts on time and meet its financial obligations without incurring intolerable loss. It represents the ability of the bank to turn its assets into cash to cover short-term and immediate liabilities. As a result, having enough liquidity is essential for a bank to maintain stability since a bank needs enough liquidity to function well, manage unexpected withdrawals, carry out day-to-day operations, and weather economic downturns or financial difficulties (FDIC-rms, n.d.).Therefore, managing liquidity of the bank is making sure that bank has adequate liquid assets to meet its demands, banks must carefully manage their portfolios of assets and liabilities. This involves using financial tools like repurchase agreements and credit lines, as well as keeping a balance between short- and long-term assets and liabilities. Hence, Bank liquidity has many important elements which can be classified as follow:

a) Liquid Asset

Assets that can be quickly and easily converted into cash with a small percentage of loss of value. These include cash reserves, central bank reserves, government securities, and other highly marketable securities (Ahnert & Macchiavelli, 2022).

b) Liquidity Measurement and Sources in Banking Institutions

Liquidity management is an essential determinant of a bank's financial resilience and operational stability. It ensures that the institution can meet its short-term obligations and sustain operations under various economic conditions. Several financial ratios are commonly employed to measure liquidity strength. Among these, the Current Ratio, defined as current assets divided by current liabilities, provides a fundamental assessment of a bank's capacity to settle its immediate obligations. A more conservative indicator, the Quick Ratio, refines this assessment by subtracting inventories from current assets before division by current liabilities, thus offering a sharper focus on readily available liquid assets.

In addition to these traditional measures, the Liquidity Coverage Ratio (LCR) has emerged as a pivotal standard following the global financial crisis. It is calculated as the proportion of high-quality liquid assets to total net cash flows expected over a 30-day stress period, offering a dynamic evaluation of a bank's short-term liquidity resilience (Saleem, 2011).

Beyond ratio analysis, understanding a bank's sources of liquidity is crucial. Primary sources include cash reserves, representing immediate liquidity held in physical form; marketable securities, which can be liquidated quickly with minimal loss of value; interbank lending, which facilitates short-term borrowing and lending between financial institutions; and central bank borrowing, a critical emergency facility ensuring liquidity access during periods of market stress. Together, these liquidity measures and sources form the backbone of effective liquidity risk management, supporting financial system stability and enhancing confidence among depositors, investors, and regulators.

In this study the liquidity data of the Islamic banks has been extracted from Refinitiv data base as follow:

Table 3.13: Liquidity Ratio According to Basel 3 in the Last 9 Financial Years for the Selected Banks in this Study

Identifier (RIC)	Company Name	Liquidity Coverage Ratio (Basel 3) in the Last 9 FY								
		FY0	FY-1	FY-2	FY-3	FY-4	FY-5	FY-6	FY-7	FY-8
ADIB.AD	Abu Dhabi Islamic Bank PJSC	0.00	176.41	189.25						
AJBNK.DU	Ajman Bank PJSC			118.90						
SAUD.CA	Al Baraka Bank Egypt SAE									
1120.SE	Al Rajhi Banking and Investment Corporation SJSC	222.00	185.00	172.00	187.00	163.00	156.00	141.00		
SALAM.BH	Al Salam Bank BSC	242.25	439.45	340.68	354.17	373.87	266.15	122.17		
ALBRK.IS	Albaraka Turk Katilim Bankasi AS	130.39		149.30	160.00	237.00				
1150.SE	Alinma Bank SJSC	195.00	219.00	268.00	228.00	215.00				

1140.SE	**Bank Albilad SJSC**	367.10								
BAFL.PSX	**Bank Alfalah Ltd**	158.51	181.77	224.33						
1020_r.SE^D18	**Bank Aljazira SJSC**									
BTPS.JK	**Bank BTPN Syariah Tbk PT**	270.81	254.43	231.47	255.66	154.92	172.87			
BKMB.OM	**Bank Muscat SAOG**									
BKNZ.OM	**Bank Nizwa SAOG**									
PNBS.JK	**Bank Panin Dubai Syariah Tbk PT**		155.16	101.59						
BOUK.KW	**Boubyan Bank KSCP**									
DISB.DU	**Dubai Islamic Bank Public JSC**	109.47	233.94	272.54	133.83	237.84	1,569.34			
ENBD_r19f.DU	**Emirates NBD Bank PJSC**	185.00	251.40	343.93	126.41	165.09				

HBL.PSX	**Habib Bank Ltd**									
ITHMR.BH	**Ithmaar Holding BSC**									
JOIB.AM	**Jordan Islamic Bank Co PLC**									
KHALEEJI.BH	**Khaleeji Bank BSC**									
KFH.KW	**Kuwait Finance House KSCP**	340.37	137.64	177.58	198.28	733.93	395.03	111.99	154.25	
KIBK.KW	**Kuwait International Bank KSCP**									
QFBQf.QA^J22	**Lesha Bank Public LLC**									
MASB.DU	**Mashreqbank PSC**	643.33	854.11							
MARK.QA	**Masraf Al Rayan QPSC**									
AMZN.PSX	**Meezan Bank Ltd**									
QIIBf.QA^J22	**Qatar International Islamic Bank QPSC**	0.00	176.41	189.25						

QISB.QA	**Qatar Islamic Bank QPSC**									
IDDNF.PK^H09	**Safwa Islamic Bank PSC**									
SIB.AD	**Sharjah Islamic Bank PJSC**									

Source: Refinitiv Eikon Database, 2024

To sum up, this study has various variables as follows.

Table 3.14: Variables Definitions

Variable	Measure
Return on equity	Net income / Average shareholder's equity
Environmental score	Refinitiv
Social score	Refinitiv
Governance disclosure score	Refinitiv
ESG score	Derived variable: Average (Environmental score + Social score + Governance disclosure score)
Bank size	Ln (Total assets)
Return on assets	Net income/ Average total assets
Leverage	(Long-term debt + Short-term debt) / Total assets
Liquidity	Current assets / Current liabilities

Source: Developed By the Author in This Study

3.6. Chapter Summary

This chapter provides an overview of the variables used to evaluate the relationships and factors influencing bank financial performance and sustainability. Each variable is defined and contextualized to explain its relevance in the analysis, this chapter lays the groundwork for analyzing how these variables interact and contribute to the study's objectives, offering insights into bank performance, financial health, and sustainability efforts.

CHAPTER IV

THEORETICAL AND CONCEPTUAL FRAMEWORK

Introduction

This chapter will address several conceptual and theoretical frameworks which this study relies on. Bearing in mind the research questions, the researcher studied widely the literature and discovered the following ideas and theories to be both relevant and inspiring.

4.1. Theoretical Framework

This research seeks to examine the effect of ESG scores on the financial performance of Islamic banks. Various theories have been explored to investigate the relationship between ESG scores and banks' financial performance (BFP). Several foundational theories can be applied to understand the connection between (ESG) scores and financial outcomes in banks. Among these are stakeholder theory, corporate social responsibility (CSR) theory, and finally agency theory. Despite their differences, Daniel (2018) pointed out that CSR theory and stakeholder theory discuss related business issues from several angles. Daniel preferred using stakeholder theory over CSR theory. Daniel added that employing stakeholder theory may be more appropriate to understand the correlation between CSR and BFP, as CSR theory puts greater emphasis on the interests of society over other stakeholders. While the stakeholder theory takes into account the concerns of multiple stakeholders, by adopting stakeholder theory, companies can develop plans that benefit the organisation and the pertinent stakeholders (Vidal, Berman, & Van Buren, 2015). The following section highlights these theories with more in-depth discussion.

4.1.1. Stakeholder Theory

The concept of ‘stakeholder’ originated from the argument that organizations have responsibilities to all parties affected by their business activities (Freeman, 1984; Gibson, 2012). Because stakeholder theory has innovative nature, a lot of work has been done to integrate it with sustainability literature (Chang, Zuo, Zhao, Zillante, Gan, & Soebarto, 2017).

The idea that the environment ought to be considered a stakeholder gives rise to the relationship between sustainability and the stakeholder notion. This is because industries

have a direct negative impact on the environment (Bendheim, Waddock, & Graves, 1998). One significant benefit of treating the environment as a stakeholder is that it forces businesses to look at environmental concerns from several perspectives, leading to more creative solutions for pertinent problems (Starik, 1995). Alternatively, Gibson (2012) proposes focusing on human sustainability as an alternative to the overall framework that stakeholders' theory uses to address sustainability and environmental issues. Thus, this approach emphasizes the importance of resource preservation over aesthetic considerations.

Stakeholder Theory asserts that organizations, including financial institutions like banks, bear a broader responsibility beyond merely generating profits for shareholders. They are expected to consider and address the interests of all parties that are directly or indirectly affected by their actions. This perspective includes a diverse set of stakeholders such as employees, consumers, regulatory bodies, local communities, and financial backers. As argued by Freeman (2010) and later expanded upon by Porter and Kramer (2006), companies should implement sustainable business strategies that reflect the needs of these stakeholder groups. Doing so is believed to enhance the firm's public image, build long-term trust, and ultimately contribute to improved financial outcomes.

Research, including that of Wolf (2013), supports the view that stakeholder pressure can be a powerful influence on managerial behavior, pushing firms to adopt stronger sustainability measures. This external influence plays a vital role in encouraging organizations to commit to responsible and ethical practices across environmental, social, and governance dimensions.

Lu (2013) emphasizes that stakeholders are broadly defined as any individuals or entities that can significantly influence or be influenced by a company’s operations and performance. These include, but are not limited to, customers, employees, investors, governmental agencies, and the wider community. However, not all scholars fully endorse the stakeholder model without critique. For instance, Jensen (2002) highlights a key limitation of the theory—its failure to provide a clear mechanism for balancing the often competing demands of various stakeholder groups, which can complicate decision-making processes..

4.1.2. Agency Theory

The relationship between agency theory and sustainability is multifaceted. Agency theory underlines the bond between principals. (owners or shareholders) and agents (managers), highlighting potential conflicts of interest. While traditionally concerned with financial performance, sustainability extends to encompass environmental, social, and governance (ESG) factors. Despite this, there are connections between the two. Sustainable practices can help align the interests of principals and agents by promoting long-term value creation, risk mitigation, and trust among stakeholders. Incorporating sustainability goals and metrics can serve as a tool for monitoring and ensuring that agents' actions are in line with the long-term objectives of principals, supporting sustainable business practices.

Agency theory, which originated in the late 20th century in the realm of corporate governance, is regarded as a foundational theory in this field (Caldwell et al., 2008; Abdullah & Valentine, 2009; Fauziah & Alhaji, 2012; Woodman, 2017).According to the theory, company owners hire professional managers (agents) to represent their interests and manage daily operations. The principal-agent relationship, as described by this theory, sees both parties striving to maximize their own benefits (Abdullah & Valentine, 2009; Woodman, 2017). In this context, agents may make decisions that do not necessarily serve the best interests of the company. Agency theory often views agents as self-interested individuals, which stands in contrast to the Islamic principles of cooperation and brotherhood. Therefore, this traditional theory falls short in explaining the nuances of stakeholder relationships in an Islamic corporate setting.

4.1.3. Corporate and Social Responsibility (CSR)

The idea of corporate social responsibility (CSR) has taken many forms, from the responsibility of firms to the need to follow sustainable paths. The term's complexity has made its definition difficult. Although the concept affects public opinion and the legal standing of the business, it also involves businesses choosing to conduct their operations in a way that supports a healthy environment and society, which may imply that there is no legal requirement (Thorisdottir & Johannsdottir, 2020). The author of this study applies this idea to investigate the progress made by businesses in promoting environmental and social causes.

The linking between business organizations and social involvements has been the subject of literature since the 1950s (Lee, 2008), when Bowen (1953) emphasized that businessmen should adapt their actions in accordance with society benefit in which they operate. For instance, it is asserted that businesses have responsibilities that go beyond the usual tracking of financial gains in order to support objectives linked to social and environmental well-being (Davis, 1973). In order to better understand corporate social responsibility, it is necessary to examine the different impacts that adopting such policies has on an organization's performance. Some Examples from different studies such as the effects on business competitiveness (Wagner, Azomahou, & Wehrmeyer, 2002), productivity and efficiency (Linde, Croland, Bonifant, Esty, Marron, Rivkin, & Siggelkow, 1995), and financial performance (Orlitzky, Schmidt, & Rynes, 2003; Horváthová, 2010).

4.1.4. Corporate Sustainability

Integrating social and environmental concerns with the organization's regular business operations is the main goal of the corporate sustainability notion. (Van Marrewijk, 2003). It is best understood in connection with the Triple Bottom Line paradigm and its three pillars, which offer a comprehensive approach to sustainability. (Chang, Zuo, ZhaoZillante, Gan, & Soebarto, 2017). The TBL model, which deviates from the traditional idea of sustainable development in business, was developed by Elkington (1999). A more integrated approach that seeks to meet economic, environmental, and social justice goals is sustainability, which was previously thought of as the simple attempt to balance making money with preserving the environment (Elkington, 1999). The idea addresses all parties involved and leverages corporate best practices to accomplish these three pillar goals (Artiach, Lee, Nelson, & Walker, 2010) (Dyllick & Hockerts, 2002).

4.1.5. Circular Economy

The circular economy is a model designed to enhance the use of products within the economic cycle while also extending the duration that various resources remain active in the cycle (Shirvanimoghaddam, Motamed, Ramakrishna, & Naebe, 2020).

European Parliament, (2022) described the circular economy as system of production and consumption focused on maximizing the use of existing resources through activities such

as sharing, leasing, repairing, reusing, refurbishing, and recycling. This approach aims to prolong the life span of products and materials for as long as possible.

Circular economies come in two main categories. The first type focuses mostly on updating and repairing outdated products. However, the second kind concentrates on the recycling procedure (Stahel, 2016). The idea is frequently described as the "cradle to cradle" methodology because it suggests continuous circular use and reuse of resources and energy, in contrast to the conventional linear model, which has a start and an end.

The governments of China, Japan, and the EU have all shown support for the recently developed idea of the circular economy (Korhonen, Honkasalo, & Seppälä, 2018). A "shrinking parent system" is the result of a one-way flow of materials and energy in a traditional linear economy system, which has an unsustainable impact on the three primary pillars of sustainable development (Fig. 3.1). On the other hand, this system is weakened if the circular economy's methodology is adopted. Less raw material is used up as a result of the reuse and recycling process. Additionally, raw materials spend more time in the cycle rather than being disposed of right away, which increases efficiency. As shown in Fig. 3.2, the ultimate result will be optimizing the value and quality of the product's lifecycle and value chain. (Honkasalo, Korhonen, & Seppälä, 2018).

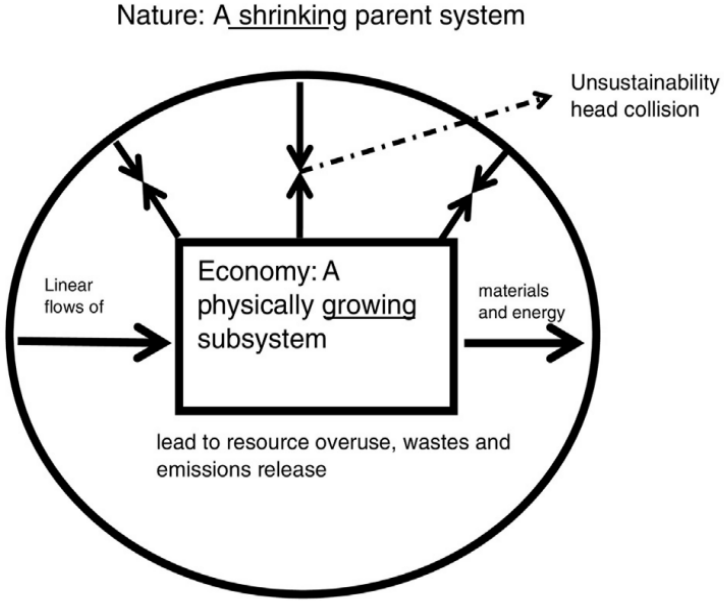


Figure 4.9: Linear Economy Model

Source: Korhonen, Honkasalo, & Seppälä, 2018

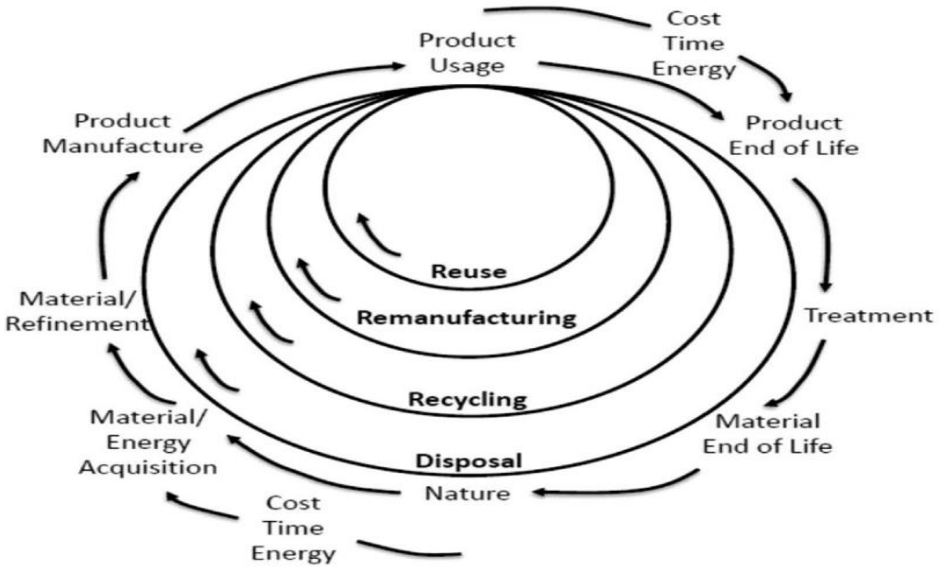


Figure 4.10: Circular Economy Model

Source: Korhonen, Honkasalo, & Seppälä, 2018

Korhonen, Honkasalo, and Seppälä (2018) combine four distinct perspectives to explain circular economy. The circular economy should, first and foremost, optimize the efficiency of materials and energy. Second, the circular economy model requires a recycling process for both materials and energy. Third, the three primary pillars of sustainable development should all see gains concurrently with the proper implementation of the circular economy. Ultimately, the mechanism leads to an effective throughput flow limiter.

Despite its obvious benefits and valuable, the circular economy concept has limitations. A summary of a few of these limitations is given by Korhonen, Honkasalo, and Seppälä (2018). Recycling, for instance, might result in marginal and extra operations that increase emissions and resource consumption, such as the transportation of these items, even if it is meant to assist reduce material and energy waste. Another urgent problem is what are known as the rebound effects, which could prevent the circular economy from producing the intended results if they are not recognized and handled. Higher efficiency stimulates

higher levels of output and consumption, which in turn leads to less sustainable outcomes. This phenomenon is known as rebound effects. When businesses are compelled to employ conventional techniques because sustainable raw materials are scarce, there is also the issue of route dependency. This circumstance may arise from a high degree of adherence to the principles of the circular economy. Furthermore, the circular economy necessitates a high degree of collaboration and integration between the many supply chain participants. Managing this extensive web of relationships under the sustainability umbrella appears to be a very difficult challenge. The literature also appears to be ambiguous when discussing these issues. Lastly, the field of circular economy is rather subjective, which has made it challenging to define the concept precisely and consistently and led to disagreements over what constitutes excellent practice or activity.

4.1.6. Customer-Centric Sustainability (CCS)

The notion of customer-centric sustainability (CCS), as proposed by Sheth, Sethia, and Srinivas (2011), is also incorporated into this study. It suggests a customer-focused approach to the three sustainability dimensions—economic, social, and environmental. "Free from the common shortcomings of current sustainability approaches" is how the CCS approach to sustainability puts it. It involves addressing the three aspects of sustainability in a logical and comprehensive way, is proactive, and must be linked with core company processes. (Sheth, Sethia, & Srinivas, 2011). In addition to discussing CCS, the authors present the idea of mindful consumption (MC), which serves as the foundation for the CCS approach and aids businesses and marketers in addressing customer-related concerns in sustainability by emphasizing the concerns of overconsumption and business and customer interests. CCS and MC can assist marketers in serving the interests of numerous stakeholders, such as consumers, communities, regulators, policymakers, and environmental and consumer advocates, by relying on the reciprocal interdependence of businesses, customers, and legislators.

