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Integrating ESG (Environmental, Social, Governance) into Strategic Planning for Islamic Banks: Implications for Performance and Competitiveness

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Abstract

The growing global emphasis on Environmental, Social, and Governance (ESG) has reshaped sustainable finance practices. However, Islamic banks face distinct challenges in integrating ESG due to the need to align it with Shari'ah compliance, which emphasizes justice, ethical conduct, and long-term sustainability. The conceptual divergence between conventional ESG frameworks and Islamic values raises uncertainty regarding the strategic internalization of ESG in Islamic banking. This study synthesizes the literature published between 2015 and 2024 to examine how ESG is integrated into the strategic planning of Islamic banks and its implications for sustainable performance and competitiveness, considering the mediating role of strategic processes and the moderating role of Shari'ah governance. Prior studies largely treat ESG as a stand-alone reporting practice rather than a strategic driver, while integrated analyses linking ESG, strategic planning, and Shari'ah governance remain scarce. Based on a PRISMA-guided Systematic Literature Review, the findings reveal that ESG adoption in Islamic banks remains predominantly symbolic due to fragmented standards and limited strategic embedding. ESG contributes meaningfully to sustainable performance and competitiveness only when embedded in strategic processes and reinforced by effective Shari'ah governance. This study positions ESG as a value-based strategic mechanism and provides the first integrative review linking ESG, strategic planning, and Shari'ah governance within a unified conceptual framework to explain sustainable performance and competitiveness in Islamic banking.

Keywords: ESG Integration; Islamic Banking; Shari'ah Governance; Strategic Planning; Sustainable Performance

A. INTRODUCTION

Over the past decade, the integration of Environmental, Social, and Governance (ESG) principles has undergone a fundamental transformation within the global financial system. ESG has evolved from a voluntary disclosure practice into a strategic mechanism that shapes institutional legitimacy, long-term resilience, and competitive advantage. This shift is consistent with stakeholder theory, which posits that organizational sustainability depends on the ability to respond effectively to the expectations of diverse stakeholder groups, including regulators, investors, communities, and the natural environment. The consolidation of international regulatory frameworks such as the IFSB Core Principles (IFSB, 2023), the UNDP Sustainable Finance Framework (UNDP, 2024), and the European Union Sustainable Finance Disclosure Regulation (European Union, 2020) reflects increasing institutional pressure for ESG to be embedded within organizational strategy and governance rather than treated as an administrative compliance exercise.

From the perspective of institutional theory, however, regulatory and normative pressures do not necessarily lead to substantive organizational transformation. Organizations may adopt ESG practices symbolically to secure external legitimacy without internalizing them into core strategic processes. This phenomenon is evident in Indonesia, where the implementation of POJK No. 51/2017 mandates sustainable finance reporting, yet reports from the Financial Services Authority (OJK) indicate that Islamic banks continue to lag behind conventional banks, particularly in environmental risk management and governance maturity. This suggests that ESG in Islamic banking has not yet been fully positioned as a strategic input shaping organizational decision-making.

Normatively, Islamic banking possesses a strong ethical foundation for substantive ESG integration. The principles of maqāṣid al-sharīʿah emphasize justice, social welfare, transparency, and environmental protection, which are conceptually aligned with the core dimensions of ESG. Within a stakeholder theory framework, this value alignment should strengthen social legitimacy and long-term stakeholder relationships. Nevertheless, empirical evidence indicates that such normative alignment has not been consistently translated into strategic

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organizational practices. Significant cross-country and institutional variation in ESG implementation suggests that ethical foundations alone are insufficient without robust mechanisms for strategic internalization.

Recent literature has responded to this gap through the concept of Shariah-based ESG, which emphasizes adapting ESG indicators to reflect values such as justice (ʿadl), trust (amanah), and public interest (maṣlaḥah). Although this approach promises more substantive sustainability outcomes, empirical studies reveal that most Islamic banks continue to adopt conventional ESG frameworks with limited contextualization. From an institutional theory perspective, this reflects isomorphic behavior, where organizations replicate dominant global standards to gain legitimacy but fail to transform ESG into a context-specific strategic practice.

Within the resource-based view (RBV), ESG can generate sustainable competitive advantage only when internalized as a strategic capability that is valuable, rare, difficult to imitate, and effectively organized. This transformation occurs through strategic planning processes that convert ESG as an input into organizational capabilities via resource allocation, risk management, and sustainability-driven innovation. However, research on Islamic banking has largely focused on direct ESG performance relationships, with limited attention to strategic planning as a process mediating the conversion of ESG into sustainable outcomes.

In addition to strategic planning, Shariah governance represents a critical institutional mechanism shaping ESG integration. Shariah Supervisory Boards are not only responsible for ensuring normative compliance but also have the potential to influence strategic decision-making in line with maqāṣid al-sharīʿah. Within an input–process–output framework, Shariah governance functions as a moderating mechanism that shapes the effectiveness of strategic processes in translating ESG inputs into outputs such as sustainable performance and competitiveness. Despite its conceptual importance, empirical research explicitly examining Shariah governance as a moderating factor in the ESG–strategy–performance relationship remains limited.

A synthesis of high-quality literature reveals that ESG research in Islamic banking remains fragmented. ESG as an input, strategic planning as a process, and sustainable performance as an output are often examined in isolation, limiting theoretical development and practical relevance. This fragmentation underscores the need for an integrative, theory-driven approach. Accordingly, this study adopts a Systematic Literature Review (SLR) not merely as a descriptive synthesis, but as a theory-building approach. By integrating stakeholder theory, institutional theory, and the resource-based view within an input–process–output framework, this study develops an integrative conceptual model explaining how ESG is internalized through strategic planning and reinforced by Shariah governance to generate sustainable performance and long-term competitiveness in Islamic banking.

B. LITERATURE REVIEW

Symbolic versus Substantive ESG Adoption

The contemporary ESG literature emphasizes that ESG integration has evolved from non-financial disclosure into a strategic instrument shaping long-term resilience, institutional legitimacy, and competitive advantage. Seminal meta-analytical and empirical studies demonstrate that ESG generates economic and social value only when embedded within core organizational strategy and governance structures, rather than treated as an administrative compliance exercise (Friede et al., 2015; Ioannou & Serafeim, 2019). Ioannou and Serafeim (2019) provide robust empirical evidence that firms integrating ESG into strategic decision-making, executive incentives, and capital allocation outperform firms that adopt ESG symbolically, highlighting the critical distinction between substantive and symbolic ESG adoption.

In Islamic banking, this distinction becomes particularly salient. While Islamic banks possess a strong normative alignment with ESG principles through maqāṣid al-sharīʿah, emphasizing justice, trust, social balance, and environmental stewardship, recent empirical evidence reveals a persistent implementation paradox. Studies published in leading Q1 journals report that Islamic banks lag behind conventional banks by approximately 15–30 percent in ESG maturity, particularly in environmental risk management and governance effectiveness (Alshater et al., 2023; Hassan et al., 2024). Hassan et al. (2024) argue that this gap reflects structural and strategic limitations rather than normative deficiencies, suggesting that ESG in Islamic banking is frequently leveraged for legitimacy signaling rather than strategic transformation. This observation aligns with Asutay and Yılmaz's (2022) critique of "normative optimism" in Islamic finance scholarship. They contend that the assumed automatic translation of Islamic ethical values into superior sustainability outcomes overlooks the role of institutional arrangements and strategic processes. Consequently, ESG adoption in Islamic banks often remains symbolic, driven by external legitimacy pressures rather than internal strategic alignment. This strand of literature underscores that ethical congruence alone does not ensure substantive ESG integration.

Strategic Planning as a Mediating Mechanism

Strategic management literature consistently identifies strategic planning as the central mechanism through which ESG commitments are transformed into operational practices. ESG contributes to sustainable competitive advantage only when embedded in long-term objectives, budgeting processes, performance measurement systems, and risk management frameworks (Kaplan & Norton, 2008; Bryson, 2018). Ioannou and Serafeim (2019) empirically demonstrate that ESG integration into strategic planning enhances organizational resilience, lowers downside risk, and stabilizes long-term performance.