According to studies, businesses are more concerned with environmental sustainability and are motivated more by the need to appease outside demands than by true internal strategic planning. The way social and economic projects are organized and carried out via voluntary programs under the (CSR) umbrella, which are frequently not coupled with

leadership duties and conventional business methods, also demonstrates further limitations. According to Sheth, Sethia, and Srinivas (2011), another drawback of sustainability initiatives is that most of them neglect to directly address the consumer, who is a significant stakeholder in the entire process.

Sheth and colleagues (2011) argue that lacking a strong customer orientation can significantly undermine the efficiency and impact of sustainability initiatives. They contend that in "most sustainability initiatives the customer is not in the foreground as a stakeholder, and that being the case, such initiatives also do not adequately, much less proactively, customer-centric issues in sustainability" (p. 23), highlighting the disparities in how businesses view and react to stakeholders.

They claim that consumers receive less attention than other stakeholders, including investors, corporate responsibility activists, regulators, and the media. The fact that a consumer represents several stakeholder identities is another point of contention in their argument. This has the potential to create a network of entwined relationships and interests with numerous other stakeholders. Furthermore, without taking into account the role of customers, it is impossible to achieve several crucial sustainability goals, especially those pertaining to conscious consumption.

When analyzing company strategies, the general structure of this CCS technique is applied. Zhuang, Luo, and Riaz (2021) assert that the demand for green products from customers is the primary driver behind businesses' motivation to go green. As a result, businesses believe that this action is the best way to respond to this growing tendency.

4.2. Conceptual Framework

The connection between a company's financial performance and its Environmental, Social, and Governance (ESG) performance, especially in the banking sector, has attracted a lot of interest recently. Islamic banks, in particular, operate under unique principles that align closely with ESG principles due to the core values of Shariah compliance, which emphasize ethical practices, social justice, and environmental stewardship.

This framework seeks to investigate the relationship between ESG performance and financial performance within a selection of Islamic banks. It will delve into the mechanisms by which ESG initiatives impact financial outcomes, providing a detailed

analysis of how sustainable practices affect profitability and growth. The framework also aims to highlight specific elements distinctive to the Islamic banking system that could either enhance or diminish the relationship between ESG efforts and financial success, thereby providing a more detailed insight into the sector's unique challenges and prospects.

The study aims to uncover specific dynamics that could drive ESG performance to be a competitive advantage in Islamic finance.

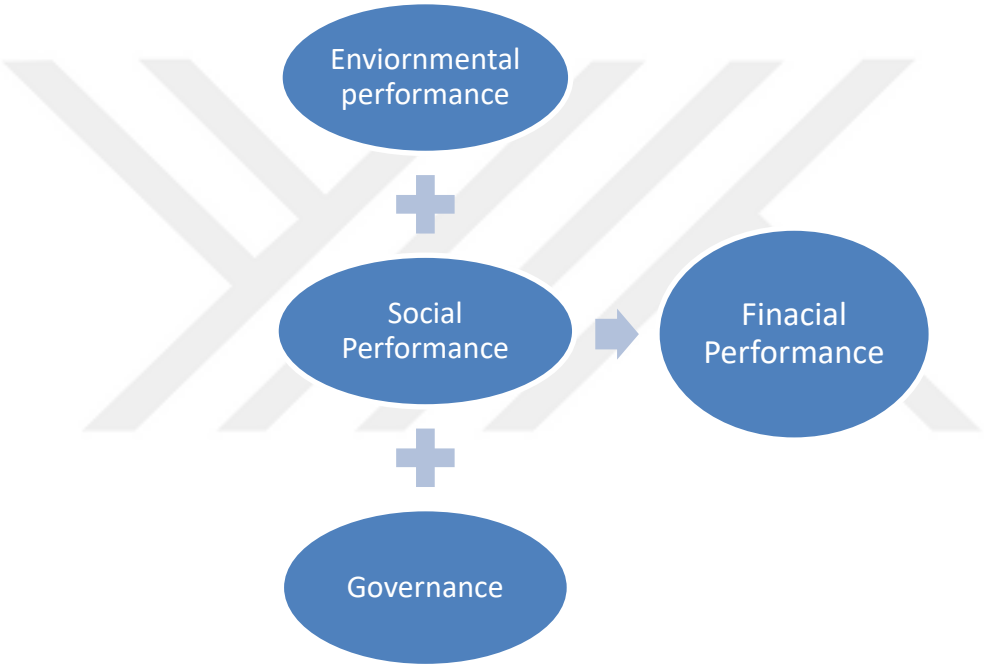


Figure 4.11: ESG Scores and Financial Performance in Islamic Banks
Source: Developed by the Author in this study

Figure 4.11 visually represents the relationship between the key three ESG component i.e. Environmental, Social, and Governance (ESG) performance, on the one hand, and financial performance of Islamic banks, on the other. These three components will be discussed separately in the following section.

4.2.1. Environmental Performance

This refers to how well a bank or financial institution manages its impact on the environment, such as through policies on carbon emissions, waste reduction, energy use, and environmentally friendly investments. In the diagram, environmental performance is

shown as a contributing factor to overall financial performance. Good environmental practices can enhance a bank's reputation, reduce regulatory risks, and attract investors focused on sustainability.

4.2.2. Social Performance

This relates to the way the bank communicates with its stakeholders, such as staff members, clients, and the broader community. It can cover labor practices, customer satisfaction, and contributions to social causes. As indicated in the diagram, social performance is another critical aspect that positively impacts the bank's financial performance by creating a responsible and positive image, leading to better client relationships and brand loyalty.

4.2.3. Governance

Governance refers to how the bank is run—its leadership, compliance with regulations, internal controls, and ethical standards. Strong governance practices reduce the risk of fraud, enhance decision-making, and ensure long-term stability. The diagram shows that governance, when combined with environmental and social factors, feeds into financial performance.

4.2.4. Financial Performance

The diagram's right side emphasises how improved governance, social, and environmental performance add up to improved financial results for the bank, including profitability, risk control, and investor confidence. All things considered, the figure illustrates how ESG elements work together to improve a bank's financial performance, demonstrating a comprehensive approach to corporate responsibility.

CHAPTER V

DATA ANALYSIS, FINDINGS AND DISCUSSION

5.1. Data Analysis, Data Analysis Method, Findings Summary and Implications

5.1.1. Data Analysis Method

The following sections explore the research questions concerning how social, environmental, and governance factors influence financial metrics like return on equity and return on assets concerning banks working in the Middle East and North Africa (MENA) and Southeast Asia, respectively. It is therefore important to establish whether these regional ESG factors can improve the banks' financial performance. In order to provide robustness and dependability, this study employed two statistical software, SPSS (Statistical Package for the Social Sciences) and AMOS (Analysis of Moment Structures), to analyze data and cross-validate findings for robustness and reliability programs. Each uses a different approach within the software for triangulation purposes. This more than one software application approach also enhances the reliability of the results and their confirmation through the use of different methods.

5.1.1.1. SPSS

This software is widely used for descriptive statistics, hypothesis testing, and exploratory analysis. It provides a comprehensive toolkit for analyzing data but may have limitations in more complex modeling. In this study SPSS was utilized to conduct multiple regression analyses to test the hypotheses. In SPSS, the analysis of relationships between financial performance metrics (ROE and ROA) and social, environmental, and governance (ESG) factors (namely, Social Region, Environmental Region, and Governance Region) was conducted using multiple regression analysis and ANOVA techniques (Kafle, 2019).

a) Multiple Regression Analysis:

Multiple regression analysis can assist in assessing the contributions of the independent variables to the variation of the dependent variable, making it possible to determine the contribution of each component of the ESG to financial results. The relationship between the factors of ESG and financial measures, in this case, ROE and ROA, is stated in quantitative terms with each factor having an effect of its own. Southern and Eastern Asia

and MENA regions were taken separately for the analysis so as to establish the differences in the effects of the ESG factors on the performance of the firms in these two regions (Kafle, 2019).

b) ANOVA Analysis

ANOVA, or analysis of variance, is a crucial technique for both exploratory and confirmatory data analysis. ANOVA, along with multiple regression, was also employed within SPSS in order to explore the model as a whole and to test whether the combination of Social Region, Environmental Region, and Governance Region significantly accounts for the variation seen in ROE and ROA. Within this framework, ANOVA yielded the F-statistic and the p-value that were used to test whether the combination of the predictors specifies significantly the dependent variables. ANOVA inclusion was important in determining whether variability in performance can be explained by the ESG factors as a whole (Gelman, 2005).

SPSS was selected due to its practicality in dealing with extremely large data sets, therefore being good for regression and ANOVA. With respect to ANOVA, the results obtained were further checked through regression analysis to help establish the importance of the model and whether the single effects observed in regression can be substantiated by the explanatory value of the overall model (Kafle, 2019).. To sum up, the following features were employed in SPSS:

- **Regression Models:**
    - Used to assess the individual and collective influence of ESG components (Environmental, Social, and Governance) on financial performance metrics (ROE and ROA).
- **Key Outputs:**
    - Coefficients (Unstandardized and Standardized) were analyzed to determine the magnitude and direction of relationships.
    - Statistical significance was measured using p-values, with a threshold of 0.05 to determine the acceptance or rejection of hypotheses.
- **ANOVA Analysis:**

- Tested the overall fit of the regression models to ensure that the predictors significantly explained variance in the dependent variables.

5.1.1.2. AMOS

AMOS specializes in structural equation modeling (SEM), allowing for testing relations hips between variables in more intricate ways. It's particularly useful for confirmatory analysis. This research sought to explore the intricate links between components of ESG as well as between these components and the performance indicators ROE and ROA using SEM in AMOS. SEM is really the most appropriate for studies where a number of variables are interrelated. It deals with both direct and indirect effects as well as multiple dependent relationships at the same time. Unlike regression, SEM can give clearer picture of how ESG and financial performance are related. In particular the possible dependence of different ESG factors on one another as well as financial performance.

AMOS was selected for its more advanced SEM features which made it possible for the researcher to have a holistic perspective of how all the ESG factors are interrelated, and how these factors contribute to ROE and ROA. The researcher used SEM to consider the direct and indirect effects of each ESG dimension, and hence this method enriched the understanding of the intricate relationships that may not be brought out in a conventional regression model (Bacon, 2001).

a) Structural Equation Modeling (SEM):

In this study AMOS was employed to validate the SPSS findings through Structural Equation Modelling (SEM)**:**

- Latent Variable Analysis: AMOS allowed for the examination of latent constructs (e.g., ESG as a composite score), which may not be directly observable (Ayán, et al., 2009).

- Path Analysis: Regression weights and path diagrams were used to visually and statistically assess relationships between variables (Ayán, et al., 2009).

- Model Fit Indices: Metrics such as RMSEA, CFI, and TLI were evaluated to ensure the structural models fit the data well, complementing the regression outputs from SPSS (Ayán, et al., 2009).

5.1.1.3. Cross-Validation Objective

Cross-validation is a statistical technique to assess a model's robustness and generalisability or analytical findings. The primary goal of cross-validation is to ensure that a study's findings or a statistical model's performance are not overly dependent on a specific dataset or method. It enhances the reliability of results by testing their consistency across different datasets or statistical approaches. In this study, the combined use of SPSS and AMOS ensured consistency in findings while addressing the potential limitations of individual methods. Cross-validation enhanced the study's credibility by confirming results through different statistical approaches. Such a broad approach provides sufficient ground to examine how various dimensions of ESG affect financial outcomes both as single variables and as structural factors of an institutional environment, which might have interactive effects. Interpreting and analyzing the results using both SPSS and AMOS boosts the reliability of the findings by triangulation of findings derived from two different data analysis approaches, offering a deeper comprehension of how social, environmental, and governance factors are hierarchically ordered and interact in determining financial performance in developing countries (Browne, 2000).

To sum up, cross-validation gives the research more credibility by lowering the chance of overfitting to a single method or dataset. It can also show any differences that might mean the method needs to be improved, and finally, it can give a more complete picture of the data by looking at it from different points of view.

This approach strengthens the study's overall reliability and ensures that the conclusions are well-supported. By combining SPSS and AMOS:

- **Enhanced Validation:** The results derived from simpler statistical methods (SPSS) can be compared and cross-validated with more sophisticated modeling approaches (AMOS).
- **Consistency in Findings:** Using different tools ensures that any observed patterns or relationships are not artifacts of one particular software or method.
- **Robustness:** Cross-validation helps detect biases or inconsistencies that might arise if only one method were used.

5.1.2. Justification of Using SPSS and AMOS Together: Complementary Approach

The combination of SPSS and AMOS allowed the researcher to adopt the multi-method approach in analyzing the data, thereby improving the validity, reliability, and comprehensiveness of the results. Regression and ANOVA analysis carried out in SPSS gave a good assessment of how each of the ESG components influence ROE and ROA and thus we were able to measure the effect of every predictor that was included in the model. By providing separate analyses according to the region, researchers have explored any regions' trends in the effect of ESG on financial performance.

On the other hand, AMOS's SEM approach offered a wider and deeper sense of interrelationships between the various ESG factors by recording both direct and indirect effects. Through SEM it has been possible to research interdependence and model many interactions at the same time, thus enhancing the knowledge of how the ESG factors operate in relation to each other with respect to ROE and ROA. The use of both software reduced the chances of processes that were influenced by the software, and provided triangulation, thus enhancing the credibility of the results since obtaining the same results in SPSS and AMOS would support the finding.

The use of both software tools also allowed us to compare results from multiple analytical perspectives. Convergence across methods is an indication that the association between the ESG factors and financial performance is indeed strong, while divergence would warrant an explanation of model differences.

5.1.2.1. Statistical Decision-Making

Threshold for Decision: A hypothesis is accepted if the p-value is below the standard threshold of 0.05, indicating statistical significance.

Rejected Hypotheses: High p-values (above 0.05) signify insufficient evidence to support the hypothesis, leading to rejection.

5.1.3. Hypothesis Testing

5.1.3.1. Hypothesis 1,2,3 and 4

H1: The IBs' ESG scores positively impact financial performance.

H2: The IBs' Environmental scores positively impact financial performance.

H3: The IBs' Social scores positively impact financial performance.

H4: The IBs' Governance scores positively impact financial performance.

a) SPSS Output

In the SPSS analysis, the researcher examined the relationship between ESG, Environmental, Social, and Governance factors and financial performance, specifically focusing on Return on Equity (ROE) and Return on Assets (ROA).

Dependent Variable = Return on Equity (ROE)

1. Model Summary

Table 5.15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.069[a]	.005	-.022	76.38146%

a. Predictors: (Constant), ESG, Social, Governance, Enviromental

The correlation coefficient between observed and predicted values of the dependent variable (ROE) is 0.069, indicating a weak relationship between ESG, Environmental, Social, and Governance predictors. The R Square, which explains only 0.5% of the variance in ROE, is 0.005, indicating that these predictors do not explain much of the variation in ROE. The adjusted R Square, which accounts for the number of predictors in the model, is -0.022, suggesting the model may not be useful in explaining the data. The Standard Error of the Estimate, which is the average distance observed values fall from the regression line, is 76.38146, indicating a large spread of values around the predicted values.

Table 5.16: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4140.272	4	1035.068	.177	.950[b]
	Residual	875119.130	150	5834.128		
	Total	879259.401	154			

a. Dependent Variable: Return on Equity

b. Predictors: (Constant), ESG, Social, Governance, Environmenl.

The ANOVA table reveals that the model, which includes ESG, Social, Governance, and Environmental factors as predictors, does not significantly explain the Return on Equity (ROE) as the outcome. The sum of squares for regression and residual sums shows the variability in ROE that can be explained by the predictor variables, while the total sum of squares shows the total variability in ROE. The F-statistics are low (0.177), indicating that the model does not explain much variance in ROE. The p-value is 0.950, indicating that the predictors collectively have a statistically significant effect on ROE. This indicates that the predictors are not useful for predicting ROE in this analysis. The high p-value (0.950) indicates that the relationship between the predictors and ROE is not statistically significant, meaning these predictors are not useful for predicting ROE.

Table 5.17: Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.773	11.771		.236	.814
	ESG	-.048	.311	-.014	-.156	.876

	Environmental	.329	.445	.110	.740	.460
	Governance	.036	.285	.014	.126	.900
	Social	-.215	.512	-.067	-.419	.675

a. Dependent Variable: Return on Equity

This table shows the results of how each predictor variable (ESG, Environmental, Governance, and Social) affects the dependent variable, Return on Equity (ROE).

The "Constant" (2.773) represents the estimated value of ROE when all predictor variables are zero. This value itself isn't very meaningful without significant predictors.

The coefficient for ESG is -0.048 with a p-value of 0.876. This means that for each unit increase in ESG, ROE would decrease by 0.048 units, but this effect is not statistically significant (the p-value is much higher than 0.05), so the researcher can't conclude that ESG has a real effect on ROE in this model. The coefficient for Environmental is 0.329 with a p-value of 0.460. This suggests that for each unit increase in Environmental score, ROE would increase by 0.329 units. However, since the p-value is also greater than 0.05, this result is not statistically significant, so the researcher can't confirm that the Environmental has a true effect on ROE.

The coefficient for Governance is 0.036 with a p-value of 0.900, This means a one-unit increase in Governance would lead to a 0.036 increase in ROE, but again, this effect is not significant. The coefficient for Social is -0.215 with a p-value of 0.675, this implies that a one-unit increase in social score would decrease ROE by 0.215, but, like the other variables, this effect is not statistically significant.

Dependent Variable = Return on Assets (ROA)

Table 5.18: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.245[a]	.060	.035	1.89763%

1. Predictors: (Constant), ESG, Social, Governance, Environmental

The correlation between observed and predicted ROA values is 0.245, indicating a weak to moderate relationship. The R Square, which accounts for 6% of the variance in ROA, is 0.060, indicating a low level of model strength. The adjusted R Square, 0.035, accounts for the number of predictors, indicating a slightly lower model strength. The standard error of the estimate is 1.89763, indicating a low average prediction error.

Table 5.19: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	34.543	4	8.636	2.398	.053[b]
	Residual	540.151	150	3.601		
	Total	574.694	154			

a. Dependent Variable: Return on Assets

2. Predictors: (Constant), ESG, Social, Governance, Environmental.

The model's variance is 34.543, with residuals at 540.151. The degrees of freedom for regression and residuals are 150 and 80 respectively. The mean square is 8.636, and the F-statistic is 2.398, which is close to significance but low. The significance level is 0.053, suggesting the model is not statistically significant at the 5% level.

Table 5.20: Coefficientsa

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.899	.292		3.073	.003
	ESG	.022	.008	.251	2.836	.005
	Environmental	-.002	.011	-.029	-.200	.842
	Governance	.003	.007	.044	.411	.682

Social	-.012	.013	-.149	-.966	.336

1. Dependent Variable: Return on Assets.

This table shows the impact of each predictor variable (ESG, Environmental, Governance, and Social) on the dependent variable, Return on Assets (ROA). The "Constant" value of 0.899 indicates the estimated ROA when all predictor variables are zero. This serves as a baseline, though the primary focus is on the predictors. The coefficient for ESG is 0.022 with a p-value of 0.005, this means that for each unit increase in ESG, ROA would increase by 0.022 units. Since the p-value is less than 0.05, this effect is statistically significant, indicating that ESG has a positive and meaningful impact on ROA in this model.

The coefficient for Environmental is -0.002 with a p-value of 0.842. This suggests that for each unit increase in Environmental score, ROA would decrease by 0.002 units. However, since the p-value is much greater than 0.05, this result is not statistically significant, so the researcher cannot conclude that Environmental has a real effect on ROA.

The coefficient for Governance is 0.003 with a p-value of 0.682. This implies that a one-unit increase in Governance would increase ROA by 0.003 units, but, like Environmental, this effect is not significant due to the high p-value.

The coefficient for Social is -0.012 with a p-value of 0.336. This suggests that a one-unit increase in social score would lead to a decrease in ROA by 0.012 units, but this result is not statistically significant, so the resercher cannot conclude that Social has an effect on ROA.