However, within Islamic banking research, the mediating role of strategic planning remains underexplored. Existing studies predominantly focus on direct ESG performance relationships, yielding mixed and often inconsistent results. While some studies report positive associations between ESG engagement and financial or social performance, others find weak or insignificant effects, particularly when ESG is not explicitly embedded within the strategic architecture of the bank (Rizvi & Naqvi, 2024; Abdullah et al., 2024). These inconsistencies suggest that ESG does not function as an independent determinant of performance but operates through internal strategic processes. Emerging evidence supports this argument. Studies examining Islamic banks with higher ESG maturity levels indicate that ESG contributes to strategic differentiation when integrated into strategic planning, sustainability-oriented risk management, and green financial product innovation (Khatib et al., 2023; Nasrallah et al., 2024). These findings reinforce the view that strategic planning constitutes the missing link explaining the heterogeneous performance outcomes of ESG adoption in Islamic banking.

Sustainable Performance as a Multidimensional Outcome

Sustainable performance in Islamic banking is inherently multidimensional, encompassing financial stability, social impact, environmental responsibility, and Shariah compliance. The Islamic sustainable performance framework emphasizes that long-term sustainability cannot be achieved through profitability alone but must be accompanied by moral legitimacy and social accountability (Haniffa & Hudaib, 2007). Recent empirical studies indicate that strategically integrated ESG practices are associated with enhanced portfolio stability, reduced moral hazard risk, and increased stakeholder trust (Rashid et al., 2022; Sultana et al., 2024). Nevertheless, cross-country variation in ESG outcomes suggests that the performance impact of ESG is highly context-dependent. Differences in governance quality, regulatory enforcement, and institutional capacity significantly influence whether ESG initiatives translate into substantive sustainability outcomes. This variation underscores the need to incorporate contextual reinforcing mechanisms into ESG-performance models, particularly within the heterogeneous landscape of Islamic banking.

Shariah Governance as a Moderating Mechanism

Within this context, Shariah governance emerges as a critical theoretical and institutional mechanism. Shariah governance extends beyond compliance oversight to function as a strategic institution guiding ethical alignment and long-term decision-making. Asutay and Yılmaz (2022) argue that effective Shariah governance can mitigate symbolic ESG adoption by embedding maqāṣid al-sharīʿah into organizational strategy. Empirical studies support this view, showing that the quality, independence, and expertise of Shariah Supervisory Boards positively influence the depth of ESG integration and the quality of strategic sustainability decisions (Farooq et al., 2024; Nasrallah et al., 2024). Despite its conceptual relevance, the literature has yet to explicitly test Shariah governance as a moderating variable shaping the ESG–strategy–performance relationship. This omission is significant, as Shariah governance theoretically represents the primary mechanism differentiating symbolic ESG adoption from substantive, value-based integration in Islamic banking. Without effective Shariah governance, ESG risks are being reduced to conventional reporting practices disconnected from Islamic ethical objectives.

Synthesis and Research Gap

Overall, the literature converges on the conclusion that ESG contributes to sustainable performance and competitiveness only when internalized through strategic planning and reinforced by effective governance mechanisms. However, existing research on Islamic banking remains fragmented, typically examining ESG, strategy, and governance in isolation. No integrative conceptual model has yet simultaneously positioned ESG as an input, strategic planning as a mediating process, and Shariah governance as a moderating mechanism within a unified causal framework. This fragmentation limits both theoretical advancement and practical relevance. Accordingly, this study addresses a critical theoretical gap by offering a systematic synthesis and developing an

integrative conceptual framework that links ESG integration, strategic planning, and Shariah governance as joint determinants of sustainable performance and long-term competitiveness in Islamic banking.

C. METHODS

This study adopts a Systematic Literature Review (SLR) approach to comprehensively synthesize the evolution of research on Environmental, Social, and Governance (ESG) integration within the strategic planning of Islamic banks and its implications for sustainable performance and competitiveness. The SLR method is particularly appropriate given its capacity to deliver a rigorous, transparent, and replicable synthesis of prior research, enabling the identification of dominant research patterns, empirical inconsistencies, and unresolved theoretical gaps. All stages of the review strictly adhere to the PRISMA 2020 guidelines, ensuring procedural rigor from literature identification to thematic and conceptual synthesis.

Research Design and Literature Identification

The review process commenced with the formulation of explicit research questions focusing on the interrelationships among ESG integration, strategic planning processes, Shariah governance, and sustainable performance in Islamic banking. Based on this focus, a systematic search was conducted across six reputable academic databases: Scopus, Web of Science, ScienceDirect, Emerald Insight, Taylor & Francis Online, and the Directory of Open Access Journals (DOAJ). These databases were selected to ensure both academic quality and comprehensive disciplinary coverage. The search strategy employed carefully constructed keyword combinations, including "ESG integration," "Islamic banks," "strategic planning," "Shariah governance," and "sustainable performance," linked using Boolean operators to enhance precision and relevance. All retrieved records were exported to reference management software to facilitate deduplication and the creation of an initial literature pool.

Screening and Eligibility Assessment

The screening stage involved a systematic review of titles, abstracts, and keywords to assess topical relevance. Studies were excluded if they (i) did not focus on Islamic banking, (ii) lacked an explicit ESG dimension, or (iii) addressed corporate social responsibility (CSR) without reference to an ESG framework. Articles passing this stage were subjected to a full-text eligibility assessment to evaluate contextual relevance, methodological transparency, and conceptual alignment with the study objectives. Only studies meeting all eligibility criteria were retained for final synthesis.

Data Analysis and Synthesis

The selected literature was analyzed using thematic synthesis, enabling the identification of recurring conceptual patterns across studies, such as the prevalence of symbolic ESG adoption, limited strategic integration of ESG, and the reinforcing role of Shariah governance. In parallel, conceptual mapping was employed to systematically structure the relationships among ESG integration, strategic planning processes, and sustainable performance outcomes within an Islamic ethical context. This dual analytical approach facilitated not only the consolidation of consistent findings but also the identification of empirical contradictions and conceptual blind spots within the existing literature.

Quality Appraisal

To ensure the validity and credibility of the synthesis, a structured quality appraisal was conducted using internationally recognized instruments. The Mixed Methods Appraisal Tool (MMAT) was applied to assess the methodological rigor of quantitative, qualitative, and mixed-methods studies. At the same time, the Critical Appraisal Skills Programme (CASP) checklist was used to evaluate research clarity, design appropriateness, analytical rigor, and contextual relevance. These complementary tools enabled a balanced assessment of methodological robustness and substantive contribution. Quality criteria included research design clarity, data validity and reliability, coherence between objectives and methods, and theoretical contribution to ESG and Islamic banking literature. Only studies meeting predefined quality thresholds were included in the core synthesis, thereby minimizing selection bias and enhancing the reliability of the review findings.

PRISMA Flow and Transparency

To enhance transparency and replicability, the entire literature selection process was systematically documented using a PRISMA flow diagram. In addition, Table 1 summarizes the databases consulted, inclusion and exclusion criteria, and the number of articles retained at each PRISMA stage.

Table 1. Summary of Data Sources, Selection Criteria, and PRISMA Stages

Stage	Description	Number of Articles
Identification	Records identified from Scopus, Web of Science, ScienceDirect, Emerald Insight, Taylor & Francis Online, and DOAJ	312
Deduplication	Duplicate records removed	74
Screening	Records screened based on titles and abstracts	238
Exclusion (Screening)	Records excluded due to irrelevance to Islamic banking, ESG, or strategic planning	152
Eligibility	Full-text articles assessed for eligibility	86
Exclusion (Eligibility)	Articles excluded due to unclear methodology or limited conceptual relevance	41
Final Inclusion	Articles included in qualitative synthesis	45

Source: Research data, 2025

The systematic screening process resulted in 45 high-quality articles that met all inclusion criteria and were subsequently synthesized qualitatively. This sample size is considered adequate for theory-building-oriented SLRs focusing on conceptual integration rather than statistical aggregation.