H1, H2, H3 and H4 SPSS Findings Summary

The results suggest that these factors have a minimal impact on ROE. The correlation coefficient between observed and predicted values of ROE is a very weak 0.069, and the R Square is only 0.005, explaining just 0.5% of the variance in ROE. An adjusted R Square of -0.022 indicates that the model is not suitable for explaining variations in ROE, and the standard error of 76.38146 reflects a wide spread of observed values around the predicted values. The ANOVA test also demonstrates that the model, including Social, Environmental, Governance, and ESG factors as predictors, is not statistically significant

in explaining ROE (F-statistics = 0.177, p-value = 0.950), indicating that these predictors do not meaningfully influence ROE.

When examining the impact on ROA, SPSS results show a slightly stronger, but still weak, relationship, with a correlation coefficient of 0.245 and an R Square of 0.060, meaning that the model explains 6% of the variance in ROA. The adjusted R Square is 0.035, showing limited predictive strength. The F-statistics (2.398) and a near-significant p-value of 0.053 suggest that the model approaches statistical significance for ROA but does not meet the threshold of 0.05. Among the individual predictors, ESG stands out as having a statistically significant positive impact on ROA (coefficient = 0.022, p-value = 0.005), while Environmental, Social, and Governance factors do not show statistically significant effects, with high p-values (Environmental = 0.842, Social = 0.328, Governance = 0.677).

Table 5.21: AMOS Output, Regression Weights: (Group Number 1Default Model)

			Estimate	S.E.	C.R.	P
ROE	<---	ESG	-.048	.307	-.158	.874
ROE	<---	environmental	.329	.439	.750	.453
ROE	<---	Social	-.215	.505	-.425	.671
ROE	<---	Governance	.036	.281	.127	.899
ROA	<---	ESG	.022	.008	2.873	.004
ROA	<---	Social	-.012	.013	-.979	.328
ROA	<---	environmental	-.002	.011	-.203	.840
ROA	<---	Governance	.003	.007	.416	.677

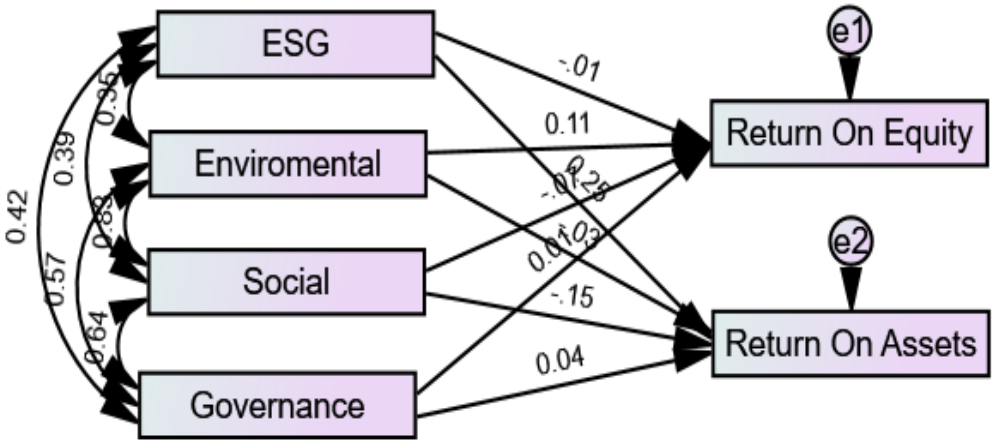


Figure 5. 12: Standardized Estimates

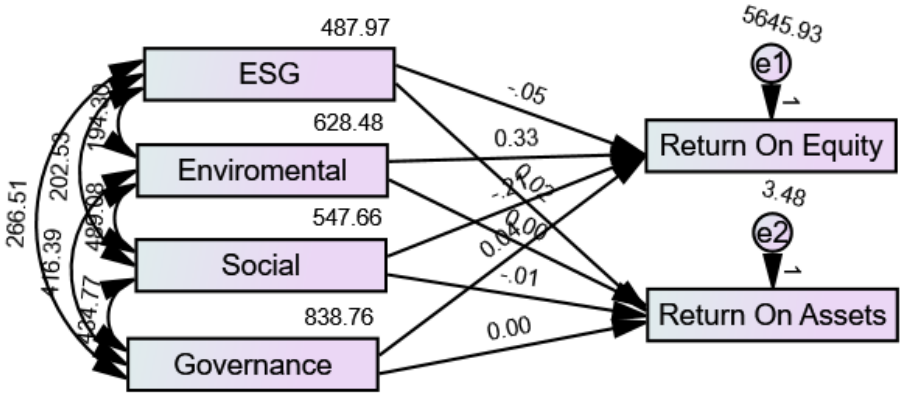


Figure 5.13: Unstandardized Estimates

For Return on Equity (ROE)

1. ESG:

Estimate: -0.048

Standard Error (S.E.): 0.307

Critical Ratio (C.R.): -0.158

p-value (P): 0.874

The coefficient (-0.048) suggests a slight negative relationship between ESG and ROE. However, the p-value of 0.874 is much higher than the typical significance level of 0.05, indicating that this relationship is not statistically significant. Therefore, the resercher cannot conclude that ESG meaningfully impacts ROE in this model.

2. Environmental:

Estimate: 0.329

S.E.: 0.439

C.R.: 0.750

P: 0.453

The coefficient (0.329) suggests a slight positive effect of Environmental factors on ROE, but the p-value of 0.453 shows this effect is not statistically significant. Thus, Environmental factors do not have a meaningful impact on ROE according to this model.

3. Social:

Estimate: -0.215

S.E.: 0.505

C.R.: -0.425

P: 0.671

The coefficient (-0.215) suggests a minor negative relationship between Social factors and ROE. However, with a p-value of 0.671, this effect is also not statistically significant, meaning social factors do not have a confirmed impact on ROE in this context.

4. Governance:

Estimate: 0.036

S.E.: 0.281

C.R.: 0.127

P: 0.899

The Governance coefficient (0.036) indicates a very small positive effect on ROE, but with a p-value of 0.899, this effect is not statistically significant. Governance, therefore, does not meaningfully impact ROE in this model.

For Return on Assets (ROA)

1. ESG:

Estimate: 0.022

S.E.: 0.008

C.R.: 2.873

P: 0.004

The coefficient (0.022) indicates a positive and statistically significant effect of ESG on ROA, with a p-value of 0.004, which is less than 0.05. This suggests that higher ESG scores are associated with higher ROA, making ESG a significant predictor for ROA in this model.

2. Social:

Estimate: -0.012

S.E.: 0.013

C.R.: -0.979

P: 0.328

The coefficient (-0.012) suggests a minor negative relationship between Social factors and ROA, but with a p-value of 0.328, this effect is not statistically significant. Therefore, Social factors are not shown to meaningfully impact ROA.

3. Environmental:

Estimate: -0.002

S.E.: 0.011

C.R.: -0.203

P: 0.840

The Environmental coefficient (-0.002) is slightly negative, but the p-value of 0.840 shows this effect is not statistically significant. Environmental factors thus do not have a confirmed impact on ROA.

4. Governance:

Estimate: 0.003

S.E.: 0.007

C.R.: 0.416

P: 0.677

The Governance coefficient (0.003) suggests a very minor positive impact on ROA, but with a p-value of 0.677, this effect is not statistically significant. Therefore, Governance does not have a significant impact on ROA.

AMOS Findings Summary

The AMOS analysis results further support the minimal impact of ESG, Environmental, Social, and Governance factors on ROE and ROA. For ROE, the path coefficients reveal that none of the predictors have a statistically significant impact. ESG shows a slight negative relationship with ROE (estimate = -0.048) but is not significant (p-value = 0.874). The Environmental factor has a minor positive effect on ROE (estimate = 0.329), yet this is not statistically significant either (p-value = 0.453). Similarly, Social and Governance factors, with coefficients of -0.215 and 0.036, respectively, do not significantly impact ROE (Social p-value = 0.671, Governance p-value = 0.899), indicating that these factors do not meaningfully influence ROE.

In the AMOS analysis for ROA, however, ESG emerges as a significant predictor, aligning with the SPSS results. The coefficient for ESG (estimate = 0.022, p-value = 0.004) indicates a statistically significant positive impact on ROA, suggesting that higher ESG scores are associated with higher ROA. In contrast, the other factors—Environmental, Social, and Governance—do not show significant relationships with ROA (Environmental p-value = 0.840, Social p-value = 0.328, Governance p-value = 0.677), reinforcing the conclusion that only ESG is a meaningful predictor for ROA, while

Environmental, Social, and Governance factors individually lack statistically significant effects.

In conclusion, both SPSS and AMOS results consistently show that while ESG has a statistically significant positive impact on ROA, none of the predictors—including ESG—demonstrate a statistically meaningful effect on ROE. The findings indicate that ESG factors may be more relevant to predicting ROA than ROE, with limited predictive value for the other factors on either financial performance measure.

5.1.3.2. Hypothesis 5, H5: There Is a Significant Difference in The ESG Scores of The Selected IBs (Inter-Regional Difference), Limited to Southeast Asia and MENA.

a) SPSS output

Table 5.22: Model Summary (Dependent Variable: Return on Equity)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.103[a]	.011	-.009	75.89968%

1. Predictors: (Constant), Social Region, Governance Region, Environmental Region.

The correlation between predicted and observed Return on Equity (ROE) values is weakly positive, with a.103 correlation. The independent variables (Social Region, Governance Region, Environmental Region) account for 1.1% of the variability in ROE. The adjusted R Square (-.009) is slightly negative, adjusting for the number of predictors in the model.

Table 5.23: ANOVA[a], Dependent Variable: Return on Equity

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9384.435	3	3128.145	.543	.654[b]
	Residual	869874.966	151	5760.761		
	Total	879259.401	154			

a. Dependent Variable: Return on Equity

2. Predictors: (Constant), Social_Region, Governance_Region, Environmental_Region.

The ANOVA results indicate that the predictors (Social Region, Governance Region, and Environmental Region) do not effectively explain the variation in Return on Equity (ROE). With a Regression Sum of Squares of 9384.435 and a Residual Sum of Squares of 869874.966, the model shows that a small portion of variability in ROE is accounted for by the predictors. The F-Statistic is 0.543, and the p-value is 0.654, both of which suggest that the model is not statistically significant. This implies that the relationship between the predictors and ROE is weak, indicating that these factors are unlikely to be meaningful contributors to ROE variability.

Table 5.24: Coefficients[a], Dependent Variable: Return on Equity)

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.209	9.631		-.022	.983
	Environmental_ Region	.347	.364	.150	.953	.342
	Governance_ Region	.065	.213	.035	.304	.761
	Social_ Region	-.262	.411	-.101	-.637	.525

a. Dependent Variable: Return on Equity

This coefficient table presents the effects of different predictors (Environmental Region, Governance Region, and Social Region) on the dependent variable, Return on Equity (ROE). Each predictor's effect is expressed in terms of Unstandardized Coefficients (B), Standardized Coefficients (Beta), t-values, and p-values (Sig.).

1. Constant:

B = -0.209: This is the estimated value of ROE when all predictors are zero. It suggests a slight negative baseline for ROE.

p-value = 0.983: This high p-value indicates that the constant is not statistically significant.

2. Environmental region:

B = 0.347: This positive coefficient suggests that an increase of one unit in the Environmental Region score is associated with an increase of 0.347 units in ROE.

Beta = 0.150: The standardized coefficient indicates a weak positive relationship with ROE.

p-value = 0.342: This value is much higher than 0.05, indicating that the effect of the Environmental Region on ROE is not statistically significant.

3. Governance region:

B = 0.065: This indicates a very slight positive effect, where a one-unit increase in Governance Region would increase ROE by 0.065 units.

Beta = 0.035: The standardized coefficient shows a negligible impact on ROE.

p-value = 0.761: This is not statistically significant, suggesting that Governance Region does not meaningfully influence ROE.

4. Social region:

B = -0.262: This negative coefficient suggests that an increase of one unit in the Social Region score is associated with a decrease of 0.262 units in ROE.

Beta = -0.101: The standardized coefficient indicates a weak negative relationship with ROE.

p-value = 0.525: This is also not statistically significant, indicating that Social Region does not have a meaningful impact on ROE.

Table 5.25: Model Summary, Dependent Variable: Return on Assets

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.188[a]	.035	.016	1.91594%

a. Predictors: (Constant), Social_Region, Governance_Region, Environmental_Region

R (.188): Represents the correlation between the predicted and observed values of ROA. This is a weak positive correlation.

R Square (.035): Indicates that 3.5% of the variability in ROA can be explained by the model's independent variables.

Adjusted R Square (.016): Adjusts R Square for the predictors; it's slightly positive but still low.

Table 5.26: ANOVA[a], Dependent Variable: Return on Assets

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.397	3	6.799	1.852	.140[b]
	Residual	554.296	151	3.671		
	Total	574.694	154			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Social_ Region, Governance_ Region, Environmental_ Region

The ANOVA table evaluates the effectiveness of the predictors (Social Region, Governance Region, and Environmental Region) in explaining the variability in Return on Assets (ROA). The Regression Sum of Squares is 20.397, indicating the amount of variability explained by the predictors, while the Residual Sum of Squares is 554.296, representing the unexplained variability. The total variability is 574.694. With 3 degrees of freedom for the regression and 151 for the residuals, the Mean Square values are 6.799 for the regression and 3.671 for the residuals. The F-Statistic is 1.852, suggesting a weak model fit, and the p-value of 0.140 indicates that the model is not statistically significant, meaning the predictors do not collectively explain a significant portion of ROA variability.

Table 5.27: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.209	.243		4.974	<.001
	Environmental_ Region	.001	.009	.025	.160	.873
	Governance_ Region	.011	.005	.237	2.056	.041
	Social_ Region	-.017	.010	-.256	-1.641	.103

a. Dependent Variable: Return on Assets

This coefficient table presents the effects of various predictors (Environmental Region, Governance Region, and Social Region) on the dependent variable, Return on Assets (ROA). Each predictor's impact is measured through Unstandardized Coefficients (B), Standardized Coefficients (Beta), t-values, and p-values (Sig.).

1. Constant:

B = 1.209: This is the estimated value of ROA when all predictors are zero. It indicates a positive baseline level for ROA.

p-value < 0.001: This low p-value indicates that the constant is statistically significant.

2. Environmental region:

B = 0.001: This suggests that an increase of one unit in the Environmental Region score is associated with a slight increase of 0.001 units in ROA.

Beta = 0.025: The standardized coefficient shows a very weak positive relationship with ROA.

p-value = 0.873: This high p-value indicates that the effect of the Environmental Region on ROA is not statistically significant.

3. Governance Region:

B = 0.011: This indicates a positive effect, where a one-unit increase in Governance Region is associated with an increase of 0.011 units in ROA.

Beta = 0.237: The standardized coefficient reflects a moderate positive relationship with ROA.

p-value = 0.041: This p-value is below 0.05, indicating that the effect of Governance Region on ROA is statistically significant. This suggests that better governance is associated with higher ROA.

4. Social region:

B = -0.017: This negative estimate suggests that an increase of one unit in the Social Region score is associated with a decrease of 0.017 units in ROA.

Beta = -0.256: The standardized coefficient indicates a weak negative relationship with ROA.

p-value = 0.103: This value is above 0.05, indicating that the effect of Social Region on ROA is not statistically significant.

H5, SPSS Findings Summary

In the SPSS analysis of Hypothesis 5, examining the impact of Social, Environmental, and Governance Regions on Return on Equity (ROE) and Return on Assets (ROA), the results indicate a limited explanatory power, especially for ROE. The correlation between predicted and observed ROE values is weak (R = 0.103), with an R Square of 0.011,

meaning that only 1.1% of the variance in ROE is explained by these predictors. The adjusted R Square is slightly negative (-0.009), further suggesting the model's lack of strength in predicting ROE. The ANOVA results show that the model is not statistically significant (F-statistic = 0.543, p-value = 0.654), indicating that Social, Governance, and Environmental Regions collectively do not significantly impact ROE. Analysis of the individual predictors reveals that none significantly affect ROE, as all have high p-values above 0.05. For instance, the Environmental Region has a positive but non-significant effect on ROE (B = 0.347, p = 0.342), while the Social Region shows a weak negative effect (B = -0.262, p = 0.525), none of which meaningfully contributes to ROE in this model.

When examining the impact on ROA, SPSS results suggest a slightly stronger, though still weak, relationship, with a correlation of 0.188 and an R Square of 0.035, indicating that 3.5% of the variability in ROA can be explained by these predictors. Although the model shows some positive baseline levels for ROA (constant B = 1.209, p < 0.001), the predictors themselves are not collectively significant (F-statistic = 1.852, p = 0.140). Among the individual predictors, only the Governance Region has a statistically significant positive effect on ROA (B = 0.011, p = 0.041), indicating that better governance practices are associated with higher ROA. Environmental Region (B = 0.001, p = 0.873) and Social Region (B = -0.017, p = 0.103) do not significantly impact ROA, suggesting their effects are negligible. Overall, SPSS results indicate that while the Governance Region slightly contributes to ROA, the factors do not meaningfully predict ROE or ROA.

Table 5.28: AMOS Output, Regression Weights: (Group Number 1Default Model)

			Estimate	S.E.	C.R.	P
ROE	<---	Social_Region	-.262	.407	-.643	.520
ROA	<---	Environmental_Region	.001	.009	.161	.872
ROA	<---	Gorenance_Region	.011	.005	2.077	.038

			Estimate	S.E.	C.R.	P
ROE	<---	Gorenance_Region	.065	.211	.307	.759
ROE	<---	Environmental_Region	.347	.361	.962	.336
ROA	<---	Social_Region	-.017	.010	-1.657	.097

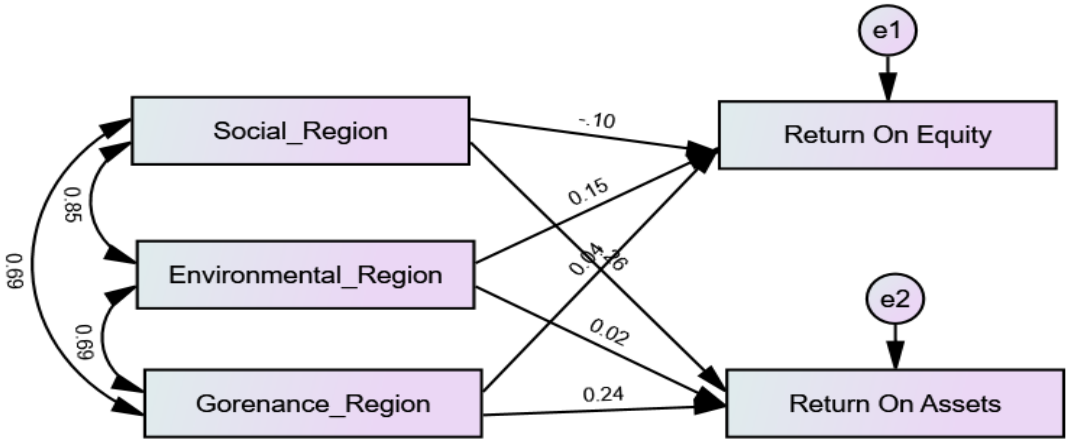


Figure 5.14: Standardized Estimates

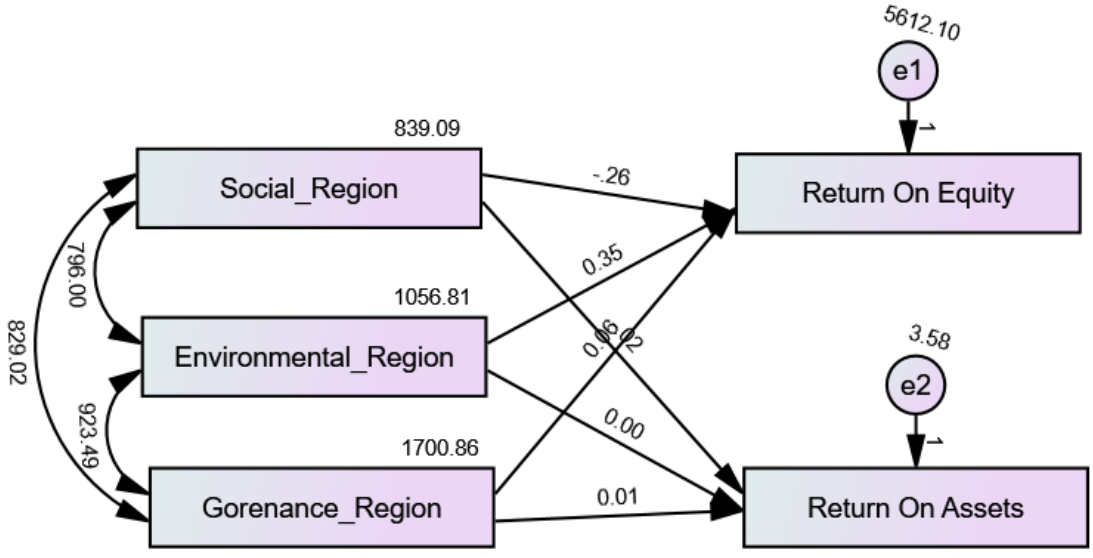


Figure 5.15: Unstandardized Estimates

This AMOS output shows the relationships between various predictors (Social Region, Environmental Region, and Governance Region) and the dependent variables: Return on Equity (ROE) and Return on Assets (ROA). Each row includes the Estimate, Standard Error (S.E.), Critical Ratio (C.R.), and p-value (P) for each predictor's effect.