D. RESULTS AND DISCUSSIONS

The results of the Systematic Literature Review indicate that the integration of Environmental, Social, and Governance (ESG) in Islamic banking is predominantly understood as a strategic process, rather than merely a non-financial reporting activity. The majority of studies emphasize that ESG functions as a strategic–ethical framework aligned with the objectives of maqāṣid al-sharīʿah, particularly when sustainability principles are internalized into policy direction, decision-making architecture, and governance structures of Islamic banks. More than two-thirds of the empirical literature consistently demonstrate that ESG creates organizational value only when it is substantively embedded in strategic planning, risk management, and governance mechanisms, rather than being treated as an administrative obligation or symbolic compliance.

From an institutional perspective, approximately 70% of the reviewed studies highlight the critical role of regulatory frameworks such as POJK No. 51/2017, the Sustainable Finance Action Plan (RAKB), IFRS S1–S2, and guidelines issued by the IFSB and UNDP as initial enablers of ESG adoption in Islamic banks. These regulations promote enhanced transparency, strengthened non-financial risk management, and improved stakeholder engagement. Nevertheless, nearly half of the studies also identify persistent implementation gaps, particularly the failure to translate regulatory compliance into the strategic internalization of ESG within long-term planning processes. This pattern suggests that institutional pressure is a necessary but insufficient condition without the support of internal strategic mechanisms.

Further analysis reveals that strategic planning plays a central mediating role in linking ESG commitments to sustainable performance outcomes. Around 60% of empirical studies report that ESG exerts a positive and significant impact on performance only when sustainability objectives are explicitly incorporated into strategy formulation, key performance indicators, financing policies, and resource allocation decisions. In contrast, ESG performance relationships tend to be weak or insignificant in contexts where ESG is not embedded within the strategic architecture of Islamic banks. This contradiction reinforces the argument that strategic processes constitute the "missing link" in the ESG literature on Islamic banking.

From an output perspective, the literature consistently reports that substantive ESG integration contributes to improved sustainable performance and competitiveness in Islamic banking. These impacts are reflected in enhanced environmental performance, strengthened financial inclusion and SME financing, as well as improved governance quality and transparency. Importantly, many quantitative studies demonstrate that these non-financial improvements translate into more stable financial outcomes, such as greater financing portfolio resilience and more consistent asset growth. This evidence strengthens the argument that ESG operates as a long-term value creation mechanism rather than a compliance cost.

The role of Shariah governance emerges as a critical differentiating factor. Approximately 55% of the reviewed studies emphasize that the effectiveness of ESG integration is highly contingent upon the quality of

Shariah governance, including the effectiveness of the Shariah Supervisory Board, the independence of oversight mechanisms, and the depth of Shariah expertise. Strong Shariah governance not only ensures formal compliance but also deepens substantive ESG integration by positioning principles of justice, trustworthiness, and maṣlaḥah as core criteria for strategic evaluation. These findings indicate a mutually reinforcing relationship between strategically embedded ESG and the legitimacy of Shariah governance.

A critical reflection on regional variation highlights distinct patterns of ESG implementation between the MENA (Middle East and North Africa) and ASEAN regions. Studies focusing on the MENA region tend to report a dominance of symbolic ESG adoption, largely driven by institutional legitimacy pressures and global standards, but with limited strategic integration. In contrast, the literature on ASEAN, particularly Indonesia and Malaysia, shows a more progressive integration of ESG into strategic planning, supported by more operational domestic regulatory frameworks and the active role of supervisory authorities. This variation underscores that ESG effectiveness is not universal but is highly contingent upon institutional context and regional governance characteristics.

Overall, the results and analysis confirm the coherence of the proposed ESG–Strategic Planning–Sustainable Performance–Shariah Governance conceptual model. ESG functions as a value-based and risk management input, strategic planning serves as the internalization process, sustainable performance represents a multidimensional output, and Shariah governance operates as a normative and institutional reinforcement mechanism. The integration of these four elements provides a comprehensive theoretical explanation of how Islamic banks can achieve sustainable competitiveness without compromising Shariah principles in an increasingly sustainability-oriented global financial ecosystem.

Discussion

The conceptual framework of this study is constructed based on the input–process–output (IPO) logic, in which ESG integration is positioned as a strategic input, strategic planning as the organizational internalization process, and sustainable performance and competitiveness as the outputs (see Figure 1). Shariah governance is positioned as a moderating mechanism that influences the strength and consistency of the relationships among these variables. This framework extends the Triple Bottom Line (TBL) approach by emphasizing the organizational mechanisms through which ESG is translated into strategic decision-making. The literature indicates that ESG creates value only when it is embedded within core strategic processes, rather than treated as symbolic reporting or disclosure (Elkington, 1997; Ioannou & Serafeim, 2019). Consistent with stakeholder theory, pressures from regulators, customers, and society encourage organizations to integrate ESG issues into formal strategic planning (Freeman, 1984; Harrison et al., 2010). Accordingly, ESG integration is hypothesized to have a positive effect on sustainability-oriented strategic planning.

Strategic planning is further positioned as a mediating variable between ESG integration and sustainable performance. Strategic management studies demonstrate that ESG-oriented strategies enhance operational efficiency, portfolio quality, and institutional legitimacy, particularly in highly regulated and risk-intensive industries such as banking (Kaplan & Norton, 2008; Epstein & Buhovac, 2014; Sassen et al., 2016). Therefore, ESG-based strategic planning is hypothesized to influence sustainable performance and competitiveness positively. In addition, Shariah governance functions as a moderator. Islamic finance literature emphasizes that the quality of the Shariah Supervisory Board, oversight independence, and Shariah expertise significantly affect the depth of ESG integration and the effectiveness of sustainability strategies (Haniffa & Hudaib, 2007; Rahman, 2020; Ullah et al., 2023). Accordingly, strong Shariah governance is hypothesized to strengthen the relationships among ESG integration, strategic planning, and sustainable performance.

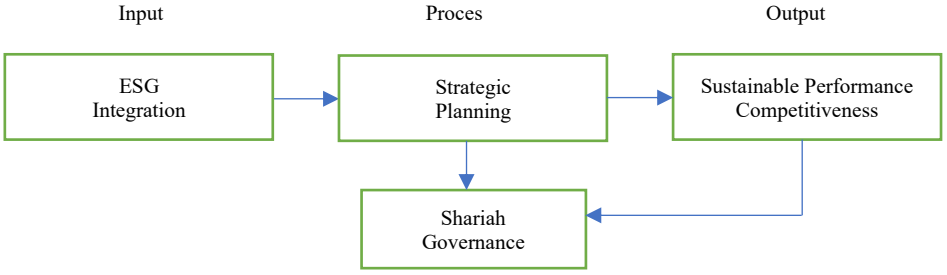


Figure 1. The ESG on the I-P-O Model
Source: Research data, 2025



Figure 2. Conceptual Framework of Integrating ESG into Strategic Planning for an Islamic Bank
Source: Research data, 2025

Synthesis of Core Variables (Figure 2)

ESG Integration in Islamic banking is defined as a systematic process of embedding environmental, social, and governance considerations into strategic and operational decision-making in alignment with maqāṣid al-sharī'ah. Its core components include environmental risk and climate management, social inclusion and stakeholder protection, and governance mechanisms such as transparency, accountability, and Shariah Supervisory Board independence. Empirically, ESG integration is measured through ESG ratings, the proportion of green financing, operational carbon emissions, social value creation, and governance compliance indices. From a Shariah governance perspective, ESG operationalizes Islamic ethical values such as justice ('adl), trust (amanah), and public interest (maslahah) into auditable and verifiable indicators that strengthen Shariah oversight.