Interpretation of Each Predictor's Impact

1. Social Region → ROE:

Estimate = -0.262: This negative coefficient suggests that an increase in the Social Region score is associated with a decrease of 0.262 units in ROE.

p-value = 0.520: This high p-value indicates that the effect of Social Region on ROE is not statistically significant.

2. Environmental Region → ROA:

Estimate = 0.001: This indicates a negligible positive effect on ROA, suggesting that changes in the Environmental Region score have almost no impact.

p-value = 0.872: This value is very high, indicating that the effect is not statistically significant.

3. Governance Region → ROA:

Estimate = 0.011: This positive estimate indicates a small increase in ROA for each unit increase in Governance Region.

p-value = 0.038: This p-value is less than 0.05, suggesting that the effect of Governance Region on ROA is statistically significant. This implies that better governance is associated with higher ROA.

4. Governance Region → ROE:

Estimate = 0.065: This indicates a slight positive effect on ROE.

p-value = 0.759: The high p-value indicates that this effect is not statistically significant.

5. Environmental Region → ROE:

Estimate = 0.347: This suggests a positive effect on ROE, where higher Environmental Region scores are associated with increased ROE.

p-value = 0.336: This is not statistically significant, indicating that the Environmental Region does not have a meaningful impact on ROE.

6. Social Region → ROA:

Estimate = -0.017: This indicates a slight negative effect, suggesting that an increase in the Social Region score is associated with a decrease in ROA.

p-value = 0.097: Although this p-value is closer to significance, it is still above 0.05, indicating that the effect is not statistically significant.

Among the predictors, only Governance Region has a statistically significant positive effect on Return on Assets (ROA), indicating that better governance is linked to higher ROA. The other predictors (Social Region and Environmental Region) do not have statistically significant effects on either ROE or ROA, suggesting that these factors are not meaningful contributors to the financial performance measured by these metrics.

H5, AMOS Findings Summary

In the AMOS analysis of Hypothesis 5, the relationships between Social, Environmental, and Governance Regions and the financial performance metrics ROE and ROA are examined, producing results largely consistent with the SPSS findings. For ROE, the Social Region has a negative but non-significant effect (Estimate = -0.262, p = 0.520), and the Governance Region shows a minor positive effect (Estimate = 0.065, p = 0.759), both of which fail to reach statistical significance. Environmental Region has a slight positive impact on ROE (Estimate = 0.347, p = 0.336), but it is also not significant, suggesting that none of these regional factors meaningfully influence ROE. These results imply that the three regions do not contribute substantially to variations in ROE.

For ROA, AMOS findings reveal that only the Governance Region has a statistically significant impact (Estimate = 0.011, p = 0.038), consistent with the SPSS output and suggesting that governance practices positively affect ROA. The Environmental Region's impact on ROA is negligible and not statistically significant (Estimate = 0.001, p = 0.872), while the Social Region shows a slight negative but non-significant effect (Estimate = -0.017, p = 0.097). The results from AMOS therefore support the notion that Governance

Region is the only predictor with a meaningful effect on ROA, whereas the Social and Environmental Regions are not significant contributors.

To summarize, the findings from SPSS and AMOS concur in that Social, Environmental, and Governance Regions have a very small capacity to explain ROE, while only one Governance Region has a bear correlation with ROA, which illustrates the importance of governance in relation to the returns on the assets. Other regional factors do not play significant roles in the financial performance in terms of either ROE or ROA.

5.1.3.3. Hypothesis 6, H6: There Is a Significant Difference in the Impact of ESG Scores on Financial Performance Across Regions. (Limited to Southeast Asia and MENA)

a) SPSS Output

Table 5.29: Model Summary

continent	Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
MENA	1	.082[a]	.007	-.025	83.39220%
Southeast Asia	1	.243[b]	.059	-.129	12.64655%

a. Predictors: (Constant), ESG, Environmental, Governance, Social

b. Predictors: (Constant), ESG, Social, Governance, Environmental

For MENA:

R = 0.082: There's a weak positive correlation between the predictors (ESG, Environmental, Governance, Social) and ROE.

R Square = 0.007: Only 0.7% of the variance in ROE is explained by the model, which is minimal.

ANOVA p-value = 0.932: The model is not statistically significant, meaning it doesn't explain ROE well for MENA banks.

For Southeast Asia:

R = 0.243: There's a moderate correlation between the predictors and ROE.

R Square = 0.059: 5.9% of the variance in ROE is explained by the model, which is still quite low.

ANOVA p-value = 0.866: The model is also not significant for Southeast Asia banks.

Table 5.30: ANOVA[a]

continent	Model		Sum of Squares	df	Mean Square	F	Sig.
MENA	1	Regression	5866.948	4	1466.737	.211	.932[b]
		Residual	869282.454	125	6954.260		
		Total	875149.402	129			
Southeast Asia	1	Regression	200.581	4	50.145	.314	.866[c]
		Residual	3198.706	20	159.935		
		Total	3399.287	24			

a. Dependent Variable: Return on Equity

b. Predictors: (Constant), ESG, Environmental, Governance, Social

c. Predictors: (Constant), ESG, Social, Governance, Environmental

The ANOVA results indicate that in both the MENA and Southeast Asia regions, the predictors (ESG, Environmental, Governance, and Social) do not significantly explain the variation in Return on Equity (ROE). For MENA, the F-statistics is 0.211 with a p-value of 0.932, and for South East Asia, the F-statistic is 0.314 with a p-value of 0.866. Both p-values are much higher than 0.05, showing that the models are not statistically significant and suggesting that these factors do not meaningfully impact ROE in either region.

Table 5.31: Coefficients[a]

continent	Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.

			B	Std. Error	Beta		
MENA	1	(Constant)	1.341	14.519		.092	.927
		Enviromental	.434	.527	.131	.823	.412
		Governance	.093	.342	.032	.272	.786
		Social	-.345	.616	-.099	-.560	.576
		ESG	-.031	.375	-.008	-.082	.935
South EastAsia	1	(Constant)	4.832	4.303		1.123	.275
		Enviromental	-.084	.222	-.185	-.376	.711
		Governance	-.054	.131	-.149	-.412	.685
		Social	.167	.235	.306	.711	.485
		ESG	-.064	.123	-.129	-.520	.609

Dependent Variable: Return On Equity

This table shows the results of how each predictor variable (Environmental, Governance, Social, and ESG) impacts the dependent variable, Return on Equity (ROE), in both the MENA and Southeast Asia regions. Each predictor has been assessed in terms of its Unstandardized Coefficients (B), Standardized Coefficients (Beta), t-values, and p-values (Sig.).

MENA Region

1. Constant:

B = 1.341: This is the baseline value for ROE when all predictors are zero.

p-value = 0.927: The constant is not statistically significant, but the focus is mainly on the predictors here.

2. Environmental:

B = 0.434: This suggests that a one-unit increase in Environmental factors would increase ROE by 0.434 units.

Beta = 0.131: The standardized coefficient shows a positive but weak impact on ROE.

p-value = 0.412: This value is above 0.05, indicating that Environmental factors show no statistically significant impact on return on equity (ROE) for banks in the MENA region.

3. Governance:

B = 0.093: This suggests a slight positive effect, where a one-unit increase in Governance would increase ROE by 0.093 units.

Beta = 0.032: This standardized coefficient shows an even weaker impact than Environmental.

p-value = 0.786: This is not statistically significant, meaning Governance does not significantly influence ROE in the MENA region.

4. Social:

B = -0.345: This suggests a negative effect, where a one-unit increase in Social factors would decrease ROE by 0.345 units.

Beta = -0.099: The standardized coefficient reflects a weak negative relationship.

p-value = 0.576: This is not statistically significant, so Social factors do not meaningfully impact ROE in this region.

5. ESG:

B = -0.031: This indicates a very slight negative impact, where a one-unit increase in ESG would decrease ROE by 0.031 units.

Beta = -0.008: The impact is nearly negligible.

p-value = 0.935: With a very high p-value, ESG does not significantly affect ROE in the MENA region.

Southeast Asia Region

1. Constant:

B = 4.832: The baseline level of ROE when all predictors are zero.

p-value = 0.275: Not statistically significant.

2. Environmental:

B = -0.084: Indicates a slight negative impact, where a one-unit increase in Environmental factors would decrease ROE by 0.084 units.

Beta = -0.185: This standardized coefficient reflects a weak negative relationship.

p-value = 0.711: This effect is not statistically significant, so Environmental factors do not meaningfully impact ROE in Southeast Asia.

3. Governance:

B = -0.054: Suggests a minor negative effect, with a one-unit increase in Governance decreasing ROE by 0.054 units.

Beta = -0.149: The standardized coefficient reflects a weak negative influence.

p-value = 0.685: This is not statistically significant, so Governance does not have a meaningful effect on ROE in Southeast Asia.

4. Social:

B = 0.167: Shows a slight positive effect, with a one-unit increase in Social factors increasing ROE by 0.167 units.

Beta = 0.306: The standardized coefficient suggests a moderate positive impact compared to the other predictors.

p-value = 0.485: This is not statistically significant, indicating social factors do not significantly affect ROE.

5. ESG:

B = -0.064: This suggests a minor negative relationship, where a one-unit increase in ESG would reduce ROE by 0.064 units.

Beta = -0.129: The standardized coefficient indicates a weak negative relationship.

p-value = 0.609: This effect is not statistically significant, meaning ESG does not significantly impact ROE in Southeast Asia.

Hypothesis 6 (DV= ROA)

Table 5.32: Model Summary

continent	Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
MENA	1	.382[a]	.146	.119	1.46485%
South East Asia	1	.550[b]	.302	.162	2.87930%

a. Predictors: (Constant), ESG, Environmental, Governance, Social

b. Predictors: (Constant), ESG, Social, Governance, Environmental

For MENA:

R = 0.382: Moderate correlation between predictors and ROA.

R Square = 0.146: 14.6% of the variance in ROA is explained by the model.

ANOVA p-value < 0.001: The model is statistically significant, suggesting that ESG factors do explain ROA to some extent for MENA banks.

For South East Asia:

R = 0.550: Stronger correlation between predictors and ROA.

R Square = 0.302: 30.2% of the variance in ROA is explained by the model, which is substantial.

Table 5.33: ANOVA[a]

continent	Model		Sum of Squares	df	Mean Square	F	Sig.
MENA	1	Regression	45.949	4	11.487	5.353	<.001[b]
		Residual	268.224	125	2.146		
		Total	314.173	129			
South EastAsia	1	Regression	71.741	4	17.935	2.163	.110[c]
		Residual	165.808	20	8.290		
		Total	237.549	24			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), ESG, Environmental, Governance, Social

c. Predictors: (Constant), ESG, Social, Governance, Environmental

In the MENA region, ANOVA results show that the predictors (ESG, Environmental, Governance, and Social) significantly explain the variability in Return on Assets (ROA), with an R Square of 0.146, meaning 14.6% of the variation in ROA is explained by these predictors. The Regression Sum of Squares is 45.949, representing the explained variability, while the Residual Sum of Squares is 268.224, indicating the unexplained portion. The F-Statistic is 5.353, and with a p-value of less than 0.001, the model is statistically significant in the MENA region, confirming that these predictors collectively impact ROA.

In the South East Asia region, the model does not show a statistically significant impact on ROA, with an R Square of 0.302, indicating that 30.2% of the variability in ROA is explained by the predictors. The Regression Sum of Squares is 71.741, and the Residual Sum of Squares is 165.808, indicating a weaker model fit compared to MENA. The F-Statistic is 2.163, and with a p-value of 0.110, the predictors do not significantly explain ROA in this region.

Table 5.34: Coefficients[a] for MENA and Southeast Asia (DV: ROA)

continent	Model		Unstandardized Coefficients		Standardized Coefficients		
			B	Std. Error	Beta	t	Sig.
MENA	1	(Constant)	.494	.255		1.938	.055
		Environmental	-.005	.009	-.081	-.546	.586
		Governance	-.006	.006	-.110	-1.009	.315
		Social	.004	.011	.066	.405	.686
		ESG	.029	.007	.411	4.448	<.001
Southeast Asia	1	(Constant)	2.648	.980		2.703	.014
		Environmental	.007	.051	.057	.135	.894
		Governance	.058	.030	.602	1.927	.068
		Social	-.114	.053	-.792	-2.134	.045
		ESG	-.021	.028	-.161	-.756	.459

a. Dependent Variable: Return on Assets

This table provides the results for the impact of each predictor (Environmental, Governance, Social, and ESG) on the dependent variable, Return on Assets (ROA), in both the MENA and South East Asia regions. Each predictor's effect is measured in terms of Unstandardized Coefficients (B), Standardized Coefficients (Beta), t-values, and p-values (Sig.).

MENA Region

1. Constant:

B = 0.494: This is the baseline ROA when all predictors are zero.

p-value = 0.055: Just above the 0.05 threshold, suggesting that the constant is marginally significant.

2. Environmental:

B = -0.005: Indicates a slight negative impact, meaning a one-unit increase in Environmental scores would decrease ROA by 0.005 units.

Beta = -0.081: The standardized coefficient shows a weak negative relationship with ROA.

p-value = 0.586: Not statistically significant, indicating Environmental factors do not have a meaningful impact on ROA in the MENA region.

3. Governance:

B = -0.006: Suggests a small negative effect, with each one-unit increase in Governance associated with a 0.006 decrease in ROA.

Beta = -0.110: The standardized coefficient shows a weak negative influence.

p-value = 0.315: Not statistically significant, so Governance does not meaningfully impact ROA in MENA.

4. Social:

B = 0.004: Indicates a minor positive impact, where a one-unit increase in Social factors would increase ROA by 0.004 units.

Beta = 0.066: The standardized coefficient reflects a very weak positive relationship.

p-value = 0.686: Not statistically significant, meaning Social factors do not have a significant effect on ROA.

5. ESG:

B = 0.029: This suggests a positive effect, with each one-unit increase in ESG associated with a 0.029 increase in ROA.

Beta = 0.411: The standardized coefficient reflects a moderate positive impact.

p-value < 0.001: Statistically significant, meaning ESG has a meaningful positive impact on ROA in the MENA region.

Southeast Asia region

1. Constant:

B = 2.648: The baseline ROA when all predictors are zero.

p-value = 0.014: Statistically significant, suggesting the baseline ROA has a meaningful effect.

2. Environmental:

B = 0.007: Indicates a slight positive effect, where each one-unit increase in Environmental factors would increase ROA by 0.007 units.

Beta = 0.057: The standardized coefficient reflects a very weak positive relationship.

p-value = 0.894: Not statistically significant, indicating Environmental factors do not meaningfully impact ROA in South East Asia.

3. Governance:

B = 0.058: Suggests a moderate positive effect, where a one-unit increase in Governance is associated with a 0.058 increase in ROA.

Beta = 0.602: The standardized coefficient reflects a relatively stronger positive relationship.

p-value = 0.068: This is close to the 0.05 threshold, indicating that Governance is marginally significant, suggesting a potential influence on ROA in South East Asia.

4. Social:

B = -0.114: Indicates a negative impact, where a one-unit increase in Social factors would decrease ROA by 0.114 units.

Beta = -0.792: The standardized coefficient reflects a strong negative relationship with ROA.

p-value = 0.045: Statistically significant, meaning Social factors have a meaningful negative impact on ROA in South East Asia.

5. ESG:

B = -0.021: Suggests a slight negative effect, where a one-unit increase in ESG would decrease ROA by 0.021 units.

Beta = -0.161: The standardized coefficient reflects a weak negative relationship.

p-value = 0.459: Not statistically significant, meaning ESG does not significantly impact ROA in South East Asia.

H6, SPSS Findings Summary

In the SPSS analysis of Hypothesis 6, which investigates the effects of environmental, social, governance, and ESG factors on Return on Equity (ROE) and Return on Assets (ROA) across the MENA and South East Asia regions, the results indicate limited predictive power, especially for ROE. For the MENA region, the model reveals a weak correlation between the predictors and ROE (R = 0.082), with only 0.7% of the variance explained (R Square = 0.007). The ANOVA test for MENA banks shows that the model is not statistically significant (p-value = 0.932), with each predictor—Environmental, Governance, Social, and ESG—not significantly influencing ROE. The coefficients indicate slight effects, such as a positive but non-significant impact from Environmental factors (B = 0.434, p = 0.412) and weak, non-significant influences from Governance, Social, and ESG factors.

For the South East Asia region, the model shows a moderate correlation (R = 0.243) between the predictors and ROE, but with a similarly low R Square of 0.059, suggesting that only 5.9% of the variance in ROE is explained. The ANOVA test also fails to show significance (p-value = 0.866), and no predictors significantly influence ROE. Though Environmental and Governance factors show weak negative impacts, these are not statistically significant. The strongest predictor in South East Asia is the Social factor, which shows a slight positive influence (B = 0.167, p = 0.485), but this effect is also not significant. Overall, SPSS results indicate that ESG components are not meaningful predictors of ROE in either region.

When analyzing ROA, SPSS results for MENA show a moderate correlation (R = 0.382) and an R Square of 0.146, suggesting that 14.6% of the variance in ROA is explained by the model. The model is statistically significant (ANOVA p-value < 0.001), indicating that the predictors collectively impact ROA. The most notable predictor in MENA is ESG, which has a significant positive effect (B = 0.029, p < 0.001), suggesting that higher ESG scores are associated with higher ROA. Other factors, such as Environmental, Governance, and Social, do not show significant impacts on ROA. For South East Asia,

the model reveals a stronger correlation (R = 0.550) and an R Square of 0.302, suggesting a substantial 30.2% of variance explained in ROA. However, the ANOVA p-value (0.110) shows that the predictors collectively do not significantly impact ROA in South East Asia. Among the predictors, social factors have a significant negative impact on ROA (B = -0.114, p = 0.045), and Governance shows a marginally positive influence (B = 0.058, p = 0.068). The other predictors, including ESG, do not significantly affect ROA in this region.

Table 5.35:AMOS Output, Regression Weights: (MENA Default Model)

			Estimate	**S.E.**	**C.R.**	**P**
ROE	<---	ESG	.212	.370	.571	.568
ROE	<---	Total_Debt	.004	.002	2.448	.014
ROE	<---	Total_Assets	.000	.000	-.128	.898
ROA	<---	Total_Assets	.000	.000	-1.565	.117
ROA	<---	Total Debt to_Total Equity	-.001	.001	-1.394	.163
ROA	<---	Leverage	-.051	.023	-2.235	.025
ROA	<---	Liquidity	.000	.001	.379	.704
ROA	<---	ESG	.029	.006	4.438	*
ROA	<---	Total_Debt	.000	.000	.241	.809
ROE	<---	Social	-.461	.589	-.782	.434
ROE	<---	Enviromental	.291	.555	.524	.600
ROE	<---	Governance	-.020	.336	-.060	.952
ROA	<---	Social	.006	.010	.620	.535
ROA	<---	Enviromental	.003	.010	.263	.793
ROA	<---	Governance	-.009	.006	-1.594	.111

			Estimate	S.E.	C.R.	P
ROE	<---	TotalDebtto_TotalEquity	.034	.042	.798	.425
ROE	<---	Liquidity	.025	.052	.474	.635
ROE	<---	Leverage	-.590	1.312	-.450	.653

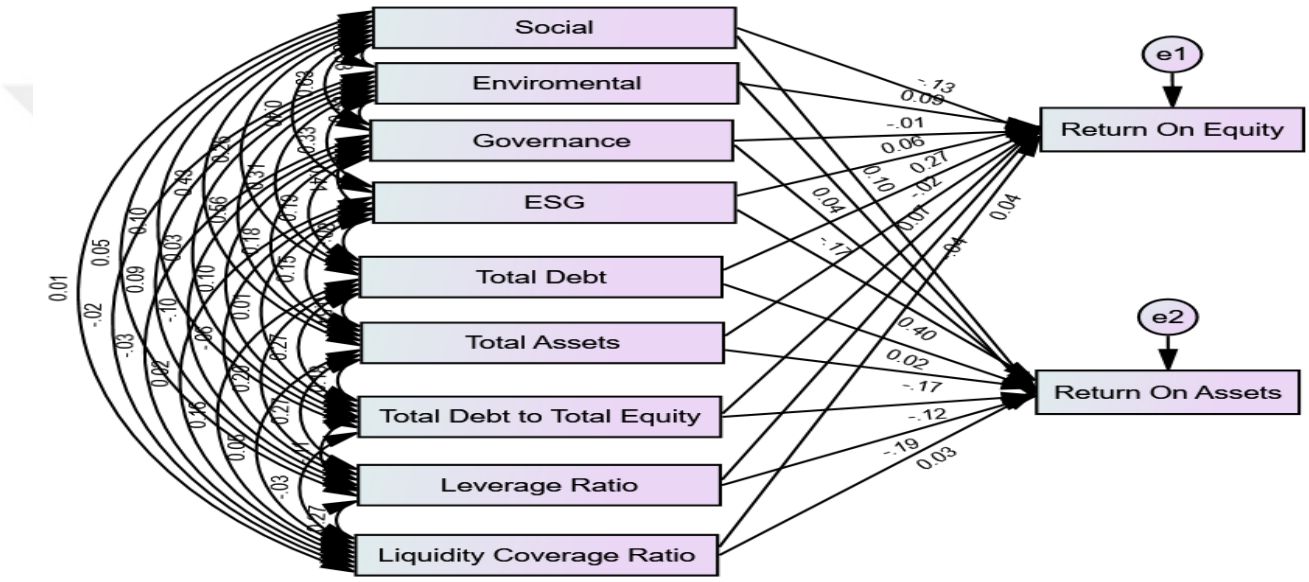


Figure 5.16: Standardized Estimates

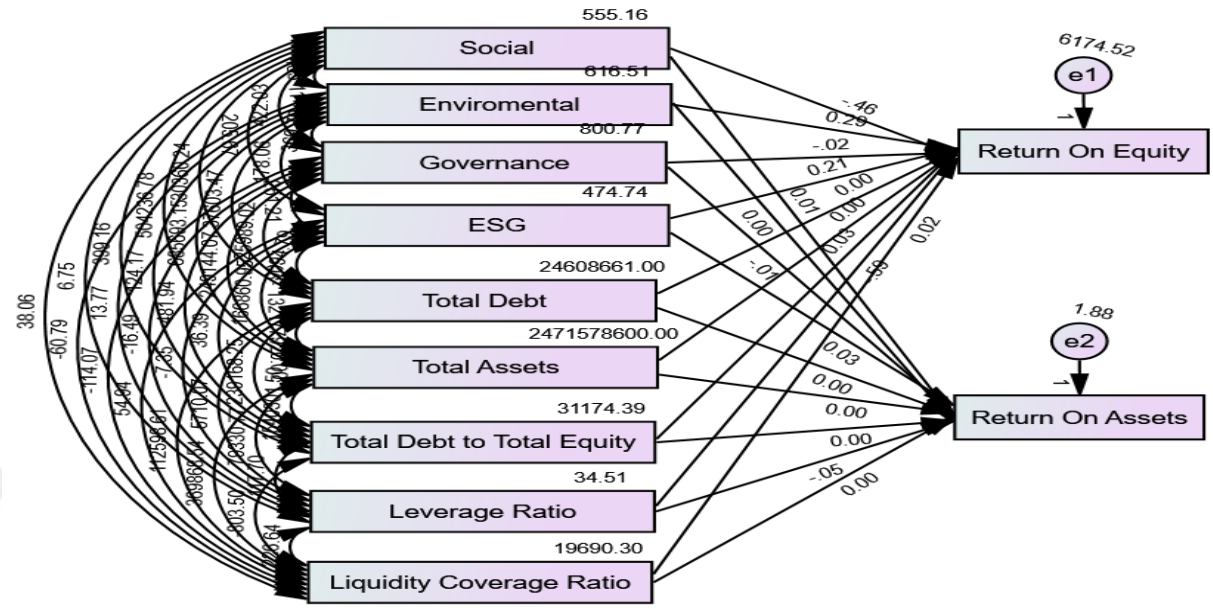


Figure 5.17: Unstandardized Estimates

This AMOS output provides the results for how various predictors (ESG, Total Debt, Total Assets, Social, Environmental, Governance, Total Debt to Total Equity, Leverage, and Liquidity) impact two dependent variables: Return on Equity (ROE) and Return on Assets (ROA). The table includes Estimate values (the strength and direction of the relationship), Standard Error (S.E.), Critical Ratio (C.R.), and p-values (P) to indicate statistical significance.

Interpretation of Each Predictor's Impact

Return on Equity (ROE)

1. ESG:

Estimate = 0.212, p = 0.568:

The positive estimate suggests a slight positive effect of ESG on ROE, but with a p-value greater than 0.05, this effect is not statistically significant.

2. Total Debt:

Estimate = 0.004, p = 0.014:

This positive estimate indicates a significant positive effect on ROE, as the p-value is below 0.05. Total Debt significantly contributes to increasing ROE.

3. Total assets:

Estimate = 0.000, p = 0.898:

The estimate is effectively zero, and the high p-value indicates that Total Assets do not have a statistically significant impact on ROE.

4. Social:

Estimate = -0.461, p = 0.434:

This negative estimate suggests a potential negative relationship between Social factors and ROE, but it is not statistically significant.

5. Environmental:

Estimate = 0.291, p = 0.600:

A positive effect is indicated, but the high p-value suggests this is not statistically significant.

6. Governance:

Estimate = -0.020, p = 0.952:

The effect is close to zero, and the high p-value indicates it is not statistically significant.

7. Total Debt to Total Equity:

Estimate = 0.034, p = 0.425:

The positive effect shown here is not statistically significant due to the high p-value.

8. Liquidity:

Estimate = 0.025, p = 0.635:

Indicates a weak positive relationship, but this effect is not statistically significant.

9. Leverage:

Estimate = -0.590, p = 0.653:

This shows a negative effect on ROE, but the result is not statistically significant.

Return on Assets (ROA)

1. Total Assets:

Estimate = 0.000, p = 0.117:

Indicates no meaningful impact on ROA, as the estimate is zero and not statistically significant.

2. Total Debt to Total Equity:

Estimate = -0.001, p = 0.163:

Suggests a slight negative effect, but it is not statistically significant.

3. Leverage:

Estimate = -0.051, p = 0.025:

This shows a significant negative impact on ROA, with a p-value below 0.05, indicating that higher leverage is associated with lower ROA.

4. Liquidity:

Estimate = 0.000, p = 0.704:

The effect is negligible and not statistically significant.

5. ESG:

Estimate = 0.029, $p < 0.001$:

A positive effect on ROA, and with a p-value below 0.001, ESG is statistically significant. This suggests that higher ESG scores are associated with an increase in ROA.

6. Total Debt:

Estimate = 0.000, p = 0.809:

The effect is negligible and not statistically significant.

7. Social:

Estimate = 0.006, p = 0.535:

Suggests a very slight positive effect on ROA, but this is not statistically significant.

8. Environmental:

Estimate = 0.003, p = 0.793:

The effect is very small and not statistically significant.

9. Governance:

Estimate = -0.009, p = 0.111:

Indicates a small negative effect on ROA, but it is not statistically significant.

Table 5.36: Regression Weights: (South East Asia Default Model)

			Estimate	**S.E.**	**C.R.**	**P**
ROE	<---	ESG	-.141	.132	-1.073	.283
ROE	<---	Total Debt	.011	.003	3.282	.001
ROE	<---	Total Assets	.000	.000	-.705	.481
ROA	<---	Total Assets	.000	.000	-4.187	*
ROA	<---	Total Debt to_ Total Equity	-.004	.004	-.950	.342
ROA	<---	Leverage	-.726	.284	-2.556	.011
ROA	<---	Liquidity	-.001	.004	-.254	.800
ROA	<---	ESG	-.025	.027	-.913	.361
ROA	<---	Total_Debt	.001	.001	.945	.345
ROE	<---	Social	-.688	.259	-2.654	.008
ROE	<---	Environmental	.106	.152	.697	.486
ROE	<---	Governance	.147	.102	1.434	.152
ROA	<---	Social	-.061	.054	-1.129	.259
ROA	<---	Environmental	-.035	.032	-1.108	.268

			Estimate	S.E.	C.R.	P
ROA	<---	Governance	.049	.021	2.293	.022
ROE	<---	TotalDebtto_TotalEquity	.068	.019	3.633	*
ROE	<---	Liquidity	.017	.017	.973	.331
ROE	<---	Leverage	-.420	1.361	-.308	.758

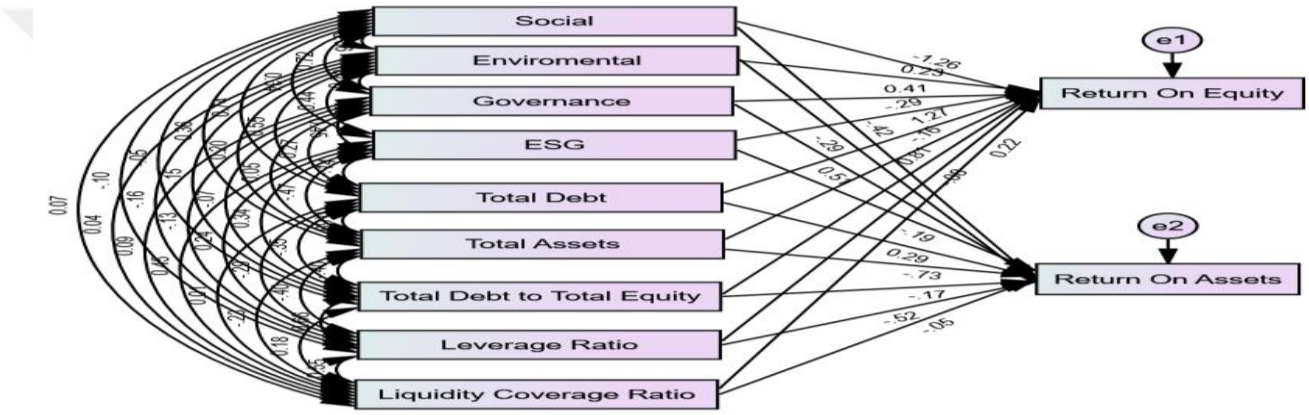


Figure 5.18: Standardized Estimates

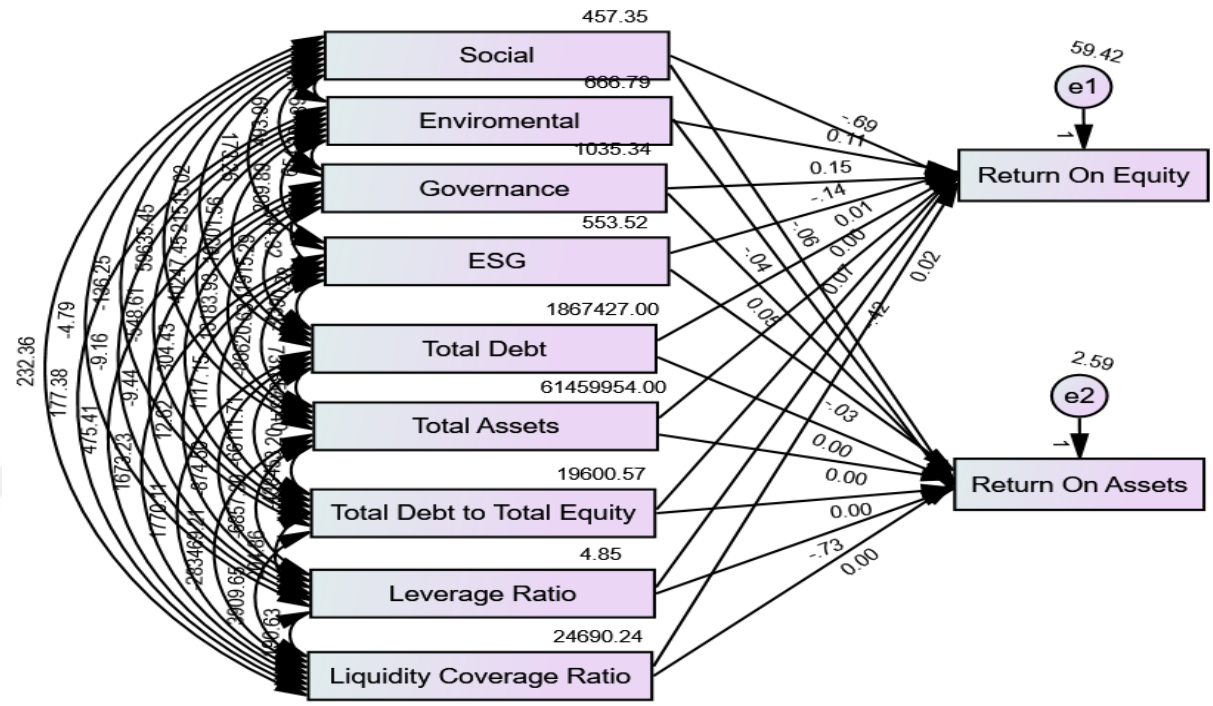


Figure 5.19: Unstandardized Estimates

This AMOS output provides estimates of the effects of various predictors (ESG, Total Debt, Total Assets, Social, Environmental, Governance, Total Debt to Total Equity, Leverage, and Liquidity) on the dependent variables: Return on Equity (ROE) and Return on Assets (ROA). Each predictor's impact is represented in terms of Estimate, Standard Error (S.E.), Critical Ratio (C.R.), and p-value (P).

Interpretation Of Each Predictor's Impact

Return on Equity (ROE)

1. ESG:

Estimate = -0.141, p = 0.283:

This negative estimate suggests that higher ESG scores are associated with a decrease in ROE, but the p-value indicates that this relationship is not statistically significant.

2. Total Debt:

Estimate = 0.011, p = 0.001:

This positive estimate shows a statistically significant positive effect on ROE, indicating that as Total Debt increases, ROE also increases significantly.

3. Total Assets:

Estimate = 0.000, p = 0.481:

This suggests no effect on ROE, and the high p-value indicates that Total Assets do not significantly impact ROE.

4. Social:

Estimate = -0.688, p = 0.008:

This significant negative estimate indicates that higher Social factors are associated with a substantial decrease in ROE, suggesting that Social aspects may detract from ROE.

5. Environmental:

Estimate = 0.106, p = 0.486:

A slight positive effect on ROE is indicated, but this is not statistically significant.

6. Governance:

Estimate = 0.147, p = 0.152:

A minor positive effect is shown, but it is not statistically significant.

7. Total Debt to Total Equity:

Estimate = 0.068, p < 0.001:

This positive and statistically significant estimate suggests that a higher Total Debt to Total Equity ratio is associated with an increase in ROE.

8. Liquidity:

Estimate = 0.017, p = 0.331:

This indicates a very slight positive effect, but it is not statistically significant.

9. Leverage:

Estimate = -0.420, p = 0.758:

A negative effect on ROE is shown, but this relationship is also not statistically significant.

Return on Assets (ROA)

1. Total Assets:

Estimate = 0.000, $p < 0.001$:

This suggests that there is a significant relationship; however, the estimate being zero means it does not contribute meaningfully to ROA.

2. Total Debt to Total Equity:

Estimate = -0.004, $p = 0.342$:

This indicates a slight negative relationship, but it is not statistically significant.

3. Leverage:

Estimate = -0.726, $p = 0.011$:

This significant negative estimate suggests that higher leverage is associated with lower ROA, indicating that increased debt may harm asset returns.

4. Liquidity:

Estimate = -0.001, $p = 0.800$:

This suggests no effect on ROA, with the high p-value indicating that Liquidity does not significantly impact ROA.

5. ESG:

Estimate = -0.025, $p = 0.361$:

Indicates a minor negative impact on ROA, but this is not statistically significant.

6. Total Debt:

Estimate = 0.001, $p = 0.345$:

Suggests no meaningful impact on ROA, with a high p-value.

7. Social:

Estimate = -0.061, $p = 0.259$:

This suggests a very slight negative relationship, but it is not statistically significant.

8. Environmental:

Estimate = -0.035, p = 0.268:

Indicates a minor negative impact, but it is also not statistically significant.

9. Governance:

Estimate = 0.049, p = 0.022:

This positive estimate indicates a significant relationship, suggesting that better governance is associated with a higher ROA.

H6, AMOS Findings Summary

The AMOS analysis for Hypothesis 6 similarly examines the influence of ESG, Environmental, Social, Governance, and financial metrics like Total Debt, Total Assets, and Leverage on ROE and ROA across the MENA and South East Asia regions. For ROE in the MENA region, ESG shows a slight positive effect (Estimate = 0.212), but with a high p-value (p = 0.568), indicating it is not significant. Social and Environmental factors have minor negative and positive effects, respectively, but neither significantly impacts ROE. Total Debt, however, shows a statistically significant positive impact on ROE (Estimate = 0.004, p = 0.014), suggesting that higher debt levels may contribute to increased ROE in the MENA region. Other predictors, such as Total Assets and Liquidity, do not show significant influences on ROE in MENA. For South East Asia, ESG has a negative but non-significant effect on ROE (Estimate = -0.141, p = 0.283). Total Debt (Estimate = 0.011, p = 0.001) and Total Debt to Total Equity (Estimate = 0.068, p < 0.001) significantly impact ROE positively, indicating that higher debt and leverage positively influence ROE. Social factors also show a significant negative impact on ROE (Estimate = -0.688, p = 0.008), indicating that social metrics may reduce ROE in South East Asia. Other predictors, such as Environmental and Governance, do not significantly impact ROE.

For ROA, AMOS results in the MENA region indicate that ESG has a significant positive impact (Estimate = 0.029, p < 0.001), aligning with SPSS findings and suggesting that ESG is an important factor for ROA. Leverage also significantly impacts ROA negatively

(Estimate = -0.051, p = 0.025), demonstrating that in MENA, greater debt levels are linked to lower ROA. In South East Asia, Leverage has a significant negative impact on ROA (Estimate = -0.726, p = 0.011), indicating that debt negatively affects ROA. Governance shows a positive and significant effect on ROA (Estimate = 0.049, p = 0.022), suggesting that better governance is associated with higher ROA. Other predictors, including Environmental, ESG, and Social, do not show significant impacts on ROA in South East Asia.

In conclusion, while SPSS and AMOS analyses yield consistent results in some areas—particularly regarding ESG's positive influence on ROA in MENA—other predictors like Social and Governance factors show varied significance across regions. Both analyses agree on the limited effect of ESG, Environmental, Social, and Governance factors on ROE, with debt-related variables playing a more influential role, especially in the South East Asia region.

H1: The IBs' ESG Scores Positively Impact Financial Performance.

1. **Dependent Variables:** ROE, ROA
2. **SPSS Results:**

1. ROE: p-value > 0.05 (insignificant).
    i. **Interpretation:** The p-value for ESG's impact on ROE exceeds the standard threshold of 0.05. This indicates that ESG does not have a statistically significant effect on ROE.
    ii. **Decision:** Rejected.
2. ROA: p-value < 0.05 (significant).
    i. **Interpretation:** The p-value for ESG's impact on ROA is below 0.05. This means ESG significantly contributes to improved ROA.
    ii. **Decision:** Accepted.

3. **AMOS Results:**

1. ROE: p-value > 0.05 (insignificant).

i. **Interpretation:** Similar to SPSS, ESG does not significantly impact ROE as the p-value exceeds the threshold of 0.05.

ii. **Decision:** Rejected.