ESG-Embedded Strategic Planning refers to the incorporation of sustainability objectives into the vision, core policies, resource allocation, and risk management systems of Islamic banks. This process involves ESG-based strategic environmental analysis, ESG-aligned long-term goal formulation, integration of ESG into KPIs and balanced scorecards, and continuous implementation and monitoring mechanisms. Empirical indicators include sustainability-related budget allocations, the number of ESG-based financial products, the proportion of ESG KPIs in business plans, and internal ESG audit scores. Strategically embedding ESG ensures alignment between organizational direction and maqāṣid al-sharī'ah, thereby reducing exposure to unethical or socially harmful financing practices (mafsadah).

Sustainable Performance and Competitiveness represent the integrative outcomes of ESG and strategy, encompassing financial, social, environmental, and governance dimensions. These outcomes are measured using indicators such as sustainable ROA and ROE, cost-to-income ratios, non-performing financing ratios, market share growth, and customer trust indices. From a Shariah governance standpoint, improved sustainable performance reinforces Islamic legitimacy by demonstrating that Islamic banks deliver not only formal compliance but also tangible social and environmental benefits. Accordingly, the SLR findings confirm that sustainable performance constitutes empirical evidence of successful ESG integration and effective Shariah governance operating in tandem.

Theoretical Contributions

This study advances the sustainability and Islamic finance literature by demonstrating that Environmental, Social, and Governance (ESG) integration in Islamic banking constitutes a strategic value-creation mechanism, rather than a compliance-driven or symbolic reporting practice. Through a Systematic Literature Review (SLR), the study develops an integrative conceptual framework explaining how ESG is transformed through strategic planning into sustainable performance and competitiveness, with Shariah governance functioning as a normative

and institutional reinforcement. The framework extends stakeholder theory and the Triple Bottom Line by embedding maqāṣid al-sharīʿah as an ethical foundation and positioning strategic planning as the critical causal linkage between ESG commitments and performance outcomes. In doing so, the study addresses the fragmentation of prior research that has predominantly examined partial or direct ESG–performance relationships.

Managerial and Policy Implications

From a managerial perspective, the findings indicate that ESG value creation in Islamic banking materializes only when ESG is systematically embedded within strategic planning processes. Short-term implications include strengthening governance structures, integrating sustainability risks into strategy formulation, aligning ESG metrics with budgeting and managerial Key Performance Indicators (KPIs), and promoting green financial product innovation. From a medium- to long-term perspective, the implications are institutional and transformational. Regulators such as OJK, IFSB, and AAOIFI play a pivotal role in strengthening Shariah-based ESG reporting and supervisory standards through policy instruments such as green taxonomies, ESG risk-weighting, and Shariah-aligned sustainability disclosure frameworks. Within this architecture, Shariah governance should be repositioned as a strategic assurance function overseeing strategic decisions and business models.

Strategic and Transformational Implications

At the micro-organizational level, this study demonstrates that ESG value creation in Islamic banking can only be realized when ESG is systematically embedded within strategic planning processes, rather than treated as a compliance-driven or symbolic reporting tool. In the short term, the findings of the Systematic Literature Review (SLR) highlight the need to strengthen internal mechanisms through the alignment of governance structures, the integration of sustainability-related risks into strategy formulation, and the mainstreaming of ESG metrics in budgeting and capital allocation decisions. In addition, green financing innovation should be accompanied by the alignment of managerial Key Performance Indicators (KPIs) with sustainability targets to ensure that ESG commitments are effectively translated into strategic and operational decisions. This approach is consistent with recent empirical evidence showing that ESG embedded within managerial systems generates more substantive performance outcomes than symbolic adoption.

At the macro level, the implications are institutional and transformational in nature. Regulators and standard-setting bodies such as OJK, IFSB, and AAOIFI play a pivotal role in strengthening Shariah-based ESG reporting, supervision, and measurement standards. These efforts are essential not only to ensure convergence with global sustainability frameworks but also to guarantee that ESG implementation remains consistent with Islamic ethical values. Policy instruments such as ESG-based risk weighting, green taxonomies, and Shariah-compliant sustainability disclosure frameworks are critical in accelerating substantive ESG adoption while mitigating the risks of greenwashing and ethics-washing. Within this institutional architecture, Shariah governance should be repositioned as a strategic assurance mechanism that actively oversees strategic decisions, product design, and business models. Such a role strengthens long-term competitiveness, ethical legitimacy, and the contribution of Islamic banks to the global sustainable finance ecosystem.