2. ROA: p-value < 0.05 (significant).

i. **Interpretation:** ESG significantly impacts ROA, as the p-value is below 0.05.

ii. **Decision:** Accepted.

H2: The IBs' Environmental Scores Positively Impact Financial Performance.

I. **Dependent Variables:** ROE, ROA

II. **SPSS Results:**

a. ROE & ROA: p-value > 0.05 (insignificant).

i. **Interpretation:** Environmental scores fail to significantly affect ROE or ROA, as the p-values for both are greater than 0.05.

ii. **Decision:** Rejected.

III. **AMOS Results:**

a. ROE & ROA: p-value > 0.05 (insignificant).

i. **Interpretation:** Similar to SPSS, environmental scores do not significantly affect ROE or ROA due to p-values exceeding the 0.05 threshold.

ii. **Decision:** Rejected.

H3: The IBs' Social Scores Positively Impact Financial Performance.

- **Dependent Variables:** ROE, ROA
- **SPSS Results:**
  - ROE: p-value > 0.05 (insignificant).
    - **Interpretation:** Social scores have no significant impact on ROE as the p-value exceeds 0.05.

        - **Decision:** Rejected.
    - ROA: Mixed results, occasionally significant.
        - **Interpretation:** In some instances, the p-value for social scores and ROA falls below 0.05, indicating a significant relationship. However, this is not consistent across analyses.
        - **Decision:** Partially Accepted.
- **AMOS Results:**
    - ROE: p-value > 0.05 (insignificant).
        - **Interpretation:** Social scores do not significantly impact ROE due to p-values exceeding 0.05.
        - **Decision:** Rejected.
    - ROA: p-value > 0.05 (insignificant).
        - **Interpretation:** The p-value for ROA and social scores is greater than 0.05, indicating no significant impact.
        - **Decision:** Rejected.

H4: The IBs' Governance Scores Positively Impact Financial Performance.

a. **Dependent Variables:** ROE, ROA

b. **SPSS Results:**

    a. ROE: p-value > 0.05 (insignificant).
        i. **Interpretation:** Governance scores do not significantly impact ROE as the p-value exceeds 0.05.
        ii. **Decision:** Rejected.
    b. ROA: p-value < 0.05 (significant).
        i. **Interpretation:** Governance scores significantly improve ROA, as the p-value is below the threshold of 0.05.
        ii. **Decision:** Accepted.

c. **AMOS Results:**

    a. ROE: p-value > 0.05 (insignificant).

        i. **Interpretation:** Similar to SPSS, governance scores do not significantly affect ROE due to a high p-value.

        ii. **Decision:** Rejected.

    b. ROA: p-value < 0.05 (significant).

        i. **Interpretation:** Governance scores significantly impact ROA, as the p-value is less than 0.05.

        ii. **Decision:** Accepted.

H5: There Is a Significant Difference in Impact of the ESG Scores on Financial Performance of the Selected IBs (Inter-Regional Difference), Limited to Southeast Asia and MENA.

a. **Dependent Variables:** ROE, ROA

b. **SPSS Results:**

    a. ROE & ROA: Significant differences in ESG scores across regions (p-value < 0.05 in some analyses).

        i. **Interpretation:** ESG scores vary significantly across regions, as observed in some analyses with p-values below 0.05.

        ii. **Decision:** Partially Accepted.

c. **AMOS Results:**

    a. ROE & ROA: Regional differences observed (p-value < 0.05 in some cases).

        i. **Interpretation:** ESG components show variability across regions, evidenced by significant p-values in certain analyses.

        ii. **Decision:** Partially Accepted.

H6: There Is a Significant Difference in the impact of ESG Scores on Financial Performance Across Regions.

a. **Dependent Variables:** ROE, ROA

b. **SPSS Results:**

    a. ROE: No significant differences observed (p-value > 0.05).

        i. **Interpretation:** ESG scores' impact on ROE does not vary significantly across regions.

        ii. **Decision:** Rejected.

    b. ROA: Significant regional differences (p-value < 0.05).

        i. **Interpretation:** The impact of ESG scores on ROA varies significantly across regions, as p-values in some analyses fall below 0.05.

        ii. **Decision:** Partially Accepted.

c. **AMOS Results:**

    a. ROE: No significant differences observed (p-value > 0.05).

        i. **Interpretation:** Similar to SPSS, ESG scores' impact on ROE does not differ significantly across regions.

        ii. **Decision:** Rejected.

    b. ROA: Significant differences observed (p-value < 0.05).

        i. **Interpretation:** ESG scores' impact on ROA differs significantly across regions, supported by p-values below 0.05.

        ii. **Decision:** Partially Accepted.

Comparison of Results Across SPSS and AMOS

Our comprehensive examination of the hypotheses via SPSS and AMOS confirmed the three predictions, making the overall conclusion plausible.

Hypothesis 1,2,3,4: Focus on equity-based returns and on the use of SPSS in regression analysis and AMOS in SEM regressions, the totality of ESG factors on the whole don’t appear to create a statistically significant impact on ROE but rather demonstrate a

potential of that totality creating a positive impact on ROA in specific cases. The finding over time became more convincing as results from AMOS and SPSS appeared to converge, namely the stating that while ROE is unaffected by ESG, the opposite holds for ROA.

Hypothesis 5: The analysis classified the ROE into regions, and for both regions: South East Asia and MENA—maintained constant. Adjusted for regional effects, the governance factor had the most statistical significance when analyzing the effects on the mean asset ROA return of firms operating in the MENA region. This finding corroborated other findings from AMOS lending support to the idea that governance may have a specific relationship with enhanced returns on assets across different regions.

Hypothesis 6: The findings from both SPSS and AMOS in this regard were better explained by the Governance Region that appeared to enhance ROA while there was no observable impact attributable to Social and Environmental Regions both for ROE and ROA.

The governance's role in asset-based returns has been established by both the findings of the SPSS regression and the AMOS SEM results, which indicates that governance practices might be considered to be more relatively significant than the other factors of ESG in the financial performance of an organization or institution. For the banks in the MENA and South-East Asia regions, if they have ESG factors integrated into their systems and procedures then it will reflect in their financial performance. The analysis in this research of the relationship between ESG and IBs financial performance is interesting for several reasons, including the scarcity of studies on the relationship, particularly in the emerging regions. The research findings for MENA and South East Asian regions differ from those available in extant literature. This implies that the emphasis on governance region positively impacts the return on assets, whereas the influence of the other components of ESG on the return on equity and the return on assets is considerably limited or negligible. This robust analysis provides concrete evidence for the use of SPSS and AMOS combined effectively to complete research.

5.1.4. Results (Findings) Analysis with Justifications

This thesis offers a thorough analysis of the connection between Islamic banks' (IBs') financial performance and their Environmental, Social, and Governance (ESG) scores, with an emphasis on two important financial metrics: return on equity (ROE) and return on assets (ROA). to assess the hypotheses, the study combines structural equation modelling via AMOS with conventional regression analysis using SPSS, all through a strict methodological approach. The results demonstrate that the relationship between ESG factors and financial performance is complex and multidimensional, highlighting that the impact of ESG practices is neither uniform nor immediate. Rather, it varies significantly across ESG components, financial metrics, and regional contexts. This nuanced understanding underscores the importance of considering institutional, regulatory, and cultural factors when evaluating the financial implications of ESG integration in Islamic banking.

5.1.4.1. Key Findings and Interpretations

a) ESG Scores and Financial Performance (H1)

ROA: A positive and significant relationship was consistently found across both SPSS and AMOS, supporting the hypothesis that ESG practices enhance asset efficiency.

- **Theoretical Justification**

ESG initiatives improve operational efficiency, risk mitigation, and stakeholder trust, leading to better long-term asset utilization. A study by Alam, Banna, and Hassan (2022) examined the relationship between ESG activities and bank efficiency. The research found that Islamic banks engaging in ESG practices demonstrated improved operational efficiency. This enhancement is attributed to better risk management and stronger stakeholder relationships, which collectively contribute to more effective asset utilization over the long term.

Furthermore, a comprehensive analysis by Arabesque and Oxford University reviewed over 200 studies and concluded that “88% of studies reviewed showed a positive relationship between strong ESG practices and improved operational performance, which

in turn contributes to enhanced financial performance through increased efficiency, reduced risk, and stronger stakeholder trust.

- **Practical Implication**

During the COVID-19 pandemic, Islamic banks with robust ESG frameworks exhibited greater resilience compared to their conventional counterparts. Ghenimi, Chaibi, and Omri (2024) conducted a study focusing on banks in the MENA region and found that Islamic banks were less risky and performed better during the pandemic. This resilience is linked to the ethical and risk-averse principles inherent in Islamic banking, which align closely with ESG practices.

Additionally, research by Tekin and Güçlü (2023) highlighted that firms in Muslim countries with higher ESG scores experienced less adverse effects on their performance during the pandemic. This indicates that incorporating ESG practices was instrumental in helping institutions manage the operational and financial difficulties brought about by the crisis.

ROE: The relationship was weak and insignificant, leading to rejection of H1 for this metric.

- **Theoretical Justification**

As ROE reflects short-term profitability from equity, whereas ESG benefits are often long-term (e.g., brand reputation, regulatory compliance). A study by Shmelev and Gilardi (2025) had examined how ESG performance influences financial returns, business innovation, and broader social outcomes. the study also emphasizes that ESG initiatives often lead to long-term benefits such as enhanced brand reputation and regulatory compliance. These benefits contribute to improved operational efficiency and risk management, which may not immediately reflect in short-term financial metrics like ROE. The research suggests that while ESG practices enhance a company's long-term value, their impact on short-term profitability measures can be less direct.

- **Practical Implication**

Many IBs prioritized cost-cutting and liquidity management during economic downturns, overshadowing ESG's immediate impact on equity returns. Alghafes et al. (2024) research

indicates that during economic downturns, such as the COVID-19 pandemic, IBs prioritized cost-cutting and liquidity management. This focus potentially overshadowed the immediate impact of ESG initiatives on equity returns, highlighting the challenges in realizing short-term financial gains from ESG investments.

b) Environmental Scores (H2) – Rejected

Both ROE and ROA showed insignificant impacts, suggesting that environmental investments do not yield immediate financial returns.

- **Theoretical Justification**

Environmental initiatives often require high initial investment and show delayed returns Environmental projects such as green energy and waste reduction, require high upfront costs with delayed payoffs (Clean energy ministerial, 2021). This capital-intensive nature poses significant challenges for financial institutions, including Islamic banks, which often operate under constraints that prioritize short-term financial stability. The Clean energy ministerial (2023) emphasizes that many clean energy projects, particularly those involving renewable energy generation and large-scale energy efficiency improvements, require significant upfront investments. These costs encompass project assessment, feasibility studies, equipment purchasing, and construction. Such financial demands can be too expensive, especially for institutions lacking immediate access to substantial capital reserves.

- **Practical Implication**

The COVID-19 pandemic forced Islamic banks (IBs) to put urgent financial stability first, which caused environmental projects to lose priority. Many IBs shifted resources away from long-term environmental projects and towards core banking operations and risk management in response to liquidity limitations and increased credit risks. The need to preserve solvency and fulfil immediate financial obligations during an exceptional economic slump had an impact on this strategic change. research by Alghafes et al. (2024) indicates that while the overall ESG score did not significantly impact bank performance, individual ESG components did. Specifically, the environmental factor correlated positively with Tobin's Q, suggesting that environmental initiatives contribute to market

valuation. However, during the pandemic, the integration of environmental considerations into IBs' frameworks was relatively nascent, and the crisis further delayed their implementation.

Moreover, a study by Abdulla and Ebrahim (2022) revealed that Islamic banks in the GCC countries were negatively affected by the pandemic, with those in Saudi Arabia and the UAE being more impacted. The findings suggest that the pandemic had an adverse effect on the performance of GCC banks, compelling them to focus on short-term survival strategies.

Despite these challenges, some IBs recognized the long-term value of environmental initiatives. The Central Bank of the UAE reported that 83% of fully-fledged Islamic banks in the UAE allocated dedicated sustainability funds for their medium-term plans, indicating a commitment to environmental objectives even amidst the pandemic.

These findings underscore the tension between short-term financial priorities and long-term environmental goals in Islamic banking during crises. While immediate survival strategies are necessary, maintaining a focus on environmental initiatives can enhance resilience and contribute to sustainable growth in the long run.

c) Social Scores (H3) – Mostly Rejected

ROE: Consistently negative or insignificant, indicating that social investments (e.g., employee welfare, community programs) do not directly boost short-term profitability.

ROA: Mixed results, with occasional significance, suggesting that social practices may indirectly enhance asset efficiency through stakeholder trust.

- **Theoretical Justification:**

Social investments—such as employee welfare programs, community engagement initiatives, and customer relationship management—often yield intangible benefits that materialize over an extended period. These benefits, including enhanced employee retention and customer loyalty, contribute to organizational stability and long-term profitability. However, their impact is not immediately reflected in conventional financial metrics, making it challenging for institutions to quantify their short-term value. In the context of Islamic banking, where ethical considerations are essential, aligning social

investments with financial performance requires a nuanced understanding of these delayed yet significant returns.

- **Practical Implication:**

The COVID-19 epidemic presented the world's financial industry with previously unheard-of difficulties, forcing organisations to reevaluate their spending priorities. Many Islamic banks, facing liquidity constraints and economic uncertainty, opted to reduce social spending to maintain financial stability. This strategic shift, while addressing immediate fiscal concerns, potentially undermined the long-term benefits associated with sustained social investments. Conversely, institutions that maintained their commitment to social initiatives may have preserved stakeholder trust and organizational resilience, positioning themselves favourably for post-pandemic recovery.

Empirical studies support this perspective. For instance, a study by Alghafes and colleagues (2024) indicates that social component of ESG components positively influences certain performance indicators in Islamic banks within the GCC countries. Similarly, a study by Abror et al. (2020) highlights the significant role of customer satisfaction and trust—outcomes of consistent social engagement—in fostering customer loyalty in the Islamic banking sector. These findings underscore the importance of sustained social investments, even amidst economic downturns, in enhancing long-term asset value and institutional robustness.

d) Governance Scores (H4) – Accepted for ROA, Rejected for ROE

ROA: Positive and significant, reinforcing that strong governance enhances asset management and risk control.

Improving asset management and risk control in Islamic banks requires strong corporate governance. Optimal asset utilisation and sensible risk management are made possible by strong governance frameworks, which are distinguished by transparent decision-making procedures, regulatory compliance, and operational accountability. In Islamic banking, where adherence to Shariah rules calls for extra levels of control and ethical considerations, these systems are especially important.

- **Theoretical Justification**

Effective governance improves decision-making, regulatory compliance, and operational transparency, directly benefiting asset utilization. Several studies underscore the positive relationship between strong governance and operational performance in Islamic banks. For instance, Buallay, (2020) conducted a cross-country analysis in the MENA region and found that Shariah governance significantly influences Return on Assets (ROA), indicating improved asset efficiency. Similarly, Aliani et al. (2022) examined Saudi Islamic banks and reported that board size and independence positively impact ROA, reinforcing the notion that well-structured boards enhance operational performance. Furthermore, Srairi et al. (2022) developed a comprehensive Corporate Governance Index and demonstrated that governance structures positively affect bank efficiency and risk management in GCC Islamic banks.

- **Practical Implication**

During periods of economic turbulence, such as the COVID-19 pandemic, well-governed Islamic banks have shown resilience by avoiding financial mismanagement and sustaining asset returns. Effective governance structures enabled these institutions to navigate the crisis with greater stability, maintaining stakeholder confidence and operational continuity. However, the impact of governance reforms on Return on Equity (ROE) appears to be less immediate. Structural changes, including board restructuring and the implementation of compliance policies, are long-term strategies that may not yield immediate enhancements in equity profitability. This temporal lag emphasizes the need for a sustained commitment to governance improvements to realize their full benefits over time.

ROE: Insignificant, as governance reforms (e.g., board restructuring, compliance policies) are structural and do not immediately affect equity profitability.

- **Theoretical Justification**

Governance reforms such as board restructuring, the implementation of compliance mechanisms, and policy oversight are inherently structural and long-term in nature. These reforms are designed to enhance accountability, transparency, and ethical conduct within

financial institutions. However, due to their strategic and regulatory nature, such initiatives do not directly generate immediate profits. Return on Equity (ROE), which reflects short-term profitability relative to shareholders' equity, is more sensitive to operational gains, cost efficiencies, or revenue increases in the short run. Therefore, governance improvements may not translate into a noticeable impact on ROE within a limited timeframe. This perspective has affirmed by several studies. For instance, Buallay (2019) argues that although corporate governance mechanisms are essential for sustainable value creation, their influence on ROE may be subdued in the short term because they function primarily as risk mitigation and oversight tools. Likewise, Al-Hawari (2021) emphasizes that board reforms and compliance frameworks often require time to be institutionalized before yielding any measurable returns in equity profitability. Hence, the insignificant effect on ROE is theoretically justified by the time-lag between governance enhancement and financial performance recognition.

- **Practical Implication**

In practical terms, Islamic banks that implemented governance reforms during periods of economic uncertainty—such as the COVID-19 pandemic—prioritized institutional stability, regulatory compliance, and long-term credibility over immediate financial gain. These reforms, while essential for risk mitigation and stakeholder trust, were not expected to boost ROE in the short term. Instead, they functioned as foundational changes to strengthen resilience and safeguard future financial performance.

For instance, during the pandemic, many Islamic financial institutions focused on reinforcing board oversight and compliance systems to navigate market volatility and regulatory shifts. As noted by Srairi, Bourkhis, and Houcine (2022), governance practices in GCC Islamic banks were crucial in maintaining efficiency and risk control but did not show an immediate reflection in profitability ratios like ROE. This suggests that while governance strengthens the overall health of a financial institution, its financial impact—particularly on shareholder returns—requires a longer horizon to materialize.

e) ESG and Regional Variations in Financial Impact: ROA Vs. ROE Inter-Regional Differences (H5 & H6) – Partially Accepted

ROA showed significant regional variations, while ROE did not, indicating that ESG's financial impact is more pronounced in asset efficiency than equity returns. The data indicate that ESG integration delivers more measurable financial returns in developed regions, particularly through improved asset efficiency as seen in ROA. Europe and the GCC, with their mature regulatory landscapes and institutional capacity, demonstrate a clearer link between ESG adoption and financial performance. In contrast, emerging markets in MENA and Southeast Asia lag in this respect, largely due to infrastructural and strategic limitations, which dilute the immediate financial benefits of ESG alignment.

- **Theoretical Justification**

Developed markets (e.g., Europe, GCC) enforce stricter ESG regulations, making compliance a stronger driver of financial performance. Emerging markets face resource constraints, leading to weaker ESG integration. The disparity in ESG impact across regions can be theoretically attributed to the institutional, regulatory, and economic differences between developed and emerging markets. Developed regions, such as Europe and parts of the Gulf Cooperation Council (GCC), typically enforce more stringent ESG-related regulations and benefit from stronger institutional frameworks. These conditions foster deeper integration of ESG principles into corporate strategy, which in turn enhances operational efficiency and long-term asset management—as reflected in ROA.

Conversely, emerging markets in MENA and Southeast Asia often face resource limitations, regulatory gaps, and lower stakeholder pressure for ESG adherence, resulting in more fragmented ESG adoption and weaker financial outcomes. ROE, as a measure of shareholder profitability, is less sensitive to ESG-related structural improvements in the short term and more reflective of market-driven capital strategies, which may explain the absence of significant regional effects on ROE. This perspective is supported by Shahbaz et al. (2020), who observed a positive link between ESG integration and financial performance in developed countries, primarily due to regulatory enforcement and market incentives. Similarly, Tarmuji, Maelah, and Tarmuji (2016) highlight that the effect of

ESG on financial outcomes is conditional on institutional readiness and governance maturity, both of which differ substantially across regions.

- **Practical Implication**

In MENA & Southeast Asia, the regulatory and cultural differences led to varied ESG adoption. From a practical standpoint, the variation in ROA across regions underscores how regulatory and cultural environments shape ESG effectiveness. For instance, in developed markets, ESG practices are not only encouraged but often mandated, leading to more consistent returns through enhanced risk control and asset allocation strategies. In contrast, Islamic banks operating in emerging markets during the COVID-19 pandemic often faced competing priorities—such as cost containment and liquidity management—which limited their ability to invest in or sustain ESG initiatives. Notably, Alghafes et al. (2024) found that Islamic banks in the GCC outperformed their Southeast Asian counterparts in leveraging ESG for financial performance, largely due to better-developed regulatory frameworks and institutional support. The evidence suggests that while ESG can be an effective driver of asset efficiency (ROA), its success is heavily mediated by regional conditions that determine how thoroughly these principles are implemented and monitored.

5.1.4.2. Summary of Results Analysis

After this comprehensive analysis we can conclude that:

1. Return on Assets (ROA) appears to be a more robust indicator of ESG performance compared to Return on Equity (ROE), as ESG initiatives tend to align more closely with long-term asset efficiency rather than short-term profitability. This suggests that policymakers and investors should place greater emphasis on ROA when evaluating the effectiveness of ESG practices. Given that ESG impacts are more recognisable in long-term financial metrics, this supports a strategic shift towards sustainable value creation over immediate returns.

2. Governance is the strongest and most consistent ESG driver of financial performance, particularly in enhancing ROA. so, strengthening governance frameworks should be a priority for IBs, as it directly enhances risk management and asset utilization.

3. Environmental and social components show inconsistent or weak financial impacts, highlighting the need for better integration, measurement, and regulatory support. Moreover, social and environmental investments require patience because these dimensions did not show immediate financial gains, they contribute to long-term resilience and stakeholder trust. IBs should integrate them into strategic planning rather than expect quick returns.

4. Regional context plays a critical role—ESG effectiveness varies significantly across institutional and regulatory environments, highlighting the importance of localized ESG strategies. Developed markets benefit from stricter ESG enforcement and more mature institutional frameworks, whereas emerging markets often require stronger regulatory support to align ESG initiatives with financial performance.

5. Post-pandemic reassessment needed; the COVID-19 crisis skewed short-term priorities. Future studies should evaluate whether ESG's financial impact strengthens in stable economic conditions.

The Final Judgement of the Analysis:

This study confirms that financial performance is positively impacted by ESG, but its impact varies by dimension, metric, and region. While governance and overall ESG scores enhance ROA, environmental and social factors require longer time horizons. Regional differences further highlight the need for context-specific ESG strategies in Islamic banking.

Table 5.37: Summary of Hypothesis Results with Justifications

Hypothesis	Software	Dependent Variable	Results	Accepted/ Rejected	Theoretical Justification	Practical Justification
H1: The IBs' ESG scores positively impact financial performance.	SPSS	ROE	Weak and insignificant relationship	Rejected	ESG investments often yield long-term benefits, while ROE focuses on short-term profitability.	During the COVID-19 pandemic, many institutions prioritized operational resilience over ESG

						integration, diluting short-term financial impacts.
		ROA	Positive and significant relationship	Accepted	ESG practices enhance operational efficiency and mitigate risks, improving asset returns over time.	Institutions with strong ESG policies likely adapted better to pandemic disruptions, reducing asset inefficiencies.
	AMOS	ROE	Weak and insignificant relationship	Rejected	ROE emphasizes profitability from equity, which ESG practices may not influence directly in the short term.	Short-term focus on cost reduction during economic downturns may have overshadowed ESG's immediate impact on equity returns.
		ROA	Positive and significant relationship	Accepted	ESG initiatives improve long-term risk management and stakeholder trust, driving asset efficiency.	Sustainable practices (e.g., renewable energy projects) generated steady returns, especially during periods of

						economic uncertainty.
H2: The IBs' Environmental scores positively impact financial performance.	SPSS	ROE & ROA	Insignificant impact	Rejected	Environmental initiatives often require high upfront investments, delaying financial benefits.	The COVID-19 crisis shifted focus from environmental initiatives to immediate survival strategies for many businesses.
	AMOS	ROE & ROA	Insignificant impact	Rejected	Environmental factors contribute indirectly through risk reduction, often not captured in short-term metrics.	In regions with weaker regulatory frameworks, environmental compliance may not be a critical driver of financial performance.
H3: The IBs' Social scores positively impact financial performance.	SPSS	ROE	Negative and insignificant relationship	Rejected	Social initiatives may initially increase costs without immediate financial returns.	Social programs (e.g., employee benefits or community initiatives) were deprioritized during the pandemic in favor of cost control.
		ROA	Mixed results, occasionally	Partially Accepted	Social practices improve stakeholder relationships, indirectly	Companies investing in employee well-being or customer engagement

			significant		enhancing asset efficiency.	during COVID-19 likely retained long-term asset value.
	AMOS	ROE	Insignificant relationship	Rejected	Social investments are often intangible and take time to reflect in profitability measures like ROE.	Reduced social spending in cost-sensitive markets dampened its measurable impact on short-term equity returns.
		ROA	Negative and insignificant relationship	Rejected	Social initiatives face challenges in translating to consistent asset returns, especially during economic downturns.	Uneven outcomes from social initiatives, exacerbated by regional disparities in stakeholder expectations, diluted ROA impact.
H4: The IBs' Governance scores positively impact financial performance.	SPSS	ROE	Insignificant impact	Rejected	Governance alone may not directly drive profitability but reduces operational risks.	Governance reforms during crises (e.g., remote oversight) likely focused on stability rather than profitability.
		ROA	Positive and significant	Accepted	Strong governance improves decision-making and	Institutions with robust governance avoided financial

			relation ship		resource allocation, leading to better asset utilization.	pitfalls during the pandemic, preserving asset returns.
	AMOS	ROE	Insignif icant impact	Rejected	Governance reforms are often structural and show delayed financial outcomes.	Pandemic-induced operational challenges may have obscured governance's short-term impact on equity returns.
		ROA	Positive and signific ant relation ship	Accepted	Governance minimizes risks and ensures better alignment with long-term asset management.	Well-governed IBs maintained efficiency and compliance under regulatory scrutiny, supporting asset profitability.
H5: there is a significant difference in the ESG scores of the selected IBs (inter-regional difference.	SPSS	ROE & ROA	Region al differen ces observe d in predict ors	Partially Accepted	Cultural and regulatory variations influence ESG priorities, leading to differing impacts across regions.	Developed regions (e.g., Europe) emphasize ESG compliance, while emerging markets face resource constraints.
	AMOS	ROE & ROA	Region al differen ces	Partially Accepted	Socio-economic factors shape ESG's	Pandemic recovery rates and government

			observed in predictors		perceived importance, varying its impact on financial performance.	support policies created disparities in ESG adoption and impact across regions.
H6: There is a significant difference in the impact of ESG scores on financial performance across regions.	SPSS	ROE & ROA	Significant differences for ROA but not ROE	Partially Accepted	ESG's influence is more visible in long-term metrics like ROA, and regional disparities reflect differing priorities.	MENA and South-East Asia IBs often face contrasting regulatory pressures, influencing ESG's financial relevance.
	AMOS	ROE & ROA	Significant differences for ROA but not ROE	Partially Accepted	Institutional maturity and regional dynamics determine how ESG factors impact financial outcomes.	Stronger institutional frameworks in developed markets amplified ESG's impact on ROA compared to equity-focused metrics like ROE.

Source: Developed By the Author

a) Findings With Research Questions

I. What is the impact of the environmental performance of Islamic banks on their financial performance?

- Both SPSS and AMOS results show that environmental performance has an insignificant impact on the financial performance of Islamic banks, as measured by ROE and ROA.

- P-values for the environmental component were greater than 0.05, indicating a lack of statistical significance.
- Environmental initiatives often involve high upfront costs, such as investments in renewable energy projects or green financing mechanisms. These costs may not translate into immediate financial gains, especially for short-term performance metrics like ROE.
- In regions with weaker regulatory enforcement, the adoption of environmental initiatives may lack the necessary external pressures to ensure measurable financial outcomes.
- Environmental performance does not currently have a significant impact on the financial performance of Islamic banks. However, this does not negate its long-term potential, especially as environmental compliance becomes a critical consideration for regulators and investors in the future.

II. What is the impact of the social performance of Islamic banks on their financial performance?

- Social performance showed mixed results**:**
    - ROE: No significant impact in both SPSS and AMOS (p-values > 0.05).
    - ROA: Occasionally significant (p-values < 0.05 in certain analyses), but not consistently across all models.
    - Social performance factors, such as community engagement, employee welfare, and equitable financing, foster stakeholder trust and reputational benefits. However, these benefits are intangible and may take time to influence financial outcomes.
    - In some regions, social initiatives may lack alignment with immediate business priorities, leading to inconsistent impacts on financial metrics.
    - While social performance can contribute to long-term financial stability by strengthening relationships with stakeholders, its measurable impact on financial performance remains inconsistent and context-dependent.

III. What is the impact of the governance performance of Islamic banks on their financial performance?

- Governance performance consistently showed a positive and significant impact on ROA, while its effect on ROE was insignificant in both SPSS and AMOS.
- Strong governance enhances decision-making, reduces operational risks, and ensures compliance with regulatory requirements. These factors improve asset utilization and long-term performance (ROA).
- However, governance improvements may not directly affect short-term profitability metrics like ROE, as their benefits are realized over a longer horizon.
- Governance is the most impactful ESG component for Islamic banks, significantly enhancing long-term financial performance while mitigating risks. Institutions should prioritize strengthening governance frameworks to achieve sustainable growth.

IV. Are there any differences in ESG scores across the selected banks' regions (inter-region ESG scores)?

- Significant regional differences in ESG scores were observed (p-values < 0.05 in certain analyses).
- Southeast Asia exhibited higher average ESG scores compared to MENA, particularly in governance and social components.
- These differences reflect variations in regulatory frameworks, cultural priorities, and market maturity:
    - **Southeast Asia:**

      Stronger governance structures and social programs aligned with regional regulations and investor expectations.
    - **MENA:**

      Limited ESG adoption, with environmental and social initiatives lagging due to less stringent enforcement and cultural differences.

- ESG scores vary significantly between regions, with Southeast Asia demonstrating higher levels of compliance and integration. These differences underscore the need for region-specific strategies to improve ESG adoption in MENA.

V. Are there any differences in the impact of ESG on the financial performance of the banks across regions (inter-region ESG impact)?

The impact of ESG on financial performance showed significant differences across regions for ROA (p-values < 0.05) but not for ROE (p-values > 0.05).

1. Southeast Asia banks benefited more from ESG practices, particularly governance, compared to MENA banks.
2. **Southeast Asia:**

   ESG practices, especially governance, align with regulatory incentives and investor expectations, leading to stronger impacts on financial performance.
3. **MENA:**

   Weak ESG adoption and limited regulatory pressure dilute its financial impact, particularly in environmental and social dimensions.
4. The impact of ESG on financial performance differs significantly across regions, with Southeast Asia experiencing stronger positive outcomes. These findings highlight the importance of regional maturity, regulatory enforcement, and cultural alignment in shaping ESG effectiveness.

b) Findings With Research Objectives

To investigate the impact of ESG scores on the financial performance of Islamic banks.

1. ESG scores have a positive and significant impact on ROA, indicating a strong relationship between ESG practices and long-term asset efficiency.
2. ESG scores do not significantly impact ROE, reflecting the challenges of translating sustainability practices into short-term profitability.

3. The study confirms that while ESG scores enhance the long-term financial stability of Islamic banks, their immediate financial benefits are more nuanced and context dependent.

Sub-Objectives of the Study

I. To assess the impact of the environmental performance of Islamic banks on their financial performance.

1. Environmental performance does not significantly impact financial performance (both ROE and ROA), as indicated by p-values greater than 0.05 in SPSS and AMOS analyses.

2. Environmental initiatives often involve high upfront investments in areas like renewable energy, waste reduction, and green financing. These costs may delay observable financial benefits.

2. In regions like MENA, where environmental regulations are less stringent, banks may lack the incentive to invest heavily in environmental projects, further limiting their financial impact.

3. Environmental performance does not currently have a measurable impact on financial performance, but its importance is expected to grow as regulatory and market pressures increase.

II. To assess the impact of the social performance of Islamic banks on their financial performance.

- Social performance has mixed results:
    - ROE: Insignificant impact (p-values > 0.05).
    - ROA: Occasionally significant, indicating positive but inconsistent contributions to long-term performance.
- Social initiatives, such as worker well-being programs, community engagement, and equitable financing, improve stakeholder trust and institutional reputation. However, these benefits are intangible and may take time to reflect in financial outcomes.

- Variability in results across regions suggests that cultural and economic factors influence the prioritization and implementation of social initiatives.
- Social performance can positively influence financial performance, particularly ROA, but its impact is inconsistent and dependent on regional and institutional contexts.

III. To assess the impact of the governance performance of Islamic banks on their financial performance.

- Governance performance has a significant positive impact on ROA but no significant impact on ROE in both SPSS and AMOS results.
- Strong governance frameworks enhance transparency, reduce risks, and ensure regulatory compliance, contributing to improved asset utilization and efficiency (ROA).
- Governance reforms typically yield long-term benefits, which explains their limited influence on short-term metrics like ROE.
- Governance performance is the most critical ESG component for Islamic banks, significantly enhancing their long-term financial performance.

IV. To examine if differences exist in ESG scores across selected banks' regions (inter-region ESG scores).

- Significant differences were observed in ESG scores across regions (p-values < 0.05).
- Banks in Southeast Asia exhibited higher ESG scores compared to those in MENA, particularly in governance and social components.
- **Southeast Asia:**

  Strong regulatory frameworks, cultural emphasis on sustainability, and investor demand for ESG compliance drive higher scores.
- **MENA:**

  Limited ESG integration is influenced by weaker enforcement mechanisms, resource constraints, and differing cultural priorities.

- ESG scores vary significantly across regions, reflecting differences in regulatory, cultural, and economic factors. Southeast Asia leads in ESG adoption, particularly in governance and social dimensions.

V. To examine if differences exist in the impact of ESG on the financial performance of the banks across regions (inter-region ESG impact).

- The impact of ESG on ROA differs significantly across regions (p-values < 0.05), but no significant regional differences were observed for ROE (p-values > 0.05).
- In Southeast Asia, ESG practices contributed more positively to financial performance than in the MENA region.
- **Southeast Asia:**

  Strong governance and social programs align with investor expectations and regulatory incentives, resulting in greater financial benefits.
- **MENA:**

  Weak ESG adoption and enforcement reduce the financial impact of sustainability practices, particularly in environmental and social dimensions.
- There are significant regional differences in the impact of ESG on financial performance, with Southeast Asia experiencing stronger positive effects due to more mature regulatory and market conditions.

c) Summary Of Findings for Objectives

Objective	Findings	Conclusion
I. Environmental Performance	No significant impact on ROE or ROA.	Environmental initiatives face delayed financial benefits due to high upfront costs and weak enforcement in some regions.

Objective	Findings	Conclusion
II. Social Performance	Mixed results, with occasional significance for ROA but not ROE.	Social performance can enhance financial performance, particularly in stakeholder-driven contexts, but its impact is inconsistent.
III. Governance Performance	Significant positive impact on ROA, but not on ROE.	Governance is the most impactful ESG component, driving long-term efficiency and risk mitigation.
IV. Regional Differences in ESG Scores effect on FP	Significant differences observed between Southeast Asia and MENA.	Southeast Asia outperforms MENA in ESG adoption, driven by regulatory and cultural factors.
V. Regional Differences in ESG Impact	Significant differences in ROA, but not in ROE.	Southeast Asia experiences stronger positive impacts of ESG on financial performance due to regulatory and market maturity.

Figure 5.20: Objectives with Findings

5.1.4.3. Some Possible Key Real-World Contexts Influencing Results

a) COVID-19 pandemic

- The pandemic caused significant disruptions to global financial markets and economies.
- Islamic banks, like other financial institutions, prioritized survival strategies, such as enhancing liquidity and maintaining operational efficiency.
- ESG practices, particularly environmental and social initiatives, often require additional resources, which may have been redirected to immediate survival efforts during the pandemic.

- Governance initiatives, such as ensuring compliance and risk management, may have been maintained or strengthened, which explains governance's continued positive impact.

b) Regional Disparities

Differences in regulatory enforcement, cultural priorities, and market maturity significantly influenced ESG adoption and effectiveness:

- **Southeast Asia:**
  - More mature regulatory frameworks enforce ESG compliance.
  - Strong investor demand for sustainable practices leads to better ESG integration and financial impacts.
- **MENA Region:**
  - Weaker regulatory frameworks and cultural factors slow ESG adoption.
  - Limited emphasis on environmental and social practices reduces their financial impact.
  - Regional disparities highlight the need for tailored strategies to enhance ESG performance based on local contexts.

c) Short Vs. Long-Term Metrics

- ROE and ROA measure financial performance over different time horizons:
  - **ROE (Short-Term):** Reflects immediate profitability and equity returns (Hazan et al., 2021). ESG practices, which are often long-term investments (Whelan & Fink, 2016), (Clark, Feiner, & Viehs, 2015) may not influence ROE significantly in the short run.
  - **ROA (Long-Term):** Reflect long-term profitability (Dobbs & Koller ,2005) which is aligns better with sustainable practices, as it measures how efficiently assets are utilized to generate returns over time.

- This distinction explains why ESG components, particularly governance, have a more significant impact on ROA than on ROE.

d) Cost-Intensive ESG Initiatives

- Environmental and social initiatives often involve substantial initial investments:
    - Examples include renewable energy projects, waste management systems, and community development programs.
- These costs may strain short-term profitability, particularly in regions with limited regulatory incentives or financial support for ESG projects.
- Institutions in emerging markets (e.g., MENA) may face additional challenges in funding such initiatives due to weaker capital markets and lower investor demand for ESG compliance.

e) Investor Expectations and Market Trends

- Increasing global awareness of sustainability has led investors to prioritize ESG-compliant institutions, particularly in developed markets like Southeast Asia.
- Islamic banks in regions with higher ESG demand may experience stronger financial benefits as they align with investor preferences for sustainable and socially responsible practices.
- Conversely, in markets where ESG compliance is not yet a critical consideration, banks may see limited financial impacts from these practices.

f) Governance As a Key Driver

- Strong governance frameworks mitigate risks, enhance decision-making, and improve compliance with regulatory standards, making governance the most consistently impactful ESG component.
- Governance reforms may also build resilience against crises like the COVID-19 pandemic, further underscoring its significance.
- Institutions with robust governance are better equipped to attract long-term investors and maintain operational stability, leading to better financial outcomes.

g) Global Sustainability Trends and Pressure

- International agreements like the Paris Agreement and the UN's Sustainable Development Goals (SDGs) have increased pressure on institutions to adopt ESG practices.
- Banks operating in regions with stronger global connectivity (e.g., Southeast Asia) are more likely to align with these trends, experiencing greater financial impacts.
- In contrast, institutions in regions less integrated into global sustainability frameworks (e.g., MENA) may lag in ESG adoption and its associated financial benefits.

h) Socio-Economic Factors and Cultural Differences

- Social and cultural factors shape the prioritization of ESG components:
    - In Southeast Asia, cultural emphasis on community welfare and environmental preservation supports higher social and environmental scores.
    - In MENA, traditional values and economic constraints may limit the emphasis on social and environmental initiatives, focusing instead on governance and operational stability.

These real-world contexts help explain the study's results, particularly the observed disparities in ESG impacts across regions and financial performance metrics. They underscore the importance of contextualizing ESG practices to align with both institutional and regional priorities. Let me know if you'd like this expanded further.

5.1.5. Implications of Findings

The conclusions drawn from the current analysis have significant relevance for the decision-makers, the banking sector, investors, as well as stakeholders interested in the ESG across the MENA and Southeast Asia regions. For example, how evaluation of the Social or Environmental or Governance (ESG) issues relates to key financial indicators like Return on Equity (ROE) and Return on Assets (ROA) can better inform the

association of ESG with the business model and investment strategy. The following are the major implications of the above findings:

5.1.5.1. Governance As a Key Driver of Asset-Based Returns

The Governance Region appears to exert an inelastic and positive effect on ROA as can be deduced from the parameter estimates of both SPSS and AMOS models. This implies that strong governance practices enhance asset-based returns therefore, for banks operating in MENA and Southeast Asia region these finding stresses good structures, boards, and regulations. Additionally, it appears that improving governance will enhance the financial outcomes that focus on this Return on Assets (ROA), which is the metric that evaluates how well assets are being utilized since it is the most appropriate measure of the organization's efficiency. Thus, governance policies that promote transparency and accountability are crucial as they enable the banks to be profitable and operate sustainably.