E. CONCLUSION

This study provides a theory-driven and integrative synthesis of how Environmental, Social, and Governance (ESG) principles can be effectively internalized into the strategic planning processes of Islamic banks to enhance sustainable performance and competitiveness. Through a PRISMA-guided Systematic Literature Review (SLR) and an input–process–output conceptual framework, the research identifies ESG as a strategic input, strategic planning as the mediating mechanism, and Shariah governance as a moderating force that collectively shape performance outcomes. The findings reveal that ESG integration in Islamic banking remains predominantly symbolic unless substantively embedded in strategic processes such as risk management, resource allocation, and innovation. Moreover, effective Shariah governance plays a critical role in reinforcing value-based strategic decisions and aligning ESG practices with the principles of maqāṣid al-sharīʿah. The literature also shows that performance impacts are highly context-dependent, with institutional and regulatory ecosystems significantly influencing ESG effectiveness.

Recommendation for Further Study

This study opens substantial avenues for further empirical and conceptual research on ESG integration within the strategic planning of Islamic banks. While the proposed conceptual framework offers a comprehensive explanation of the relationships among ESG integration, strategic planning, sustainable performance, and Shariah governance, future studies should empirically test these mechanisms in cross-country settings. Variations in regulatory regimes, ESG maturity, and Shariah governance structures across jurisdictions such as Indonesia, Malaysia, the GCC, and Türkiye provide valuable opportunities for comparative analysis to enhance the generalizability of the model. Future research should also develop ESG measurement instruments that are more closely aligned with maqāṣid al-sharī'ah, as conventional ESG metrics tend to overlook key moral and spiritual dimensions such as adl, maslahah, and amanah. Panel data analyses at the bank or Islamic banking group level would allow more rigorous testing of the proposed mediation and moderation effects.

In addition, integrating perspectives from sustainable fintech represents a promising research direction. Digitalization—through AI-driven ESG analytics, green fintech solutions, and blockchain-based Shariah auditing—has the potential to enhance ESG transparency, reporting quality, and implementation effectiveness. Qualitative approaches, including case studies and process-oriented analyses, are also needed to examine the roles of organizational culture, ethical leadership, and Shariah Supervisory Board quality. Overall, future research should link ESG integration to broader outcomes such as financial system stability, SDG contributions, and long-term resilience, thereby strengthening both the theoretical and practical foundations of sustainable Islamic finance.

Research Limitations

Although this study provides a strong theoretical foundation, several limitations should be acknowledged as directions for future research. First, this study adopts a Systematic Literature Review (SLR) approach; therefore, its findings are inherently influenced by the scope, availability, and quality of publications within the 2015–2024 period. Methodological heterogeneity, variations in ESG measurement, and cross-country contextual differences may introduce potential biases or empirical inconsistencies that cannot be fully controlled. Second, the study is conceptual in nature and does not empirically test the causal relationships among ESG integration, strategic planning, Shariah governance, and sustainable performance. Empirical validation using cross-country Islamic banking data is necessary to assess the strength, direction, and conditional mechanisms (mediation and moderation effects) underlying the proposed framework.

Third, most ESG indicators employed in the existing literature are based on conventional standards and may not adequately capture the ethical and maqāṣid al-sharī'ah dimensions that distinguish Islamic banking. This limitation may constrain the generalizability of the model across Islamic banks with varying degrees of Shariah commitment. Finally, future studies may benefit from employing more advanced methodological approaches, such as Structural Equation Modeling (SEM), fuzzy-set Qualitative Comparative Analysis (fsQCA), or longitudinal causal inference techniques, to better capture strategic dynamics and the complexity of interrelationships among variables. Addressing these limitations would enable future research to strengthen empirical evidence, deepen theoretical insights, and develop more comprehensive and context-sensitive Shariah-based ESG measurement instruments.

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