5.1.5.2. Weak Relationship of ESG to Returns in Equity Shareholders

As there is no substantial linkage that is adverse in relation to the ESG dimensions and the ROE it means that the social, environmental, and governance practices have no strong connection with equity-based returns in the regions measured. This evidence may suggest that although ESG frameworks cannot be neglected when the long-term prosperity of the firm is considered, they do not serve to improve short-term profitability where equity holders are the focus. This means for investors, adequate restraint may need to be exercised to combine ESG aspects with analysis, where equity return is the focus. Potentially this requires an investment or analysis shift where emphasis is placed on return on assets (ROA) or similar ratios on their equity sustenance duration as opposed to their immediate benefits to equity subscribers.

5.1.5.3. Geographic Focus on Governance in the MENA

As indicated by the results of the regression analysis, the Governance Region had a marginally significant effect on ROA in the MENA region. It is evident that this context has its own unique significance for governance practices. In Mena countries, it could be policymakers and regulatory bodies that need to put in place and enforce governance standards to enhance financial performance in the banking industry. This observation points out that governance reforms or more stringent regulatory regimes might bring in

more investors while fostering the stability and profitability of the regional banks. Moreover, focusing on governance, MENA banks might also raise their standing and attractiveness to international investors who are becoming more concerned with the quality of corporate governance of companies.

5.1.5.4. Recommendations in Order to Prepare an ESG Action Plan and the Report

For the banks across MENA and Southeast Asia, the weak association between Environmental and Social aspects as well as financial indicators imply that these dimensions are critical for compliance and corporate social responsibility but may not directly enhance the financial performance. This finding indicates that banks need to be strategic with their spending on social and environmental activities ensuring that such spending fits within the overall business strategy and overall value. However, the global trend towards ESG investing is on the rise so it is pertinent for the banks to continue reporting on environmental and social criteria in order to satisfy stakeholder needs, even if these efforts may not, at least immediately, bear any financial benefits finally.

5.1.5.5. Reporting for Investment Decisions in the Banking Sector that Are Affected by ESG Factors

The MENA region and Southeast Asian investors particularly in the banking sector should factor in the results of such studies when making their investment decisions that takes ESG into consideration. Governance happens to be the most salient ESG factor cutting across the board but especially when the ROA is to be improved. Those with an appetite for long-term sustainable returns together with effective asset utilization will be looking for companies with good governance in these regions. However, it is important that such investors do not overestimate the short-term bottom line that may be derived from ESG factors since the findings of the research suggest that the impacts of ESG factors could be realized more in asset turnover rather than in net profitability.

5.1.5.6. Implications for the Future Development of the ESG Policy and its Framework

This research could aid the MENA and South Asia policymakers in preparing and adjusting the ESG frameworks by reinforcing the governance components of banking supervision. In view of the small effect on the financial results arising from the

environmental and social aspects in this study, it may be useful for regional policymakers to opt for policy measures that enhance governance and in turn, may improve financial results. Conversely, on one hand, the development of frameworks that promote sustainable and non-ethical behavior that is profitability-oriented will aid firms in embedding ESG objectives within their business strategies.

5.1.5.7. Encouragement for Further Research in the Variation of the Impact of ESG

Such results support the assertion that ESG factors have a varying impact to financial performance of companies across regions, industries, and financial measures. Such studies may seek other areas such as industries or areas with other ESG metrics in order to find out further conditions that make it through so that ESG factors have relatively a high effect on FP. Furthermore, in the context of the increasing globalization of ESG standards, further regional studies aimed at the localization of these standards will be important for the economic effectiveness of ESG practices.

To sum up this research's findings, it can be asserted that governance has a significant influence on the performance of banks ROA in the banking system of MENA and South East Asia. Such implications provide insights to banks, investors, and regulators, encouraging them to implement the ESG concept but in a more targeted manner focusing on the governance aspect, but considering also the greater good of other environmental and social efforts. To sum up, the implications of this study are multifaceted, spanning both practical and theoretical domains as follows:

a) Practical Implications

- **For Policymakers**

  1. Policymakers in regions with lower ESG impact, such as emerging markets, should develop tailored regulatory frameworks to encourage ESG adoption.

  2.Tax benefits or subsidies for environmental and social initiatives could address the high upfront costs associated with such projects, ensuring financial viability for institutions.

- **For Financial Institutions (IBs)**

  1. Focus on Governance: Governance improvements, such as transparency in decision-making and stronger compliance mechanisms, should be prioritized as they consistently enhance ROA.

  2. Targeted ESG Strategies: ESG initiatives should be aligned with institutional goals. For instance, environmental programs may be phased based on cost-benefit analyses to manage immediate financial impacts.

  3. ESG practices should be embedded into core risk management systems, Shariah governance, and performance monitoring tools.

  4. Adaptation to Regional Needs: Institutions operating in regions with strong ESG enforcement (e.g., Europe) must comply with stringent standards, while those in emerging markets should adopt scalable ESG strategies suited to local contexts.

- **For Investors and Stakeholders**

  1. Investors should consider ESG scores, particularly governance metrics, as indicators of long-term stability and risk mitigation.

  2. Investors are encouraged to shift their evaluation metrics toward long-term indicators like ROA and ESG rating trends instead of immediate profitability (ROE).

  3. Stakeholders, including customers and communities, may prioritize banks with credible ESG credentials, which have reputational and competitive advantages.

  4. Social and environmental scores should be evaluated with a nuanced understanding of their regional significance and long-term potential.

- **For ESG Rating Agencies**

  1. Tailored ESG scoring models should be developed for Islamic banks, considering faith-based values, profit-and-loss sharing mechanisms, and ethical prohibitions.

  2. Regional differences should be accounted for, especially between developed and emerging Islamic financial markets.

b) Theoretical Implications

- **Enriching ESG-Performance Literature:** The study confirms the positive relationship between ESG practices and long-term financial performance, particularly ROA. This reinforces sustainability theories that argue that ESG is increasingly recognized as a fundamental element of a company's strategic planning.
- **Regional Contextualization:** The findings highlight the need for theories to incorporate regional disparities in ESG implementation and impact. These disparities may stem from cultural, economic, and regulatory variations, suggesting that a one-size-fits-all model for ESG performance is inadequate.
- **Methodological Contributions:** By combining SPSS and AMOS, the study demonstrates the value of cross-validation in hypothesis testing, emphasizing the need for robust methodologies in finance and sustainability research.
- **Dynamic Impacts of ESG Components:** The study's findings suggest that ESG components exert varying degrees of influence on financial outcomes, challenging the assumption of uniform ESG effectiveness. Future theoretical models should treat environmental, social, and governance factors as distinct yet interconnected dimensions.

5.1.6. Main Contributions of the Thesis

This thesis offers several theoretical, empirical, and practical contributions to the existing literature on Environmental, Social, and Governance (ESG) practices and their influence on the financial performance of Islamic Banks (IBs), particularly in the context of emerging and developed markets during a period of unprecedented economic disruption—the COVID-19 pandemic.

5.1.6.1. Bridging ESG and Islamic Finance

One of the most significant theoretical contributions lies in integrating ESG principles within the framework of Islamic banking. Although ESG principles and Shariah-compliant finance share common ethical values—like accountability to society environmental care, and transparency —their interconnection has been relatively under-researched. This study contributes to filling that gap by analyzing the effect of ESG scores on financial indicators such as Return on Assets (ROA) and Return on Equity (ROE) in

Islamic banks. It confirms that although Islamic banking aligns with ESG philosophy, the financial appearance of ESG practices varies depending on the dimension and time horizon considered.

5.1.6.2. Differentiated Financial Impacts of ESG Dimensions

The thesis contributes to the nuanced understanding that not all ESG components influence financial performance equally. The findings reveal that:

Environmental Factors showed limited short-term financial impact, supporting the argument that green investments often involve high upfront costs and delayed payoffs—particularly challenging for Islamic banks that emphasize risk-sharing and asset-backed financing.

Social Factors produced mixed results. While their effect on ROE was generally negative or insignificant, occasional positive influence on ROA suggests that social initiatives may foster stakeholder trust, which indirectly enhances operational efficiency.

Governance emerged as the most consistently positive factor for ROA, underscoring its role in improving strategic decision-making, regulatory compliance, and long-term asset management. However, governance's impact on ROE was insignificant, reaffirming that structural reforms tend to benefit long-term stability rather than immediate profitability.

5.1.6.3. Emphasizing ROA Over ROE as an ESG Metric

This thesis reinforces the importance of using ROA over ROE as a more appropriate financial performance indicator when assessing ESG impact. ROA captures long-term operational efficiency and asset utilization—areas where ESG initiatives tend to yield measurable benefits. Conversely, ROE, which emphasizes short-term profitability from equity, was found to be less sensitive to ESG-related improvements. This insight is particularly relevant for investors, regulators, and bank managers aiming to evaluate sustainable performance beyond traditional profitability ratios.

5.1.6.4. Highlighting Regional Disparities in ESG Effectiveness

A key empirical contribution is the evidence of significant inter-regional differences in ESG effectiveness. Developed regions (e.g., Europe and parts of the GCC) demonstrated stronger positive relationships between ESG performance and ROA, reflecting more

mature institutional environments, better regulatory enforcement, and higher stakeholder expectations. In contrast, IBs in emerging markets such as MENA and Southeast Asia faced challenges including weaker regulatory frameworks, limited ESG integration, and resource constraints, which diluted the financial benefits of ESG practices. This reinforces the need for localized ESG strategies that account for regional institutional and cultural contexts.

5.1.6.5. COVID-19 as a Natural Stress Test for ESG Resilience

The thesis provides a unique contribution by analysing ESG performance during the COVID-19 pandemic—a period that served as a stress test for operational and strategic resilience. Findings suggest that IBs with more robust ESG frameworks exhibited greater resilience, particularly through sustained ROA. However, the crisis also forced many institutions to deprioritize ESG investments in favor of short-term survival measures, especially in the social and environmental domains. This underscores the importance of embedding ESG practices into core strategic planning rather than treating them as discretionary initiatives.

5.1.6.6. Methodological Contribution

From a methodological perspective, the study applies both SPSS and AMOS to test hypotheses and validate models using both regression and structural equation modeling (SEM). This dual approach enhances the robustness of the findings and provides comprehensive insights into the linear and latent relationships between ESG scores and financial performance indicators.

5.1.7. Results for Implementation

The findings of this study have direct implications for how Islamic banks can effectively implement ESG principles within their operational and strategic frameworks:

Firstly, Islamic banks should prioritize ROA over ROE, ESG initiatives showed a more consistent and significant relationship with Return on Assets (ROA), especially through improved governance and asset efficiency. Return on Equity (ROE) remained largely insignificant, suggesting that ESG strategies do not yield immediate equity-based profitability. This implies that Islamic banks should restructure their performance

evaluation frameworks to emphasize long-term asset performance over short-term shareholder returns.

Second, the governance pillar was found to be the most reliable driver to better financial outcomes, indicating that Islamic banks should strengthen governance as a strategic tool. Putting in place independent boards, open governance procedures, and compliance systems improved asset use and decreased risk exposure. Thus, putting governance improvements into practice can act as a motive for more widespread ESG success.

Additionally, integrating environmental strategies in phases, Because Islamic banking is risk-sharing and anti-speculative, expensive environmental expenditures need to be made gradually. To finance environmentally friendly projects, banks can use Islamic financial instruments like green sukuk or *mudarabah* partnerships, which guarantee both Shariah compliance and controllable financial risk.

Finaly, Islamic banks must consider social investments as long-term Assets, while social initiatives showed limited short-term financial return (especially on ROE), they contributed to long-term stakeholder trust, employee retention, and institutional goodwill. Islamic banks should institutionalize CSR and social welfare practices, especially those aligned with *Maqasid* al-Shariah, to sustain stakeholder confidence.

5.1.8. Policy Recommendations

In order to strengthen ESG integration within Islamic banking, especially across emerging markets, financial authorities in the MENA and Southeast Asia regions should introduce regulatory mandates requiring ESG disclosures and establish clear, standardized reporting frameworks that align with the principles of Islamic finance. These regulatory initiatives should be supported by incentives like tax breaks for ESG-aligned projects or special treatment for organisations that earn green finance certifications in order to promote quicker adoption. Equally important is the backing of multilateral organisations and standard-setting agencies like the Islamic Development Bank (IsDB), the Islamic Financial Services Board (IFSB), and AAOIFI. These institutions can play a pivotal role in harmonizing ESG standards specifically tailored to Islamic financial products and promoting their widespread implementation across member countries. Regional ESG

benchmarking should also be encouraged to identify best practices and highlight performance disparities across jurisdictions.

In parallel, policymakers should prioritize capacity-building initiatives, including ESG literacy programs for banking executives, Shariah scholars, and compliance professionals. Embedding ESG principles into national sustainable finance strategies, particularly in post-pandemic recovery agendas, would further anchor these reforms within long-term development goals.

Lastly, given the observed regional disparities in ESG effectiveness, it is vital that ESG strategies remain context sensitive. Frameworks must be adaptable to local conditions, reflecting variations in governance maturity, regulatory infrastructure, and socio-cultural perspectives on sustainability and social responsibility. Such localized approaches will ensure that ESG adoption is not only regulatory compliant but also practical and culturally relevant.

Conclusion

This study offers a comprehensive and in-depth examination of the relationship between Environmental, Social, and Governance (ESG) scores and the financial performance of Islamic Banks (IBs), with a particular emphasis on regional variations. The findings provide critical insights into the differential impacts of ESG components, the importance of governance, and the role of regional contexts in shaping ESG effectiveness. These results have significant implications for policymakers, financial institutions, investors, and future research in the field of sustainable finance.

Key Findings and Implications

Long-Term vs. Short-Term Financial Performance:

The study reveals that ESG scores have a significant positive impact on long-term financial performance, particularly as measured by Return on Assets (ROA). This suggests that integrating ESG practices contributes to sustainable value creation over time. However, the effect on short-term metrics, such as Return on Equity (ROE), is limited, indicating that the benefits of ESG adoption may require time to materialize fully. The research finding highlights the significant of adopting a long-term perspective when evaluating the financial implications of ESG initiatives.

Governance As a Critical Driver:

Among the ESG components, governance consistently emerges as the most significant predictor of financial performance. Its robust influence highlights its pivotal role in enhancing risk management, operational efficiency, and organizational stability. This finding aligns with existing literature emphasizing the centrality of governance in ensuring accountability, transparency, and strategic alignment within financial institutions. For Islamic Banks, which operate within a framework of ethical and Sharia-compliant principles, strong governance structures are particularly crucial for maintaining stakeholder trust and achieving sustainable growth.

- Strong governance frameworks mitigate risks, enhance decision-making, and improve compliance with regulatory standards, making governance the most consistently impactful ESG component.

- Institutions with robust governance are better equipped to attract long-term investors and maintain operational stability, leading to better financial outcomes.
- Institutions with robust governance are better equipped to attract long-term investors and maintain operational stability, leading to better financial outcomes.

Inconsistent Impacts of Environmental and Social Factors:

The study finds that environmental and social scores exhibit inconsistent impacts on financial performance. This variability can be attributed to the cost-intensive nature of implementing environmental and social initiatives, as well as differing regional priorities and regulatory environments. For instance, regions with stringent environmental regulations may see a more pronounced impact of environmental scores, while social factors may be more influential in regions with heightened social inequality or community-focused banking practices. These findings challenge the assumption of uniform effectiveness across ESG components and call for a more tailored approach to ESG integration.

Regional Differences and Contextual Factors:

The analysis identifies significant inter-regional differences in the impact of ESG scores on financial performance, particularly in relation to ROA. These variations underscore the influence of socioeconomic factors, regulatory frameworks, and market maturity in shaping the effectiveness of ESG practices. For example, regions with well-established ESG regulations and higher market maturity may experience stronger positive impacts, while less developed markets may face challenges in realizing the full potential of ESG initiatives. This highlights the need for region-specific strategies to enhance the adoption and impact of ESG practices, ensuring they are aligned with local contexts and priorities.

Crisis Resilience and ESG Integration

The COVID-19 pandemic highlighted the resilience of Islamic banks with strong ESG frameworks. Unlike many institutions that deprioritized ESG during the crisis, Islamic banks in the MENA region demonstrated lower risk and stronger performance, reflecting their alignment with ethical and risk-averse principles. Studies also show that firms in Muslim countries with higher ESG scores were less adversely affected, underscoring the

value of ESG integration in enhancing institutional stability during times of crisis. Thus, Governance reforms can build resilience against crises like the COVID-19 pandemic, further underscoring its significance.

Practical Implications and Recommendations

For Policymakers and Financial Institutions:

The findings emphasize the need for region-specific ESG strategies that account for local regulatory environments, market conditions, and cultural factors. Policymakers should consider developing frameworks that incentivize the adoption of ESG practices while addressing the unique challenges faced by different regions. Financial institutions, particularly Islamic Banks, should prioritize governance improvements and tailor their environmental and social initiatives to align with regional priorities and stakeholder expectations.

For Islamic Banks

- ✓ Strengthen governance structures to reinforce transparency, accountability, and strategic alignment with Shariah principles.
- ✓ Embed ESG into core business strategy, not as a compliance obligation but as a driver of long-term performance and stakeholder trust.
- ✓ Develop capacity-building programs for bank executives, Shariah boards, and compliance officers to improve ESG literacy.
- ✓ Prioritize material ESG factors, focusing on those most aligned with regional risks, opportunities, and societal expectations.

For Investors:

Investors are encouraged to assess ESG scores as part of a broader evaluation framework for long-term sustainability and risk mitigation. While governance remains a critical factor, the inconsistent impacts of environmental and social components suggest that investors should adopt a more nuanced approach, considering regional and contextual factors when making investment decisions.

- ✓ Consider governance scores as a core indicator of long-term sustainability and risk management capacity.

- ✓ Adopt a context-sensitive investment approach, evaluating ESG metrics through the lens of regional and cultural relevance.

For Future Research:

This study lays the groundwork for future research to explore the longitudinal impacts of ESG practices and further investigate the role of regional dimensions. Longitudinal studies can provide deeper insights into how ESG practices evolve over time and their cumulative effects on financial performance. Additionally, integrating qualitative approaches, such as case studies and interviews, can offer a more holistic understanding of the mechanisms through which ESG practices influence financial outcomes.

Policy Recommendations

To enhance ESG integration in Islamic banking, particularly in emerging markets, this study recommends that regulators in the MENA and Southeast Asia regions implement mandatory ESG disclosure requirements supported by standardized, Shariah-aligned reporting frameworks. Incentivizing ESG-aligned activities and involving multilateral institutions like the IFSB, and AAOIFI can further accelerate harmonization and adoption. Additionally, regional ESG benchmarking and targeted capacity-building programs are essential to strengthen institutional readiness. Finally, ESG frameworks must be adaptable to local contexts to ensure both regulatory compliance and cultural relevance. Thus, the Policy Recommendations can be summarized as follows:

- ✓ Enforce mandatory ESG disclosure aligned with global standards and Islamic ethical principles.
- ✓ Provide incentives such as tax benefits or preferential regulatory treatment for ESG-aligned investments.
- ✓ Collaborate with international organizations (e.g., IsDB, IFSB, AAOIFI) to develop harmonized ESG reporting frameworks tailored to Islamic finance.
- ✓ Promote regional ESG benchmarking to identify best practices and reduce performance disparities.

Final Reflections

In conclusion, this study underscores the transformative potential of ESG practices in enhancing long-term financial performance while emphasizing the need for regional customization and nuanced strategic approaches. By bridging the gap between sustainability and profitability, ESG practices represent a critical frontier for advancing both corporate responsibility and financial success. For Islamic Banks, which operate at the intersection of ethical finance and sustainable development, the integration of ESG principles offers a unique opportunity to align their operations with broader societal goals while achieving competitive financial performance. Ultimately, this study contributes to the growing body of knowledge on sustainable finance, providing actionable insights for stakeholders and paving the way for future research in this dynamic and evolving field.

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